

## LEGRAND SA

**Industry:**  
electrical installation  
and data network  
equipment



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**Ticker: LEGRAND SA - LR**  
**Price: €19,50 (March 28<sup>th</sup>, 2008)**

**Recommendation: SELL**  
**One Year Price Target: €18,92**

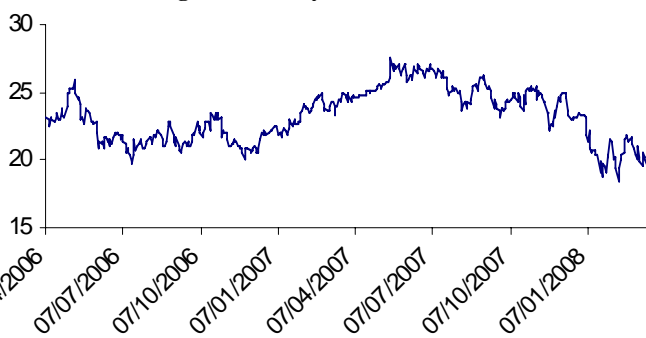
### Earnings/Share

in Euros	Mar.	Jun.	Sept.	Dec.	Year	P/E Ratio
<b>2006A</b>	€0.13	€0.38	€0.32	€0.40	<b>€0.96</b>	21.79x
<b>2007A</b>	€0.34	€0.39	€0.39	€0.46	<b>€1,58</b>	14.74x
<b>2008E</b>	€0.43	€0.39	€0.40	€0.39	<b>€1.61</b>	12.47x
<b>2009E</b>	€0.46	€0.42	€0.43	€0.42	<b>€1.74</b>	11.24x

### Highlights

- **SELL Recommendation based on the expected performance in year 2008; lead by the macroeconomic downturn, free cash flow generation, ongoing weakening of growth profile, IPO commitments and a reduced profitability in a near term due to increasing raw materials prices.** Our analysis provides support for a one year period price target of €18,92. Presently, we rate LEGRAND SA as a SELL.
- **Revenue Drivers:** LEGRAND SA has met +13,7% CAGR (at constant exchange rate) revenue performance since IPO (2006-2007) driven by two main engine-growth. First, an organic growth revenue through its business model with new products launches, strong sales and marketing team, a large product portfolio. Then a robust growth in Emerging countries; and through firm acquisition financed from Cash Flow (a value creative model).
- **A robust balance sheet structure:** a net debt/EBITDA ratio is flattening these past two years at 2,1x in 2007. LEGRAND SA controls its net debt since the IPO in 2006 year compared to the EBITDA growth.
- **Statement of Risks of LEGRAND SA:** The firm is exposed to GDP growth of developed countries and to residential and non-residential construction markets (more in Europe and Americas than in emerging countries). LEGRAND SA has a limited scale relative to global players, which may hamper its ability to invest in R&D and Marketing. Our bottoms-up analysis project a risk if electrical products become increasingly commoditized.

**Legrand SA Daily Stock Price**



### Market Profile

52 Week Price Range	€17,98/€28,40
Average Daily Volume	830 000*
Beta	0,906
Dividend Yield (Estimated)	3,48%
Shares Outstanding	270 975 739
Market Capitalization	5418,14 M€
Institutional Holdings	14,50%
Insider Holdings	66,13%
Book Value per Share (12/31/07)	2.597
Debt to Total Capital	0,82
Return On Equity	19 86%

\*averaged number of shares traded over the last 20 days

**Important disclosures appear at the back of this report**

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## Investment Summary

### Target Price: €18,92 - SELL

We calculated LEGRAND SA's valuation based on a comparables analysis and EVA method. Thus, our target price is lower than the current value of a share, revealing a -2,97% potential for a one year term.

