

Acquisitions Development

December 16, 2004

Merlin Gerin

Square D

Telemecanique

Schneider
 **Electric**

Building a New Electric World

Agenda

- **Acquisition process: a robust business practice**

- ➔ Acquisition strategy
- ➔ Acquisition process
- ➔ Acquisition criteria

- **Update on recent acquisitions: examples**

- ➔ Digital
- ➔ Clipsal
- ➔ MGE UPS
- ➔ TAC / Andover Controls

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Acquisition Strategy: Priorities for Acquisitions & Partnerships

■ Penetrate new growth platforms

- ➔ Secured Power, Building Management & Security Systems, Energy Management Systems and Services, Sensors for Repetitive Machines

■ Expand our geographical coverage in Ultra Terminal

- ➔ North America, British Standards, Southern Europe, Eastern Europe

■ Reinforce in Industrial Automation

- ➔ Product offering: Motion, Vision, Electronic products
- ➔ Presence in Japan, USA, Germany

Acquisition Strategy: Key Criteria Used

■ **Attractiveness of the sector**

- ⇒ Long term growth of the sector
- ⇒ Profitability of the sector
- ⇒ Consolidated / fragmented
- ⇒ Business cycle
- ⇒ Services opportunities

■ **Fit with our business**

- ⇒ Consistent business model (no competition with our partners)
- ⇒ Market access channels
- ⇒ Booster for our core business
 - ✓ Global approach to customers
 - ✓ Prescription / specification influence
 - ✓ Technology sophistication

Acquisition Strategy: 5 Selected Growth Platforms

- **1 market:**

- ➔ Residential

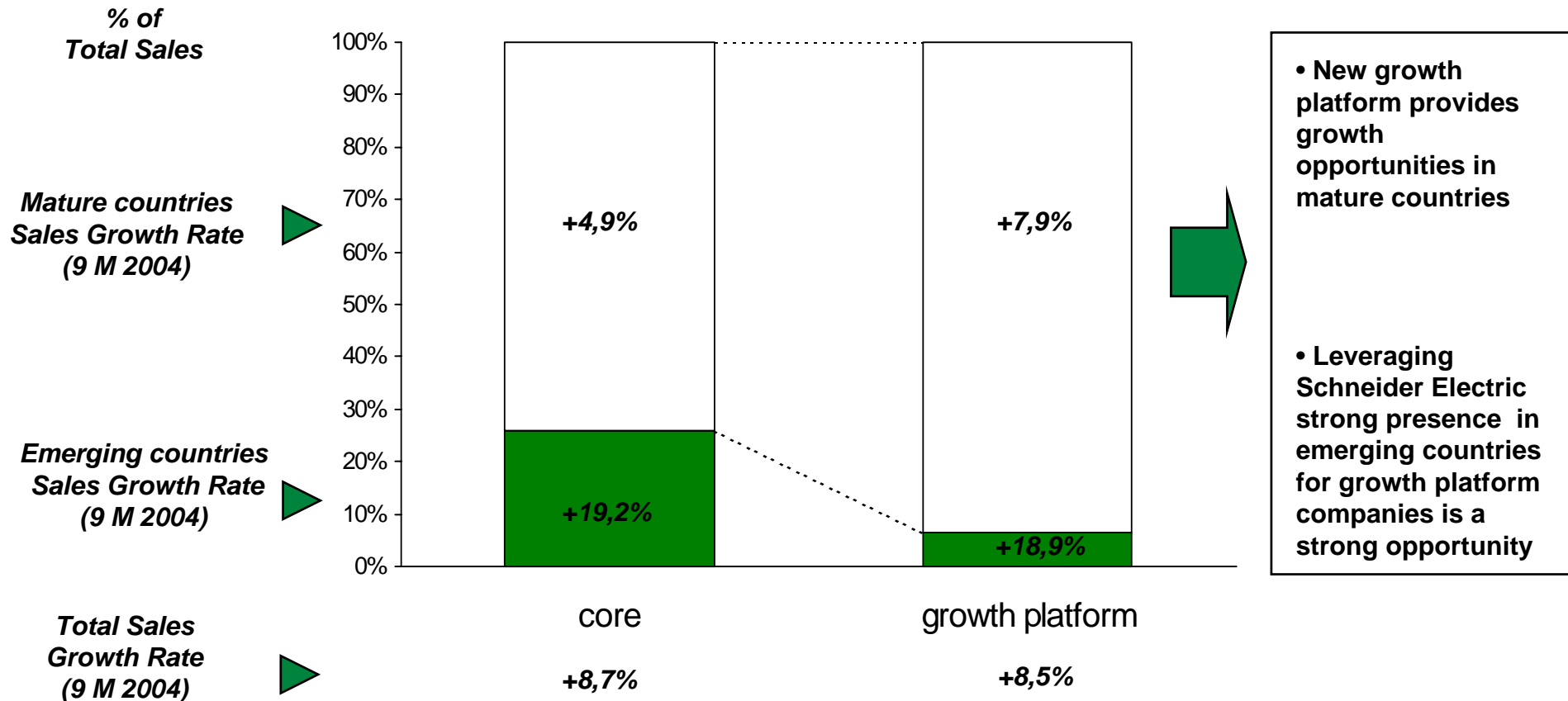
And

- **4 “specialties”:**

- ➔ Secured Power
- ➔ Building Management & Security Systems
- ➔ Energy Management Systems and Services
- ➔ Sensors for Repetitive Machines

