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SCHN.PA - Q1 2025 Schneider Electric SE Corporate Sales Call

EVENT DATE/TIME: APRIL 28, 2025 / 4:30PM GMT

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PRESENTATION

Operator

Welcome to the Schneider Electric's first quarter 2025 revenues conference call with Hilary Maxson, Chief Financial Officer and Amit Bhalla, Head of Investor Relations. (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 it over to you, Mr. Amit Bhalla.

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

Well, thank you very much and hello, everyone. Welcome to our Q1 revenues release. I'm joined here by Hilary Maxson, our CFO. We'll go through a short presentation that you should already have seen and then we'll move it on to questions. I might just make a reference to, as always, slide number two, which is the usual disclaimer.

And with that, I'll hand the floor to Hilary.

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

Thanks, Amit, and good afternoon, everyone. Happy to be here with you today to comment on our Q1 2025 revenues and to update you on our expectations for the rest of the year.

Starting with slide three, I'm happy to report another strong quarter with sales of EUR9.3 billion. In energy management, we continued with double-digit growth in revenues, up 10% for the quarter. And we continue to see strong demand, particularly in data center and infrastructure, but not only driven by trends in electrification and digitization.

In industrial automation, we were close to flat for the quarter, with sales impacted by seasonality at AVEVA, and we continue to see signs of turnaround and demand in Discrete. Overall, we were up 7.4% organic in sales, reflecting our strong portfolio positioning tied to structural growth trends, plus the benefits we have from our multi-hub set up, our diversification across geographies and our business models.

In terms of business models, in products, which reflects our shorter cycle business and sales through partners, we were up 1%, primarily driven by volume and not price, despite a fairly sizable working day impact for us in Q1.

In energy management, demand and sales for products remain solid, with the exception of residential, where uncertainty and higher interest rates are impacting consumers. Our systems business continues with strong double-digit growth driven by continued strong demand trends, particularly in data center and infrastructure.

Software & services was plus 5% for the quarter with reported revenues at AVEVA impacted by timing and its continued transition to subscription. ARR at AVEVA was plus 14%. In energy management software, where our pace towards subscription is a bit more measured, we saw strong growth at both ETAP and RIB. Digital and services were together up high-single-digit tied to strong demand in our suite of EcoCare offerings.

Turning now to our own sustainability performance. As you know, this is our final year of our current Schneider Sustainability Impact program, and we aim to finish with a high achievement of almost 9 out of 10 progression versus some very aggressive goals we set for ourselves at the end of 2020. Of note in Q1 is a 12 point improvement in reduction of CO_2 emissions at our top 1,000 suppliers in North America, driven by the deployment of energy efficiency solutions and electricity sourcing from renewables. I'll also note our IntenCity building in Grenoble, France, where we've deployed our own solutions, achieved an LEED Platinum certification for becoming one of the world's most sustainable buildings.

On this slide, we've highlighted just a few of our many customer examples from Q1. The first two are demonstrating the continued traction we have with our ADMS or Advanced Distribution Management System software, providing real-time network monitoring and control. One customer is an airport that many of you likely know in Amsterdam and the second a grid operator in Italy. The third example is a customer you also likely know, ByteDance, the owner of TikTok, where we'll provide medium voltage switch gear and PDUs as well as ETAP's digital modeling software to ensure accurate electrical data at the beginning of the project.

Getting into more details on our Q1 performance, well, we don't usually report on our orders, here we're giving you a sense of the order trends we've seen both year-over-year and in the Q1 2025 versus Q4 of 2024, as I know there have been a lot of questions about what's happening in some of our end markets and segments.

First, in data center, we continue to see strong double-digit demand with continued strength in North America and East Asia. This strong growth trend already starts to include adjustments made by certain customers and is indicative, we believe, of the true underlying trend for data centers, which we expect to continue aligned with the expectations we shared at our Capital Markets Day and again in 2024.

In building, we do see some weakness in residential, confirming the potential trend we mentioned in February and driven by low consumer confidence and sustained higher interest rates, particularly in Europe and North America, as well as continued weakness in China. Non-residential building continues relatively stronger.

In industry, where we sell the full portfolio of Schneider, we do continue to see positive trends in manufacturing and OEM, whereas mining and energy and chemical continue fairly weak, in part driven by lower oil prices and uncertainty. And in infrastructure, really power and grid a lot for us, we continue to see strong demand trends. So overall, we remain in a primarily strong demand environment for electrification and digitization with positive trends in industry. Of course, we do recognize we're now in an environment of heightened uncertainty, and I'll address that in our expected trends later in the call.