### Risks

Among the main obstacles that could occur in LEGRAND SA's industry:

- 1) Economic situation in the USA: real estate crisis and overall slowdown
- 2) Global construction market downturn
- 3) Reduced GDP growth rate in emerging markets in the short term
- 4) Reduced profitability in a near term due to increasing raw materials prices

### Key factors of LEGRAND SA's growth are:

- **External growth:** LEGRAND SA has achieved worldwide objectives with a strong external growth strategy over the past years. By acquiring small specialized firms leaders on their home market (Macse in Mexico), LEGRAND SA enlarge its scope of activity to maintain its leadership around the world. According to the management, about 10 firms are potential projects for new acquisitions.

- **Internal strategy:** LEGRAND SA developed new concepts for the use of electricity. In residential buildings, top-of-the-range circuit breakers and other premium products have been developed. Their success in Italy first, and nowadays in France (23% of the sales growth in those two countries) should not be temporary, in line with the success of designed furniture sold by wholesalers. We expect that those products will represent a growing part of future sales.

### Challenges

LEGRAND SA will face many issues given the emergence of new markets and renewable energy. Sustainable development is a major topic for western countries' governments to reduce the consumption of electricity. With the acquisition of The Watt Stopper Inc (19% of average annual growth, LEGRAND SA is trying to become a major protagonist in this segment. We are confident in the success of the French company in this market. Emerging markets are also one of the greatest challenges for manufacturers. Over the next years, the purchasing power in Asia and Latin America will increase considerably.

**Figure 1: Graph: Stock Price LEGRAND SA with Volume (in red) and Volatility (in green) of the Stock**



## Valuation

### Price Target in one Year: €18.92 per share

We built our valuation model based on two methods: the EVA and MVA analysis and the Comparable Company Analysis. The targeted price results from a 50%/50% weighting between our two valuation methods.

Valuation Method	Price	Weight
Comparable	20,88 €	50,00%
EVA	16,96 €	50,00%

Price Target	18,92 €
Today's Price of LEGRAND SA	19,50 €
Expected Return on one Year	-2,97%
Rating - Recommendation	UNDERPERFORM

### Economic value added analysis (figure 3.1 and 3.2)

We have forecast EVA over the 5 next years. We anticipate a slowdown in US economy negatively affecting the electrical equipment & components industry. Our base scenario is therefore constructed around the following assumptions:

- Growth of sales per year= 6% over the next two years, 8% in 2010-11-12 and 3% after.
- We have estimated Net Working Capital, Operating margin, SG & Administrative Costs and Capital Expenditure, by assuming common size growth of balance sheet as observed in the last 3 years.

We come up with a fair price of share **€16.96**.

### Comparable Company Analysis (figure 4)

We have chosen to make our comparable company analysis of LEGRAND SA on the basis of large cap electrical installation and data network equipment companies. We have selected 7 competitors worldwide (ABB/MATSUSCHITA/SCHNEIDER/COOPER/GEWISS/EATON & HUBBEL). Siemens and General Electric, two major leading competitors, have been excluded from the Comparable Method of Valuation. These two competitors participate in the same market as LEGRAND SA but have a larger activity. Different comparables have been selected for our analysis and then calculated the implied value of each of them which the most important are PER, EV/EBITDA, Total Debt/EV, EV/Market Capitalization, & P/FCF. The price is computed by an average of these implied values. LEGRAND SA currently trades at a discount compared to the EV/S & P/E multiples. The future price is explained by slower forecasted low-voltage sales, and the macro-economic slowdown. We are moderately concerned about the future of LEGRAND SA's SA stock, and using a comparables approach to value our stock we have projected a target price per share of **€20,88**. The projected price is higher than the actual price stock of LEGRAND SA (current market price of €19,50 as of March 28 2008.).

### Risks to Our Price Target

The risks surrounding our model valuation are related to the ability of LEGRAND SA to continue to use its pricing power to pass its prices onto customers, commodities prices increase. We have also assumed 1) a long term growth of 3% considering an acquisition growth that will strongly decrease and 2) no abrupt changes in Euro/USD exchange rate over the next year. All this assumptions tend to maintain the margins trend experience by LEGRAND SA since its recent IPO.

