

Schneider's Growth Turns Electric

Demand is on the rise for energy-efficient electrical systems and automation tools. This is helping Schneider Electric to grow revenue at a rate that defies the stereotype of big, old Industrials companies.

February 5, 2025



Key Takeaways

- Schneider is a leading provider of electrical equipment and automation technology, two industries with attractive competitive structures.
- There is heightened demand for its products as AI data centers and other customers aim to reduce energy and labor costs.
- The European conglomerate sees revenue increasing 7% to 10% for the next few years.

Energy efficiency and digital automation are becoming two of the biggest themes of the 21st century, as businesses look to reduce their costs and stay competitive in a new technological era. Few companies can play a more central role in helping businesses realize these goals than Schneider Electric.

Based in France, Schneider is the global leader in low- and medium-voltage electrical equipment as well as a key player in the related market for automation technology. Data centers, factories, utilities, hospitals, and just about any other type of building operator uses Schneider's products to manage energy—from the circuit breakers found in a typical electrical panel to the six-foot-tall towers that provide automatic backup power for critical systems. For example, its products for data centers include power transformers that reduce the voltage coming in from the electric grid, uninterruptible power supplies that prevent system

downtime, devices that distribute power from the different sources to numerous computers and servers, and myriad other specialized equipment needed to accommodate the computational demands of generative artificial intelligence (AI) without overheating or suffering a power failure.

On the automation side, its components and software allow manufacturers to modernize processes that traditionally required a lot of human intervention. For example, Schneider makes the actuators and electrical motors that enable robotic machinery on a manufacturing line to reach down, pick up an item, and move it to the next step. Inefficient machines also waste energy, whereas automation enables more precise movements and the ability to identify maintenance needs before a machine stops running smoothly. Therefore, the company targets end markets in which it can offer both types of products as complementary tools for efficiency.

Over the last few years, many companies have more seriously committed to reducing their carbon emissions, which is part of what has led them to pursue strategies for better energy management as well as more automation. In many cases, they are replacing older, often fossil fuel–based technologies with more efficient electric alternatives, a process known as electrification. Although the new US administration’s promotion of fossil fuels may cause some companies to downplay their climate considerations, the transition to more efficient technologies is viewed by many companies around the world as a necessary step to mitigate costs and business risks over the long run. Data-center operators are having to be especially thoughtful about energy efficiency and the configurations of their electrical systems since generative AI requires tremendous amounts of power, which will have to come from a variety of sources.

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The need to solve these energy-related challenges is creating a surge in demand for Schneider’s products. While sales increased at an average rate of about 4% over the last decade, the company projects growth of 7% to 10% through 2027—an acceleration that investors don’t typically expect from large, established businesses in the Industrials sector.

“There’s been an interesting debate about whether Schneider can hit its targets, because you look at it and think, ‘It’s a European Industrials company, it shouldn’t be growing that fast,’” said Sean Contant, CFA, an analyst and portfolio manager for Harding Loevner. “But the company’s business profile has changed. Schneider is no longer just a hardware company.”

For example, about 20% of the company’s sales now come from products used in data centers, and nearly 10% are from software.



Watch as Sean Contant, CFA, an industrials analyst and portfolio manager for Harding Loevner, discusses the growth outlook for Schneider Electric.

Those are areas that are growing much faster than traditional hardware (and with better profit margins). It’s why the company, at least so far, has been able to meet its growth goals, with revenue climbing 6% in its most recent quarter, or 8% when excluding the effects of foreign exchange, acquisitions, and divestments.

Schneider’s role in helping companies meet their energy goals is a far cry from the beginnings of the company. The Schneider brothers got their start in the steelmaking industry nearly 200 years ago, by acquiring mines and forges around Le Creusot, France. At the time, railroads and ships were the growth markets *du jour*, as agrarian societies in Europe and the New World developed into urban manufacturing centers. The young industrialists couldn’t have envisioned that one day, Schneider’s tools would be used to transport electrical signals and computer bytes rather than goods or weaponry, never mind that its growth would be tied to a trend that is in some ways the opposite of steelmaking—reducing one’s environmental impact. Even so, what the Schneider of today has in common with the Schneider of the first Industrial Revolution is that it is positioned to be a key beneficiary of some important economic trends.