Acquisition Strategy: The growth platform potential is verified

% of business made in Emerging Countries vs in Mature Countries (Year 2003)



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Our External Development Process: Our Principles

- **Procedures apply to all types of external development operations: acquisitions and equity stakes but also joint ventures and partnerships**
- **They describe objectives, activities, roles and tools, building on permanent target selection efforts and a strong M&A experience**
- **They enable to leverage on all the various experience sources within the Group in order to ensure the quality of the decision-making process**
- **They force post-acquisition strategy and integration to be considered early enough to secure success for acquisitions**

Our External Development Process

Target Screening

Transaction Process

Target Screening: Overview

- **A central data base regularly updated by all parts of the organization (local country organization, central marketing, products entities, business intelligence)**
- **A wide transaction perimeter in order to include all forms of external development**
- **A support for building a strong and focused knowledge of all players in our strategic fields**

Target Screening: The Portfolio Evolution

Statut	2000	2001	2002	2003
	#	#	#	#
prime target	5	49	75	101
to be watched	3	87	112	130
ss-total	8	136	187	231
terminated	1	29	40	40
total	9	165	227	271

40 active projects as of today

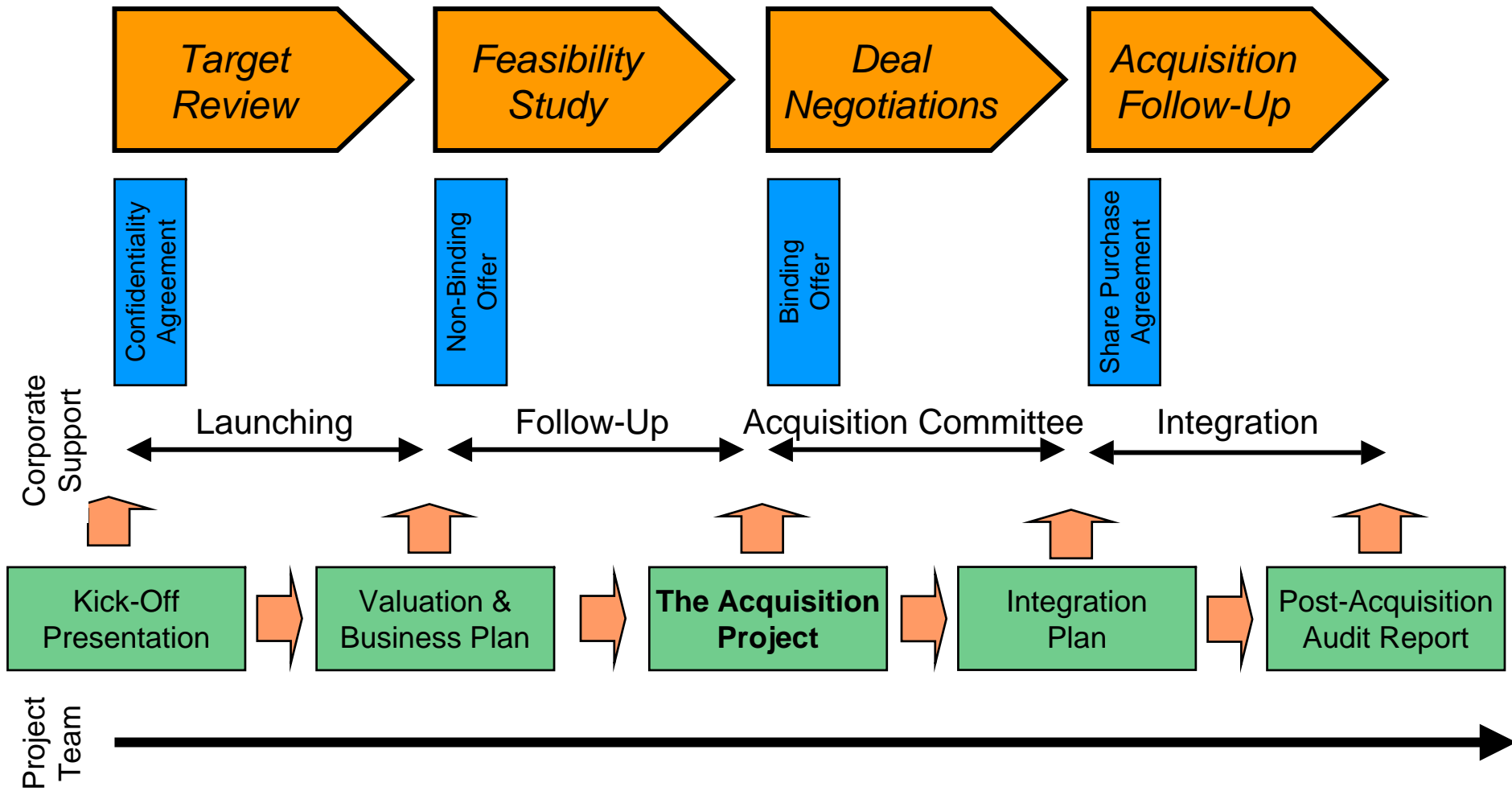
- 60% in Growth Platforms and 40% in Core Business
- an average target size of 200M€

