

Merlin Gerin

Square D

Telemecanique

# *Schneider Electric expands in secured power*

*Paris, December 22, 2003*



# Blackout World Tour 2003



**New York**

**London**

**Copenhagen**

**Stockholm**

**Geneva**

**Rome**

**Los Angeles**

**Detroit**

**Are you next?**

Get protected now...



## *Secured power, a major opportunity*

*A key step in our strategy  
Need for high-quality power  
A major opportunity with long-term growth drivers*

## *MGE UPS Systems, the most attractive partner*

*The most attractive partner for Schneider Electric  
A world leader in high-availability power with a full range of products  
and services  
Solid financial performance*

## *The transaction*

# Our acquisition strategy

## ➔ Schneider Electric has defined growth platforms

- Specific industrial automation segments
- Building automation
- Residential market
- Secured power
- Value-added services: energy, industrial productivity



## ➔ Over the last 12 months, the Group has deployed its strategy by acquiring:

- Digital Electronics: December 2002
- T.A.C: June 2003
- Clipsal: August 2003
- **MGE UPS: December 2003**
- T.A.C, **MGE UPS**

# *A key step in our strategy*

- ➔ **Secured power is one of our strategic growth avenues**
  - Medium-term growth prospects
  - Profitability of the main industry participants
  - Growth potential in related services
  
- ➔ **Our objective is to become a world leader in secured power to expand our lineup in markets where we hold leadership positions**
  - Buildings, telecoms, data centers
  - Energy & infrastructure, transportation
  - Industry
  
- ➔ **UPS systems are the core of secured power**

# *Growing need for high-quality power*



**Power grid availability: 99.9%**  
**'Dirty' current**  
**(harmonics)**



**Required power**  
**grid availability:**  
**99.9%=> 99.9999%**  
**Clean, corrected current**

## **Deterioration of power grid quality**

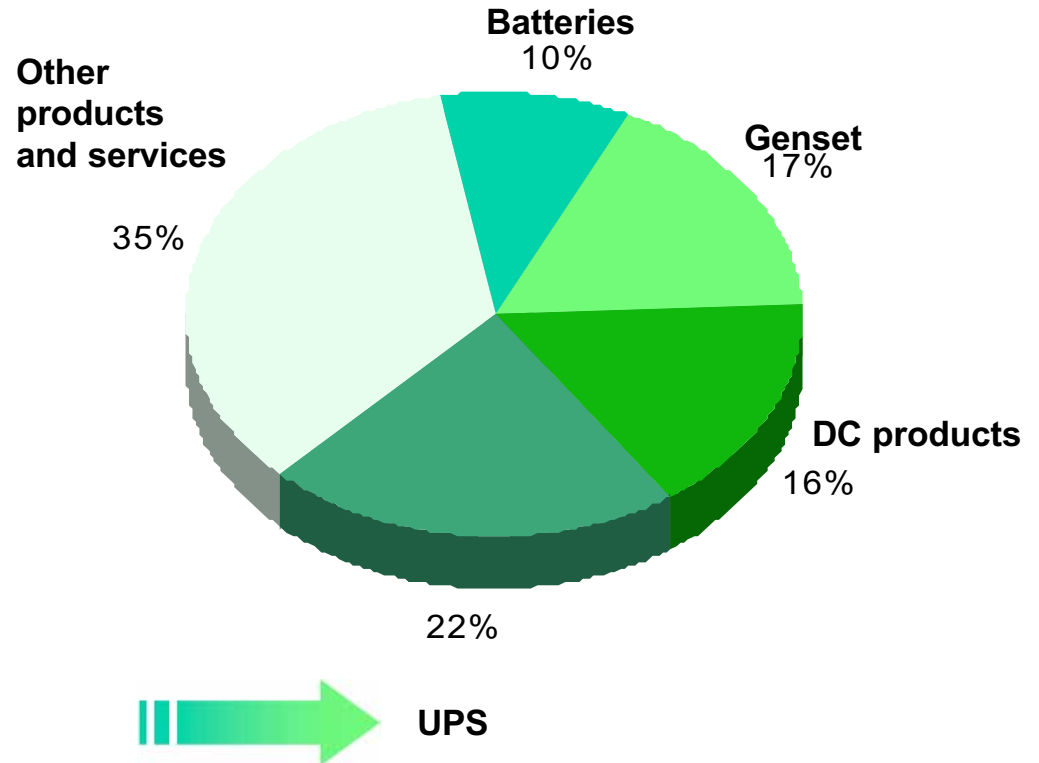
- Increase in power consumption
- Electrical disturbances related to transmission
- Deregulation of power distribution