Turning now to the details of our Q1 revenues. We finished the quarter at EUR9.3 billion in revenue, up 7% organic year-over-year, with a particularly strong contribution from systems, as I mentioned prior.

In terms of geographies, we had North America as a continued strong double-digit contributor driven by data center and data center services. Asia Pacific is at close to double-digit growth, with continued strong growth in India, where both of the two brands we mentioned at our India Investor Day are driving strong double-digit growth. And we've updated in the appendix of this presentation the size of our total India business in 2024, as well as the piece we today own at 65%, together with Temasek as a 35% partner.

India is now solidly our third largest country. And we return to growth in China, up low-single-digit for the quarter in both businesses. Western Europe shifted to negative, and rest of world continued with solid growth against a strong base of comparison.

Foreign exchange impacts were positive for the quarter driven by strength in the US dollar. Without taking a view on where rates may go in the future, based on today's situation, we would estimate a full-year impact on our top line of minus EUR1.15 billion to EUR1.25 billion, with estimated impacts on our adjusted EBITA margin of around 40 basis points due to the significant depreciation of the US dollar also impacting currencies related or tied to the US dollar and the depreciation of the Chinese yuan, all of that being translational effects.

Turning now to Q1 revenues by business and geography. Energy management was up 10% organic for the quarter to EUR7.6 billion. We saw continued double-digit growth in North America, up 17%, with growth across all three countries and continued strong double-digit growth in the US due to strong demand in data center and in services. In products, the picture is a bit more mixed with continued weakness in demand in residential due to uncertainty and high interest rates, with non-residential building relatively stronger.

Western Europe was down 3% organic with demand for products impacted by weakness in residential with relatively stronger performance in non-residential building. System sales were impacted by the delays in data center projects we've been mentioning for quite a few quarters in this geography due to issues in permitting and some design and go-to-market discussions.

Asia Pacific was up 13% with China up low-single-digit, driven by continued acceleration in data center and growth in new energy. India was up strong double-digit with continued strong demand dynamics across and markets. Australia was up double-digit, driven by demand in data centers with some weakness in residential, and the rest of the region delivered double-digit growth driven by projects in data center and infrastructure. Rest of world was up 3% against a strong base of comparison with growth primarily driven by South America.

Turning now to industrial automation. Revenues were down 1% organic to EUR1.8 billion, impacted by timing and the transition to subscription at AVEVA and continued weakness in Discrete. We did see a strong sequential improvement versus Q4 industry, particularly in China and key countries in Europe.

North America was flat with strong growth at AVEVA offset by continued weakness in Discrete, although we can start to see some improving demand trends in the Discrete markets there. Western Europe was down 5%, impacted by timing of bookings at AVEVA. Discrete markets were close to flat and sequentially improved versus Q4, particularly in Germany.

Asia Pacific was down 1% with China up low-single-digits, supported by continued growth in some early cycle products and a return to growth in OEM. The rest of Asia Pacific was down due to software and process, with Discrete automation flat due to growth in Australia. Rest of the world was up 5%, supported by process and in software.

Before I move to our expectations for the remainder of the year, I wanted to mention we closed the Motivair transaction, a great addition to our data center offering as we continue to be convinced of the significant demand opportunity for liquid cooling, and we start to see that in Motivair's expectations for 2025. Plus, we closed the joint venture with StarCharge, through which we'll address the market in Europe for EV charging and storage. In terms of capital allocation, our priorities remain unchanged.

Moving now to slide 12 with an update on our market dynamics. First, despite the heightened uncertainty, we expect continued market demand to drive growth in 2025 with contributions across our end markets and from all four geographies, despite weakness in residential buildings. We also expect continued strong demand for systems led by data center and infrastructure projects.

We continue to expect a demand recovery in Discrete automation with sales growth weighted towards the H2. In software & services, no change in our expectations there with expected double-digit growth in ARR at AVEVA and strong growth in services.

We already gave you information regarding our supply footprint in North America at our full year call. Nothing's changed there and we're already taking commercial and supply chain actions to counter the impacts of tariffs. And recognizing the heightened uncertainty, we're focused on ensuring we remain agile and take responsible actions to manage our profitability, our capital investments and our cash flows.

With this backdrop, we're reiterating our full year 2025 guidance of growth in our adjusted EBITA of 10% to 15% organic, driven by revenue growth of between 7% and 10%, and adjusted EBITA margin improvement of 50 basis points to 80 basis points.