Our External Development Process

Target Screening

Transaction Process

Transaction Process: Overview



Transaction Process: The Project Team

- **Project Teams are accountable for value creation and managed by a Project Leader who**
 - ⇒ Should be the future entity manager or at least belong to the entity that will integrate the target
 - ⇒ Builds human relationship with the target from the start
 - ⇒ Ensures coherence of decisions and actions
 - ⇒ Performs reporting
- **Besides Project Leader, Project Teams include all the people needed**
 - ⇒ All along the project at business deployment, region, markets and products levels (i.e. business development, finance, legal & marketing)
 - ⇒ An ad-hoc basis for their specific expertise (i.e. accounting, environment, human resources, industrial assessment, information systems, purchasing, quality, sales efficiency, tax, technology,...)

Transaction Process: Corporate Support - The Launching Committee

- **The Launching Committee includes representatives from**
 - Finance, Legal and Strategic Development as well as Region, Customers & Markets, Products & Technology, as requested by the project
- **Main objectives of the Launching Committee lie with**
 - Involving all relevant parties in the acquisition consideration
 - Deciding to study the potential transaction
 - Raising the main issues to address during due diligence
- **Decision to perform a Feasibility Study is made upon**
 - Clear validation of the business rationale
 - Consistency check on strategic orientations
 - Validation of the integration scheme
 - First assessment of the main areas of risk
- **The Project Team is appointed by the Launching Committee according to the contemplated integration process and the challenges linked to the possible acquisition**

Transaction Process: Corporate Support – The Acquisition Committee

- **The Acquisition Committee is composed of H.Lachmann, A.Giscard-d'Estaing, E.Pilaud & J.P.Tricoire**
- **The Acquisition Committee**
 - ➔ Validates recommendations made by Project Team
 - ➔ Provides with main guidelines for the negotiation
 - ➔ Names representatives to negotiate with the sellers
 - ➔ Adjusts directions during due diligence / negotiation phase
- **Meetings are held on an ad-hoc basis with a once-a-month minimum frequency**
- **Topics are brought to the Agenda by the Acquisition Committee Coordinator**

Transaction Process: The Acquisition Project

- **Strategic justification: strategic intent, value-creation sources and value-related risks**
- **Post-acquisition proposal: business positioning orientations associated with products / services / access roadmap, level of integration, organizational layout, post-acquisition project organization & dashboard**
- **Stand-alone business plan and business plan with synergies, with a value estimate range**
- **Legal and financial set-up**
- **Summary of priority goals in the post-acquisition phase: offering and business positioning, execution of business plan, synergies, SWOT, entity commitments and clauses of the operation**

Transaction Process: The Acquisition Follow-Up

- **A dedicated post acquisition project manager:
the Chief Integration Officer**
- **A dashboard, monitored and reviewed during business reviews:**
 - ➔ Action plan monitoring
 - ➔ Synergies financial impact measurement

*The dashboard is prepared and set up prior to the acquisition
and goes live on day 1*

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Acquisition Criteria

■ Valuation standalone

- ⇒ DCF (based on internal WACC + premium)
- ⇒ Multiples of comparable businesses

■ Synergies

- ⇒ Committed by the Project Leader
- ⇒ Validated by the Acquisition Committee
- ⇒ Main focus on costs synergies
- ⇒ Sales synergies: confidence factor higher on cross selling than share gains

■ Value creation

Threshold: must meet our ROCE criteria (ROCE covers cost of capital) within 3 years maximum with a conservative scenario on synergies (not using the full synergies committed by the Project Leader)

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Digital: Key Stakes of the Acquisition

