Schneider Electric

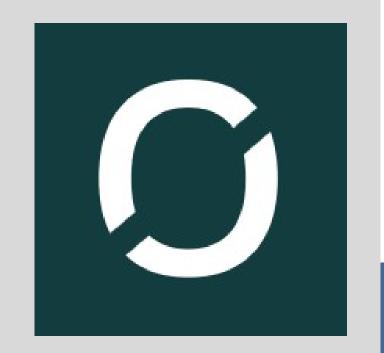
Schneider Electric (SBGSY)

Schneider Electric is a global leader in energy management and industrial automation, providing hardware, software, and digital solutions for efficient, safe, and sustainable operations worldwide.

MSCI: AAA

Current Price: £173.62
Target Share Price: £197
Total 18 months return: 15%
Stop Loss: £160 (6.5% loss)

Investment Amount: £1000 Recommendation: LONG



Investment Thesis

Why invest in Schneider Electric?

Leader in Electrification:

- Critical role in smart grids
 & EV infrastructure
- Revenue growth ~7%
 CAGR (5 years)

Resilient Financials:

- 15-17% Operating Margins | 3.61% FCF Yield
- 12% ROIC | Net Debt/EBITDA < 2x

Sustainability Leadership:

- 7.55/10 Sustainability
 Impact Score
- 40% reduction of CO2 emissions from top 1000 suppliers' operations

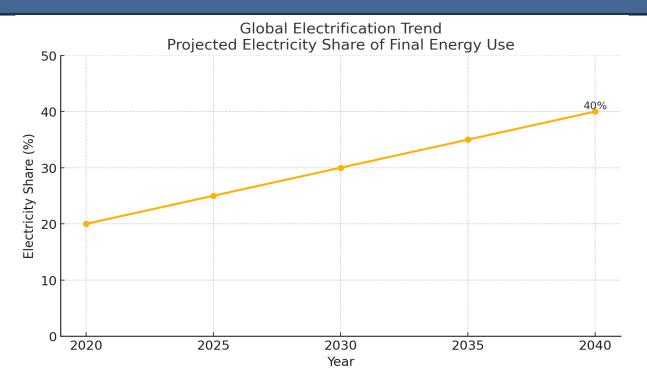
Strength in Digitalisation:

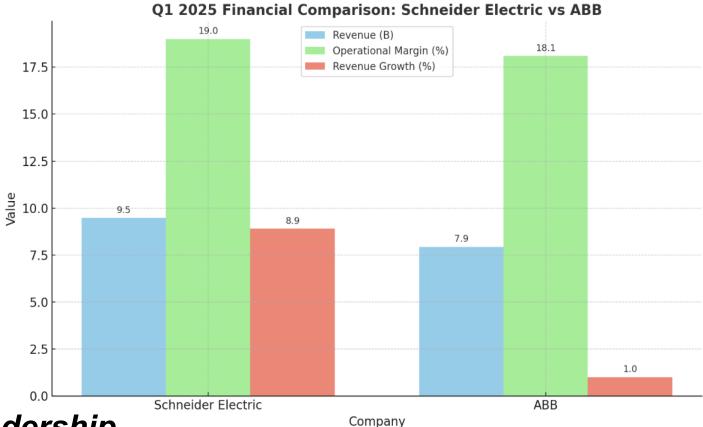
- EcoStruxure platform: IoT, AI, smart analytics
- Key player in "Industry 4.0"

Commitment to Innovation:

- €2.26B in R&D (+12% YoY)
- Ranked among world's most sustainable companies

Competitive Edge





Schneider = Secular Growth + Financial Strength + Sustainability Leadership

Overview of Schneider Electric

Schneider Electric operates a solutions provider business model, delivering integrated energy management and automation products, software, and services to industries, buildings, infrastructure, and data centres, with core operations in electrification, automation, and digitalisation to drive efficiency and sustainability for global clients