## **Highly sensitive electronic systems**

- Growing number of network interconnections
- Critical IT and telecom applications
- Sensitive processes (hospitals, semi-conductors, etc.)

# *The secured power market represents a major opportunity...*

- ➔ **The access to a EUR 27 Bn market**
- ➔ **A long-term pace of growth of +8% per year**
- ➔ **Extended and highly diversified range of products and related services**



## ... *With long-term growth drivers*

- ➔ **The long-term growth drivers are tangible in light of the growing need for reliable, clean power, reinforced by the recent blackouts**
  - Enterprise networks (convergence of IT and telecom applications)
  - Public infrastructure
  - Critical applications segments
    - IT
    - **Semi-conductor processes**
    - **Pharmaceutical and chemical processes**
    - **Hospitals**
  
- ➔ **This need combined with demand for energy cost management**
  - Controlling consumption
  - Load shedding during peak periods

## *Secured power, a major opportunity*

*A key step in our strategy  
Need for high-quality power  
A major opportunity with long-term growth drivers*

## ***MGE UPS Systems, the most attractive partner***

*The most attractive partner for Schneider Electric  
A world leader in high-availability power with a full range of products  
and services  
Solid financial performance*

## *The transaction*

# *MGE UPS Systems: the most attractive partner for Schneider Electric*

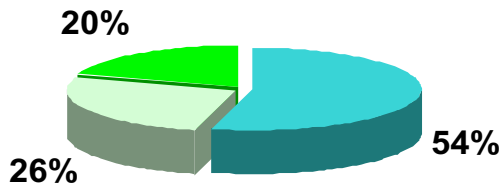
- ➔ **MGE UPS Systems is a world leader in providing high-availability power solutions, with sales of EUR 500 M**
  - # 3 worldwide in UPS systems with a 10% market share and # 1 in UPS>10kVA
  - # 1 in the European UPS systems market, with a 19% market share
  - Strong positions in Asia, and notably China
  
- ➔ **MGE UPS Systems is the most attractive partner**
  - Strong positions in critical segments
  - Success in services development
  - High quality, responsive management team
  - High profitability and resilience through economic cycles: operating margin >12%
  - 32.3% holding by Schneider Electric

# *MGE UPS Systems: a world leader with diversified markets and a comprehensive lineup*

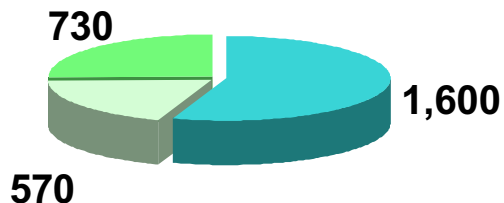
- ➔ **MGE UPS Systems is a world leader in providing high-availability power solutions for diverse market segments**
  - Enterprise networks, data centers, telecoms, processes & infrastructure
  
- ➔ **MGE UPS Systems offers a full lineup of products and services**
  - Numerous ranges of UPS and associated products
  - Advanced power management solutions that ensure high quality service for customers throughout their installations' life cycle
  
- ➔ **MGE UPS Systems has a worldwide network with 37 subsidiaries and operations in more than 100 countries**

