

Delivering consistent, sustainable and strong financial performance

Emmanuel Babeau, Deputy CEO and CFO
June 26, 2019

Presenter



Emmanuel Babeau

Deputy CEO and CFO
Schneider Electric

 [@emmanuelbabeau](#)

Follow me on LinkedIn

New principles of responsibility that meet a growing demand from stakeholders

Our principles of

RESPONSIBILITY

Launched in 2002, structured by stakeholders, coherent with company values:

- 1 Human Rights and People Development
Our wealth is human capital, at the heart of our values and our new value proposition as an employer.
- 2 Ethical business conduct
Clarified and reinforced rules of compliance, with "to be done/ to be avoided" lines of conduct.
- 3 Digitally trusted and secure
A new section totally devoted to **digital** solutions.
- 4 Act for the environment
A separate section reflecting our actions and our impact on our complete value chain.
- 5 Responsible corporate citizenship
Schneider represents a **community**, interacting with many different stakeholders.

Our strategy is delivering outgrowth vs. the sector

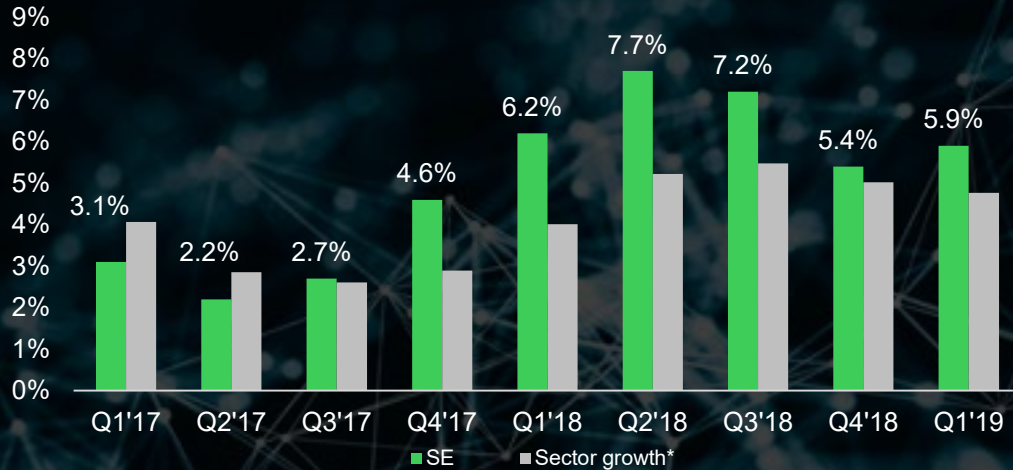
Growth momentum continues in 2019

Strong revenue growth

Sustained profit momentum

Strong shareholder focus

Organic growth above market driven by strategic alignment to secular GDP+ demand trends, Energy Transition, and Industry 4.0



More Products

More Services

More Software

Better Systems

(+c. 400 bps of GM improvement since 2014)

EcoStruxure

Layers 2 & 3 represent c. 15% of group revenue which is growing faster than the group average



*Sector growth is a composite index: ABB, ETN (EP+ESS divisions only), EMR (AS), HON (HBT), JCI, LGD, ROK, SIE (DF+PD+EM+BT)

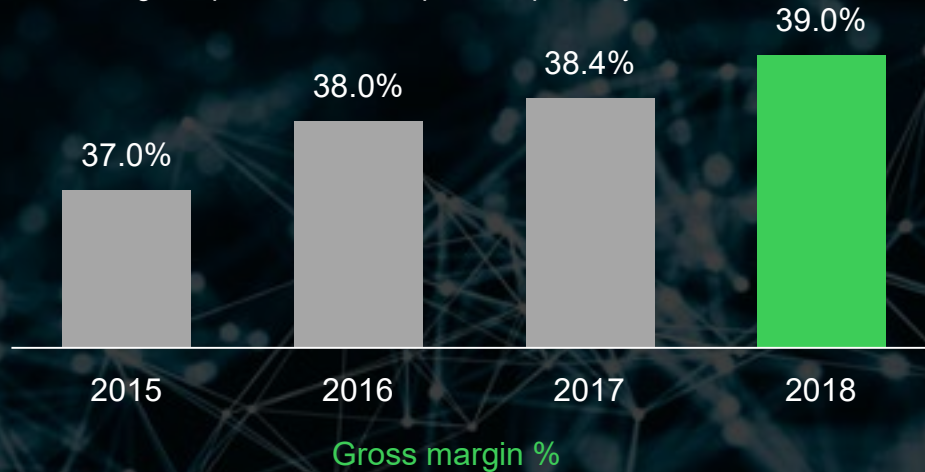
Consistent improvement in gross margin reflective of high quality