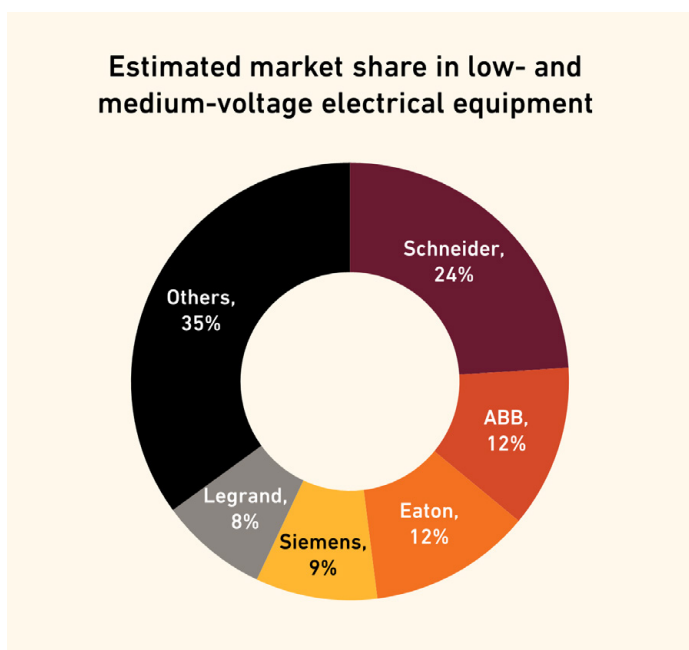
Electrification and AI are the main ones, although there are other interconnected factors. For example, the reconfiguring of global supply chains in response to trade tensions means that factories are cropping up in places with a shortage of cheap labor, such as the US, a problem that’s been exacerbated by declining birth rates. Not only do these new plants require electrical equipment, but the dearth of workers also necessitates automation technology. And while automation tends to evoke images of robotic arms hovering over conveyor belts, heavy industries, such as chemicals and oil and gas, are also automating processes to reduce costs (including those that arise from human errors and accidents) alongside their efforts to decarbonize. One such process is the use of smart valves that—without a human touching them—can increase or decrease how much fluid flows through based on instructions from automation software.

“Any business would be lucky to have one or two trends at their back, but Schneider has multiple,” said Jingyi Li, a Harding Loevner

analyst and co-lead portfolio manager of the Global Equity strategy, which has held Schneider shares for most of the last two decades.

From an investor perspective, the electrical-products and industrial-automation markets have long been attractive because they feature high barriers to entry and, therefore, few competitors. In fact, there have been no meaningful new entrants to the electrical-products industry for at least a quarter-century, and there are generally few substitutes for these products. These industry dynamics have helped Schneider to consistently generate strong free cash flow.

In electrical equipment—a market estimated to be US\$350 billion—the bargaining power over customers increases as you move down the voltage chain. High-voltage equipment, such as the kind found in power plants, has relatively few buyers, which leads to low margins for the equipment providers. Medium-voltage equipment is found at the end of roads, in the basement of apartment buildings, and inside industrial facilities. Installers tend to have brand preferences, and the end customers are somewhat less price sensitive because they are more focused on the overall cost of a construction job. For instance, the price of electrical outlets doesn't move the needle much on a US\$10 million project that also includes plumbing, heating, ventilation, and air conditioning. Therefore, profit margins for medium-voltage equipment tend to be in the low teens. Low-voltage equipment is the kind found in homes and offices. It also accounts for a relatively small portion of the overall cost of building a home or business, and there are many buyers, including builders, electricians, and electrical-supply distributors. Operating margins are high, usually above 20%.



Source: Companies' annual reports, Harding Loevner estimates.

Schneider and ABB are roughly tied as the leaders in medium-voltage equipment. In low voltage, while Eaton is the biggest provider in the US market, Schneider is the largest globally.

Within automation, the hardware Schneider provides includes contactors, pumps, motors, sensors, instrumentation gauges, robots, and programmable logic controllers, which are industrial computers used to manage individual steps in a manufacturing process by telling a machine what to do. In recent years, Schneider has increased its exposure to the fast-growing software side of the automation industry by acquiring French software provider Aveva. Over time, software-connected machinery will produce lots of data, which creates demand for software that can be used to analyze that data and potentially draw valuable insights. (In fact, 56% of Schneider's revenue is now tied to digitally enabled products that can collect, generate, or analyze data.)

