Creditreform Corporate Issuer / Issue Rating
Schneider Electric SE

Creditreform Rating

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Neuss, Germany

23 November 2023 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Schneider Electric SE at A- stable

Creditreform Rating (CRA) has affirmed the unsolicited public corporate issuer rating of Schneider Electric SE, here also referred as SE or the Company, as well as the unsolicited corporate issue rating of the long-term local currency senior unsecured notes issued by Schneider, at A-. The outlook remains stable. In addition, CRA placed SE's initial unsolicited short-term rating at L2.

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

+ Resilient operating performance in 2022 and in the first half 2023
+ Continuation of its distinctive strategic orientation along the megatrends of digitalization, automation, electrification, sustainability and AI; long-term growth prospects supported by strategy
+ Numerous historically acquisitions and investments are expected to accelerate business transformation and should boost sales growth and profitability, also in the years ahead
+ Expectation that the peak of the relative —and possibly absolute— debt level should soon be surpassed; no further significant M&A transaction assumed
+ SE's organic and profitable growth expectation in revenues at roughly 7%-10% CAGR by 2027, with +50bp CAGR in EBITA
+ Despite some deterioration, still adequate liquidity position according to our liquidity assessment
+ Higher cash requirements in the first half (HY1) of 2023 due to termination of current purchase commitments over non-controlling interests and payment of dividends should be partly offset in HY2 2023

– Slight deterioration in the overall result of our financial ratio analysis, and significant deterioration in individual ratios in isolated cases for business year 2022
– Progressive dividend distributions and share buybacks in a still volatile market environment could have a negative impact on SE's financial strength
– Decline in reported total equity and increase of net total financial debt in HY1 2023
– Ongoing challenging market conditions, along with high interest rates
– Relatively high revenue shares in China and new economies currently increase country risks against the backdrop of geopolitical tensions

ESG factors are factors related to environment, social issues and, governance. For more information, please see the section "Regulatory requirements". 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 which could lead to a change in the rating result or the outlook.

ESG-criteria

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of 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, 73% of the Company's turnover results from sustainable products and services, based on Q2 2023 figures (2021: 70%), which are likely to increase further 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, AI, electrification and automation trends are the main drivers of the Company's performance and a key competitive factor for SE. The Company has announced several initiatives to combat climate change, including actions that support customers and suppliers in reducing their carbon footprint, e.g., cutting 800 million tons off customers' CO_2 emissions by 2025 (481 million as of Q2 2023) and cutting suppliers' emission by 50% in the same time period (19% as of Q2 2023). We acknowledge the Company's efforts to put environmental and social matters at the center of its business strategies, which should, in the long-term, improve its unique selling proposition and strengthen its reputation globally. SE has made good progress regarding the reduction of GHG emissions. The company's reduction in scopes 1 & 2 by the end of 2022 vs. 2021 was -22%. Nevertheless, only 29% of Schneider Electric's turnover 2022 comply with the EU taxonomy regulation (2021: 28%).

The climate and energy crises have created a potential turning point in the way we generate, manage, and consume energy. However, we believe that SE's business is potentially dependent on political decisions and legislation, as well as on sustainable subsidy programs. Nevertheless, currently we do not expect this to have an impact on SE's rating.

Schneider Electric SE calculates its end-to-end carbon footprint (scopes 1-3) annually in line with the Greenhouse Protocol Standards, and obtained a reasonable assurance from an independent third party verifier on reported scope 1 & 2 Greenhouse Gas (GHG) emissions, and a limited assurance on reported scope 3 GHG emissions. In terms of Schneider's upstream activity, it can be seen that with 14% of their GHG emissions, a relatively low amount can be traced back to its suppliers. By contrast, downstream emissions are very high at 86%, largely resulting from the use of the products sold. Scopes 1 and 2, which together account for less than one percent, provide information on emissions generated by Schneider's intrinsic operations.

We believe that SE's business development should benefit from the clear focus on sustainability issues in conjunction with modern technologies in the coming years. These are not only aligned with SE's own objectives, such as decarburization, but also with its product portfolio and business strategy, thus actively contributing to business success. In this respect, we believe that our assessment of the ESG area "Environmental" has a positive influence in SE's unsolicited issuer rating.

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 result

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.