## Business Description

LEGRAND SA, headquartered in Limoges - France, is a leading manufacturer of electrical and communications products & equipments for the residential (42%), non residential (45%) and industrial (13%) markets. With sales of €4,128B in 2007 (France: 24,49%; Italy: 17,43%; Rest of Europe: 22,09%; USA & Canada: 15,11%, Rest of World: 20,88%), this company is positioned also as the world's leading

manufacturer for low-voltage electrical installation and data network equipment used in commercial, residential & industrial buildings. This segment is characterized by a steady growth, a low cyclicity, high barriers to entry, strong pricing power & low risk, and a market which is locked by local norms. LEGRAND SA claims 6% of market share. More than 180 000 references of products are sold through 31 000 representatives in more than 60 countries. The management team has a considerable number of years collective experience with a longstanding reputation of delivering to expectations. The good results in 2007 are due to the distribution of the commercial and industrial strengths on a worldwide scale, the strategy in emerging countries of LEGRAND SA, the position on new market segments, and the intensive policy of acquisition. By adopting this strategy, LEGRAND SA (holding), can be n°1 on at least one line of products in more than 20 countries affirmed Gilles Schnepf-LEGRAND SA's CEO.

#### **LEGRAND SA: A pure player in low-voltage**

LEGRAND SA is a pure player in low-voltage installation. An electrical distribution network can be divided into high-voltage (transmission networks), medium-voltage (distribution networks) and low-voltage (usually below 5kV). Then, the low-voltage market can be divided into distribution & installation. LEGRAND SA is well positioned in this "low-voltage installation" market segment. It corresponds to the last stage of electrical distribution before electricity reaches its load point. The low-voltage installation market is the closest to the final consumer. It tends to have a better recognition than other segments of the industry with products largely sold through distributors and wholesalers. The total low voltage installation market has remained relatively fragmented, due partly to different technical standards and other barriers to entry. The competitive landscape is highly fragmented in this industry on two parts: a regional and a global basis. The majority of sales of LEGRAND SA are with the French electrical distributors groups SONEPAR & REXEL.

That's why, LEGRAND SA splits its activity in four main domains (% of growth at constant scope of consolidation and exchange rates).

- Control & Command (+24% of growth vs. 2006): Incorporates the products that enable users to control the flow of electricity in the home or workplace. This market has expanded into more sophisticated and multifunctional devices as the market for the intelligent home has developed. Control & Command are a full range of switches and sockets, fire & intrusion, alarms, emergency lighting, access control, remote controls & other interface to enhance comfort, safety, communications & security.
- Cable Management (+19% of growth vs. 2006): This is a complex range of fittings & systems for safe distribution of electricity & data in buildings. These products provide for safe distribution of electricity and information in buildings. Depending on the application, the product range can be standard or bespoke.
- VDI-Voice Data Image (+13% of growth vs. 2006): VDI is a separate new market segment. However it is a part of both end user power control and wire management. This is a precabing solution for IT, Telephone, and Video networks, fiber optic, copper wire, connections, VDI cabinets & wireless network access (distribution of data in buildings).
- Energy distribution (+17% of growth vs. 2006): consists of circuit breakers, distribution boards, and other products that protect people, appliances & electrical systems from electrical faults, ensuring efficient energy. Standards NEMA for the North America and IEC for Europe split the energy distribution market into two global electrical formats.

#### **LEGRAND SA: A more robust Business Model – enhanced growth profile**

Its business model relies on assembly and distribution. LEGRAND SA enhance its growth profile thanks to relatively low fixed costs (more than 50% of operating costs are variable), which means that margins are significantly less volatile than peers. The importance of the distribution channel and the protection of position, notably through premium brands in the high end market, is essential to achieve a profitable business for LEGRAND SA. The bulk of LEGRAND SA's head-to-head competition is emphasized on a local basis and mainly with regional companies. LEGRAND SA has launched a significant number of new products over the last few years (i.e. Celiane/Mosaic/Batibox in France; Axolute in Italia). Volume, price increase, positive mix effects, and new products improve the margin. This can offset the negative impact of raw materials costs and the dilutive effect of the external growth. The management is convinced of having higher flexibility than before in its production process for two main reasons: sales are less concentrated in Europe and US than before (63% sales in Rest of World, and Rest of Europe), and 54% of its headcount are located in low costs countries vs. 31% five years ago.