# A worldwide presence

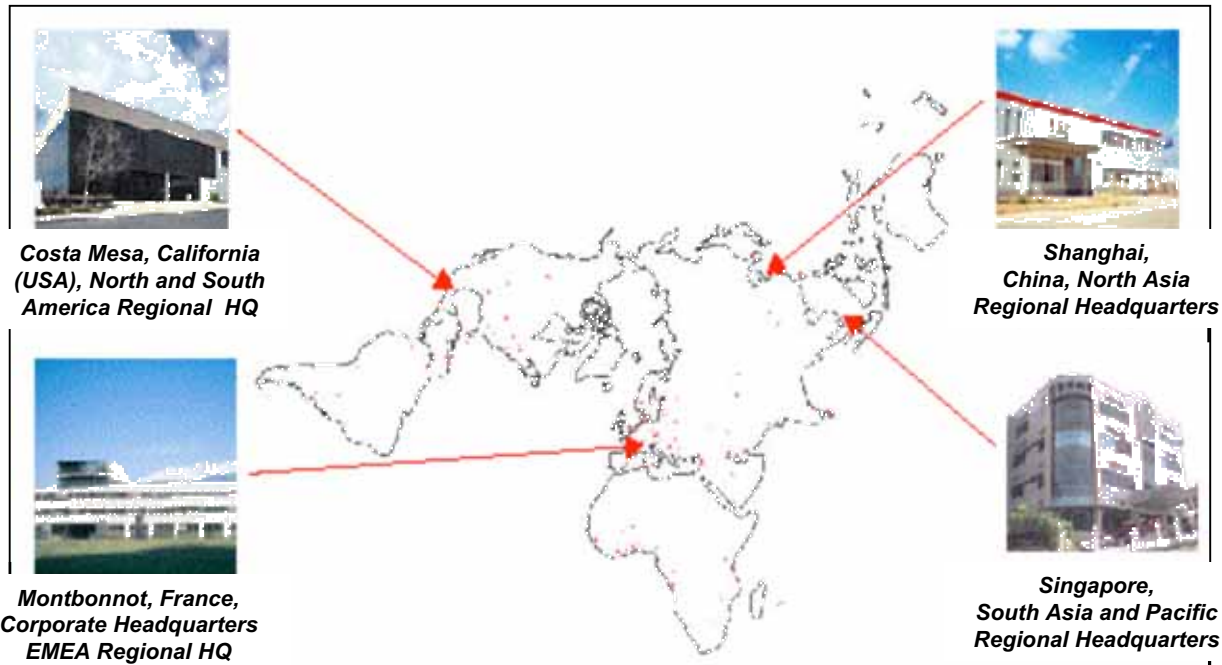
## Sales (in %)








## Employees: 2,900 people



- 37 subsidiaries (services and sales)
- 170 sales and service agencies
- 6 manufacturing sites (Europe: 3, US: 1, China: 2)
- 2 R&D centers (US, France)



# Diversified market segments

	Data centers	Enterprise networks	Critical processes	Telecom infrastructure	Small offices, home offices
					
	Site hosting, colocation	Servers, storage, interconnection	Process control, medical infrastructure	Switching centers, relays	Office PCs, video, home theater

Breakdown of the market	15%	42%	22%	13%	8%
LT growth	8 - 10%	6 - 8%	3 - 5%	8 - 10%	3 - 5%
MGE UPS market share	22%	9%	10%	10%	~2%
Targets	Priority	Priority	Selective	Selective	Opportunity

# An extensive UPS products range



## ➔ Surge suppressors

Power protection for the individual and professional users

*Applications: consumer electronics, PC/Mac, printers, scanners, other peripherals, home theater, HiFi, video, etc.*



## ➔ Single phase UPSs

Uninterrupted power supplies (UPSs) for PC & server protection

*Applications: stand-alone PCs, networked PCs, servers, networking equipment, telecom systems*



## ➔ Three phase systems

Enterprise protection systems

*Applications: multiple servers, computer rooms, data centers, plant floors, broadcasting and telecom systems*



## ➔ Static transfer switches

To provide critical loads with continuous power

*Applications: enterprise networks, telecom networks, data centers*

# An extensive UPS products range (cont'd)



## ➔ Filter & harmonics conditioning

To neutralize harmonics

*Applications: office and commercial environments and industrial applications*

## ➔ Power conditioners

Power protection without battery backup

*Applications: industrial equipment, process control*

## ➔ Communication accessories

Cards and adaptors to connect the UPS system

*Applications: networked PCs, servers, networking and telecom equipment, data centers, monitoring equipment*