Strong revenue growth

Sustained profit momentum

Strong shareholder focus

Gross margin improves to 39%, up +200 bps in 3 years



Key drivers:

Strategically positioned toward high value added

Margin accretive Industrial Productivity

Portfolio optimization

Consistent positive net price, indicative of our value added

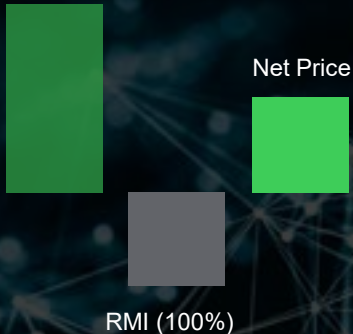
Strong revenue growth

Sustained profit momentum

Strong shareholder focus

Total Net Price 2008-2018

Pricing on Products
(represents c.60% of sales)



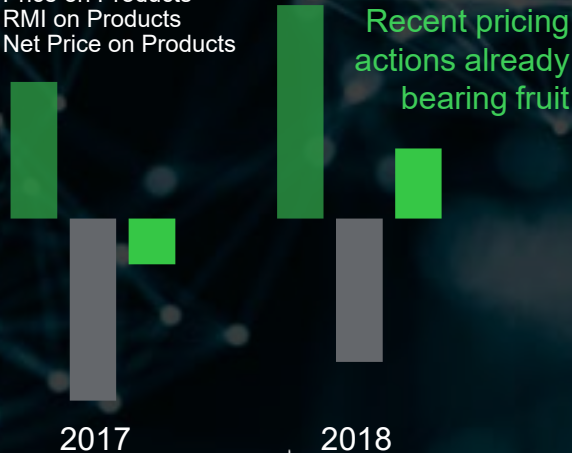
Total pricing of +€1.1 B, >2x RMI
= €557 M total net price over period

Consistently achieving positive net pricing through cycle is the evidence of our value add

Pricing remains an important driver

Recent evolution of Net Price on Products

Price on Products
RMI on Products
Net Price on Products



Recent pricing actions already bearing fruit

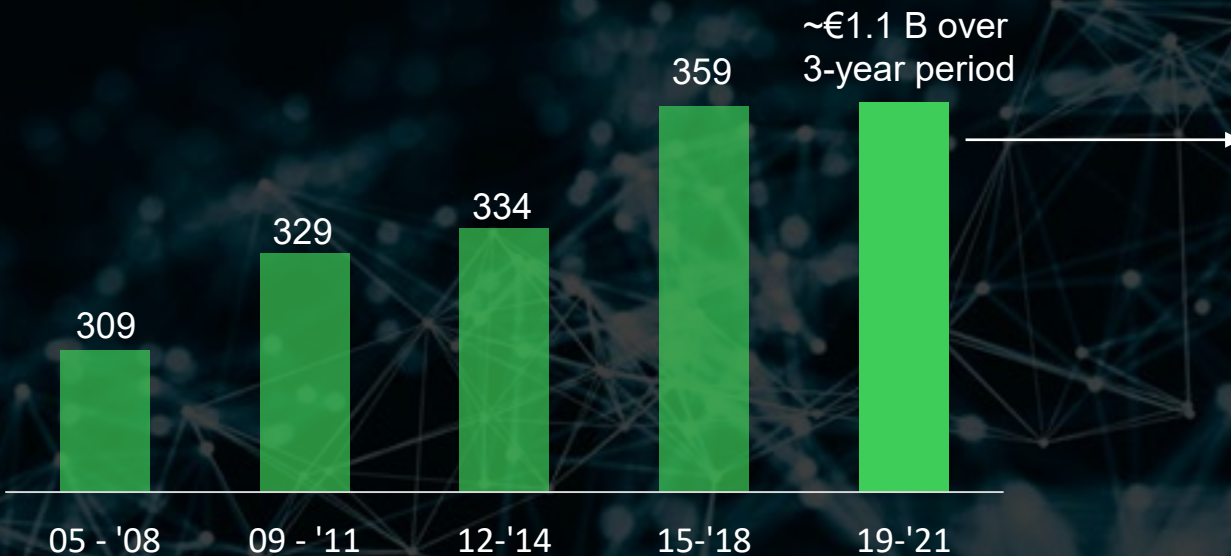
Relentless focus on industrial productivity