#### **LEGRAND SA: a sustainable business development**

LEGRAND SA increases its position on the low-voltage market by organic growth: December 2002, they have completed a major change of structure in its business model: globalizing back office functions to support local front office functions. Since, the company has launched new products (x5.9 between 2003

and 2007 with 53 new products launched in 2007), develops new marketing and commercial teams, and has a wider line of goods with a premium innovating and esthetic line. LEGRAND SA can develop these by strong regular investment in R&D (4% to 5% of sales in 2007 and 2008f). More than 35% of Revenue is generated by products which have been launched in the 5 past years. In addition, LEGRAND SA has an active policy of sustainable development: it contributes to the decrease of energy consumption in bringing different innovating solutions. The fundamentals of its business model permit to create added value, generate solid growth and cash flow over cycle.

#### **LEGRAND SA in the Emerging Markets: a vigorous growth**

LEGRAND SA, in Emerging Countries has adopted a very particular business model oriented into 2 ways:

- An acquisition-driven growth (Targeted and self-financed based on the Free Cash Flow).
- A strong like-for-like growth through the customers' brand loyalty, the long-term partners in trade with economic chain and a comprehensive product offering.

Consequently based on this strategy, LEGRAND SA has accomplished a rise in sales since 2002 (+10% CAGR in sales at €1 021B), and an increase in market share in various emerging countries. This has an effect on LEGRAND SA of greater pricing power and higher profitability (18% of adjusted EBIT Margin in 2007). Today, it is from emerging markets that LEGRAND SA can enhance its profitability and increase its cash flow. Gross Margin expansion will rely on productivity gains and a switch to low-cost countries... In Emerging Markets, LEGRAND SA has more than 17 000 employee through Asia, Africa & Middle East, Latin America, and Eastern Europe (more than 45 emerging countries with 40% of sales and marketing Headcount in 2007). In Emerging Markets, LEGRAND SA tries to:

- Gain momentum on fast-growing markets,
- Take competitive advantage by a firm-acquisition driven growth mechanism.

Its main weaknesses are an intensive competition on this segment, sensitivity to raw materials costs and a relatively high financial gearing. LEGRAND SA has a strong exposure to the construction sector: 60% of sales go to renovation and 25% of sales are now in Emerging countries (vs. only 16% in 2003).

#### **The LEGRAND SA's policy of acquisition**

A significant share of the market for electrical products and systems used in buildings has remained in the hands of small local manufacturers that are in close contact with installation professions in the local market.

Acquisitions have been an important part of LEGRAND SA's historical growth and are expected to remain so in the next few years (more than 40 companies over the last 25 years and forecast of 10 new acquisitions in 2008). In the process, LEGRAND SA expands its market share, and its product portfolio; roughly 50% of LEGRAND SA's top-line growth has been achieved through acquisitions. The strategic benefit, the market share expansion (through the products, brand, and positioning strategies), and synergies with LEGRAND SAs' offering and market positions are the leading criteria of LEGRAND SA's acquisition. Most of acquisitions, over 90% the last 25 years, have focused on building out end-user power control, wire management and VDI. In 2007, LEGRAND SA has earned more than €200 Million with these acquisitions. This recurring generation of Free Cash Flow will enable the company to continue to make acquisitions, and find a larger number of smaller opportunities worldwide. With FCF of €575 M in 2007 (13,9% of sale, increase vs. 2006 of +21,2% based on the increase in revenues, and the well management of Capital Employed), for the 2008 year, LEGRAND SA has already announced the acquisition of PW Industries, specialist in North America of cable management (Revenue PW Industries in 2007= \$ 32 Million). The corporate development is a main thing of LEGRAND SAs strategy to gain exposure on a local way.

