Creditreform SME Corporate Issuer / Issue Rating

Schneider Electric SE

Creditreform Rating

Rating object	Rating information	
Schneider Electric SE Creditreform ID: 400981023 Incorporation: 1836 (original foundation) Based in: Rueil-Malmaison (France) Main (Industry): Electrical engineering CEO: Jean-Pascal Tricoire	Corporate Issuer Rating: **A- / stable**	Type: Update Unsolicited Public rating
	LT LC Senior Unsecured Issues,: **A- / stable**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Schneider Electric SE Long-term Local Currency (LT LC) Senior Unsecured Issues	Rating date: 20 August 2021 Monitoring until: withdrawal of the rating Rating methodology: CRA “Corporate Ratings“ CRA “Non-Financial Corporate Issue Ratings“ CRA “Rating Criteria and Definitions“ Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Schneider Electric SE, hereinafter also referred to as SE or the Company, headquartered in Rueil-Malmaison (France), is a multinational electrical engineering corporation specialized in two core segments: energy management and industrial automation. The Company provides hard- and software solutions as well as services related to renewable energies, utility management (including lighting, ventilation, elevators and alarm systems), intelligent power supply, automation of industrial processes, as well as cooling and safety systems. Its customer base is diversified into four end-markets, namely buildings, data centers, industry and infrastructure.

The Company was created in 1836 with operations based solely on the steel factories of Schneider-Creusot, later evolving into a diversified conglomerate following several mergers and acquisitions up to the second half of the 20th century. In the eighties and nineties, the Company's activities shifted towards the electricity business through a divestment of its steel and shipbuilding assets, as well as through strategic acquisitions (Merlin Gerin, Square D, Lexel). Currently, the Company employs 135,000 people in over 100 countries, with over 190 plants and 90 distribution centers worldwide. In 2020, the Company generated revenues of EUR 25,159 million (2019: EUR 27,158 million) and a profit of EUR 2,126 million (2019: EUR 2,413 million).

Rating result

The current rating of A- attests Schneider Electric SE a good level of creditworthiness, representing a low default risk.

The rating result is based on the strong global market position of Schneider Electric, its good level of product and geographical diversification, technological know-how, and overall positive prospects in the view of global market demand for electrification and enhancement of energy efficiency, sustainability and digitization. In 2020, the Group posted somewhat weaker annual results compared to the previous year, mainly driven by temporary impacts of the COVID-19 pandemic and the lower investments levels during economic downturns. Even though, we consider the company's business model as rather resilient in the long run as a result of strong management execution capabilities, successful M&A acquisitions, strengthening of product, services and software solutions over the past years and, last but not least, due to the growing technological demand. Hence, we have seen already a fast-paced recovery during first half year (HY)

2021, with operating performance being even stronger than in pre-pandemic periods. The Company's financing structure and liquidity position remain solid and commensurate to its current rating level.

On the other hand, we believe the Company is vulnerable to the general economic situation in the short run and to possible downturns in overall investment levels. The Company has been active in M&A activities, entailing continuous costs related to restructuring and integration of acquired companies, which has somewhat offset profitability gains achieved over recent years. Furthermore, Schneider Electric has to maintain a significant level of R&D and investments to retain its solid technological position. The Company's relatively aggressive shareholder remuneration, as evidenced by its progressive distribution policy and recurring share buyback programs, put pressure on its financials. Thus, 2020 key financial figures have deteriorated slightly compared to the previous year without an immediate impact on the rating.

Outlook

The one-year outlook of the rating is stable. This is based on our expectation of recovery in Schneider Electric's operating performance through 2021 and potentially onwards, supported by already strong results during first HY 2021 and more positive economic growth prospects globally. In our view, the Company will have a prudent financial management going forward, adjusting its capex and dividend outflows to its internal cash flow generation. This includes our expectation that Schneider Electric will not embark in large debt-financed acquisitions, sustaining a healthy capital structure. Economic and business risks in connection with COVID-19 remain immanent in the rating.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses and evaluations of the rating process, as well as on the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2020:

+Resilient gross profit from sales
+Decline in interest expenditure
+EBIT and EBITDA interest coverage
+Very good liquidity / liquidity ratios

-Decrease in sales
-Significant increase in balance sheet total with decline in equity ratio
-Generally declining figures of capital structure also due to M&A
-Declining asset coverage ratio
-Decline in return on investment