Strong revenue growth

Sustained profit momentum

Strong shareholder focus

Average annual productivity during period €M



Commitment to a continued rolling productivity gain of ~€1.1 B over '19 to '21

- Procurement savings
- Quality value engineering
- Logistics
- Industrial footprint
- Manufacturing base costs productivity

Continued performance excellence through the cycle

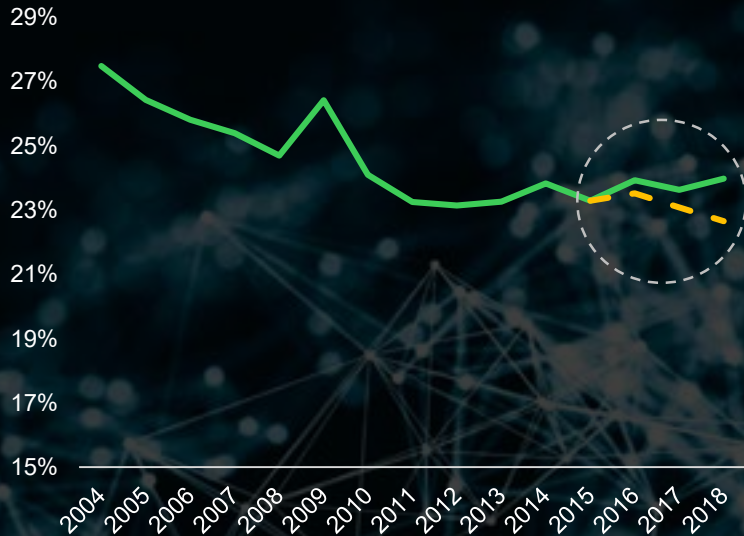
Good progress on SFC to sales ratio with more to follow

Strong revenue growth

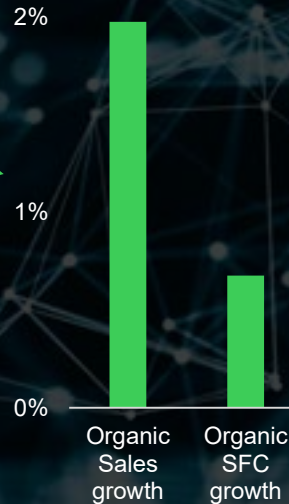
Sustained profit momentum

Strong shareholder focus

SFC/Sales ratio



Ave. organic growth 2015 to 2018



Material and sustained improvement on SFC to sales ratio

Continued underlying improvement from 2015, **organic SFC growth c.130 bps slower than the rate of organic sales on average**

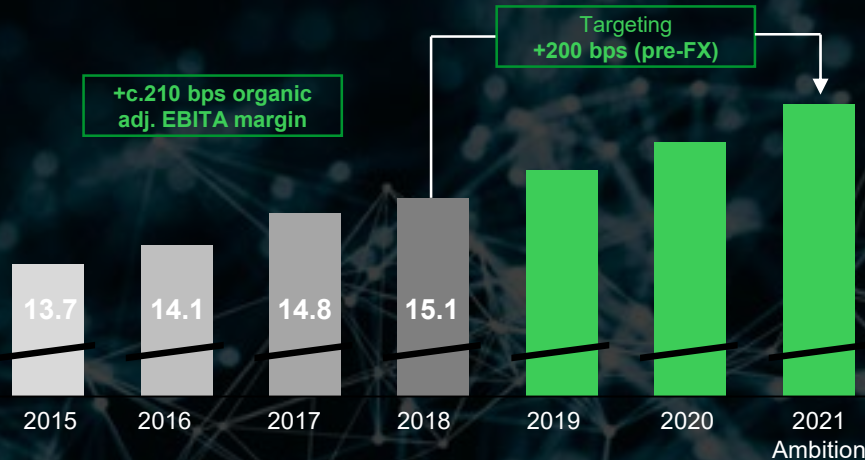
Further opportunity to drive savings from 'non-productive' SFC

A path towards 17% which is not the end of the margin journey

Strong revenue growth

Sustained profit momentum

Strong shareholder focus



*@ constant FX

- c.200 bps of margin expansion targeted by 2021 **the majority of which is organic**
- Drivers of organic margin are well identified:
 - Organic growth
 - Net price
 - Simplification & efficiency
 - Continued productivity
- **Portfolio optimization to contribute a few tens of basis points**