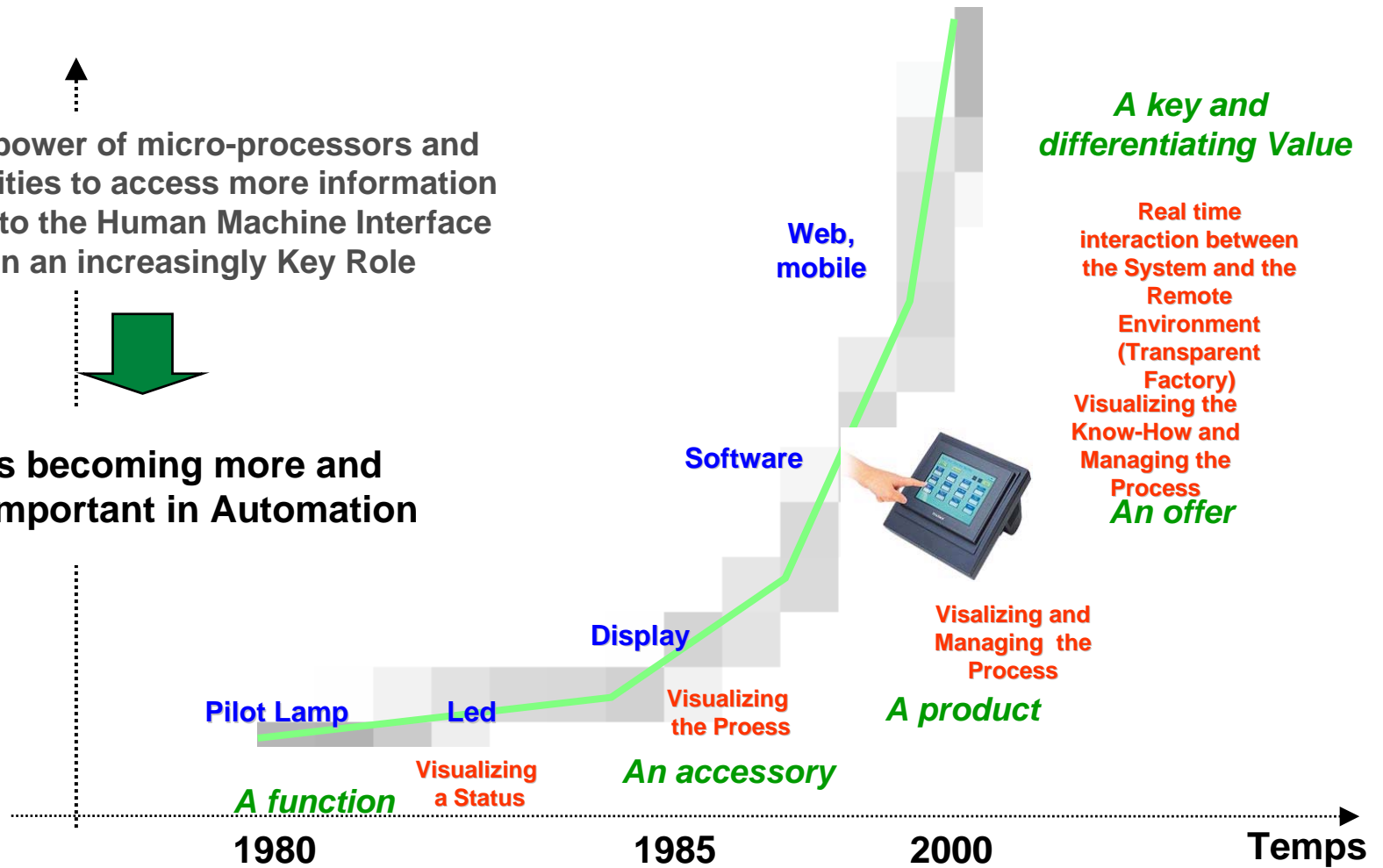
- **The results of our strategy will be**
 - ➔ Grow in the industrial market
 - ➔ Answer to the decentralisation of architectures & need of intelligent components
 - ➔ Offer our customers a consistent and homogeneous range (unique cockpit)
 - ➔ Add a world wide leadership to our product offer
 - ➔ Raise our presence in Japan, a major country for the industrial market and its technologies
- **Digital is the undisputed worldwide leader for graphic panels**
 - ➔ 18% market share for Graphic Panels
 - ➔ 26% for Graphic Panels with Touch Screen (TS)
- **Digital develops an extensive product line which can be connected to any PLC or any network**
- **We intend to develop a profitable market access in Japan which represents 14% of our targeted Industry market, exports over 60% of its machines world wide and is a technology reference**

Digital: HMI is a €2Bn and 7% p.a. growing market

↑
Increasing power of micro-processors and new possibilities to access more information (Web) gives to the Human Machine Interface Function an increasingly Key Role