Business Model Overview

- Schneider Electric designs and delivers integrated energy management and industrial automation solutions for buildings, data centers, infrastructure, and industry
- Provides products, systems, software, and digital services to help clients optimise energy efficiency, automate operations, and support sustainability
- Leverages its EcoStruxure platform to connect devices, collect data, and deliver actionable insights through analytics
- Offer lifecycle services, including consulting, maintenance, and digital upgrades, to maximise asset reliability and performance
- Major clients include commercial and residential buildings, data centers, utilities, manufacturers, and infrastructure operators

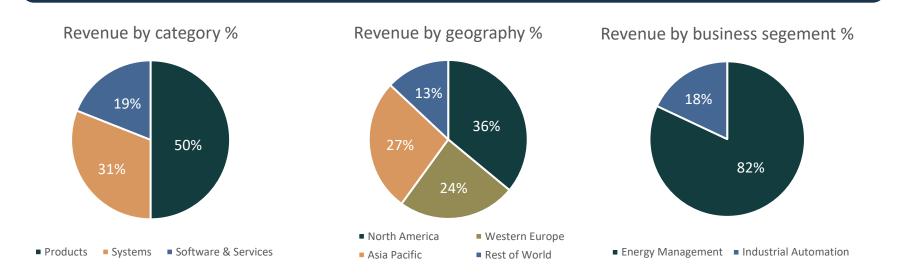
Segments

Energy Management - Products, systems and digital solutions for electrical distribution, power management and energy efficiency in buildings, data centers and infrastructure

Industrial Automation - Hardware, software, and services for industrial process automation, across manufacturing and process industries. Solution for client's operational efficiency and increase product quality/ safety

Software & Digital Services - Cloudbased solutions to enable digital transformations, recurring revenue and enhanced sustainability.

Revenue Breakdown for FY2024



3-Year Historical Stock Performance



Schneider Electric's Strong Cash Position

Key Financial Metrics (YoY Growth)



Payment Frequency & Capital Structure

- Schneider Electric **business model is primarily a B2B** typically receiving payments within 30-90 days. No significant issues reported with late payments or bad debts.
- Dividend pays annually in May, the proposed dividend for FY2024 is €3.90 per share, up 11% from the previous year, marking 15 consecutive years of progressive dividend growth
- Working Capital stood at €2.9 billion at year-end 2024
- Capital Structure: Net debt decreased to €8.147 million at year-end 2024 (from €9.367 million in 2023),

Challenges and Solutions

Inventory Build-Up - In 2024, Schneider Electric's Days Inventory Outstanding
(DIN) increased by 7 days, with a €594 million increase in inventory + net capital
expenditure rose to €1.36 billion in 2024 (from €1.31 billion in 2023)



- Backlog remains at record levels with the company reported its highest ever yearend backlog-€21.4 billion at the end of 2024, up €2.2 billion from 2023
- Schneider Electric made a provision of €207 million in 2024 related to a fine from the French Competition Authority



- Schneider Electric's working capital stood **€2.9 billion** at year-end **2024** which affords the company significant financial flexibility,
- Has the ability to absorb this regulatory charge without compromising day-to-day operations, investment plans, or its consistent dividend growth

Valuations

We anticipate a price per share of \$260 dollars in year's time

Projections:

| Based on management outlook | | | | |
|---|---------------------------------------|---------------|----------|--|
| Line Item | 2025E | 2026E | 2027E | |
| Revenue Growth (%) | 8.50% | 8.00% | | |
| Revenue (Forecasted) | 41396 | | | |
| EBITDA Margin (%) (5-Year Average) | 19.20% | 19.30% | | |
| EBITDA (Based on Average Margin) | 7948 | 8629 | 9324 | |
| D&A as % of Revenue | 1022 | | 1187 | |
| EBIT | 33448 | 36079 | 38737 | |
| Capex as % of Revenue | 849 | 894 | 961 | |
| Change in Working Capital as % of Revenue | -992 | | -961 | |
| | 22.74% | | | |
| Effective Tax Rate (%) | 22.74% | 22.74% | 22.74% | |
| | Based on Manag | ament Outlook | | |
| Metric | 2025E | 2026E | 2027E | Source: Scheneider Electric FINANCIAL AND SUSTAINABLE DEVELOPMENT REPORT 2024 Universal Registration Docume |
| Revenue Growth (%) | 8.50% | | | Based on midpoint and tapering from 7–10% CAGR 2023–2027 |
| EBITDA Margin (%) | 19.20% | | | inn line with guidance to improve +50 to +80bps over the period |
| D&A as % of Revenue | 2.47% | | | from historical average |
| Capex as % of Revenue | 2.05% | | | reflecting disciplined capital intensity in recent years |
| Δ Working Capital as % of Revenue | -2.40% | | | Matches recent working capital improvements |
| Effective Tax Rate (%) | 22.74% | | | based on historical average |
| Entertive rax nate (70) | 22.7470 | 22.7.470 | 2217 170 | and the state of t |
| | | | | |
| | | | | |
| | Based on consesus/forecasted analsyst | | | Source: Schneider Electric Consensus Estimates - Pre-Q1 2025 release |
| Line Item | 2025E | 2026E | 2027E | |
| Revenue Growth (%) | 8.90% | 7.90% | 7.00% | |
| EBITDA Margin (%) | 2.50% | 2.45% | 2.40% | Analyst Consensus |
| 0 () | 2.10% | 2.00% | 2.00% | decline due to operationla scale |
| | 2.1070 | | | I II III III AAAAA II |
| D&A as % of Revenue | 2.10% | 2.00% | 2.00% | in line with 23-24 trends |
| D&A as % of Revenue Capex as % of Revenue Change in Working Capital as % of Revenue | | | | (conservative estimate, aligned with market trends) |

When calculating our projections for 2025, 2026 and 2027 we choose a variable growth rate as appose to an average of the past five years. Originally revenue growth was anticipated to be 8.9% however there was a significant first quarter, so expectations have softened so a lower revenue growth rate of 8.5% is assumed . Moving into the future we expect revenue to grow at a smaller rate because of uncertainties due to tariffs so more conservative revenue growth rates have been chosen.

Risk Management

SWOT analysis

•Strengths:

□In 2024, Schneider was able to deliver €38.2 billion in revenue followed by a record net profit of €4.27 billion

•Weaknesses:

□ Pressure from competitors such as Siemens who currently ahead in the automation process with a strong position within Germany and China. Siemens had a 5% increase in revenue compared to Schneiders 3.7% decline. □ There's an over reliance on North America as 36% of revenue in 2024 came from North America. As a result of this lack of geographic diversification investors could be deterred.

•Opportunities:

□Schneider invested \$80 million into clean energy incentives in Texas. By investing into an already growing market for renewable energy Schneider is able to accelerate the transition to 100% renewable energy whilst fortifying ESG commitments.

•Threats:

Competitors have more AI driven innovation compared to Schneiders. For example, ABBs (one of schneiders competitors) use AI tools to automate complex workflows such as their batch processing whereas Schneider still relies on manual scripting.

ESG integration

 Schneider Electric is ranked 1st in Corporate Knights Global 100, showing great improvements after being ranked 7th in 2024. They were able to reduce supplier emissions by 40% and were able to train up to 824,000 in energy management showing a strong ESG leadership. (Strength)

78% of packaging is free of single use plastic which can be an attraction to ESG investors.(Opportunity)

Introductions of cybersecurity regulations within the EUs NIS2 Directive which contains stricter enforcement and higher fines for non-compliance.(Threat)

Porters 5 forces

- Threat of new entrants: Moderate to high due to high compliance regulations alongside cybersecurity standards.
- Bargaining power of suppliers: Moderate as key suppliers being semi-conductor manufacturers and rare metal producers.
- Bargaining power of buyers: High as key buyers such as data centres have contributed 25% of energy management revenue.
- Threat of substitutes: Moderate. Solar and wind systems can reduce energy grid reliance which Schneider specialise in however, their specialisation in microgrids counter this issue.
- Competitive rivalry: High. Highly saturated market with key competitors such as Siemens and ABB.



Appendix

- 1. https://www.se.com/ww/en/assets/564/document/505646/release-fy-results-2024.pdf?p enDocType=Financialrelease&p File Name=2024FYResults
- 2. https://www.se.com/ww/en/assets/564/document/505646/release-fy-results-2024.pdf?p enDocType=Financialrelease&p File Name=2024FYResults
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