Relevant rating factors

Table 1: Financials I Source: Schneider Electric SE Annual Report 2020, standardized by CRA

Schneider Electric SE Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, Group)	CRA standardized figures[1]	
	2019	2020
Sales (million EUR)	27,158	25,159
EBITDA (million EUR)	4,522	4,262
EBIT (million EUR)	3,347	3,052
EAT (million EUR)	2,523	2,238
EAT after transfer (million EUR)	2,413	2,126
Total assets (million EUR)	30,266	34,263
Equity ratio (%)	31.14	27.51
Capital lock-up period (days)	56.65	67.66
Short-term capital lock-up (%)	21.42	28.74
Net total debt / EBITDA adj. (Factor)	3.40	3.82
Ratio of interest expenses to total debt (%)	1.43	1.05
Return on investment (%)	9.16	7.25
EBIT Interest Coverage Ratio	11.19	11.69

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

General rating factors

General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

- \+ Market leader with strong global market position and diversified product portfolio
- \+ Business model resilient in the long term
- \+ Solid financial position and good access to capital markets
- \+ Business model benefits from growing trend in electrification, sustainability and digitalization
- \+ Track record of stable profitability and strong operating cash flows
- \+ Differentiation of product and service offering due to state-of-the-art use of technologies (IoT, Industry 4.0, convergence of information and operation technology, among others)
- \+ Ongoing portfolio optimization supports improving business profile

- – Dependency on economic cycles in the short term, and overall investment levels
- – Highly competitive market, also due to competitors from lower-cost countries
- – Subject to exchange rate volatility, as only a quarter of total revenue is generated in Europe
- – Ongoing execution and integration risks, as growth strategy is mostly based on acquisitions
- – Sizeable shareholder remuneration with progressive dividend policy and share buyback programs, with concurrent decline in equity ratio

Current rating factors

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

- \+ Business model proved to be resilient during the COVID-19 pandemic, with solid operating cash flow generation
- \+ Stable profitability despite tougher market conditions
- \+ Numerous acquisitions and investments during 2020 will accelerate digital transformation (RIB Software, ProLeiT, ETAP, OSIsoft and a new hub in India)
- \+ Higher cash balance in 2020 (but predominantly determined by external financing)
- \+ Strong business and result development during first HY 2021
- \+ Despite high cash outflows due to investments and M&A activities in 2021, sufficient financial headroom

- – Significant decline in sales due to portfolio restructuring and exchange rate variation (mainly the appreciation of euro against US dollar).
- – Generally weakened macro environment and economic instability due to COVID-19 pandemic and various (geo-)political conflicts
- – Capital structure mostly composed of goodwill and other intangibles, whose value is susceptible to volatility
- – Higher restructuring costs adversely affecting results in the short term
- – Increase in financial debt levels during 2020 and first HY 2021

Prospective rating factors are factors and possible events that – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) or a weakening, negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances may arise which are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

- \+ Confirmation of the solidity of SE's strong business model and globally leading position, as well as the stability of its credit ratings over the entire cycle
- \+ Deleveraging in the coming years as a result of stronger operational performance
- \+ Continued significantly positive free cash flows in the coming years
- \+ Improvement or normalization of the extraordinary pandemic situation
- \+ Improvement of the financial ratio arithmetic to the 2018 level

- – Absence of debt reduction
- – Maintenance of its relatively aggressive shareholder remuneration (progressive dividend payments and share buyback initiatives)
- – Further large company acquisitions that lead to a deterioration in the credit metrics (SE has spent over EUR 7 billion on new business purchases since the beginning of 2020)

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements" section. CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Schneider Electric SE, we have identified ESG factors with significant influence on the following categories, which are described in the sections below.