## **Other Headings Relevant to Company**

#### **LEGRAND SA following the IPO**

LEGRAND SA has been in existence for nearly 80 years, and was first listed in 1970. In 2001, SCHNEIDER ELECTRIC launched a public offer for all outstanding shares. This was followed later that year by a European Commission antitrust authority announcement specifying that it would not approve acquisition. SCHNEIDER ultimately appealed against the decision and won but before that, SCHNEIDER sold LEGRAND SA in December 2002, to a Private Equity consortium (Kohlberg Kravis & Roberts & Co – KKR / Wendel Investissement) for €3,7B (financed by a combination of funds, external banks, and a vendor loan from Schneider). LEGRAND SA was delisted in October 2003 and relisted in April 2006 at € 19, 75 per share (IPO stipulated in the contract of the Leveraged Buy Out). LEGRAND SA's strategy

following the IPO is oriented into two main goals: continue to drive for growth, with stable margins and generate Compound Annual Growth Rate of 10%.

#### **Impact of raw material prices & economic slowdown on LEGRAND SA's business model**

Raw material prices are likely to increase (impact on adjusted operating income of -45M€ in raw materials compensated by +249M€ in a mix effect volume/selling between 2006 and 2007), though LEGRAND SA is generally able to raise prices to mitigate raw material costs which account for 11% of sales in 2006, are spread across a number of different plastics and mainly ferrous metals.

LEGRAND SA has a high exposure to the residential and commercial construction markets which can be sources of uncertainty. Credit crunch continues to depress valuations in construction market sectors - principally driven by a number of factors (GDP growth, consumer sentiment, government spending, and taxation incentives, employment levels, mortgage rates related). However, LEGRAND SA has a model which gives management the flexibility to accelerate acquisitions when organic growth moderates.

#### **LEGRAND SA's competitive advantage**

The greater proximity to the final consumer explains the significant role of product branding and product design not normally seen in other electrical equipment markets. The management & reporting structure of LEGRAND SA are organized on a regional basis, rather than by product type because local economic conditions and consumer demands are the principle factors affecting the performance of the company. LEGRAND SA or the competitors can only increase their market shares in this segment by a stream of acquisitions. We can distinguish four major competitive advantages which help LEGRAND SA to maintain barriers to entry for competitors and high levels of profitability for LEGRAND SA:

- An extensive product range,
- Investment in a leading product portfolio through a technology advantage and the brand image,
- The push-pull commercial approach (building brand loyalty through the training of electricians & contractors),
- A real positioning in market share (markets are still largely local and also highly fragmented as we have seen).

#### **Break up of the shareholder pact?**

Although rumors about LEGRAND SA as potential takeover target circulate in the market, they have not yet any impact on its share price. We expect a change in the shareholder structure due to the interest of ABB, General Electric or Siemens for a merger with the leader in low-voltage installation. An acquisition of LEGRAND SA's portfolio would offer them a larger size for their own electrical division in the race for the leadership. However, we do not think it will occur in a near term. As a condition of the pact, such a transaction requires the approval by one of the two main shareholders (KKR and Wendel). We have chosen to exclude this scenario from our analysis and the computation of the one-year price target.

## **Industry Overview and Competitive Positioning**

#### **Norms and standards**

National standards on electrical installations are the first criterion of the sector fragmentation. For instance, there are 12 kinds of plugs in the world. This diversity divides the world into many regions, depending on the type of socket they use. The largest ones are North America, Europe-Russia, China-Australia and United Kingdom-Japan. Then, the control of many different technologies is necessary to challenge standards into each country and finally, to grow and conquer new markets. LEGRAND SA has taken into account this commitment for a long time and is still planning to develop its portfolio of acquisition.