I will mention, we do expect to see strong seasonality in our free cash flows this year, partly as normal but also impacted by a payment of the EUR200 million fine imposed by the French Competition Authority disclosed in Q3 2024. We're appealing that case, but we're required to make full payment upfront, and no change to the expectation I mentioned in February that our cash conversion ratio will trend towards 100% for the full year. Given the tariffs, we also expect to be back to more normal seasonality in our profitability with higher margins in the second half.

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

QUESTIONS AND ANSWERS

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

All right. Thank you very much, Hilary. So let's move to the Q&A. We'll keep it to one question please per analyst. Let's get to the first question, please, operator.

Operator

(Operator Instructions) Alasdair Leslie, Bernstein.

Alasdair Leslie - *BernsteinSG - Analyst*

Yeah, thank you. Good afternoon. So energy management, weaker-than-expected in Western Europe. Just maybe if you can elaborate more on data centers specifically there. You cite several factors behind, sort of, I guess, a negative impact on demand. And given some of those seem to be more structural in nature, I think you flag power availability, AI design. Realistically, how quickly does that turn? How quickly can you overcome those issues and return to growth there? Thank you.

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

So for me, in Western Europe, probably nothing new on data center. We've mentioned for the past multiple quarters, probably even a bit more than a year, that we see some delays, particularly associated with permitting, associated with energy, electricity, connections, this type of thing and a few other factors like you mentioned.

So not a big change for us, including in the Q1. We do expect data center growth to happen in Europe. I think it's something that the governments are focused on, for example. But at the moment, that delay continues again somewhat as expected. In terms of where we were a little bit lower than expectation, I would say residential building, but a bit prefaced in the full year call.

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

Thanks, Alasdair. Next question, please.

Operator

Simon Toennessen, Jefferies.

Simon Toennessen - *Jefferies - Analyst*

Yes, good evening, Hilary and Amit. I've got one on your guidance, Hilary. After the Q1, you clearly need to see an acceleration to reach the midpoint or even the high-end of your organic guide when energy management is facing the 400 basis points, tougher comp I think in the second half.

So can you elaborate a bit more on how you're seeing the major building blocks at the times when it seems resi and process markets are weaker and Discrete, I guess, not strong enough yet to offset. So is your guidance-based case entirely driven by growth improving in H2, are you just based on a cyclical pick up or do you see any other drivers, for example, in energy management where growth could improve versus the Q1? Thank you.

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

So for us, a couple of points there. First, there's some timing in the Q1 and, of course, we would have thought about that from a guidance scenario standpoint already. In terms of what gives us confidence for the full year, first and foremost, probably our pipeline and backlog. I think, we continue to see good progression in terms of pipeline. We also have the backlog in front of us, so those are sort of underpinning the guidance that we gave at the full-year and reiterating today.

We also continue to see the positive signs in Discrete that we talked about on our full-year call, so we do expect, like I said, to see a pickup in sales there in the H2. Of course, we don't know perfectly the size of that uptick, but we built already the 3 point guidance range in order to reflect different scenarios.

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

Thanks, Simon. Next question.

Operator

Jonathan Mounsey, BNP Paribas Exane.

Jonathan Mounsey - *BNP Paribas Exane - Analyst*

Hi, good evening. Thanks for letting me ask a question. Maybe on the tariff side. I think, there's some helpful slides there in the back, talking about 83% region to region sourcing in the US or North America rather and hoping to go to 90%. But obviously, none of us expected, the last time we spoke, that tariffs on China would be 145%. And that kind of elevated level of tariffs feels like even if only a small part of your sourcing comes from China, it's probably going to require a meaningful price increase to recover the headwind.

And what have you got planned there? Give us any feeling on what has to happen to pricing to recover the margin, and will there be a lag around that? You did mention that maybe margins would be higher in the second half. Is that purely seasonal or is it somewhat linked to this?

And then, just a very short one. Group orders and the backlog, are we still growing the backlog? Are orders still ahead of sales? That would be really helpful as well.

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

Okay. So quite a few questions. Maybe I'll take the last first, which is are we growing the backlog, do we have a positive book to build in the Q1, and I think there we can say yes.