The unsolicited corporate issuer rating of A- attests SE with a high level of creditworthiness and low default risk. The rating decision is based on the Company's ability to deliver consistent growth over 2021, 2022, and in the first half 2023, despite ongoing challenging market conditions and a slight decrease in the result of our key financial analysis for the business year 2022. The deterioration in the results of our financial ratio analyses will be offset by what we expect to be a promising business outlook in connection with SE's strategic focus on megatrends with more software, digitalization, automation, artificial intelligence (AI), services, and prosumer business with recurring income and increased sustainability. Over recent years, SE has adjusted its business model in order to benefit from these (mega-)trends, which has intensified in recent years amid ongoing energy transition efforts. We therefore believe that the Company is strategically well-positioned, and one of the leading companies in terms of focusing its business model on sustainable product solutions. Accordingly, revenue grew in 2022 y-o-y from EUR 28.905 million to EUR 34.176 million (+18.2%), while our adjusted EBITDA margin decreased slightly by 0.6 percentage point, reaching 20.1% at the end of 2022. Even though other important key figures have deteriorated compared to the previous year, we believe that the Company is adequate positioned overall compared to peer companies such as Siemens. The debt ratios and the resulting decline in the analytical equity ratio currently limit the rating. Nevertheless, based on the preliminary financial figures for the first HY 2023 and the organic revenue growth, including Q3 2023, a fundamentally profitable growth trend is confirmed, which supports the rating.

Outlook

The one-year outlook for the rating is stable. Our assessment is based on the Company's fundamentally sustainable and future-oriented business model and solid growth, its market position and product portfolio. Moreover, we do not expect ongoing deterioration in the overall result of our key ratio analysis and individual ratios, such as the analytical equity ratio, which fell to 26.9% at the end of 2022. We also expect that our net total debt to EBITDA adj. of 4.01 do not worsen significantly. We assume that the debt level, which was a bit overdrawn in view of the rating level (as a result of the M&A-transactions), will peak soon and that our analytical equity ratio will recover to >30%.

Best-case scenario: A

In our best-case scenario for one year, we assume a rating of A. In this scenario, we expect the double-digit operating growth seen in the first half of 2023 to continue in HY2 2023 and possibly also in 2024, largely driven by further softening market volatility, strong backlog and successful implementation of management strategies, future investments and liability management initiatives. An environment of resilient demand and continued gains in operating efficiency will allow SE to sustain its solid liquidity position, enabling the Company to strengthen its capital structure, with adjusted leverage (as measured by net total debt to EBITDA adj.) below 3,5x and an analytical equity ratio above 35% on a sustained basis in this scenario. Normalization of macroeconomic developments and exogenous risks can support the assumptions of the scenario.

Since there is still significant uncertainty associated with future economic development and global geopolitical tensions, we consider an upgrade less likely in the short term, compared to a stable rating or an uplift in the outlook.

Worst-case scenario: BBB+

In our worst-case scenario for one year, we assume a rating of BBB+. In this scenario, we expect economic slowdown and geopolitical tensions to intensify, impairing the demand environment and preventing more sustainable growth in operating performance throughout the remainder of 2024 and foreseeably in 2025. We also assume a deterioration in SE's cash flow generation, leading to a weaker capital structure, with its equity ratio below 25% and net total liabilities to EBITDA above 5x (4,0x in 2022).

Compared to the peer companies we have looked at, we see SE as adequate positioned in terms of key ratios, and appropriately positioned in terms of scale relative to our rating estimates. This comparison supports SE's rating level, so that we consider a rating downgrade less likely than a change in outlook to negative in the worst-case scenario for one year. This is subject to a continuing adequate outcome of our liquidity assessment.

Business development and outlook

Schneider Electric SE (SE) is active with its digital and electrified products and services primarily in the areas of home/building automation, data centers, infrastructure, and industry, with over 135k employees in more than 100 countries. SE thus has sufficient customer and product portfolio diversification overall. With four regional hubs in North America, Europe, China and India, we believe that SE is also sufficiently diversified in regional terms to be able to demonstrate a certain resilience in the current uncertain and constantly changing times. Despite the still complex and challenging economic situation, along with the geopolitical backdrop, SE delivered adequate qualitative and quantitative performance in 2022.

Table 1: Financials of Schneider Electric SE I Source: Schneider Electric Universal Registration Document 2021, 2022 standardized by CRA

Schneider Electric SE Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IAS, Group)	**CRA standardized figures[1]**	
	2021	**2022**
Sales (million EUR)	28,905	34,176
EBITDA (million EUR)	5,737	6,388
EBIT (million EUR)	4,323	4,906
EAT (million EUR)	3,273	3,536
EAT after transfer (million EUR)	3,204	3,477
Total assets (million EUR)	39,196	42,948
Equity ratio (%)	39.09	26.91
Capital lock-up period (days)	72.17	66.79
Short-term capital lock-up (%)	26.20	39.59
Net total debt / EBITDA adj. (factor)	3.94	4.01
Ratio of interest expenses to total debt (%)	0.72	0.75
Return on Investment (%)	8.79	8.68