#### **Economic cycles**

Electrical sector is very sensitive to cycles that regulate the economy of the world. Businesses are often large industrial projects directed by large companies such as Schneider Electric or GE, and involving many other participants in the industry. There is an important correlation between those firms' net income and some macro-economic indicators such as the GDP growth of their home country, confidence indices and real estate indices. Constructions spending in the US are still expected to fall in 2008 as a result of a long real estate crisis. The residential development in Europe should also expect slowing growth over the next months, following the current cycle of the economy. However, low-voltage activities profit from a lower dependence on the world economic conditions. The price per unit of goods produced by LEGRAND

SA is really cheap compared to products sold by Siemens to electric plants. For instance, the cost of an electrical installation is said to worth no more than 4 percent of the total budget of a building project. Then, some characteristics of low-voltage activities are close to the retail industry. This is the reason why LEGRAND SA's sales are generally less exposed to economic cycles than a large part of its competitors.

#### **New objectives for the industry**

LEGRAND SA will have to face the current slowdown in the USA. The real estate market, on which a large part of low-voltage manufacturers' sales depends is in a large crisis. In parallel with the situation in North America, developing markets are the main challenge for the sector, given their purchasing power. It has increased significantly since the last decade with the emergence of a new middle class able to buy real estate properties. This supports the demand for new buildings, notably in China.

#### **Pricing power**

Consequently, low-voltage manufacturers are required in those areas of the world. This evolution enables the electrical industry protagonists to recently raise their prices according to the growth of raw material prices for the last months. It appears that the pricing power is becoming another important issue to keep a reasonable level of profitability. Prices increased mainly in relation with inflation in the 90's (+1,6%/years for LEGRAND SA). Nowadays, prices must take into account the growing demand for commodities. The ability of each firm to reflect it in their own prices will be a determining factor for the next years. Large groups like LEGRAND SA that have customers with weak bargaining power have an advantage in this domain compared to regional participants.

#### **Synthesis of Porter's model for LEGRAND SA**

- Rivalry among existing competitors: HIGH  
=>A large number of international groups, among which Siemens, GE, ABB and Schneider
- Threat of new entrants : WEAK  
=>No new entrants since 12 years, according to Gilles Schnepf (CEO of LEGRAND SA)  
=>Weak threat due to high barriers to entry: many different standards
- Threat of substitute products : WEAK
- Bargaining power of buyers : HIGH  
=>Very dependent on the price of raw materials
- Bargaining power of customers : WEAK  
=>Clients are diversified: there is no really bargaining power of customers.  
=>Rexel and Sonepar, the largest clients, represent 25% of sales

#### **Competitors**

As previously stated, the low-voltage industry is very fragmented. In spite of the strong leadership of LEGRAND SA in many countries, it is however a market with a large number of competitors. Small-size and mid-size firms generate about half of the sales of the sector. They are often focused on a specific niche in local markets, like the French manufacturer Alpes Technologies bought by LEGRAND SA in 2007, which is specialized in energy savings. Another perfect example of this diversity is Hager. Independent and non-quoted, its sales for the past year are however estimated to be about one billion Euros. Faced to those modest companies, LEGRAND SA has built a major reputation over the time. In markets such as France and Italy, its dominance is very strong.

All those small businesses are targets for the large European (Schneider Electric, ABB), American (General Electric, Cooper) and Asian companies (Matsushita). Among those large groups, most of them work on several segments, from finance to railroad. As far as electricity is concerned, those large international companies play the field from high to low voltage. They compete against LEGRAND SA with products such as circuit breaker, electrical switches but they also provide energy plants with large generators (nuclear plants for instance).

Compared to its competitors, LEGRAND SA is a pure-player close to the final consumer (95% of its production is directly sold to retail distributors). Consequently, it has developed a specific branding strategy. This branding strategy also illustrates the close characteristics of LEGRAND SA with the retail industry. Advertising and merchandising directly focused on electricians and final consumers were a major cause of the growing success of LEGRAND SA for the past century. Nowadays, the leadership born partially from this branding strategy helps LEGRAND SA to keep its leadership position in many countries. Whereas regional manufacturers like Gewiss and Hager have not such a worldwide reputation,

LEGRAND SA succeeds in developing a strong branding power. This is also one LEGRAND SA's main competitive advantages.

