

# Financial information

## Schneider Electric, partnering with Temasek, has reached an agreement to buy Larsen & Toubro's Electrical & Automation business and will combine it with its Low Voltage & Industrial Automation Products business in India

### Key highlights:

- **Combined business well-positioned to serve the fast-growing Indian Energy Management and Industrial Automation Market**
- **Transaction to combine Schneider Electric's strong global technology platform, digital offers and global presence with L&T Electrical & Automation's wide domestic reach, coupled with end-to-end R&D and manufacturing capabilities specific to Indian market**
- **Make in India: Post transaction, India to become one of the key innovation and manufacturing hub for India as well as for global markets.**
- **India becomes the third largest country in terms of revenues for Schneider Electric, at par with France**
- **Strong shareholder base: Schneider Electric and Temasek to own combined business with 65% and 35% shareholding respectively**

**Rueil-Malmaison (France), May 1, 2018:** Schneider Electric, the global leader in digital transformation of energy management and automation today announces the signing of an agreement with Larsen and Toubro Ltd. ("**L&T**"), a leading conglomerate in India to buy its Electrical and Automation business ("**L&T E&A**")<sup>1</sup> and combine it with Schneider Electric India's Low voltage and Industrial Automation Product business<sup>2</sup> (the "**Combined Business**"). Temasek, an investment company headquartered in Singapore, will invest in the combined business and will hold 35% of it.

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<sup>1</sup> L&T will retain the Marine business in India and Servowatch in UK, which is currently operating under the E&A domain and together represent c. 2-3% of E&A revenues

<sup>2</sup> Schneider Electric India Private Limited

# Financial information

L&T E&A is a recognized player in the Energy Management and Industrial Automation business in India led by an experienced management team. It offers low and medium voltage switchgear, electrical systems & equipment, energy management, metering and industrial automation solutions. It benefits from an extensive ecosystem of partners covering more than 260 cities in India. It has an efficient local manufacturing footprint with 5 manufacturing locations in India along with robust local R&D capabilities. The company is also present in the Middle-East and South-East Asia markets. L&T E&A has over 5,000 employees, excluding Marine Switchgear and Servovatch Systems.

India is the third largest economy in Asia Pacific and sixth largest in the world with c.US\$ 2.6 trillion GDP. It is also the fastest growing large economy globally with an expected 2018 GDP growth rate of 7.4% (based on IMF data). With strong growth in the buildings and infrastructure segments coupled with growth in industrial manufacturing driven notably by the Indian Government's program to develop industries through 'Make in India', the market is expected to grow high-single digit to double-digit<sup>3</sup> for energy management offers and double-digit<sup>3</sup> for industrial automation offers over the coming years. The combined business of Schneider Electric's Low Voltage and Industrial Automation Product business and L&T E&A will be uniquely positioned to benefit from these trends.

Schneider Electric is committed to investing in India's growth, with its businesses being present in India since 1963. With this transaction, India will become the third largest country for Schneider Electric in terms of revenues (c. €1.6bn), at par with France.

Temasek is a global investor anchored in Asia, with India accounting for around 5% of its S\$275b net portfolio value based on underlying assets, as at 31 March 2017. Temasek's investment deepens its exposure to India, as well as to the industrial sector. Temasek and Schneider Electric both recognize India's significant growth opportunities, further accentuated by the Indian Government's "Make in India" policy. Make in India seeks to promote growth in the domestic market, establish India as a strong R&D hub and enhance production capabilities to service the Indian market and new economies, using India as a hub. With this combination, Schneider Electric and Temasek are establishing a company with scale, efficiency and channel partner outreach across India. It will offer innovative products and solutions to Indian customers, bringing differentiation in a dynamic and competitive market having many major global and local low voltage switchgear players.

The combined business with more than €1bn in revenues will create significant synergies and efficiencies by leveraging on the complementary businesses of Schneider and L&T E&A business, including:

- utilization of L&T E&A's R&D set up with capability to locally develop products suited for India and other new economies with Schneider's global technology and best practices;
- wide range of products and technologically superior solutions to the Indian consumers across portfolios and price points;
- widespread network of distributors/ channel partners and extensive geographical reach across India, enabling Schneider access to consumers in tier 2 and tier 3 cities and semi-urban and rural areas across India, where Schneider Electric currently has a limited presence;

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<sup>3</sup> Source: Frost and Sullivan, Market reports and company estimates.

## Financial information

- enhanced manufacturing footprint in India which will result in greater domestic production, reduced dependence on imports and increased employment opportunities;
- developing India as the “fourth” hub for Schneider globally (the other three being US, France and China) to cater to the growing Indian market as well as develop India as global markets;
- expertise in additional segments within industries, infrastructure and construction; and
- strong organizational capability of L&T E&A to execute integrated electrical and automation projects with custom engineered solutions. Apart from creating a stronger solution capability in the organization, it will also create strong demand for products of combined business from projects.

The combined business will therefore offer a comprehensive portfolio of products and solutions in India at competitive prices, for large partners and customer base in many segments, across geographies.

