INTUITION
21 APRIL 2023

# "Electrifying the world"
## Schneider Electric continues to de-carbonize the globe.

*Founded 187 years ago and listed on the Paris Stock Exchange, Schneider Electric is a global leader in the digital transformation of energy management and automation primarily serving the buildings, datacenter, industrial and infrastructure markets. The company's slogan is "Life is On" which refers to how people's lives are increasingly connected 24/7 thanks to advanced technology and power. As South Africans, we are painfully aware of our connectedness to the electricity grid as we collectively check its pulse via the 'EskomSePush' App multiple times a day. The invasion of Ukraine highlighted the fragility of the global energy market and as a result, every country, company and household has been forced to commit to energy-saving initiatives. This is Schneider Electric's playground.*

Nick Rogers

Schneider Electric falls under the European Capital Goods sector and competes globally across the Electrical Equipment Market. This industry produces and sells electrical components, devices, and systems including wires and cables, transformers, generators, motors, circuit breakers, switchgear, lighting products and various other electronic devices, to convert and control electrical energy. Major companies include Schneider Electric, Samsung Electronics, ABB, Siemens, General Electric, Schlumberger and Panasonic to name a few. Due to the rapid pace of technological innovation and adoption, this market is expected to grow from $1.5 trillion in 2022 to $2.2 trillion by 2027, providing a massive tailwind to market leaders such as Schneider Electric.

The main drivers of demand are as follows:

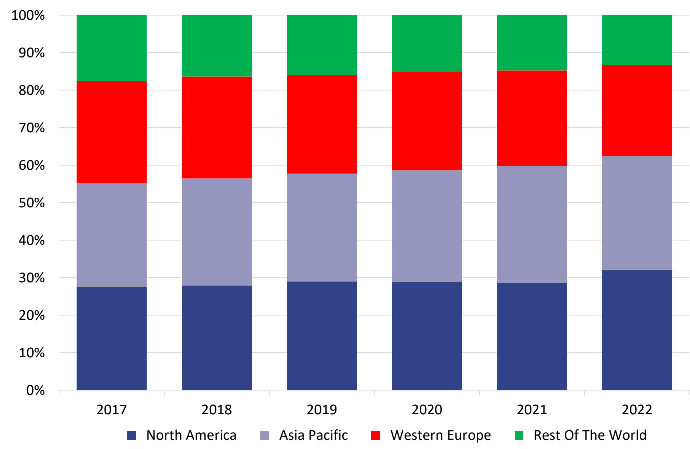
**Electrification**. Since reporting began in 1990, the energy sector, which includes the generation of electricity and heat, as well as their end uses in buildings, transportation, manufacturing and construction, remained the largest contributor to greenhouse gas (GHG) emissions, representing 76% of global emissions in 2019. The adoption of 'green' electricity from sources such as solar, hydrogen and wind, combined with the electrification of fossil fuel processes, is key to reducing carbon emissions. Not only does a company like Schneider have the equipment and software to measure and control emissions but its diverse geographical footprint includes the world's top three polluters, China, the United States and India. Collectively, they are responsible for 43% of total emissions and contribute 15x the amount of GHG emissions of the bottom 100 countries combined. A World Bank report found that China needs up to $17 trillion in additional investments for green infrastructure and technology in the power and transport sectors to reach net-zero emissions by 2060. When US President Joe Biden signed the Inflation Reduction Act (IRA) into law in August

### SPEED READ

- **Schneider Electric acts as both a "doctor and pharmacist" to global companies by diagnosing their sustainability problems and then providing the technology to meet their climate goals and energy solutions.**
- **Since 2018, the company has saved its customers 440 million tons of CO2 emissions.**
- **Today, 24% of Europe's energy system is electrified. This is projected to reach at least 60% in the EU by 2050 – a massive opportunity for Schneider Electric as the US and China also prioritise trillions of dollars to the space.**
- **Dividends increased by 8.5% - the 13th consecutive year of increases - thanks to record sales of €34 billion (+18%) and record adjusted EBITA of €6 billion (+21%).**

2022, funding worth $370 billion to provide tax credits for clean energy projects was unleashed. Schneider has far greater exposure to North American than most European peers at 36% of sales. President Xi has also prioritized climate change in his new policy. Today, 24% of Europe's energy system is electrified. A multitude of investments are required to ensure that Net Zero targets are met by 2050. Schneider is well positioned to benefit for decades to come.