Two families of competitors	
<b>Global Competitors</b>	ABB (ex-Asea Brown Boveri), General Electric, Siemens, Matsushita, Schneider Electric, Cooper
<b>Regional Competitors</b>	Eaton, Gewiss, Hager, Hubbell, Leviton, MK Electric, Rittal, Simon, Vimar

Main Markets	Market Share	Ranking
France	26%	1
Italy	24%	1
N-America	3%	5

## Financial Analysis

For F2008 we expect Revenue to €4.48B (up 6%), gross margin of 51%, SG&A of 26.52% and R&D of 5.5%. Finally the return to tax rate of 33% in 2008 vs. 29% in 2007 will lead to a 3.43% growth of net income against +5.62% for EBIT in F2008.

### Revenue

Growth will be driven 50% by organic growth through new products launches, strong sales and marketing teams, a large product portfolio and a robust growth in emerging countries. The other driver is acquisition of other firms financed from cash (a value creative model). We expect no FX impact to sales growth given a stable €/\$ (1.50 more or less 5bp). Besides, we used correlation between regional GDP growth and LEGRAND SA's organic growth to partly forecast company sales over the next 5 years. (see figure 12)

The slowdown of sales growth (compared to the averaged of 9.89% during the last five years) is due to the business risk surrounding construction in the United-State and in Europe, and to the fact they are highly exposed to risky final markets as we have discussed the construction and industry. Moreover we expect demand to deteriorate also in renovation.

### Gross Margin

Gross margin is expected to be stable at around 50% thanks to:

- The reorganization of back office which is expected to continue in the near term and extended to the front office.
- The improvement in cost structure, the part of variable cost being expected to increase (today 55% variable and 45% fixes).
- The fact that R&D remain high (5.5% of sales) combined with existing research of acquired firms.
- The widening of geographical exposure thanks to acquisition like in New-Zealand.

### Earnings

Given the effect of effective tax rate of 33.33% in F2008 and beyond, earnings are expected to grow 3.43% in 2008 and 7 to 8% CAGR after.

Earnings per share growth is expected to be supported by the company's share buyback program over the next few years. One point to track carefully in near future is profitability of new acquisitions in emerging

countries, because it seems that LEGRAND SA will want to use its *brand* to boost its market position in these countries.

#### Cash Flow

In our base scenario we estimated the core component of LEGRAND SA Cash flows, EBITDA, used to finance acquisitions. Note that no major increase in debt financing is expected on the coming years.

We expect LEGRAND SA to generate EBIT of **€712.7M** (*vs. €661.5M last year*) this year, which will grow overall at a rate of **8.03%** per year over the next 5 years. We estimate therefore EBITDA will come out at **€959.7M** (*vs. €939.8M last year*) this year and grow approximately at a **2.95%** per year. The weakness of EBITDA growth vs. EBIT is due to a decrease of amortization over the next 5 years. Indeed, LEGRAND SA's further acquisitions are not tangible assets which can't be amortized.

#### Balance Sheet

It comes that the main assets of LEGRAND SA are immaterial assets, especially Brand and Goodwill. LEGRAND SA has restructured its debt maturity last year by reimbursing previous loans and issuing new ones. We think that capital raised by shares last year was just to adjust its loan structure. In fine, we think that it was just a way to refinance itself without major debt increase.

#### Ratio Analysis

- Profitability: Owing to DuPont analysis, we should note that despite strong operating performance, return on equity is crippled by interest expenses, due to LBO. ROE is steady year to year at 19%. It is important to note that this shape is due to the fact that LEGRAND SA has reduced its financial leverage (from 10.77 to 2.87) during the last three years and increased its operating result in the same time. The stability of gross margin and the increase of the variable cost part could enable LEGRAND SA to go ahead.

- Operating performance – Efficiency Ratios: Total Assets turnover improves from 0.63x in 2006 to 0.69x in 2007, what is consistent with the TAT historical growth of 1.95% YoY over the last five years. This means that the Company still increases the effectiveness in the use of its assets base, thanks to better assets allocations. Fixed Assets and Equity turnovers have increased consistently due to a strong growth in shareholders equity between 2005 and 2006 given the IPO.