↓
HMI is becoming more and more important in Automation



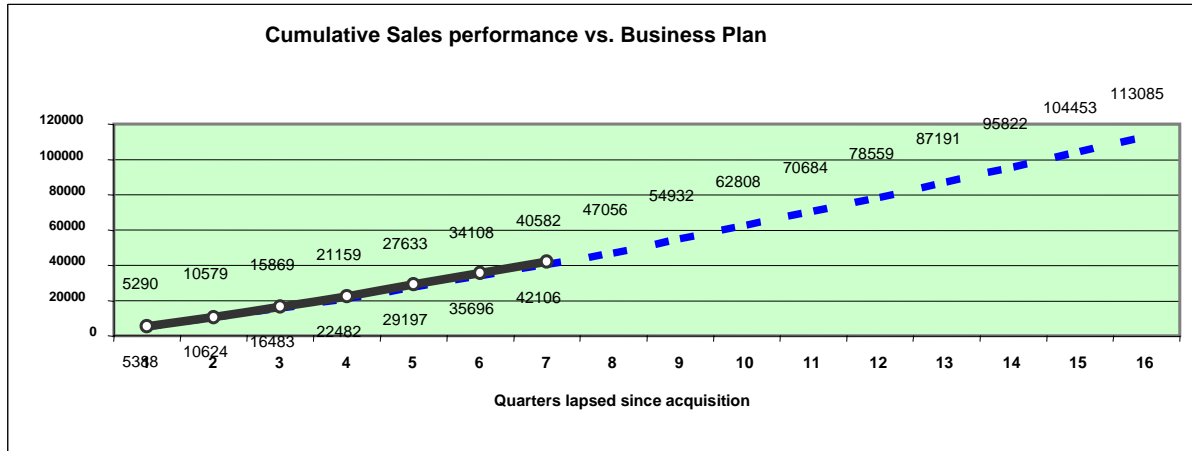
Digital: A Set of 4 types of Action Plans

- **Plans to define the organisation & strategy**
 - ➔ What will be the positioning and identity of each brand/channel?
 - ➔ How will each offer's evolution be defined & executed?
 - ➔ What will be the role of each team in Schneider Electric?
- **Plans to facilitate the integration with Schneider Electric**
 - ➔ Convergence of the offers, management and information systems
 - ➔ Mutual assistance to leverage respective strengths
- **Plans to generate commercial synergies to boost sales**
 - ➔ Digital offer for Schneider Electric network and vice versa
 - ➔ Leverage Digital presence on the Japanese market with TSEL
- **Plans to produce cost-cutting synergies**
 - ➔ Choose the most cost-efficient side [purchasing, manufacturing]
 - ➔ Rationalize the global HMI organisation

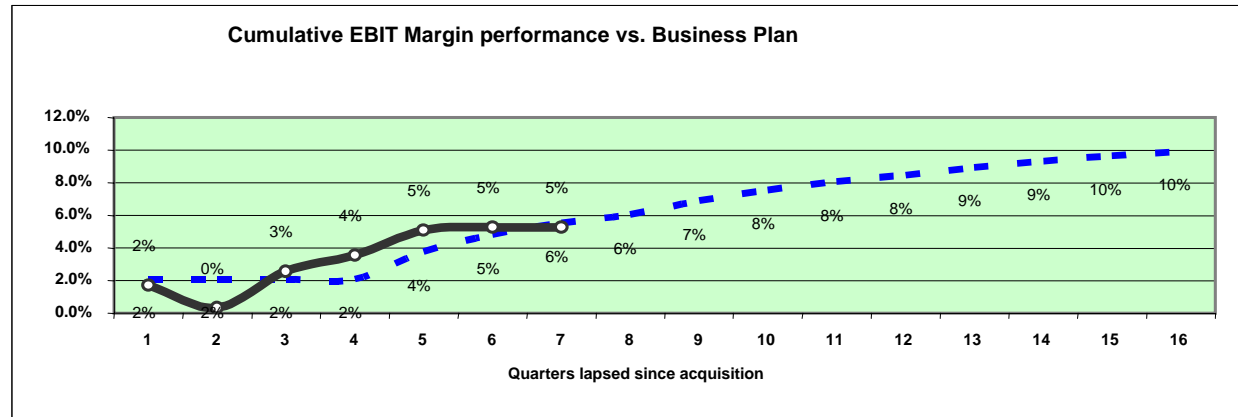
Digital: The Outcome 2 years After

- **Acquisition of Digital's competitive offer spared 5 to 7 years of R&D**
 - A new offer under Telemecanique (TE) brand has been launched worldwide
 - Digital became the only HMI R&D competence centre of the Group
- **HMI products are now sold through 2 channels**
 - Digital network kept under its brand as HMI specialist
 - Schneider Electric network as the HMI offer of a “generalist” under TE brand
- **Digital now offers additional products from the Group (Keypad terminal, small PLC, power supplies, speed drives...) that complement its offer**
- **Strong positions and reputation with OEM and associated distributors, especially in Japan, enables additional sales**
 - 11 new distributors for Schneider Electric in Japan
 - Entry in key industrial customers in all Asia (Japan, Korea, Thailand...)
- **Many back-office synergies: logistics, IS, finance and HR in Japan and Korea, purchasing world wide, manufacturing in China...**

Digital: Q3 2004 Acquisition Follow-Up



On Track!