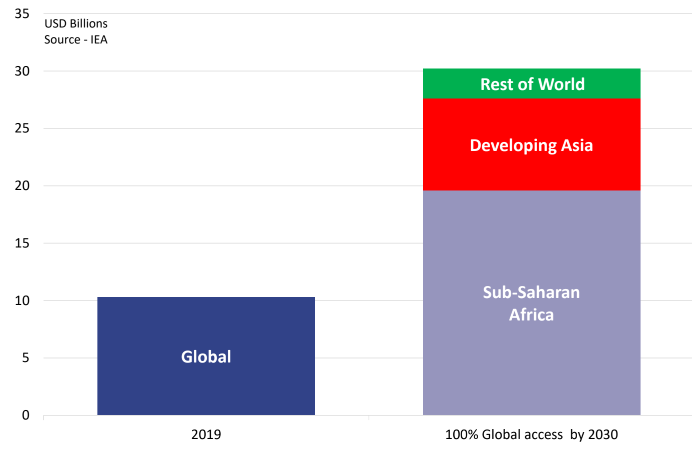
## GEOGRAPHIC CONTRIBUTION TO REVENUE




*Combined, sales in the US and Asia account for 62% of total revenues, well ahead of their peer group, ideally positioning the Group to benefit as the US and China clean up their act. Yet at the same time, Schneider is well diversified and not overly reliant on any one market.*

**Social Equality (The 'S' in ESG).** In 2014, the International Energy Agency (IEA) highlighted a startling statistic. Around 1.3 billion people, equivalent to roughly 1 in every 5 humans, lacked access to modern energy, mostly within emerging/developing markets. Whilst this number dropped to 754 million in 2021, it is starting to rise again, which is concerning. However, there are now growing synergies between rich and poorer nations thanks to ESG legislation. For example, last year Germany extended R180 million to South Africa's renewable energy programmes to facilitate the shift away from coal to clean energy as part of the $8.5 billion pledged at COP26, along with France, the UK, the US and EU. Thus, companies with superior geographic exposure to fast-growing countries will tend to outperform their peers. Schneider Electric has greater exposure to the Asia Pacific region (incl. India) than all its competitors. In fact, emerging markets accounted for 41% of 2022 revenues and have grown at a 12% compound annual growth rate (CAGR) over the past twenty years versus 9% and 3% for N America and W Europe respectively. The CEO of its SA operations, Devan Pillay commented, "On the other spectrum of society, where globally around 2 billion people have little to no access to electricity, Schneider Electric's Mobiya, Homaya and Villaya range of products offers affordable green electricity solutions and in turn a better life and livelihood for many."The company is thus well diversified across all income levels as well.

## QUANTUM OF INVESTMENT REQUIRED.



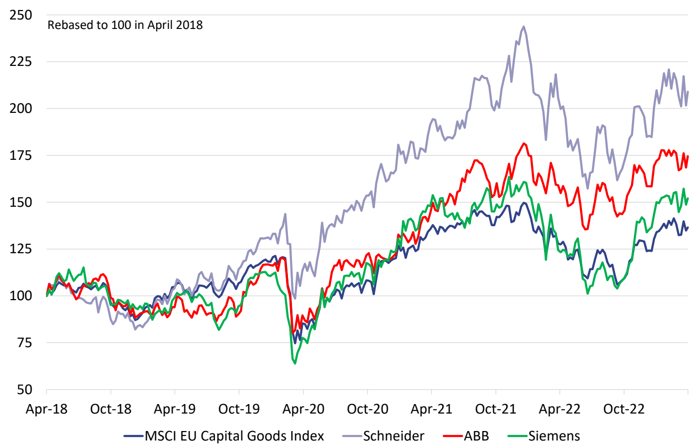

*Investment in electricity access in 2019 amounted to $10 billion across the world. The amount of investment required to provide electricity to all by 2030 illustrates the size of the opportunity in geographies in which Schneider Electric operates.*

**Digitisation**. A major structural trend to emerge from the COVID crisis was a shift towards digital technologies and automated systems which have been at the core of Schneider's business for the last 20 years. One of its competitive advantages has been the ability to ensure a 'one customer' experience no matter where the client is based. Last year's acquisition of AVEVA was an astute strategic move. Over 90% of the leading companies across 12 industrial sectors rely on AVEVA's digital solutions to operate. According to the World Bank, the digital economy makes up more than 15% of global GDP and has grown 2.5x faster over the past decade than overall GDP. Schneider Electric is poised to reap the benefit of both past acquisitions and that of AVEVA in particular.

**Datacenters**. With the exponential rise in cloud storage, datacenters now represent c3% of global energy usage and have been the fastest-growing consumer of electricity globally, expected to reach 8% by 2030. Energy efficiency is therefore a massive focus for the likes of Google, Apple and Microsoft as they rein in costs. Schneider is best positioned to benefit amongst its European peers with the largest exposure to datacenters at c18% of sales.

**Buildings**. We spend the majority of our lives in buildings, be it sleeping, working, shopping, eating or interacting with people. It is not difficult to understand why buildings are responsible for 39% of CO2 emissions. To meet the goals of the Paris Agreement, all buildings must be net zero carbon by 2050 and yet less than 1% of buildings are currently compliant. JP Morgan calculates that c50% of Schneider Electric's group sales are exposed to the smart building opportunity. There are essentially two ways to reduce a building's emissions. The first is to invest in energy efficiency and make it smarter through initiatives such as installing LED lighting linked to sensors so lights only come on when there is movement in the room. The second is to replace fossil fuels with other forms of energy, primarily through electrification. For example, traditional heating systems are being replaced by heat pumps which are 3-5x more energy efficient than boilers heated with natural gas. It makes logical sense for companies to direct expenditure towards buildings first since the technologies available are more straightforward and the impact felt is more immediate and measurable than other less tangible parts of the business. Schneider Electric was an early mover in this industry and has the advantage of offering the whole suite of products, solutions and software to optimise energy usage in both new and existing buildings, especially via its advanced EcoStruxure platform where one can essentially monitor and run thousands of data readings online.