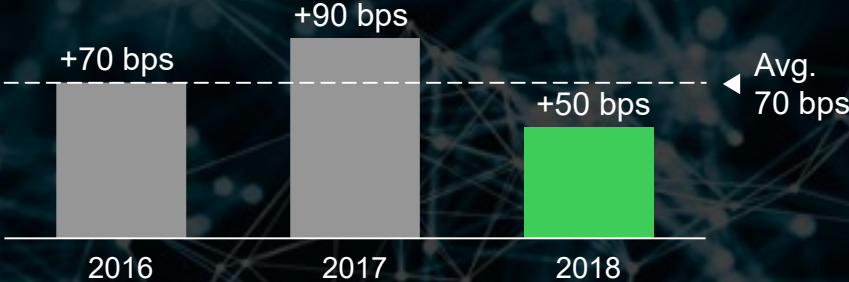
Consistent improvement in adj. EBITA over 3 years

Strong revenue growth

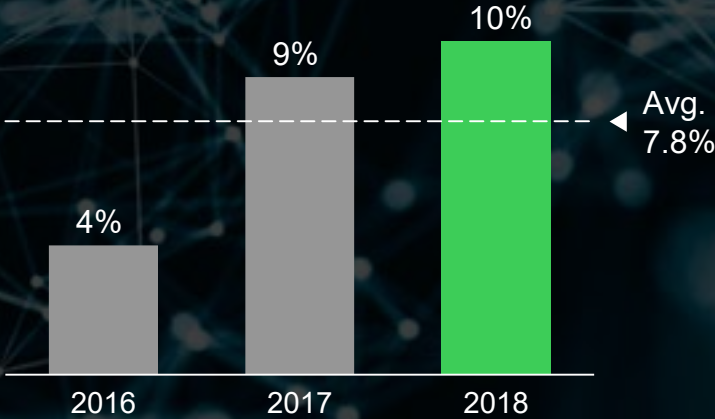
Sustained profit momentum

Strong shareholder focus

+70 bps organic adj. EBITA margin improvement on average in both negative and positive growth environments:



+8% organic adj. EBITA growth on average:



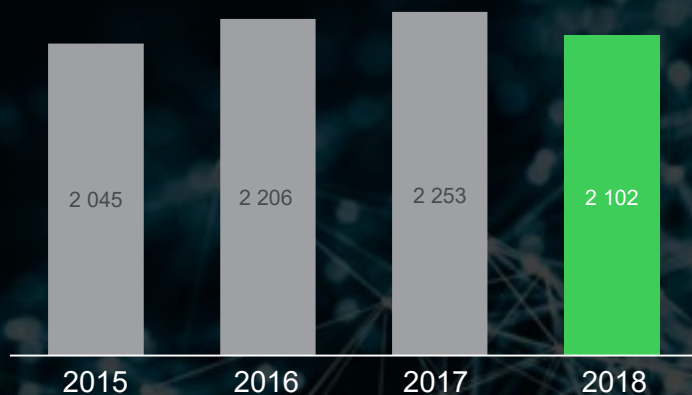
Strong cash conversion and balance sheet

Strong revenue growth

Sustained profit momentum

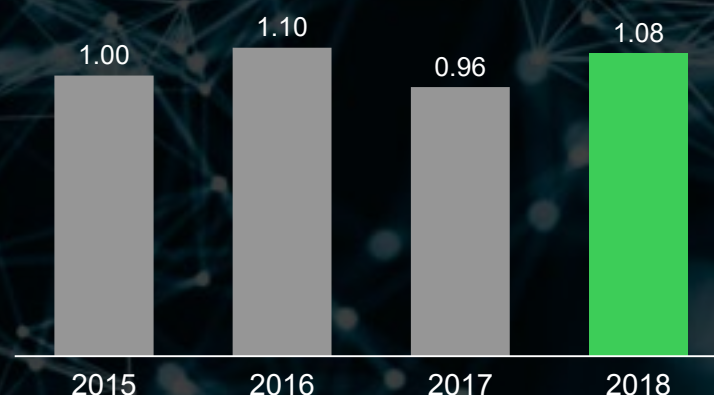
Strong shareholder focus

Free cash-flow evolution (€M)



