Rating object	Rating incl. outlook / watch
Schneider Electric SE	A- / stable
Long term local currency senior unsecured issues der Schneider Electric SE	A- / stable

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Schneider Electric SE	21.10.2022	21.10.2022	Until withdrawal of the rating
LT LC senior unsecured issues der Schneider Electric SE	21.10.2022	21.10.2022	Until withdrawal of the rating

There occured no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating AG has affirmed its unsolicited corporate issuer rating of Schneider Electric SE (hereafter referred to as the Company or SE) and its unsolicited long-term issue unsecured rating at A-. The outlook remains stable.

The rating decision is based on the Company's ability to deliver consistent growth over 2021 and in the first half 2022 despite ongoing market turbulences. Over recent years, Schneider Electric has adjusted its business model in order to benefit from the growing electrification and digitization trends, which intensified during the Covid-19 pandemic and amid ongoing energy transition efforts. Accordingly, net revenues grew from EUR 24,743 million to EUR 28,905 million over 2017-2021, with the exception of the pandemic year 2020, and adjusted EBITA margin (ex. extraordinary asset divestitures and restructuring costs) expanded by 2.5%, reaching 17.3% at the end of this period.

Market volatility increased significantly in the first half 2022, with disruptions across global supply chains, inflationary pressure on raw materials and rising interest rate. Continued lockdown measures, in particular in China, along with heightened geopolitical tensions, have led to growing fragmentation of the global economy, increasing the complexity of operations management and raising costs, thus exerting further pressure on SE's profitability. So far, the Company has overcome these challenges through price increases and, higher inventory levels to ensure the continuity of operations amid supply constraints. The Company, with nearly 75% of its operations conducted outside Europe, saw positive impacts from exchange rate fluctuations as the euro weakened against other currencies. Hence, net revenues and recurring operating income increased by 16.7% and 17.8%, respectively, in the first half of 2022 on a year-over-year basis, with adjusted EBITA reaching EUR 2.8 billion and margins increasing moderately (from 17.1% to 17.3%).

The Company's resilient performance has been achieved through its diversified geographic footprint and agility in addressing fast changing market conditions, as well as through continued cost savings, operating efficiency gains and an improved product mix. On top of this, the Company's operating growth has been supported by the industry's positive fundamentals as demand for technologies and services that improve sustainability, energy efficiency, digitization and process automation grow at an ever-increasing pace. In view of this environment of strong demand, and based on the expectation that pressures on the supply side will ease going forward, the Company has upgraded its forecasts for 2022 with organic adjusted EBITA growth between 11-15% (previously 9-13%).

The Company has consistently reached its growth targets over recent years based on organic investments as well as on strategic M&A transactions and restructuring of existing businesses activities, with nearly EUR 800 million in annual capex and a net disbursement of EUR 4.6 billion for acquisitions and disposals since the beginning of 2021. The most significant business acquisitions include the share swap merge between SE and IGE+XAO in early 2022, as well as OSIsoft LLC, ETAP and RIB Software SE in 2020-2021. Going forward we should expect much lower outlays, as SE has reinforced its focus on strategic and small-sized business acquisitions that are expected to drive innovation and boost long-term growth. Concerning SE's restructuring plan, there is not much left to be done since EUR 1.1 billion has already been concluded of the EUR 1.5 – 2.0 billion package expected by the end of 2022.

Despite ongoing investments and an increasingly challenging operating environment, SE has sustained a stable and well-balanced capital structure, confirmed by adequate standardized equity ratio of nearly 30% historically. In the first half of 2022, the Company's total debt increased by EUR 2.5 billion compared to 2021 year-end levels due to the new commercial paper issuances, and hence leverage faced a moderate deterioration – net debt to EBITDA, as reported by SE, increased to 1.5x compared to 1.2x at the end of 2021.