## PERFORMANCE OF SCHNEIDER VS PEERS

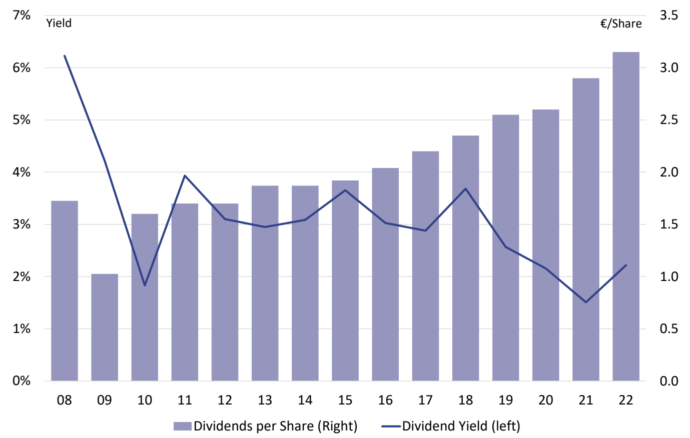



*This chart illustrates the impressive 5-year performance of Schneider Electric versus the MSCI European Capital Goods sector. The share also receives support from being the most widely held security within ESG funds among the Industrials sector.*

Chairman and ex-CEO, Jean-Pascal Tricoire, aptly describes the company as both a "doctor and pharmacist" to global companies. Firstly, by diagnosing the client's sustainability problems and then providing the solution to meet their climate goals. "Walmart came to us because they wanted to be greener. But 90% of the CO2 footprint of Walmart is with its suppliers. So they contracted us to work with their thousands of suppliers to help save 1 giga-ton of carbon over the next 10 years." By the end of 2020, more than 2,000 of Walmart's suppliers had saved more than 230 million tons of carbon, almost a quarter of the 10-year target after Schneider helped them to adopt renewable-based energy systems.

2022 was an extremely volatile year for the company due to the invasion of Ukraine which forced central banks to raise interest rates to combat rampant inflation. Schneider Electric delivered a strong operational performance with record revenues of €34.2 billion (+18%). Energy Management, which comprises 77% of revenues, grew by 12.9%. It has two core pillars, namely construction (45% of total) and datacenters (19%) with the balance coming from many smaller sectors. Sales within Industrial Automation (the remaining 23% of revenue) increased by 9.5%. Importantly, 60% of the overall revenue growth was thanks to organic or company-led growth. The weakening of the Euro vs both the US Dollar and Chinese Yuan boosted revenues by 5.4%, highlighting the importance of geographical diversification (although this can reverse easily). Like so many other companies, price increases were key to offsetting inflationary headwinds from higher raw materials, freight, electronics and labour costs. The second half of the year saw a noticeable pickup in free cash flow to €3.3 billion, which drove an 8.5% increase in the dividend. All in all, a resilient set of numbers in a volatile and unchartered environment.

## SCHNEIDER DIVIDEND YIELD




*With EU Inflation running at historical highs, the 8.5% increase was well received and marked 13 continuous years of its progressive dividend policy.*

In conclusion, our planet relies on the coming together of all nations in a common fight against carbon emissions whilst at the same time incorporating the latest technology to enable both CO2 reduction and economic growth to prosper. The level of investment is set to continue rising exponentially and those companies who can remain on the forefront, like Schneider Electric, stand to enjoy tailwinds for decades to come. With a 12-month forward dividend yield of 2% and a P/E ratio of 20x, we are happy to continue accumulating Schneider in both offshore portfolios and the HH BCI Worldwide Fund to gain exposure to this exciting secular trend.

Our next Insight seminar will take place in June and provide an update on what has driven markets over the first six months of the year, and what might lie ahead for the balance of the year. We are very excited to be expanding our seminar program to Cape Town.

Harvard House is on Facebook

Harvard House is on YouTube

| **Topic:** | **Mid Year Market Update** |
|---|---|
| **Natal Midlands** | |
| Date: | Thursday, 22nd June 2023 |
| Venue: | Oasis Conference Centre, 72 Main Road, Howick |
| Morning Time: | 10am for 10.30am |
| Evening Time: | 5.30pm for 6pm |
| **Johannesburg** | |
| Date: | Tuesday, 13th of June |
| Venue: | Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham |
| Time: | 7am for 7.30am |
| **Cape Town** | |
| Date: | Wednesday, 14th of June |
| Venue: | To Be Confirmed |
| Time: | To Be Confirmed |

## CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

**HARVARD HOUSE GROUP**

3 Harvard Street, Howick, 3290, South Africa

P.O. Box 235, Howick, 3290, South Africa

+27 (0) 33 330 2164

+27 (0) 33 330 2617

@ admin@hhgroup.co.za

W www.hhgroup.co.za