[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 takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Organic revenues in 2022 rose at a double-digit rate of +12.2%, and 18.2% on a reported basis, to EUR 34.2 billion, despite the Group's withdrawal from Russia, the effects of COVID-19 infections, and the COVID-19-related lockdowns in China. Organic gross profit was up +10.8% with gross margin down -40bps, reaching 40.6% in 2022 (2021: 41.0%). The decline in margin was mainly driven by lower productivity due to inflationary pressures in the supply chain, according to SE's reporting. EAT increased by 9% to EUR 3.536 million. SE also managed to achieve a sufficient net cash flow from operating activities of EUR 4.354 million. In total, net liquidity and cash equivalents reached EUR 3.863 million, which corresponds to an increase of EUR 1,364 million y-o-y. Overall, SE achieved all-time highs in reported revenues and earnings, but also in some relative figures. This was possible, e.g., through pricing actions and the continuation of the plan for structural savings and cost efficiency, with savings of EUR 203 million in 2022, which SE claims will save a cumulative EUR 1 billion over a period of three years. Cumulative restructuring charges over the same three-year period totaled EUR 873 million.

Nevertheless, with a decline in some of our analytical key financial figures, such as the analytical equity ratio to only 26.91%[2] (relatively week compared to the rating grade) and an analytical net total debt / EBITDA factor of 4.01, our key-financial ratio analysis shows a slight deterioration for 2022, which dampens the development of SE's credit rating. Against the backdrop of the lower analytical equity ratio, dividend payments remain to be observed from a credit perspective, without this having a direct impact on the rating.

The fact that SE was able to achieve significant growth rates in its 2 strategic divisions of 12.8% in Energy Management (EM) and 9.8% in Industrial Automation (IA) in 2022 is credit positive. Moreover, each one of the four regions —North America, Western Europe, Asia Pacific and RoW— showed satisfactory growth rates in the higher single-digit to double-digit percentage range in 2022. In our opinion, this demonstrates a fundamentally functioning and prosperous business model and a diversified geographic footprint with largely well-established Group structures in a generally uncertain und challenging business environment. 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.

Overall, we note that the earnings and cash flow development in relation to the revenue development in 2022 was satisfactory from a rating perspective. This is combined with the requirement that this development be associated with a more resilient capital structure from a rating perspective, with a reduction in (relative) debt, a higher portion of long-term debt and our analytical equity ratio by 30% in 2023 or 2024. We assume that the higher total debt at the end of 2022 was temporary and largely due to purchase commitments over non-controlling interests in the amount of roughly EU 4.6 billion in connection with the purchase of minority shares in AVEVA, a transaction that closed on January 18, 2023. It remains to be seen how this will be reflected in the Group's figures for 2023. The half-year figures for 2023 do not yet indicate a trend reversal in this respect. Going forward, we should expect much lower M&A 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. We understand, that SE mentioned at its Capital

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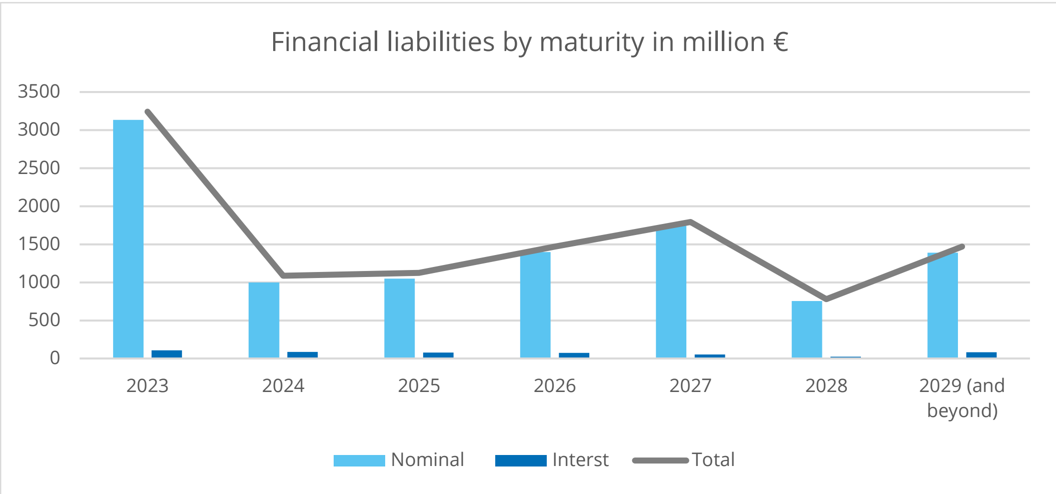
[2] When evaluating the equity ratio, it should be noted that we have deducted 50% of goodwill from equity on a standardized basis, among other adjustments. In addition, there were other special issues, for example the Group recognized a current financial liability in connection with the acquisition of AVEVA shares. The recognition of this liability led to a reduction in non-controlling interests of EUR 2.865 million. (see SE Universal Registration Document 2022, Note 2.1 and 19.7).