## ➔ Communication software

To complement MGE UPS systems

*Applications: stand-alone PCs, networked PCs, servers, networking and telecom equipment, data centers*

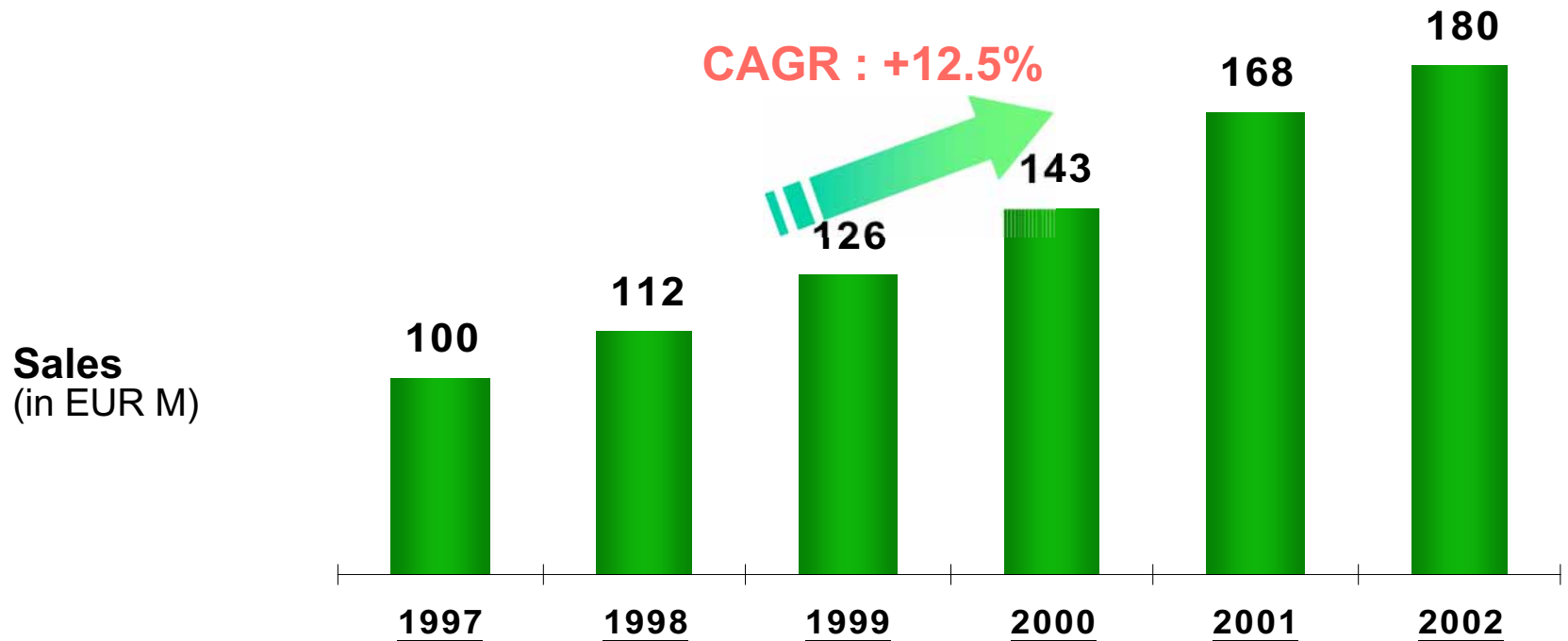


# *Successful development over the past 5 years*

- ➔ **Significant growth in services: +18% annual increase in the number of contracts**
- ➔ **Strong geographic expansion**
  - More than 7 subsidiaries created each year
  - 2 new manufacturing centers in China: Shenzhen and Shanghai
- ➔ **An active range renewal strategy**
  - Single-phase: range renewed twice
  - Three-phase: majority of products renewed
  - New product lines
  - Numerous national and international awards
    - 2001 **Frost & Sullivan: best strategy**
    - 2000 and 2002 **Prix Janus: best product design**