(E) Environment ☒ (S) Social ☐ (G) Governance ☐

- \+ (E): Sustainable products and services represent 70% of the Group's total revenues
- \+ (E): Meaningful achievements in ESG is a key competitive factor

Already, 72% of the turnover results from sustainable products and services, the share of which may further increase due to stricter regulations with regard to CO_2-emissions and an increased focus on sustainability in companies and private households. Sustainability is therefore a key driver of the Company's performance, as well as a significant competitive factor for SE. With its sales classified as green, SE aims to adapt its business model to the emerging EU regulatory in connection with the EU Taxonomy. Accordingly, sales related to the extraction or utilization of fossil fuels have been reduced. In our view, SE has excelled in implementing sustainable business strategies over the last years. Overall, we believe SE to be a sustainable and socially well-positioned company, which we consider beneficial for its corporate identity.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A-

In our best-case-scenario for one year, we assume a rating of A-. In this scenario, we expect that the Company's resumed growth seen in the first HY 2021 will continue going forward, mainly driven by better global economic conditions following progress in COVID-19 vaccinations and by successful implementation of management strategies, including portfolio restructuring, future investments and liability management initiatives. Stronger annual results and cash flow generation will allow Schneider Electric to sustain its good liquidity position and healthy capital structure, with leverage (as measured by net total liabilities to EBITDA) standing below 4x on a sustained basis. In our best-case-scenario, the result of our key financial figures analysis remains stable. Based on the current relevant financial figures and their expected future development, we consider an upgrade less likely in the short term.

Worst-case scenario: BBB+

In our worst-case scenario for one year, we assume a rating of BBB+. In this scenario, we expect that the uncertainties related to the COVID-19 pandemic will remain, with a slower recovery of demand preventing more sustainable growth in operating performance through the second half 2021 and beyond. We also assume that delayed rebound in SE's cash flow generation will lead to a weaker capital structure, with its equity ratio remaining below pre-pandemic levels, and net total liabilities to EBITDA standing around 5x (3.8x in 2020) on a sustained basis.

Business development and outlook

Schneider Electric proved to have resilient business model with satisfactory operating performance, despite tougher market conditions during the COVID-19 pandemic. Revenues declined by 7.4% in 2020 on a year-over-year basis (yoy), amounting to EUR 25,159 million (2019: EUR 27,158 million). The decline is mainly explained by portfolio restructuring with deconsolidation of some of the business segments, as well as by exchange rate variation, in particular the appreciation of the euro against the US dollar. The fall in sales in 2020 is not so sharp if compared to other recession periods (13.7% drop during 2009 crisis), and will likely bounce back in the course of 2021 based on strong recovery during first half of the year. We acknowledge the Company's strong growth history over recent years, with net revenues and reported EBITA increasing by EUR 5.6 billion and EUR 907 million over the 2010-2020 period, implying a successful implementation of management strategies over time; we thus expect a continued positive development.

Schneider Electric has made several small acquisitions over recent years, with the objective of repositioning its business model to benefit from the growing trend in electrification, sustainability and digitalization. Hence, restructuring and integration costs have been increasing over recent years, with adverse short-term effects on operating income - EBIT declined by 9% yoy, amounting to EUR 3,052 million in 2020 (2019: EUR 3,347 million). However, operating margin (EBIT) remained relatively stable during the year, at around 12%, thanks to efficient cost savings initiatives and to the Company's good geographical diversification, as we assume lockdown requirements did not impact demand in all regions simultaneously, and differed in terms of length and severity.

During the first half of 2021, Schneider Electric outperformed expectations, with revenue and EBIT growth even compared to pre-pandemic periods. Better growth perspectives in the Company's four end-markets (namely Building, Data Center, Infrastructure and Industry) and across all regions are supporting the rebound in operating performance, allowing it to achieve targets ahead of schedule. Accordingly, revenues increased by 19% in the first HY 2021 compared to the same period of the previous year, and reported EBITA (excluding restructuring costs) is 50%

higher, with margin expansion of 350 bps during this period. Increased profitability was mostly driven by higher prices, which reflects in our opinion the Company's successful strategy to add value to its range of products and services.

The Company's operating segments are divided into Energy Management and Industrial Automation, accounting for 76.9% and 23.1% of consolidated net revenues, respectively. SE's **Energy Management** business is focused on providing end-to-end solutions that support consumers in maintaining more efficient and sustainable use of energy. Despite the 7.2% decline in revenues in 2020, this segment presented a mild improvement in its reported EBITA margin, rising to 18.8% from 18.4% a year earlier. The EUR 832 million increase in backlog in 2020 (13% growth compared to 2019), coupled with a strong performance in the first half 2021, indicate recovery in the Company's main end-markets. During the first half of 2021, revenues increased by 19.8% compared to the same period of the previous year, and the reported EBITA margin reached 20.5%. The **Industrial Automation** division offers software for the automation and control of machines, plants, and processes. During 2020, revenues and reported EBITA fell by 7.9% and 13.1%% respectively compared to 2019, and backlog remained stable. During the first half of 2021, revenues increased by 16.6% yoy, and the reported EBITA margin reached 18.2% (300 bps higher than in 1H 2020).