The Company's liquidity position is adequate, considering its cash and cash equivalent reserves of EUR 3,033 million at the end of June 2022 and its committed and unused credit lines of EUR 3,000 million, without financial covenants. This headroom is sufficient to cover all short-term financial debt 1.2 times. Despite higher operating cash requirements in the first six months of 2022, the Company still generates positive free cash flows (without taking into account M&A activities and dividend payments) and has reinforced its medium-to-long term target of sustaining EUR 4 billion free cash flow in the medium-to-long term. However, the Company's outlays associated with its progressive dividend distribution policy and the continued share buyback program amid still highly volatile macroeconomic conditions will potentially exert negative pressure on SE's financial strengths in the years ahead.

Primary key rating drivers:

- \+ Resilient operating performance in the first half 2022 despite continued market turbulences
- \+ Long-term growth prospects supported by growing electrification and digitization trends
- \+ Capital structure remains stable and well-balanced and maintenance of adequate liquidity levels
- \+ Numerous acquisitions and investments are expected to accelerate business transformation and boost profitability in the years ahead

- – Increased market volatility with disruptions across global supply chains, inflationary pressure on raw materials and rising interest rates
- – Short-term debt increased significantly in the first half of 2022 with moderate deterioration in leverage
- – Higher operating cash requirements in the first half of 2022 due to increased inventory levels
- – Persistent supply constraints will lead to weaker operating cash flows, impairing SE's liquidity profile
- – Progressive dividend payments and continued share buyback program amid still volatile market conditions will likely exert negative pressure on SE's financial strengths

ESG-criteria:

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 is described in the sections below.

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

Already, roughly 70% of the Company's turnover results from sustainable products and services, which are likely to increase in the coming years due to stricter regulations with regard to CO_2-emissions and an increased focus on sustainability for companies as well as private households. Sustainability, digitization and electrification trends are the main drivers of the Company's performance and a key competitive factor for Schneider Electric. The Company has announced several initiatives to combat climate change, including actions that support customers and suppliers in reducing their carbon footprint, which are to cut 800 million tons off customers' CO_2 emissions by 2025 (381 million as of June 2022) and cutting suppliers' emission by 50% in the same time period (3% as of June 2022). Although there is still a long way to go, we acknowledge the Company's effort to put environmental and social matters at the center of its business strategies, which will, in the long-term, improve its unique selling proposition and strengthen its reputation globally. Still, only 28% of Schneider Electric's turnover comply with the EU taxonomy regulation.

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.

Rating scenarios:

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 operating growth seen in the first half of 2022 will continue going forward, mainly driven by softening market volatility and successful implementation of management strategies, including portfolio restructuring, future investments and liability management initiatives. An environment of resilient demand and continued gains in operating efficiency will allow Schneider Electric to sustain its good liquidity position and healthy capital structure, with adjusted leverage (as measured by net total liabilities to EBITDA) below 4x on a sustained basis. Since there is still significant uncertainty associated with future economic development and geopolitical tensions globally, we consider an upgrade less likely in the short term. An upgrade depends on improved financial key indicators, in particular adjusted equity ratio above 35%, as well as on the normalization of uncertain macroeconomic conditions globally.

Worst-case scenario: BBB+

In our worst-case scenario for one year, we assume a rating of BBB+. In this scenario, we expect that economic slowdown and geopolitical tensions intensify, impairing the demand environment and preventing more sustainable growth in operating performance through the remainder of 2022 and 2023. We also assume a deterioration in SE's cash flow generation, leading to a weaker capital structure, with its equity ratio remaining below 25% and net total liabilities to EBITDA above 4.5x on a sustained basis (3.9x in 2021).

Analysts / Person approving (PAC):

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

Initital rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Schneider Electric SE	Initialrating	27.02.2019	12.03.2019	03.09.2020	A- / stable
LT LC Senior Unsecured Issues issued by Schneider Electric SE	Initialrating	27.02.2019	12.03.2019	03.09.2020	A- / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. 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

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating[1] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

[1] 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.

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 at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

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:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

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.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns

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