As part of the contemplated transaction, L&T E&A would be acquired for an Enterprise Value (EV) of INR 14,000 Cr (c. €1.75bn)<sup>4</sup>. Based on Schneider Electric’s estimate, this reflects a multiple of c. 2.5x sales and c. 15x<sup>5</sup> the estimated EBITDA in Fiscal Year 2019 (ending March 2019), taking into account an EBITDA margin expectation of c. 15% for Fiscal Year 2019 (ending March 2019), in line with the last 12 months<sup>6</sup> to December 2017.

The combined business would be held through a joint venture wherein Schneider Electric and Temasek would hold respective ownership of 65% and 35%. To get to this respective ownership, and assuming a cash-free and debt free acquisition of L&T E&A:

- Schneider Electric would contribute
  - equity of INR 3,425 Cr. (c.€430m)<sup>7</sup> in cash
  - its existing Low Voltage and Industrial Automation Products business in India contributed at a valuation multiple broadly comparable to the acquisition multiple of L&T E&A and representing a premium to the Group’s valuation multiple
- Temasek would contribute
  - equity of INR 5,075 Cr. (c.€635m)<sup>7</sup> in cash

The joint venture would also carry debt financing amounting to INR 5,500 Cr. (c.€690m) to fund the balance of the L&T E&A acquisition. The Board composition proposed for this joint venture would include a Chairperson and five directors appointed by Schneider Electric, and three non-executive directors appointed by Temasek.

The transaction will provide significant revenues and costs synergies expected to generate INR c.300 Cr. (c. €40m) yearly in EBITDA with a five-year ramp up. With the synergies at their run rate, the

4 Translated at a 3-month rate of 80 INR for 1 EUR (INR 8 Crores (Cr.) for 1 million euros)

5 Enterprise value adjusted for tax assets of c. €140m

6 Publicly available information based on Larsen & Toubro quarterly investor presentations

7 Amounts assuming a cash-free and debt free acquisition of L&T E&A and can vary depending on closing debt and working capital adjustments

## Financial information

acquisition multiple for L&T E&A would be c.11x the estimated Fiscal Year 2019 EBITDA. Transaction costs are expected to be in the range of €20-30m and integration costs are expected to be in the range of 1 to 1.5x the amount of synergies. The Combined Business would be fully consolidated on completion in the Group's accounts.

This transaction is focused on the core, in line with the Group's capital allocation policy. It is expected to meet the return criteria set by the Group, with an expected accretion of Adjusted EPS<sup>8</sup> in the first year and with an expected return on capital employed matching the WACC (Weighted Average Cost of Capital) in the third-year post closing. The deal is subject to customary approvals from the Competition Commission of India and other regulatory authorities and is expected to close once regulatory approvals are in place.

**Jean-Pascal Tricoire, Schneider Electric, Chairman and CEO** stated, "By bringing together the Low Voltage and Industrial Automation Products Business of Schneider Electric India and L&T E&A, we are creating an innovative company in Energy Management and Industrial Automation in one of world's largest and fastest growing economies – India. Our market reach in India will be further strengthened by the extensive ecosystem of partners of E&A and we will harness the strengths of both organizations to address the electrical and automation requirements of India and global market. India will become our third largest business in the world, and one of our four major R&D and manufacturing global hubs. Our combined company will actively contribute to make India green, digital, and reinforce its role as a center for R&D and manufacturing. We are pleased to partner with Temasek which brings a tremendous expertise of Asian markets."

**Schneider Electric will host a conference call on the transaction on May 2<sup>nd</sup> at 8:30am CET**

**Dial in details:**

Confirmation Code: 8205796

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United States, Los Angeles	+1 323-794-2094

<sup>8</sup> Adjusted for Purchase price allocation and one-time cost linked to the transaction

# Financial information

## About Schneider Electric

Schneider Electric is leading the Digital Transformation of Energy Management and Automation in Homes, Buildings, Data Centers, Infrastructure and Industries. With global presence in over 100 countries, Schneider is the undisputable leader in Power Management – Medium Voltage, Low Voltage and Secure Power, and in Automation Systems. We provide integrated efficiency solutions, combining energy, automation and software. In our global Ecosystem, we collaborate with the largest Partner, Integrator and Developer Community on our Open Platform to deliver real-time control and operational efficiency. We believe that great people and partners make Schneider a great company and that our commitment to Innovation, Diversity and Sustainability ensures that Life Is On everywhere, for everyone and at every moment. [www.schneider-electric.com](http://www.schneider-electric.com)

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## About Temasek

Incorporated in 1974, Temasek is an investment company headquartered in Singapore.

Supported by its global network of international offices, Temasek owns a S\$275 billion (US\$197b, €184b, £158b, RMB1.35t) portfolio as at 31 March 2017, with significant exposure to Singapore and the rest of Asia. Our investment activities are guided by four investment themes and the long term trends they represent: Transforming Economies; Growing Middle Income Populations; Deepening Comparative Advantages; and Emerging Champions. Our investment strategy allows us to capture opportunities across the sectors in which we invest that help bring about a better, smarter and more connected world. We actively seek sustainable solutions to address present and future challenges. Across the three pillars of the Temasek Charter, we recognise the need to do well as an investor; to do right as an institution; and to do good as a steward.

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