We believe demand fundamentals will remain positive throughout the year and potentially beyond. The residential construction sector benefits from low mortgage rates, government incentives in some regions, increased consumer spending, and working from home trends; data center demand is supported by increased internet traffic, roll-out of 5G, and automation/digitization trends; the electric utility sector is more stable and presented resilient performance during the COVID-19 crisis; and most industrial sectors, with the exception of oil & gas, already showed recovery in comparison to pre-pandemic periods.

Since the beginning of 2020, Schneider Electric has invested roughly EUR 7 billion in the acquisition of the following companies: RIB Software, L&T Electrical & Automation division, ETAP, OSIsoft (through its subsidiary AVEVA) and ProLeit, with the first three entities fully consolidated into the Energy Management segment and the others into Industrial Automation. On a combined basis, these transactions will increase Schneider Electric's annual revenue base by roughly EUR 1.5 billion. We expect this to bring innovation and diversification, and to strengthen the Company's position as a global and sustainable supplier of software and digital services. After the acquisition of the L&T Electrical & Automation division, Schneider electric will further diversify its geographic footprint, with India to be one of the Company's main markets.

Based on strong first-half results, Schneider Electric revised its targets upwards for 2021 and now expects to achieve 11-13% revenue growth (8-11% previously), 19-24% reported EBITA growth (14-20% previously), and margin expansion of 120-150 bps (90-130 bps previously). In our view, the Company should be able to meet these targets based on its track record of successful operations management, as well as better growth prospects going forward as global economic conditions improve with advance of COVID-19 vaccination.

Table 2: Figures of the current financial year I Source: Half-year report 2021)

Schneider Electric SE First HY figures		
In Mio. EUR	First HY 2020	First HY 2021
Sales	11,575	13,774
EBIT	1,200	2,096
EBITA*	1,576	2,362
EBT	1,028	2,018
EAT	821	1,587

* Excluding restructuring costs and other income/expenses.

Structural risk

The parent company of the Group is Schneider Electric SE, a European Company incorporated in France in 1836 and headquartered in Rueil-Malmaison. The Company's shares are traded on the Paris Stock Exchange and are included in the Euro Stoxx 50 stock market index.

Schneider Electric has 190 plants and 90 distribution centers around the world, with a well-balanced revenue base across all regions (28.2% in North America, 26.6% in Western Europe, 31.2% Asia Pacific and 14.0% in other regions).

The biggest shareholder of Schneider Electric is Sun Life Financial, Inc. (8.3% of the share capital as of 31 December 2020), followed by BlackRock Inc. (6.4%). About 3.7% of the shares belong to the Company's employees, and 2.3% represent treasury shares. The rest of the shares are in free float.

The Board of Directors, currently consists of 15 members, of which 3 are employees and 9 are independent members. The members of the Board of Directors are appointed for 4-year terms. The Executive Committee currently consists of 16 members, including the Chairman and CEO Jean-Pascal Tricoire.

The Group focuses on two main businesses: Energy Management - which comprises the subdivisions Medium Voltage, Low Voltage and Secure Power - and Industrial Automation, each of them managing its own R&D, as well as marketing and sales departments in several international geographical zones. Group-wide services such as Strategy, Finance, Human Resources, IT Systems, and Global Marketing are provided centrally by the Global Function business unit. According to Schneider Electric, all sites and products meet the applicable quality, environmental, energy efficiency and health & safety standards, and have achieved relevant certification.

The Medium Voltage segment provides technical and software solutions for integrated management, protection, and control of electrical networks on the level of the energy transition. Along with established products such as switchgear, transformers and electrical network protection, and automation products, the medium voltage business includes IoT reaching power products as well as distribution management, operation management, and pipeline management software.

The Low Voltage segment includes a wide range of products and solutions for the end markets, such as products for protection, power monitoring and control, building management hardware and software, power meters, cable management systems, as well as renewable energy conversion and connection equipment and electric vehicle charging infrastructure. The Company designed its own platform branded EcoStruXure, which enables the widespread deployment of IoT for low and medium voltage architecture in all of its end markets.

The Secure Power segment focuses on critical power products and solutions for data centers and other applications where power continuity and quality is essential.