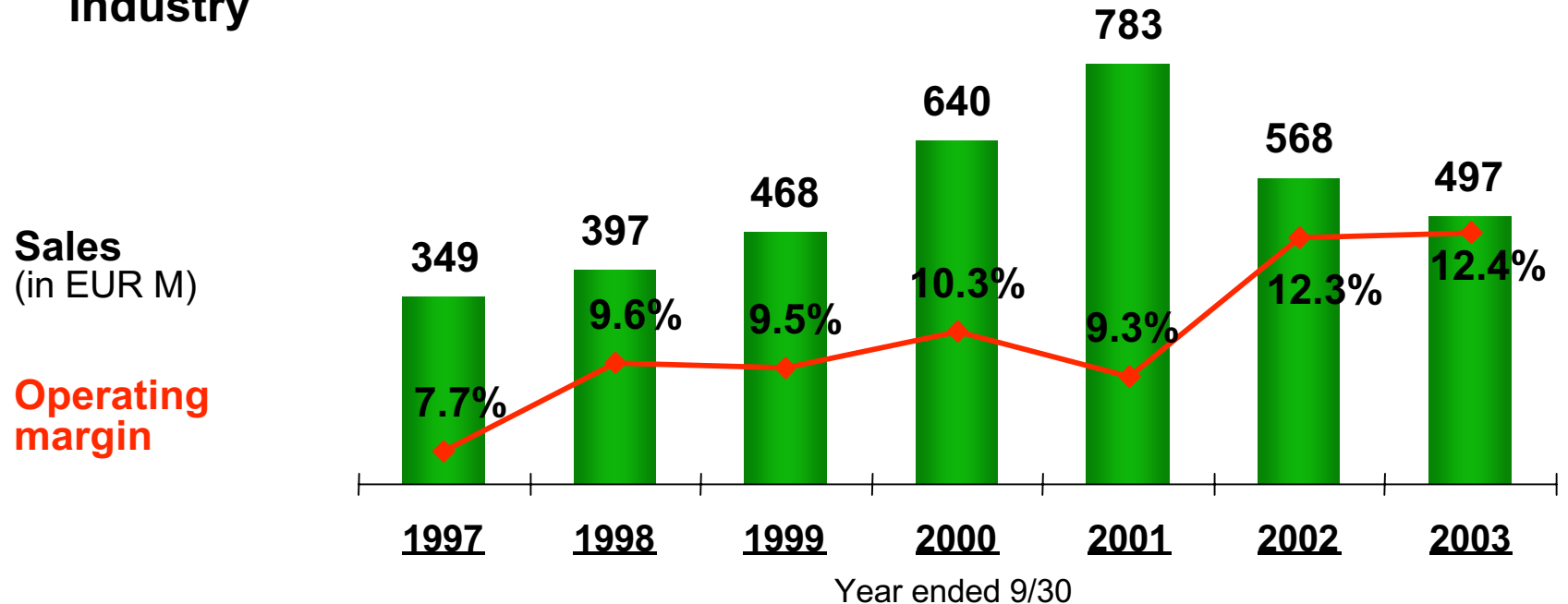
# *Strong growth in services*

- ➔ A full range of services: design, implementation, upgrading, management and monitoring of installations
- ➔ Sustained growth in spite of business cycles



# *Solid financial performance*

- ➔ Sustained sales growth until 2001, interrupted by decline in internet investments
- ➔ Operating margin up 3 points between 2001 and 2002 and stable in 2003 despite lower sales
- ➔ MGE UPS Systems is today the 2<sup>nd</sup> most profitable company in its industry



## *Secured power, a major opportunity*

*A key step in our strategy  
Need for high-quality power  
A major opportunity with long-term growth drivers*