In terms of tariffs, that's right. Last time, we gave the 83% and we were a little bit more focused on the Mexico tariffs, whereas today, I think that we continue to have a pass on the USMCA tariffs that are there. So post the Liberation Day and assuming everything remains as it is today, so all those tariffs remain in place, the impact is still in probably just the hundreds of millions at the group level. We're already taking commercial and supply chain actions, like I mentioned, to offset this and protect our profitability.

That said, no different than when we had the inflation in front of us, for example, in 2023. It takes a bit of time for -- the tariffs flow in day one and then it takes a bit of, well, with post inventory, etc. And then, it takes a bit of time on the pricing side, so we may have some timing, whereas overall, over quarters, we'll protect in full our profitability.

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

Thanks, Jon. Next question, please.

Operator

Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs - Analyst*

Hi, good afternoon. Thank you for taking my question. I just wanted to follow up on capital allocation, and now you just completed Motivair. So what are sort of like the main areas of focus on how you think about M&A and versus buyback at the moment?

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

So I mentioned no real change in terms of capital allocations, so we're focused obviously first on organic, then inorganic and then share buyback probably to make it very simple.

Yes, we're excited we completed Motivair in terms of where we would focus our portfolio on any potential M&A. I think, looking at the things that we've done more recently, like Motive Air, where we find an opportunity to accelerate. From a technology standpoint, what we have in terms of offer to the customers in an exciting demand environment, that's the type of thing that we're always looking for. You can take a look at we double down in some cases in geographies like India in the past years or we continue to look in digital, of course, we've been interested in digital and software as well.

So those are the types of categories that I could point to just looking at examples of what we've done in the past, and I think those are the same types of things that we would anticipate doing in the future.

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

Thank you, Daniela. Next question.

Operator

Gael De Bray, Deutsche Bank.

Gael De Bray - *Deutsche Bank - Analyst*

Good afternoon. Thanks very much. Can I have two quick ones, please? Firstly, in which country specifically did you see the greater-than-expected sequential deterioration in residential buildings?

And then, maybe just to follow up on Daniela's question around capital allocation. I mean, any news specifically on the Indian joint venture with Temasek. And specifically also, could you provide maybe an indication on the size of the new joint venture in Europe in the EV charging segment. Thank you.

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

Okay, sure. So in terms of where -- I think, you can actually see quite a bit of detail in our press release around where we have some weakness in residential, but the two areas that I would point to would be Western Europe and North America. Again, a bit as prefaced in the full-year call where we said that we started to see some potential weakness in demand there.

In terms of capital allocation, no news to share today on India. We have the good partnership there with Temasek. They've actually been a great partner to us. We're at 65%, they're at 35% for one of the key legal entities that we have in India.

Of course, when we entered into the transaction, it was clear that they would look to exit at some point. And of course, I think that this investment has probably been doing well for them the same way that it's been doing well for us. We don't think of it as an investment, obviously, but it's doing well.

So we'll let you know in the right timeframe whether we have any potential that we would look at how they would take that exit. We did mention on the India Investor Day that we probably wouldn't be terribly excited to do an IPO of that business. So when and if they choose to exit, we'll take a look ourselves and then see if there's other options from an exit standpoint for them.

The size of the JV with StarCharge, this is a fairly nascent market, so it's not a large size starting today, but we think there's quite a bit of potential in the EV charging inverters and storage market, and we're excited to have them as a partner.

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

Thanks, Gael. Next question, and let's keep it to one, please.

Operator

James Moore, Redburn Atlantic.

James Moore - *Redburn Atlantic - Analyst*

Hi. Keeping it to one. Can I just clarify on China? Are we talking how much percentage of the US businesses, local China and Mexico, I was assuming 75% for China, 25% for Mexico. And could you just comment on April orders as to whether in the last three weeks, you've seen any significant change in market dynamics, those tariffs.

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

Sorry, so you're asking -- so in terms of exposure to imports into the US, which I think is your first question, we're 83% North America for North America, but we caveat it on the last call that that does include a good portion of imports into the US from Mexico, but most of that in those special tax and trade zones that we have today.

Of the remaining 17% that comes from other geographies, outside of North America, we mentioned that there's no single particular contributor there. It's across quite a few countries including a small bit China, a small bit India, a small bit Philippines, these types of areas. So we've put all of that together and that's the impact in terms of tariffs for us that I'd quantified, not exactly, but I said it's several hundred millions for us at the total level in terms of North America.

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

All right. Next question, please.

Operator

George Featherstone, Barclays.

George Featherstone - *Barclays - Analyst*

Yeah, thanks for taking the question. Just on data centers. I wonder if you could just help us with how orders in that segment performed year-over-year. Some of your peers have cited mid-teens growth, and I just wondered how you compared to that level of activity, please.

