Financial Framework for Sustainable & Scalable Growth

Hilary Maxson
Chief Financial Officer
We have outperformed the market in recent years through our complete portfolio and execution on our strategic priorities.

Strategic priorities:

1. **MORE PRODUCTS**
2. **MORE SOFTWARE & SERVICES**
3. **BETTER SYSTEMS**

**Organic growth CAGR**
- 2012-2016: ~flat
- 2017-2021: c.+4%

**Market growth**
- 2012-2016: c.+2.5%
- 2017-2021: c.+2%

FY21 organic growth at midpoint of +11% to +13% target range

Market growth (volume) CAGR based on Industrial Production (IP) as sourced from Oxford Economics

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We are now at an inflection point for sustainable growth

Organic revenue growth of between +5% to +8% on average, 2022-2024

Market growth²: c.+4%

Organic growth CAGR 2017-2021: c.+4%
Market growth²: c.+2%

Driven by:
- Accelerating Markets
- Incremental Growth Drivers: Services, Software & Sustainability
- Unique Operating Model

Strategic priorities:

MORE PRODUCTS
MORE SOFTWARE & SERVICES
MORE SUSTAINABILITY

1) FY21 organic growth at midpoint of +11% to +13% target range
2) Market growth (volume) CAGR based on Industrial Production (IP) as sourced from Oxford Economics

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Upgrading our across-cycle sustainable growth ambition

Organic revenue growth of 5%+ on average across the cycle¹

¹ Across the economic cycle, incorporating Sustainable Growth targets for 2022-2024
Innovation to fuel Sustainable Growth ambition – Strategic R&D investment to increase over time

R&D Evolution (% of Group revenues)

Step up in R&D in coming years, from existing ~5% of revenue

Focus areas

- Innovation at every level of digital flywheel
- Sustainability
- Cybersecurity
- Electronics and AI

Strong focus on ensuring return on investment

€6bn+ in absolute amount of R&D investment since start of 2017

¹ FY21 shown on basis of pro-rated H1’21 figures for illustrative purposes only
On track to achieve our margin ambition 1 year ahead of plan

Our existing margin ambition
13% - 17%
across the cycle (set in 2012)

On track to be achieved 1 year ahead of plan¹

¹ Based on midpoint of FY21 adj. EBITA margin guidance of +120bps to +150bps organic expansion
Leveraging several elements to drive margin improvement

Organic improvement in Gross Margin

- 2016: 38.0%
- 2017: 38.4%
- 2018: 39.0%
- 2019: 39.5%
- 2020: 40.4%

Key drivers:

- Consistent delivery on Industrial Productivity
- Track record of RMI recovery over the cycle
- Mix improvement: Including better Systems margin and higher weight of Software revenues
- Disciplined approach to SFC spend
- Delivery on structural savings plans
- 2020 impacted by COVID-19, though partly mitigated by tactical savings

Organic improvement in SFC / Sales ratio

- 2017: +40 bps
- 2018: +50 bps
- 2019: +20 bps
- 2020: -40 bps

- c. +150 bps organic improvement
- c. +70 bps organic improvement
And setting the path for further expansion of margin in the coming years…

3-year target
2022-2024

A yearly organic improvement of
+30 bps to +70 bps
in Adj. EBITA margin

Beyond 2024

Opportunity to further expand Adj. EBITA margin beyond 2024

Operational leverage and continued evolution of business mix to positively impact margins

*Implying Adj. EBITA margin in the range c.18% to c.19% by 2024 at constant scope and FX*
A proven engine of Industrial Productivity

A strong track record

Average annual Industrial Productivity saving

- €348m in 2012-16
- €334m in 2017-2020
- ~€1bn target over 3 years

Existing commitment on track

~€1bn Productivity target 2020-2022² on track

Gartner
#1 Supply Chain Europe Top 15

We expect a good level of Industrial Productivity to continue beyond 2022

Delivering €3bn+ contribution from productivity since start of 2012

¹ Targeted
² Excluding impact from additional costs of freight, electronic components and COVID-19 related costs

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Focused on continued pricing power through our differentiated value proposition

Delivering over €1bn+
contribution from net price since start of 2012

- Ambition to be flat to positive net pricing across the cycle
- Factoring the need to compensate additional costs (freight, electronic components, plastics and COVID-19 related costs)

Proven track-record on net price

Net price\(^1\) evolution over last 5 years
H2’16 – H1’21

c. €900m

c. €500m

c. -€400m

\(^1\) Price on products and raw material impact
Our business transformation and resultant mix impact is contributing to our margin evolution