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Clipsal: Key Stakes of the Acquisition

■ Enhancing Schneider Electric presence in Asia Pacific

- ➔ Developing significantly Schneider Electric presence in the high growth markets of Asia
- ➔ Providing an avenue to penetrate Asia Pacific large markets by complementing Clipsal offer with Schneider Electric products

■ Growing the Residential and Buildings Markets

- ➔ Gaining access to the Residential and Buildings markets in Australia and South Africa, where Schneider Electric was absent
- ➔ Developing Schneider Electric sales, with wider product offering, in Asia first, and then throughout the world

■ Developing Schneider Electric Wiring Devices manufacturing and product development capabilities

- ➔ Acquiring the leading British Standard (BS) Wiring Devices offer (the 1° world-wide standard) plus the ability to develop and manufacture new products using the low-cost capabilities of South China

Clipsal: Some Major Opportunities

- **N°3 world-wide after Legrand and Bticino, Clipsal is the n°1 or 2 brand in 12 countries:**

Brand Leadership	n°1	n°2
China	TCL	Clipsal
Australia	Clipsal	HPM
Malaysia	Clipsal	UMS
HK	Clipsal	Fung-Yip
Singapore	Clipsal	MK
New Zealand	PDL	Clipsal
UAE	Clipsal	MK
Vietnam	Clipsal	National
Indonesia	Broco	Clipsal
Sri Lanka	Clipsal	Maxal
Pakistan	Clipsal	Bticino
South Africa	Crabtree	Clipsal

Additional Opportunities

- ✓ Accessing the residential and commercial building markets for Schneider Electric products through the Clipsal brand and sales network
- ✓ Extending the Clipsal range (with Contactors, Moulded Case Circuit Breakers, Miniature Circuit Breakers,...) for Schneider Electric to penetrate Asia Pacific vast markets for mid range products
- ✓ Extending our low-cost manufacturing and development capabilities in South China, a region where Schneider Electric was not strongly represented (most of our current Chinese facilities are located in the Northern Beijing - Shanghai area)

Clipsal: 4 Types of Action Plans

- **1. Commercial synergies to boost sales and commercial efficiency**
 - ➔ Establish brand and business positioning
 - ➔ Protect and grow existing business
 - ➔ Improve logistics efficiency

- **2. Plans to facilitate the organisational alignment**
 - ➔ Implement Schneider Electric reporting systems and link information systems
 - ➔ Lock in EBIT drivers
 - ➔ Achieve administration synergies and savings

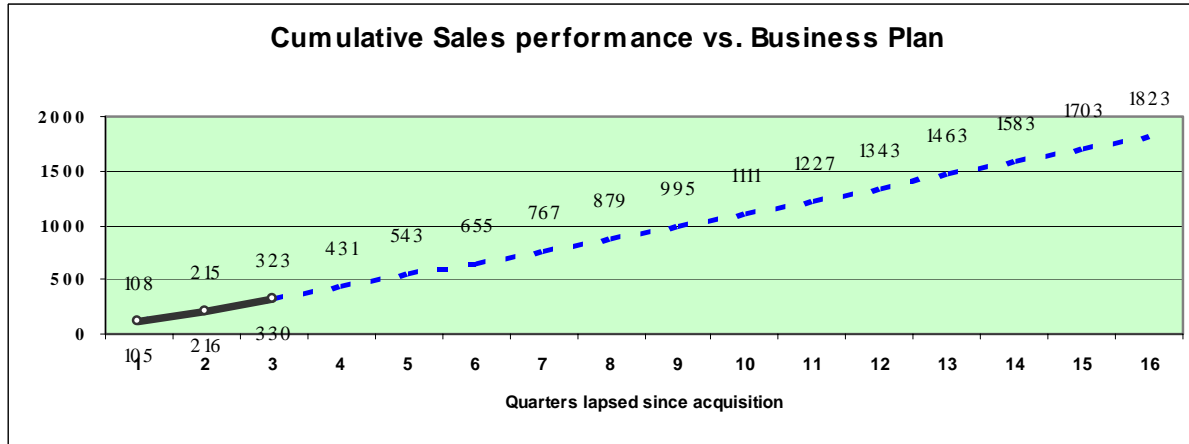
- **3. Manufacturing plans to improve the manufacturing productivity**
 - ➔ Identify and implement manufacturing synergies
 - ➔ Implement manufacturing productivity synergies
 - ➔ Purchasing productivity and synergies

- **4. Improvement and cost reduction through product knowledge sharing**
 - ➔ Share best practice in product design to enhance the offer and reduce the cost