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

So here, I mentioned that we continue to see strong double-digit growth both in demand, which you can basically impute as orders and as well as sales. So we also continue to see strong double-digit growth in this end market.

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

Thanks. Next question.

Operator

William Mackie, Kepler Cheuvreux.

William Mackie - *Kepler Cheuvreux - Analyst*

Yeah, good evening. Thanks for fitting me in. My question relates to the flexibility to price the backlog. Implying your backlog is close to a new record. I mean, in the event that some of the tariffs and other factors create greater inflation within the cost structures for those contracts, what ability do you have to go back to customers and reset or reprice some of the backlog to mitigate the potential margin headwinds?

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

So first of all, I'll say that we've taken everything into account, into the guidance that we've given or the reiteration of the guidance that we've given. We do expect to be able to take commercial actions in order to protect our profitability, including we -- included into many commercial contracts, the ability to reprice in the case of tariffs. It's not like this was a new item that came up, I would say, over the past only months or something like that. Maybe the magnitude was different than the world expected, but the concept itself was not new and was discussed quite a bit in the US presidential elections throughout 2024.

So we do anticipate that we'll go back to the backlog and either automatically or through some discussions reprice it, a decent portion of it.

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

Thanks, next question.

Operator

Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley - Analyst*

Thank you. Just sorry to go back on tariffs. You've talked a lot about kind of the finished product that you export from outside of the US into the US. I guess what I was really curious about is some of your competitors, we kind of all know who I'm talking about, Legrand, have said that of their North America supply chain, around half of the components that they buy to manufacture in the US come from outside of the US, including quite a major portion of China.

So I guess my real question is, is there an impact from buying components and shipping them into the US, where you have to pay obviously sort of tariffs on that and potentially high prices for components. And if not, do you think your competitive position versus someone like Legrand will give you an advantage and possibly an opportunity to take share? I guess, you're not that differently positioned to say in Eaton. But I'm just curious, A, on the competition and maybe, B, on I'm surprised given what others are saying that you don't have a reasonable amount of components shipped in for your North American production.

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

Okay. So in terms of what we're looking at in imports, I think, we are looking at everything that we bring in if that's what you're saying. In terms of our own supplier network, having issues within their own production and their own components, this is something that we've done our best to take a look at. We don't see anything in particular that wouldn't be covered again by the guidance that we reiterated today.

Versus competition, to be honest, I'm not entirely aware of exactly what Legrand said, but in general, we feel that versus the large competitors, which for us would probably be others, were probably not so different.

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

Thank you, Max. Next question, please.

Operator

Jeff Sprague, Vertical Research.

Jeffrey Sprague - *Vertical Research Partners - Analyst*

Thank you. Good day, everyone. It's on the machine OEM commentary. I wonder what end markets and [use end markets], if any, that you're actually seeing a visible change in demand versus just kind of the end of inventory liquidation. Does any particular end use demand look like it's turning?

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

Well, for us, the key customer segment that we generally look at is the OEM segment themselves, but within that, we start to see a good turnaround in general if you want to look at lower segments, both sequentially. And in some places like China, we actually start to see, I'd mentioned, some positivity even into the sales side.

So in general, just machine builders, we start to see decent positivity. We don't associate that with the end -- well, we do associate that in some ways with the end of the flood of additional inventory that was in there, but now in our mind is reflective of the underlying demand that we've actually seen for some time. But that wasn't reflected in orders or sales because of the inventory that was sitting in the system. So we think that that inventory is largely finished and that now we're back to reflecting in general underlying demands.

That said, of course, it's against a low base, but that's where we start to see actually green shoots quite across the board in China and particular countries in Western Europe in terms of demand in machine builders.

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

Thanks, Jeff. Next question, please.

Operator

Jonathan Day, HSBC.

Jonathan Day - *HSBC - Analyst*

Hi, good afternoon. Thanks for taking my question. I was just wondering if you could comment on, in terms of the order trends, whether you've seen any pre-ordering in Q1 ahead of tariffs embedded in those order trends or whether they're all, if you like, of underlying organic reflective of their market developments. Thanks.

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

So as of now, we don't see anything in the Q1 that we think was associated with pre-ordering tied to tariffs. We don't actually see any impacts today -- even today in our own pipeline and expectations in terms of demand and speaking with customers. We just expect with the heightened uncertainty which I'd mentioned a couple of times that of course, we were trying to anticipate different scenarios. But no, we didn't see any particular pre-ordering and even today, we don't see any big differences in terms of pipeline opportunities and expected demand.