Drivers of mix evolution

- Simple strategic priorities:
  - MORE PRODUCTS
  - MORE SOFTWARE
  - MORE SERVICES
  - MORE SUSTAINABILITY

- Evolution of our revenues (more digital, more ARR)
- Careful management of Systems business to drive profitable growth
- Impact of Geographical mix
Evolving the nature of revenues to be more digital and more resilient

- Ambition for Software, Sustainability and Services revenues (currently c.18% of Group revenues) to increase by +5pts by 2025¹
- Moving towards c.60% of Group revenues by 2025¹
- Increasing proportion of natively connected products through R&D, replacing non-digital offers
- Recurring revenue weightage in Software & Services (currently c.30%) to increase to c.45% by 2025
- ARR metrics to be reported from FY 2022 results

¹ As a function of expected organic revenue growth and impact of previously announced disposal program
Focused on delivering structural savings from our operational effectiveness plan

Strong progress being made

~€1bn Efficiency target 2020-2022

Existing commitment on track

~€1bn

Structural savings target 2020-2022 on track

We expect SFC / Sales ratio\(^1\) to continue to reduce over time beyond 2022

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\(^1\) SFC / Sales ratio was 24.8% in FY20
We expect a decrease in restructuring to normative levels in the coming years.

Restructuring costs to be around €100 million per year, from 2023.

2020-2022 restructuring program of between €1.15bn to €1.25bn to fund operational efficiency plans.

¹ Average per year within respective period of time.
Revenues, Profits and Cash moving upward in lockstep

Towards a c. €4bn FCF company by 2024...

Free cash flow evolution (€bn)

2012-2016 “Integrate” ~€2.0bn
2017-2021¹ “Scale” ~€3.0bn
By 2024 “Sustainable Growth” ~€4.0bn

Cash conversion expected to continue at around 100% across the cycle
(Free cash flow as a proportion of Net Income – Group share)

Tangible capex expected to remain at c. 2% of revenues across the cycle

¹ Based on company compiled consensus of €3.2bn Free cash flow in FY21
A cohesive framework to maximize resource efficiency

Driving ROCE towards 15%

¹ ROCE, excluding impacts from significant M&A in the first year post-acquisition
Disciplined capital allocation: priorities unchanged

1. Strong Investment Grade Credit Ratings
2. Continued focus on Dividends
3. Portfolio optimization
4. Share buyback
Committed to strong investment grade credit ratings

Our strong investment grade rating means:

- Reliable access to credit markets in periods of Global economic uncertainty
- Favorable credit terms in comparison to BBB rated companies

Combined with interest rate reductions, the Group’s cost of debt has reduced over time

The Group remains committed to retaining a strong investment grade credit rating

¹ A3 rating from 2009 – August 2017, Baa1 rating August 2017 – November 2019, A3 rating from November 2019
Our commitment to a progressive dividend
Portfolio optimization: a disciplined approach to value creation

### Acquisitions

- Opportunistic approach to **value accretive bolt-ons** in the core, oriented toward building a hybrid digital company
- Focus on **smaller and earlier stage acquisitions** linked to future-looking incremental growth drivers

### Disposals

- **€0.8 billion** of revenues disposed or deconsolidated against program of €1.5 - €2.0 billion by end of 2022
  - We **remain committed** to the completion of the program
  - We will continue to review the portfolio for **strategic fit** on an ongoing basis
Share Buyback: Raising threshold on maximum purchase price

We propose¹ to raise the cap on purchase price to €250

Over €260 million buyback against 2019-2022 program since reinstatement in July 2021

¹ Subject to approval at the Annual Shareholders’ meeting on May 5, 2022
We continue to focus on generating shareholder value over the cycle.
Our ambition for the future...

**Accelerating**

**Accelerating Markets**

Sustainable Revenue Growth

Between +5% to +8% organic, on average

**Incremental Growth Drivers**

Adj. EBITA Margin Expansion

Between +30 bps to +70 bps organic, per year

**Unique Operating Model**

Free Cash Flow

c. €4bn by 2024

**Financial Targets**

2022-2024

Sustainable Revenue Growth

Between +5% to +8% organic, on average

Adj. EBITA Margin Expansion

Between +30 bps to +70 bps organic, per year

Free Cash Flow

c. €4bn by 2024

Longer Term Ambitions

5%+ organic, on average across the cycle¹

Opportunity to further expand with business mix and operational leverage

**Aspiration**

To consistently be a **Company of 25***

1 across the economic cycle, incorporating Sustainable Growth targets for 2022-2024

*sum of organic revenue growth % and adj. EBITA margin %