The business division Industrial Automation includes Process, Hybrid, and Discrete Automation, and provides products and solutions for the automation and control of machines, manufacturing plants and industrial sites, including software for design, operation and maintenance of industrial processes.

The Group offers its products and solutions in four major markets: non-residential and residential buildings; utilities and infrastructure; industry and machine manufacturers; and data centers and networks.

The Company reports its financial statements in accordance with IFRS and has to comply with high legislative, regulatory and corporate governance standards. After examining publicly available information regarding corporate governance and compliance measures, we assume sufficiently developed structures with regard to risk management, accounting and controlling, as well as other administrative and operational functional areas, and do not see any core risks in connection with the Company's structure.

We were not able to identify any structural risks that had a particular impact on the rating In the course of our analysis. Neither the accelerated restructuring of the group in the direction of sustainability with correspondingly lively M&A activity, nor the Company's solid operational performance, reveal any significant structural weaknesses. We therefore consider the structural risk of SE to be moderate.

Business risk

The Group's activities are particularly vulnerable to the economic growth cycles and general level of investments in different countries, although its geographical diversification enables Schneider Electric to compensate slowdowns in certain markets. Approximately 45% of the Group's sales are generated in emerging countries, which face more volatile market conditions and significantly higher country risks. In this context, Schneider Electric is exposed to economic, legal and political risks in several countries in which it operates.

Significant risks are associated with the competitive market environment. In addition to established market players, Schneider Electric faces increased competition from emerging markets. The Company's leading market position could therefore be negatively affected by price erosion and cost pressure, as well as by the processes of industry consolidation. The same trends could also be significant for Group's suppliers.

General market trends such as electrification and automation with a focus on energy efficiency, digitization with the rising need for connectivity (IoT), and customers' integration into complex software-based solutions create business opportunities for Schneider Electric. On the other hand, these trends imply high levels of investment and an adequate level of R&D, especially to accelerate the convergence of operational technology and information technology to maintain the Group's leadership position. The following table shows the company's research and development spending as compared to sales.

Table 3: Schneider Electric's R&D spending I Source: SE's Annual Reports

Schneider Electric SE		
In Mio. EUR	R&D	as % of sales
2017	1,183	4.78%
2018	1,299	5.05%
2019	1,368	5.04%
2020	1,407	5.59%

The Company faces a range of risks associated with the need to comply with increasingly stringent environmental regulations in the countries in which it operates. The Group is exposed to fluctuations in energy and raw material prices, in particular steel, copper, aluminum, and plastics. In order to manage its exposure to fluctuations in interest rates, exchange rates and metal prices, the Group uses financial hedging instruments.

As far as we can assess, the Company has been continually evolving its internal control and risk management systems and has gathered a high level of technical expertise through its many years of experience in the industry, supporting its compliance with current market and regulatory requirements, and assisting the prevention and management of business risks.

Overall, we assess the business risk profile of the Company as moderate. The Company operates in a fast-moving market, which requires ongoing investment in research and development, and has to cope with increasing competition, pricing pressure, and possible downturns in the economy. These threats are partially offset by the Company's specific technical know-how, geographical and product diversification, prudent acquisition policy, and the implementation of measures to reduce costs and streamline operations.

Financial risk

For the purposes of its financial ratio analysis, Creditreform Rating AG (CRA) adjusted the original values in the financial statements. For example, contrary to our normal practice, we deducted the goodwill shown on SE's balance sheet from equity only by 50%, suggesting a certain recoverability of the goodwill.

So far, SE has been seen to have a stable and well-balanced capital structure, which is confirmed by a relatively good standardized equity ratio of over 30% and a solid asset coverage ratio of more than 90% historically. With stable absolute analytical equity (9.43 billion EUR), the increase in total assets by roughly EUR 4 billion up to 34.26 billion EUR (driven by debt) in 2020 led to a noticeable reduction in the equity ratio (27.51%). The main reason for the higher level of debt was several M&A transactions during the business year 2020, with asset coverage ratio declining to 88.70% at the end of the year. This negative trend on asset coverage ratio has also been observed in previous years, being the third sequential decrease yoy, and we will continue to monitor the development of this key indicator and assess if it is adequate to the Company's current rating level.