## *MGE UPS Systems, the most attractive partner*

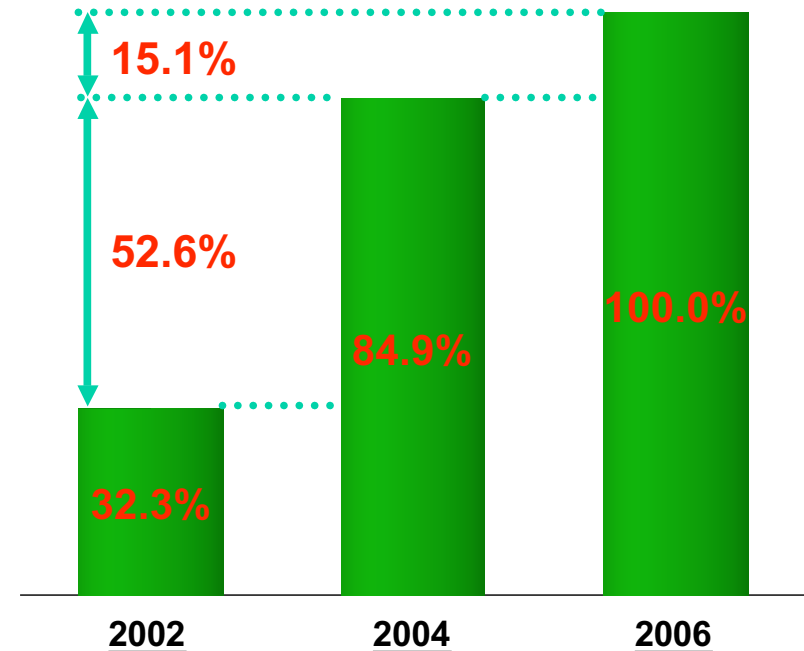
*The most attractive partner for Schneider Electric  
A world leader in high-availability power with a full range of products  
and services  
Solid financial performance*

## ***The transaction***

# Description of the transaction

- ➔ Stake at the end of 2002: 32.3%
- ➔ Acquisition of 52.6% i.e. all of the stake held by investment funds and part of the interest held by management and employees
- ➔ Acquisition in 2006 of the remaining 15.1% for a price based on 2005 EBITA level

SE interest in MGE UPS equity

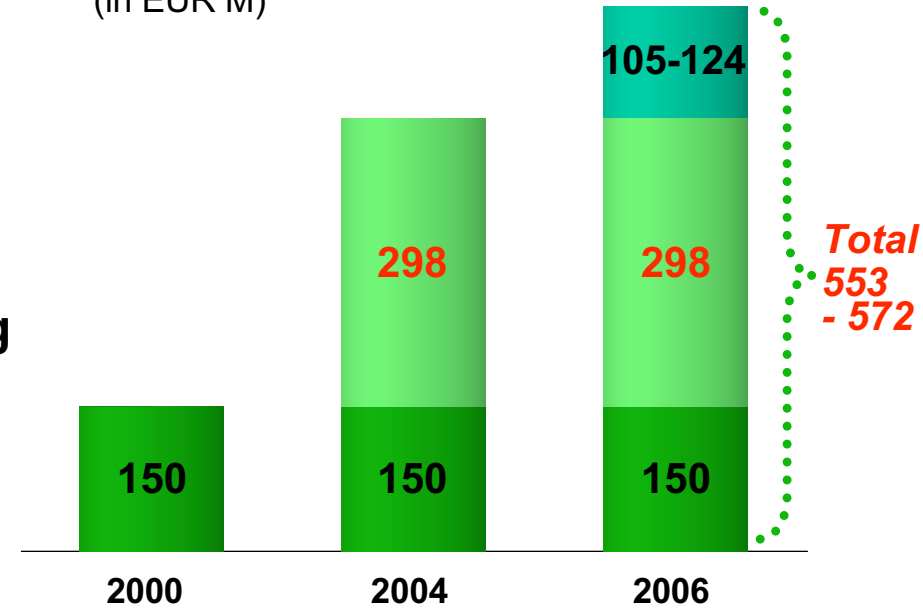


Management and employees will remain invested in MGE UPS Systems equity until the end of 2005, which will promote the achievement of ambitious growth objectives

# Transaction cost

- ➔ Initial stake: EUR 150 M
- ➔ Payment of EUR 298 M in cash at closing in Q1 2004
- ➔ Earn out based on 2005 EBITA level: EUR 105-124 M depending on different business plan assumptions