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

Next question. Thank you.

Operator

Delphine Brault, Oddo.

Delphine Brault - *Oddo - Analyst*

Yes, thanks. Good afternoon. Thanks for taking my question. How did your Q2 activity start for the first weeks of the quarter? Did you see any inflection, either positive or negative?

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

So again, nothing I would really call out here. We don't see anything particularly different than the trends that I already outlined in Q1. And we don't see any impact so far to our own pipeline, for example, associated with, let's say, the heightened uncertainty post Liberation Day.

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

Thanks, Delphine. Next question.

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citigroup - Analyst*

Yeah, thank you. Good evening. It's Martin. A question just coming back to software. When you outlined the outlook at the Capital Markets Day, you obviously talked about the phasing of SaaS and how that could impact the earlier part of the four-year planning period.

Could you let us know where we are in that process? Obviously, still a drag this quarter, but does that get less of a drag as the year progresses? Should we expect the sales growth to trend up towards the ARR as the year goes on or is it a much later time scale when we can think about software in terms of reported organic beginning to accelerate? Thank you.

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

We've mentioned that it was in 2027 that we'd primarily be outside of the impacts of the transition to subscription. That said, I think, in this Q1, in particular, we also spoke to timing, so it's not just the transition to subscription. We also have some timing issues, I would say, in the Q1 for software. But into 2027, we would expect to see -- start to see very little impact from the transition.

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

Thanks, Martin. We'll probably take a couple more, so next question, please.

Operator

Alexander Virgo, Bank of America.

Alexander Virgo - *Bank of America - Analyst*

Yeah, thanks very much. Good evening, Hilary, Amit. I wondered if you could just talk a little bit about the sequential development in Europe and how we should think about that as we layer that in, I guess, over the coming quarters? Because [plus 7% in Q4 to minus 3%] in Q1 is a big move. And I'm just wondering if -- I guess I'm wondering how big an impact that resi business really has had and how much of it is data centers being pushed to the right. And at what point we might expect that to normalize or come through into the back end of the year. Thank you.

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

Sure, so I think a couple of things there. There's a differential in baseline, I think, in Europe throughout the year, so you'll see that a bit in, for example, Q4 of 2024 versus Q1 of 2025. There is an impact from residential, but we also have some timing with various projects. I mentioned data center, but that's not the only timing. I think, I would necessarily call out if we're looking at just Western Europe. And I did mention that we do expect that all four of our regions will contribute to growth for the full year. So that's our expectation in terms of forecasts, including taking into account quite a few scenarios.

Alexander Virgo - *Bank of America - Analyst*

Thank you.

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

Thanks, Alex. Let's take one more.

Operator

Ben Uglow, Oxcap.

Ben Uglow - *Oxcap Analytics - Analyst*

Good afternoon. Thanks for taking the question. I guess can we just step back and look very, very high level at the kind of customer conversations that you're having? I think the press release kind of mentions on the system side one or two delayed investment decisions. I guess, Hillary, it doesn't sound as if things have massively changed despite the Liberation Day tariffs. Can you just give us a bit of color from your conversations, is it just business as usual and we should expect the second quarter to look pretty much like the first quarter? Is that a fair assumption?

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

So I mentioned a couple of times, indeed, we don't actually see anything particularly different in the business that I would call out aside from we called out some weakness in residential. That's the only area that we would call out that we actually see a difference from a business standpoint where we actually see that conversations are different where we see there's not much pipeline in residential, but where we see a bit of a difference. The rest, where we do have quite a lot of pipeline, for example, it's true that we don't yet see an impact post Liberation Day.

Now, we took into account many scenarios like we did on the full year because, we recognize an environment of uncertainty. But like you said, taking a step back, at the moment, there's nothing particular to call out to in our minds associated with the Liberation Day aside from, of course, the commercial actions and the supply chain actions that we'll take as a company and that we've talked through already a few times.

Ben Uglow - *Oxcap Analytics - Analyst*

Interesting. Thank you.

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

All right. Thank you, Ben, and I think on that note, we'll probably stop the call. Thank you all for the after office hour time that you spent with us, and we are available in the coming days to discuss further. We'll stop the call here. Thank you all very much.

Operator

This concludes today's conference. Thank you for participating. You may disconnect at this time.