As of 31 December 2020, Schneider Electric's total financial debt amounted to EUR 10.456 million, of which 21.6% is due within one year and 78.4% is non-current. SE's reported net financial debt accounted for EUR 3.561 million, corresponding to 0.75x of its reported EBITDA in the financial year 2020, showing a material improvement compared to nearly 1.0x before 2018. At the end of June 2021, financial net debt amounted to EUR 7,873 million, nearly twice as much as at the end of 2020, and reported net leverage peaked at 1.42x due to the cash payment of EUR 3.7 billion for the acquisition of OSIsoft, and the temporary impact of its consolidation into the Company's financial statements. The net total liabilities / EBITDA is considerably higher, amounting to 3.8x in 2020, especially due to a relatively high amount of trade payables of EUR ~4.7 billion, other liabilities of EUR ~5.0 billion, accrued taxes of EUR 3.4 billion, and pension obligations of EUR 1.7 billion. With short-term debt of EUR 12.90 billion and short-term current assets of EUR 17.52 billion, we do not see SE's financial stability at risk.

Schneider Electric's main external financing sources are bonds (76.9% of total) and commercial papers (19.7%), as well as bank loans and others (3.4%). The outstanding amount of bonds has increased by EUR 1,944 million since the beginning of 2020, with the repayment of EUR 500 million and new issuances of EUR 2,444 million. The majority of the bonds are part of the EMTN program, with a volume of EUR 10,000 million and a total outstanding amount of EUR 7,500 million traded on the Luxembourg stock exchange. The Company also has private placement bonds with a total outstanding amount of USD 800 million on the US market, with maturity in

September 2021, as well as convertible bonds of EUR 650 million exchangeable for new and existing shares (OCEANE).

The Company's liquidity position is still strong considering its cash and cash equivalent reserves of EUR 3,572 million at the end of June 2021, and its committed and unused credit lines of EUR 2,600 million without financial covenants. This headroom is sufficient to cover all financial debt maturities nearly until the end of 2024. Also, the Company's liquidity profile is further supported by its track record of positive free cash flows (without taking into account M&A investments of EUR 2,393 million and paid dividends of 1,525 million), with a record high amount of EUR 3.5 billion in 2020 despite the adverse economic environment during the pandemic. In our view, Schneider Electric will continue to post strong cash flow generation, thus enabling it to fund organic growth and minor strategic acquisitions with internal sources, and will not need to increase debt levels in the coming years. Its progressive dividend policy (an increase of approx. EUR 100 million every year), as well as its reinstated share buyback program of up to EUR 2.0 billion until 2022, should also be feasible considering the Company's target of EUR 3 billion through-the-cycle free cash flow generation.

Given the international reach of its operations, the Group is exposed to risk related to the fluctuation of exchange rates, with the main exposure related to the US dollar and Chinese yuan. The negative impact of foreign exchange in 2020 amounted to EUR 740 million on the level of revenues. The Group mitigates these risks through hedging programs relating to receivables, payables and other operating cash flows, primarily by means of forward purchases and sales. The Company is moderately vulnerable to changing interest rates in different countries. As of 31 December 2020, 83.9% of the Company's debt was fixed rate. The Company uses financial instruments to manage its exposure to fluctuations in interest rates, exchange rates and raw commodity prices.

We assess Schneider Electric's financial risk profile as low. The reason for this is the Company's high growth potential and expected robust cash flow generation going forward, allowing it to sustain a strong capital structure and good liquidity position. We believe, however, that the Company will not be able to meaningfully reduce debt in the coming years, given its relatively aggressive shareholder remuneration and constant need for investment to increase innovation and digital capabilities. Despite this, we expect Schneider Electric to deleverage, and its credit metrics to improve through 2021 owing to stronger operating performance.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured notes, denominated in euro and issued by Schneider Electric S.A. (Issuer), which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The Notes have been issued under the EMTN programme with its latest base prospectus from 28 April 2020. This EMTN programme amounts to EUR 10 billion. The Notes and coupons under the EMTN programme constitute unconditional, unsubordinated, unsecured obligations of the Issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations and guaranties of the Issuer. The Notes issued under the EMTN programme benefit from a negative pledge provision and cross-default mechanism. A redemption at the option of the noteholders following a change of control can be specified in the final terms of each series.