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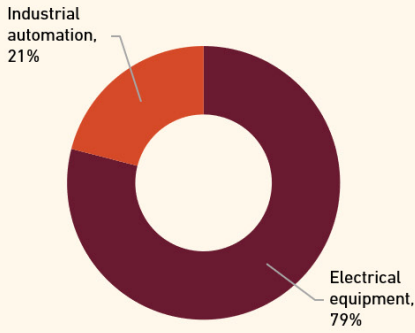
"In the future of work, rather than people performing manual labor on a factory floor, they will be sitting in front of computers monitoring, not just one machine, but many machines," said Li. "And what will they be looking at on their screens? In many cases, Schneider's software."

Since the Aveva acquisition, Schneider's growth in software has slowed, but that's because it is in the process of transitioning from an on-premises license sales model to a subscription sales model. While a subscription model reduces upfront revenue, it should produce a larger, steadier stream over time, helping Schneider to become a leader in cloud-based industrial software, as most competitors continue to use the old model. The benefits of this transition will be more observable in the company's growth rates starting in 2025.

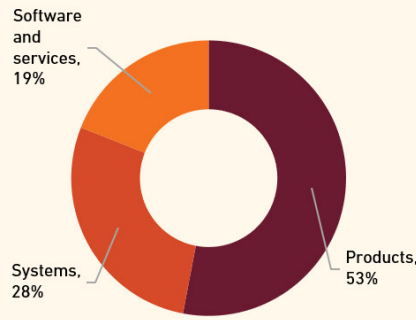
Automation was 21% of revenue in 2023, while 79% came from electrical equipment (the split was similar for the first nine months of 2024). However, the company's revenue can be viewed in different ways. There are products (53% of 2023 revenue), systems (28%), and software and services (19%), categories reflective of the increasing role of software and the blurring line between the need for electrical versus automation tools. It can also be broken down by customer end market: industry (34% of 2023 orders), buildings (32%), data centers and networks (21%), and infrastructure (13%). We've put them in numerical order, but it's no accident that in Schneider's reports, data centers are listed first.

The company's competitive advantages are its scale, access to distribution, software and data capabilities, as well as the high switching costs that its customers generally face. But Schneider

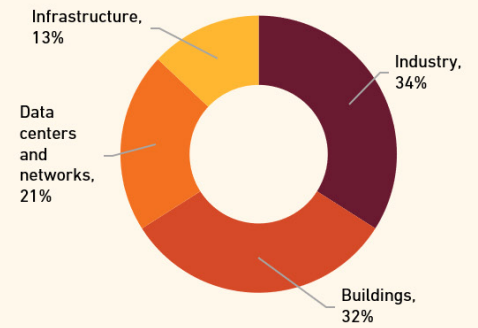
Revenue breakdown by line of business



Revenue breakdown by offering type



Revenue breakdown by customer end market



Source: Company filings.

is also trying to differentiate itself as a consultant and expert on environmental risks, using its broad portfolio of energy and automation solutions to shape trends in electrification and the AI industry. Energy availability remains the **single biggest bottleneck in the construction of new AI data centers**. Therefore, more energy efficient equipment enables more data centers to get built. Schneider is eyeing the 40% of data centers' capital spending that goes toward electrical equipment.

That equipment includes transformers to step down the power that comes through the very high-voltage feeds from the utility company. Backup generators are needed so they can kick in if there's a blackout. Switchgears are needed to handle the multiple power sources. And a series of uninterruptible power supplies (UPS) balance the electricity load in the event that the power source switches from the utility to the generator, or vice-versa. Power from the UPS is then fed into large power distribution units (PDUs), which take the very high voltages from the UPS and transform them to lower voltages. These large PDUs require specialized circuit breakers to protect the expensive IT equipment from surges that can cause damage and fires. And to minimize the risk of system failure, data centers need two of everything.

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With everything packed so close together, another constraint at a data center is cooling. Chipmakers are squeezing more transistors into every chip, which then go into servers that make up the racks that get clustered together inside the data centers. It is estimated that data centers use 10 to 50 times more energy per floor space than a typical office building, and as a result, there is a risk of overheating.

But while there are lots of components that go into data centers and lots of providers of those components, only two companies offer a full menu of energy-management technology, from power to thermal. They are Vertiv (a business spun off from Emerson Electric) and Schneider. They have the benefit of operating in a consolidated market with huge barriers to entry and, it seems, huge growth potential.

Data-center technology may be getting increasingly complex, but the idea behind Schneider's strategy is simple: Whether you're in the business of AI or manufacturing or gas production, the cheapest and greenest solution is always going to be the energy you don't need to use.

Contributors

Analyst and portfolio manager **Sean Contant, CFA**, contributed research and viewpoints to this piece.

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