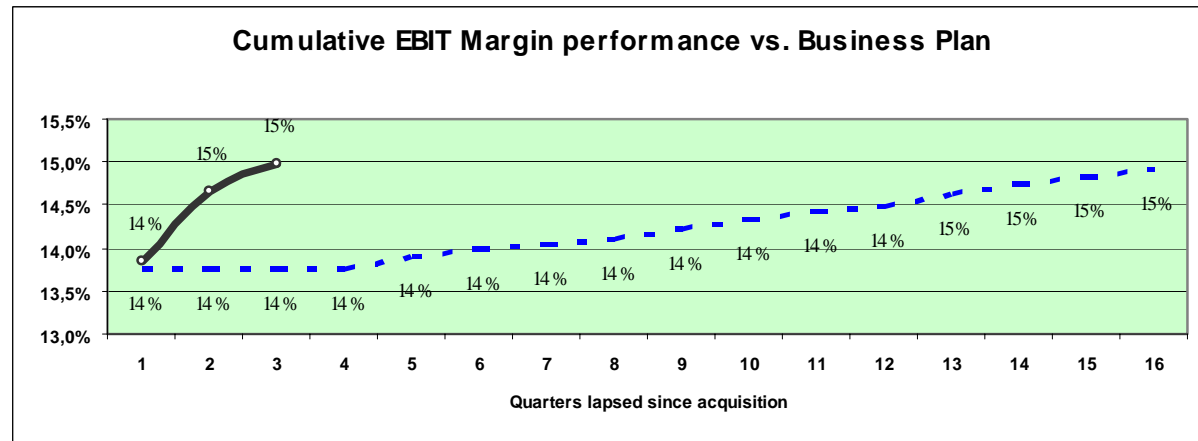
Clipsal: Outcome 1 Year Later

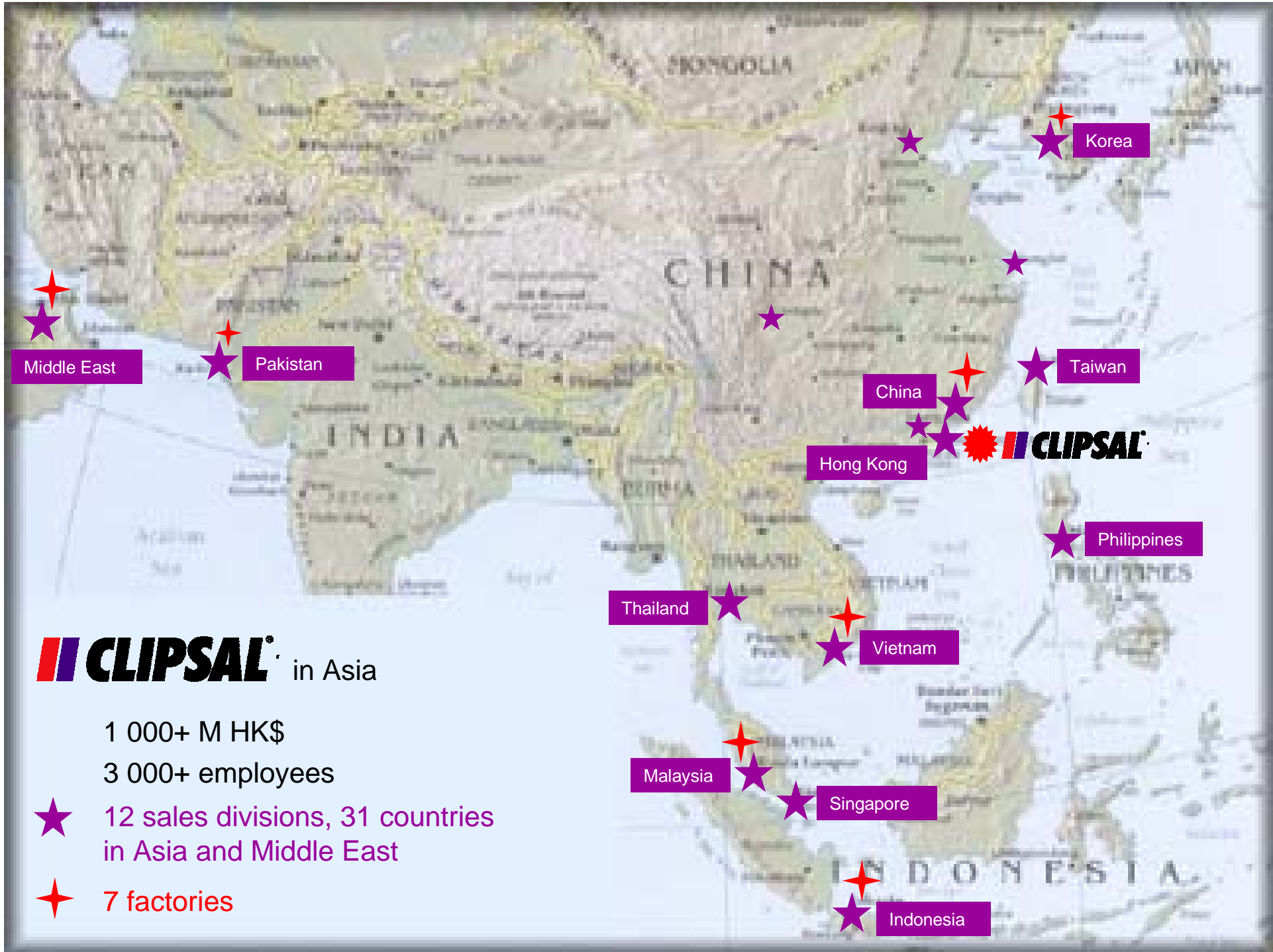
- **Many product rationalization are either finalized (for instance, smoke detector range, vertical powerpoint,...) or under way**
- **A steering committee ensures the consistency of the offer throughout the Group and a progressive migration to global technological platforms**
 - Clipsal became the group competence centre for British Standard and Asian offer supporting UK, India, South Africa, etc
 - Coordination with the Clipsal Asia JV and creation of a common R&D centre
- **Clipsal catalogue already incorporates Schneider Electric products for Industrial Control and Electrical Distribution**
- **A shared service centre is already operational in Australia for logistics (Schneider Electric uses Clipsal as a logistics service provider)**
- **Purchasing synergies are on track and even above expectations**
- **Many other rationalizations on-going (manufacturing space, etc...)**

Clipsal: Q3 2004 Acquisition Follow-Up



On Track!