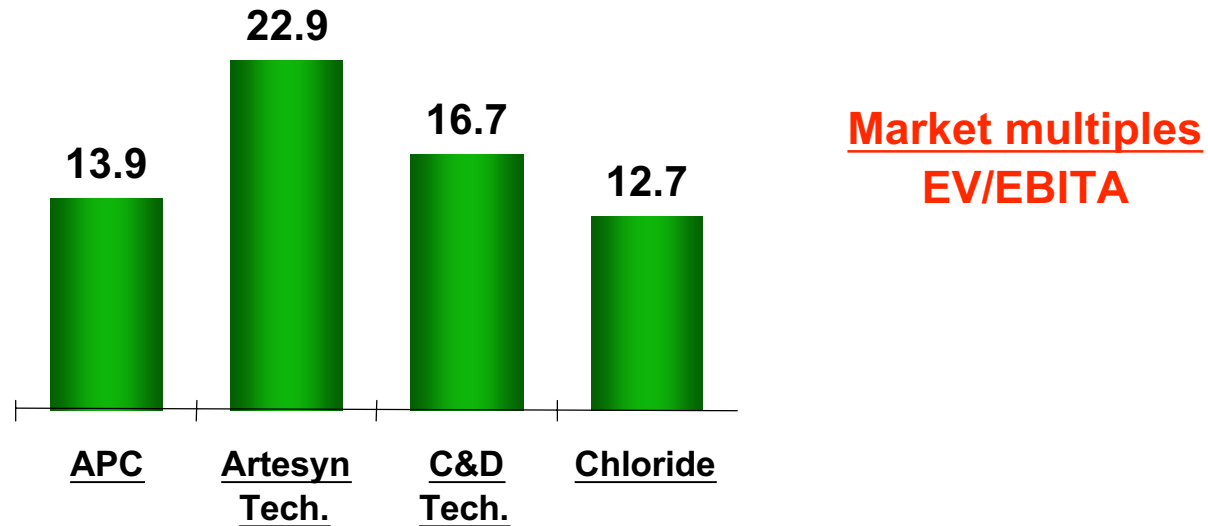
**Cost price for SE (equity)**  
(in EUR M)



➔ Given the assumption of EUR 283 M in debt, the total investment amounts to EUR 836-855 M (enterprise value), i.e. 12.5x to 13.0x estimated 2004 EBITA

# Transaction analysis

- ➔ A quality asset, with leadership positions
- ➔ An attractive sector, with strong growth potential, highly valued by the markets



Share price on Dec. 11, 2003

# Synergies

## ➔ Sales

- Leverage Schneider Electric's global network to expand MGE UPS Systems' sales
- Share client bases: additional sales for Schneider Electric & MGE UPS Systems
- Coordinate projects: improve penetration rate, reduce sales and marketing costs
- Develop solutions & services joined approach for targeted large accounts

## ➔ Purchasing

- Supply more MGE UPS Systems with Schneider Electric products
- Pool purchases



***100% of synergies leveraged in 2005:***

***Additional sales            EUR 18 M***

***Additional EBITA            EUR 11 M***

# *Acquisition impact on Schneider Electric*

- ➔ **Closing expected in Q1 2004 subject to approval by anti-trust authorities, notably in the US and in Europe**
- ➔ **Assumed organic growth: +6% per year**
- ➔ **Goodwill to be amortized over 20 years**
- ➔ **Impact on Schneider Electric's net income:**



***In compliance with the Group acquisition criteria:  
Accretive before goodwill in 2004  
Neutral after goodwill in 2005***

# Conclusion

- ➔ **The secured power industry is consolidating around a few major leaders: Schneider Electric is participating in this move**
- ➔ **MGE UPS Systems offers the features of an acquisition with growth potential for Schneider Electric**
  - A growing business and a high profitability
  - Leadership, global positions
  - High quality teams
- ➔ **This acquisition of a business with substantial rebound potential creates a new growth platform within Schneider Electric**

## *Appendices*

*MGE UPS Systems management team*  
*MGE UPS Systems key figures*  
*Secured power market participants*