106% cash conversion on average

Net debt / Adj. EBITDA



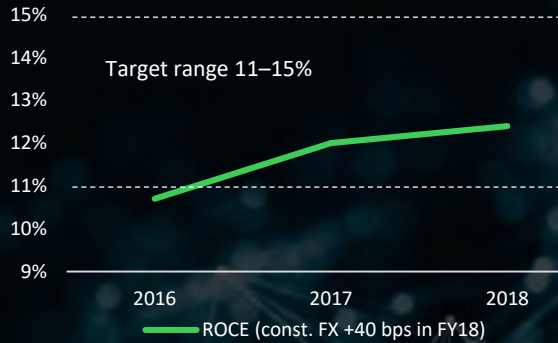
Sustained high credit rating

Returns metrics continue to improve, capital allocation discipline unchanged

Strong revenue growth

Sustained profit momentum

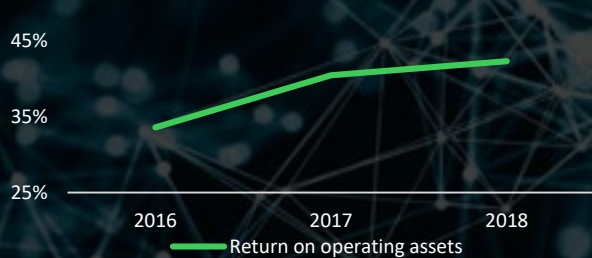
Strong shareholder focus



Recent improvement in returns on capital employed and operating assets reflective of higher core operating profits + disciplined capital allocation

Capital allocation discipline contributing, further improvement expected

Reiterating our ROCE target range of 11% to 15%



Strong focus on optimizing our portfolio and on returns to shareholders

Strong revenue growth

Sustained profit momentum

Strong shareholder focus

Continued portfolio optimization

Disciplined and successful M&A in the core
AVEVA, ASCO, IGE+XAO
+ **L&T E&A** expected to close in several months

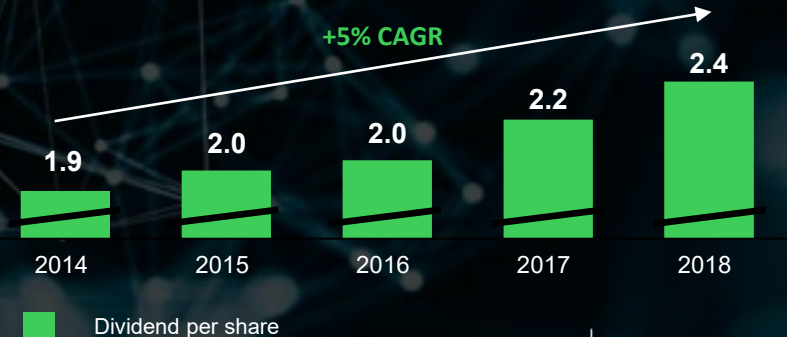
Selective pruning of the portfolio

~**€2.3 B**

Proceeds from disposal of non-core activities since 2014

Strong cash returns to shareholders

- c. **80% of FCF returned** to shareholders in past 4 years
- **Progressive** dividend
- 2017-2019 share buyback concluded 6 months ahead of schedule
- 2019-2021: Initiated **€1.5–2 B share buyback**



Portfolio optimization continues

Strong revenue growth

Sustained profit momentum

Strong shareholder focus

- The Group has identified several assets totaling **c.€1.5 to €2.0 B** in revenues that are less strategic in the long run
- Progress has already been made with Pelco divestment
 - Sale to Transom signed in Q1, closed in Q2
 - **€169 M of sales in 2018**
 - **c.+10 bps accretive** to the Group adjusted EBITA margin on a full year basis
 - Non-cash loss on disposal of up to €250 M to be excluded in net income calculation for dividend



Expect further progress in 2019

Preparing the next steps for further increase in organic financial performance

Objective:

Increased and targeted investment in the coming years on key drivers which will enhance **long-term organic top line growth and drive margin improvement beyond the +200 bps ambition post 2021.**

We shall increase investment over the next 4 to 5 years on core drivers of performance:

- R&D and innovation
- Digital
- Sales force size and skills on our priorities
- Marketing and communication

New investment will have to be **neutral at the margin level** and therefore financed by increased productivity on our 'non-Productive' SFC (back and middle office, global functions...).

- Targeted yearly productivity to increase from 2018 levels
- Total redeployment could represent up to 10% of total SFC over the next 4 to 5 years

The cash investment for this additional effort is expected to bring the average annual restructuring cost over the next 4 years to a level between €200 to €250m.

In case of an economic downturn over the period the extra productivity generated could also be used to increase margin

Key messages

- High quality pure play business delivering consistent financial outperformance
- Further growth with increasing profitability ahead, to 2021 and beyond
- Clear and disciplined capital allocation policy
- Delivering attractive returns for shareholders

FY guide and multi-year targets unchanged

Life Is On

Schneider
Electric

© 2019 Schneider Electric. All Rights Reserved. Schneider Electric and Life Is On Schneider Electric are trademarks and the property of Schneider Electric, its subsidiaries, and affiliated companies. All other trademarks are the property of their respective owners.