Result corporate issue rating

We derive the rating of the euro-denominated bonds of the Issuer from the corporate issuer rating of Schneider Electric SE. The rating of the Notes is therefore set equal to the corporate rating of the Issuer. The rating result is A- with stable outlook. For the issue rating we have applied our rating methodology for corporate issues.

Overview

Table 4: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Schneider Electric SE (Issuer)	20.08.2021	A- / stable
Long-term Local Currency (LC) Senior Unsecured Issues	20.08.2021	A- / stable
Other	--	n.r.

Table 5: Overview of Euro Medium Note Program I Source: Base Prospectus dated 28 April 2020

Overview 2019 EMTN Program			
Volume	EUR 10,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Schneider Electric S.E.	Coupon	Depending on respective bond
Arranger	BNP Paribas	Currency	Depending on respective bond
Credit enhancement	None	ISIN	Depending on respective bond

All future LT LC senior unsecured notes issued by Schneider Electric SE and which have similar conditions to the current EMTN programme, denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programs (such as the Commercial Paper Program), and issues that do not denominate in euro, will not be assessed.

Financial ratio analysis

Table 6: Financial key ratios |Source: Schneider Electric SE annual report 2020, structured by CRA

Asset structure	2017	2018	2019	2020
Fixed asset intensity (%)	52.32	55.55	51.18	48.88
Asset turnover	0.86	0.88	0.90	0.78
Asset coverage ratio (%)	108.03	98.45	93.05	88.70
Liquid funds to total assets	10.85	8.02	11.87	20.12
Capital structure				
Equity ratio (%)	33.32	36.80	31.14	27.51
Short-term debt ratio (%)	35.32	33.94	35.77	37.64
Long-term debt ratio (%)	23.21	17.89	16.49	15.85
Capital lock-up period (in days)	61.19	58.78	56.65	67.66
Trade-accounts payable ratio (%)	14.63	13.89	13.93	13.61
Short-term capital lock-up (%)	20.32	19.83	21.42	28.74
Gearing	1.68	1.50	1.83	1.90
Leverage	3.07	2.85	2.95	3.42
Financial stability				
Cash flow margin (%)	11.26	12.23	13.38	13.26
Cash flow ROI (%)	9.83	10.55	12.00	9.74
Total debt / EBITDA adj.	4.55	4.20	4.11	5.28
Net total debt / EBITDA adj.	3.81	3.67	3.40	3.82
ROCE (%)	25.85	22.30	29.47	26.88
Total debt repayment period	7.25	8.44	3.84	5.12
Profitability				
Gross profit margin (%)	100.00	100.00	100.00	100.00
EBIT interest coverage	8.77	9.91	11.19	11.69
EBITDA interest coverage	11.22	12.40	15.12	16.31
Ratio of personnel costs to total costs (%)	0.00	24.42	27.00	28.95
Ratio of material costs to total costs (%)	0.00	0.00	0.00	0.00
Cost income ratio (%)	85.72	86.05	87.68	87.87
Ratio of interest expenses to total debt (%)	2.09	1.92	1.43	1.05
Return on investment (%)	9.01	9.18	9.16	7.25
Return on equity (%)	23.63	23.81	24.74	23.75
Net profit margin (%)	8.93	9.45	9.29	8.90
Operating margin (%)	14.03	13.95	12.32	12.13
Liquidity				
Cash ratio (%)	30.40	23.33	33.18	53.47
Quick ratio (%)	106.59	100.43	110.24	113.48
Current ratio (%)	134.98	130.98	136.49	135.84

Appendix

Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 7: Corporate Issuer Rating of Schneider Electric SE

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	20.08.2021	12.03.2019	Withdrawal of the rating	A- / stable

Table 8: LT LC Senior Unsecured Issues Issued of Schneider Electric SE

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	20.08.2021	12.03.2019	Withdrawal of the rating	A- / stable

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

The rating was conducted based on the following information.

List of documents
Accounting and controlling
▪ Schneider Electric SE Annual Report 2020 ▪ Interim Report H1 2021
Finance
▪ EMTN base prospectus 28.04.2020
Additional documents
▪ Company's presentation and earnings results ▪ Material facts / Press releases ▪ Sustainability report

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Email-Address
Christian Konieczny	Lead analyst	C.Konieczny@creditreform-rating.de
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Email-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 20 August 2021, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 23 August 2021. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

<u>Corporate issuer rating:</u>

1. Annual report

2. Website

3. Internet research

<u>Corporate issue rating:</u>

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

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