# MGE UPS Systems management team



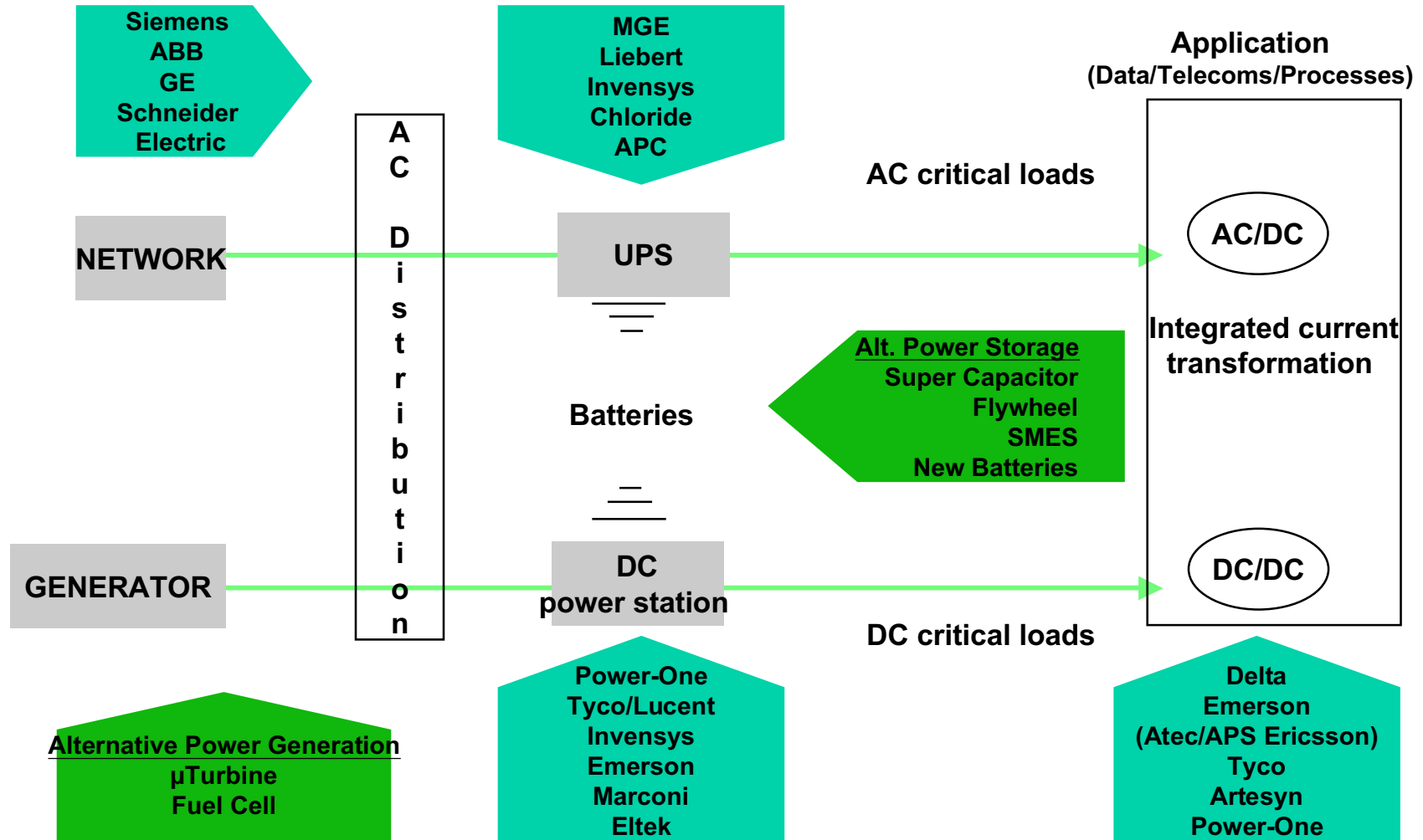
(i) X d'Esquerre as from April 1, 2004  
JB Guy until March 31, 2004

# MGE UPS Systems key figures

(in EUR M)	2002	2003
Sales	568	497
Gross margin <i>% of sales</i>	224 39.4%	201 40.4%
Operating income <i>% of sales</i>	70 12.3%	62 12.4%

Year ended 9/30

# Secured power market participants



*Building*  
a **New Electric**  
**World**