CLIPSAL in Asia

1 000+ M HK\$

3 000+ employees

★ 12 sales divisions, 31 countries in Asia and Middle East

★ 7 factories

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MGE UPS: 2004 Performance vs. Business Plan et 2003

	2003	2004 B.P.	2004	2003 / 2004	BP / 2004
	Delta w/o par.				
MGE-UPS					
Orders	522	-	544	8.0%	-
Sales	505	531	537	11.5%	4.1%
Ebita	63.4	64.5	66.7	8.8%	5.2%
% sales	12.5%	12.1%	12.4%	0.0 pt	0.3 pt

MGE UPS: Synergies

■ Cost synergies:

- ➔ Purchasing productivity: on track
- ➔ Shared back office services: 3 pilots in progress

■ Sales synergies

- ➔ Phase 1 implemented in 2004: global accounts joint approach and US commercial coordination
- ➔ Phase 2 launched in 2005: using the presence of Schneider Electric in some emerging markets to set up operations for MGE

<i>in € million</i>	Business plan			Actual	Re-forecast	
	2004	2005	2006	2004	2005	2006
Sales synergies	8,0	14,0	18,0	7,2	13,0	18,0
Costs synergies	2,5	4,0	5,5	2,7	4,5	5,5
Impact on EBIT	4,3	7,1	9,5	4,5	7,8	10,0



% of synergies needed to reach our ROCE threshold: 65%

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TAC / Andover Controls: Now a Single Merged Entity: Tour Andover Controls

- **Closing of Andover Controls acquisition: July 13th**
- **New organization announcement: August 5th**
 - ➔ Headcount reduction targets finalised
 - ➔ 4 executives left the company
- **Transfer of the manufacturing facilities of Andover Controls in Schneider Electric premises: August 28th**
- **Merger of the 2 marketing teams and relocation in Massachusetts: September 6th**
- **Commercial launch of the new entity with 700 customers: November 10th**
- **Transfer of the offices of Andover Controls in Schneider Electric premises: January 2005**

Tour Andover Controls: 2004 Performance vs. Business Plan et 2003

	2003	2004 B.P.	2004	2003 / 2004 Delta w/o par.	BP / 2004
TOUR ANDOVER CONTROLS (Combined)					
Orders	476	-	508	11.3%	-
Sales	474	500	479	6.5%	1.0%
Ebita	57.2	63.3	61.7	12.8%	1.9%
% sales	12.1%	12.7%	12.9%	0.8 pt	0.2 pt

Tour Andover Controls: Synergies


- **Synergies on production and non-production purchases are ahead of expectations**
- **Commercial synergies with Schneider Electric entities are slightly lagging behind expectations ...**
 - Focus on main western Europe countries - France, Spain and Italy - and on China
 - New business which requires training and expertise building for Schneider Electric people

... but it is starting !
- **Cross selling synergies are on target**
 - Sales of Schneider Electric products through TAC and Andover Controls
 - Sales of Andover Controls security products through TAC channels
 - Sales of TAC peripherals through Andover Controls Channels

Tour Andover Controls: Synergies (cont'd)


■ Status on TAC synergies

<i>in € million</i>	Business plan			Actual	Re-forecast	
	2004	2005	2006	2004	2005	2006
Sales synergies	20,0	47,0	70,0	15,0	42,0	74,0
Costs synergies	1,0	2,0	2,0	2,5	4,0	4,0
Impact on EBIT	3,7	8,4	11,6	6,0	12,9	19,3

 % of synergies needed to reach our ROCE threshold: 50%

■ Status on Andover Controls synergies

<i>in \$ million</i>	Business plan			Actual	Re-forecast	
	2004	2005	2006	2004	2005	2006
Sales synergies	0,0	3,0	14,0	0,5	3,5	15,5
Costs synergies	2,1	5,9	8,3	1,3	5,0	7,4
Impact on EBIT	-0,5	6,4	10,4	-0,4	4,8	11,2

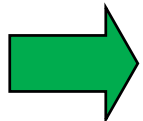
 % of synergies needed to reach our ROCE threshold: 70%

Conclusion

- **Recent acquisitions are on track...**

- Strategic intent is verified
- Business plans and synergies are on track
- Our value creation criteria will be met

... thanks to a strict process & rigorous execution



This track record and our radar screen make us confident that we will continue to execute our strategy to generate growth and create value

Building *a New Electric World*