Markets Day in November 2023 that there are currently no significant M&A issues or sales in the pipeline.

On a positive note, the company has achieved its forecasts for 2022, with organic adjusted EBITA growth of 11%-15% and a reported figure of 14.4%. The Company has reached its growth targets over recent years, based on organic investments as well as on strategic M&A transactions and the restructuring of existing businesses activities.

Despite the necessary ongoing investments in CAPEX and R&D, and an increasingly challenging operating environment, we believe that SE's forward-looking business model is able to ensure a stable and well-balanced capital structure in the long run. Nevertheless, SE also aims to expand its strategic partnerships. On November 16, 2023, SE announced its intention to integrate processors from Hailo Technologies, a leading provider of artificial intelligence chips, into its industrial automation solutions. In this context, we expect SE to make further manageable M&A transactions or enter into additional partnerships in the medium term to maintain and shape its market position.

Figure 1: Financial liabilities of Schneider Electric SE – breakdown by maturity I Source: Schneider Electric Universal Registration Document 2022, CRA own illustration



The Company's liquidity position is adequate, considering its cash and cash equivalent of EUR 3,167 million at the end of June 2023 and its committed and broadly unused credit lines of EUR 2,950 million, without financial covenants. This headroom, together with the cash flow from operations, is sufficient to cover all short-term financial debt.

The SE Group expects further sales growth for the financial year, partly because the backlog at the end of 2022 was 40% higher y-o-y, at EUR 16.490 million. Reported revenues increased by 9.7% y-o-y to 17,633 million in the first half of 2023, with a period EAT of 2,097 million (HY1 2022: 1,552 million). The other earnings levels and cash flows from operating activities also showed solid double-digit growth rates. The analytical debt issues faced a moderate deterioration, while equity—reported by SE in the 2023 half-year financial statements—decreased by EUR 438 million to EUR 25.656 million compared to December 31, 2022. Total debt increased by EUR 851 million to EUR 32.959 million[3], whereby there was a reduction in the balance sheet position "current purchase commitments over non-controlling interests". This was offset by the increase

[3] Exclusive liabilities held for sale of EUR 169 million at the end of 2022 and EUR 85 million at HY 2023.

in financial debt through bonds, bank borrowings and commercial paper. In HY1 Cash and cash equivalents decreased by EUR 819 million at EUR 3,167 million which is still adequate from our point of view. Based on backlog and revenues growth, SE expects this to translate into strong free cash flow in HY2 2023. Overall, the positive and negative effects in the half-year figures for 2023 initially balance each other out in terms of our rating assessment. The remarkable organic growth trend is also largely confirmed in the Group's Q3 figures as informed by SE. However, the company was hardly able to report any growth in reported revenue figure (+0,1%) in Q3.

Further ratings

Based on the long-term issuer rating, and taking into account our liquidity analysis, the short-term rating of Schneider Electric SE (SE) has been set at L2 (standard mapping), which corresponds to a high level of liquidity for one year.

The rating objects of the issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by SE, which are included in the list of ECB-eligible marketable assets that were issued under the Euro Medium Term Note Programme (EMTN), with the last basis prospectus of 12.04.2023. We have maintained the A- rating with a stable outlook to the long-term local currency senior unsecured notes issued by SE. The rating is based on the respective corporate issuer rating.

Long-term local currency senior unsecured notes issued by SE, which have similar conditions to the current EMTN Program, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN Programme. Notes issued 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.

Table 3: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Schneider Electric SE	23.11.2023	A- / stable / L2
Long-term Local Currency (LC) Senior Unsecured Issues of Schneider Electric SE	23.11.2023	A- / stable
Other	--	n.r.

Appendix

Rating history

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

Table 4: Corporate Issuer Rating of Schneider Electric SE

Event	Rating created	Publication date	Result
Initial rating	27.02.2019	www.creditreform-rating.de	A- / stable

Table 5: LT LC Senior Unsecured Issues issued by Schneider Electric SE

Event	Rating created	Publication date	Result
Initial rating	27.02.2019	www.creditreform-rating.de	A- / stable

Table 6: Short-term issuer ratings of Schneider Electric SE

Event	Rating created	Publication date	Result
Initial rating	23.11.2023	www.creditreform-rating.de	L2

Regulatory requirements

The rating[4] 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:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

[4] 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
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

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	Mail-Address
Christian Konieczny	Lead-analyst	C.Konieczny@creditreform-rating.de
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de
Rudger van Mook	Analyst	R.vanMook@creditreform-rating.de

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

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

On 23 November 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 24 November 2023. 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.

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.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

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

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website: https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-business-activities .

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.

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