Internal Liquidity: Liquidity ratios are stable given a parallel growth of cash (and cash equivalents) with current Assets. Concerning inventory turnover ratios there are no major change which should be highlight.

## Investment Risks (Figures 11 to 13)

#### Lack of visibility

LEGRAND SA operates in a retail market where sales visibility is particularly low compared with its peers, making forecasts uncertain and difficult. Orders are only done in the short term, and added with a wide market exposure, volatility indicators are high.

#### Uncertain macroeconomic outlook

LEGRAND SA is largely exposed on the end market and operates throughout the world, with 85% of its revenues from the construction market. Indeed, LEGRAND SA would be directly affected if a global real estate downturn is confirmed. We currently favor this scenario, the trend should go on in 2008 and 2009 at a slower pace, and then we believe in a recovery step, from 2010 till 2012.

#### US: slowdown or recession?

LEGRAND SA relies on the residential market for 42% of its turnover. During the reversal of the previous economic cycle, the historical correlation between US GDP year on year and LEGRAND SA's US organic growth shows that their sales growth could be negative by 12%. We forecast a possible stabilization for the first quarter 09. Several indicators such as home inventory on home price ratio, mortgage applications, building permits or existing home sales, in February 08, are closely approaching to 90's crisis low level. If real estate prices remain flat during 3 consecutive months, we will interpret it as a strong sign of a market recovery.

#### EU: Decoupling with US economy?

We estimate that the current difficulties from the US could spread within the EU. Some areas would be more affected (Spain, UK, Germany) than others (France, Italy), but some eastern countries may partially

offset the potential slowdown. The real estate bubble in some countries added with an economic downturn could penalize LEGRAND SA by an EU sales growth flat.

**Emerging countries: is the market in a bubble?**

For several years, LEGRAND SA has strongly invested in the emerging countries, increasing its exposition from 17% in 2002 to 25% of total turnover in 2008. It's still under its peer rate of 31%. We do not believe in a total decoupling between Brazil-Russia-India-China's growth and US growth. The inflation worries are going up, the bubble in real estate begin to be mature, and the high growth would be difficult to be sustainable in some areas, that's why, we keep a relative pessimist outlook on LEGRAND SA's growth in this area.

**Low profitability potential**

An important productivity plan has been accomplished by the board since 2003. We don't believe that LEGRAND SA can reach a sharply higher level of margin, already close to the top of its peer's level. Future acquisitions could affect global profitability. The board of directors is reluctant to give details on prices paid on acquisitions.

**Product Mix: premium vs. economic positioning**

LEGRAND SA is globally seen as a premium brand. Its exposure in the end market and its high positioning could be a threat during a difficult economic period, consumers would seek a more economical product than premium. We believe that segment with low quality value added will be the most hampered, particularly in the power distribution and wire cable segments.

**Figure 1: Income Statement**

€in millions

**INCOME STATEMENT**

	2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY2008e	FY2009e	FY2010e	FY2011e	FY2012e
<b>Total revenues</b>	<b>4128,8</b>	<b>1094,7</b>	<b>1126,8</b>	<b>1059,8</b>	<b>1095,3</b>	<b>4376,5</b>	<b>4639,1</b>	<b>5010,2</b>	<b>5411,1</b>	<b>5844,0</b>
Cost of goods sold	-2060,5	-535,2	-550,5	-515,9	-543,0	-2144,5	-2273,2	-2455,0	-2651,4	-2863,5
<b>Gross Profit</b>	<b>2068,3</b>	<b>559,5</b>	<b>576,3</b>	<b>543,9</b>	<b>552,3</b>	<b>2232,0</b>	<b>2366,0</b>	<b>2555,2</b>	<b>2759,6</b>	<b>2980,4</b>
SG & A	-1081,8	-286,2	-294,3	-275,8	-290,3	-1146,7	-1215,4	-1312,7	-1417,7	-1531,1
Research and development cost	-219,5	-60,1	-61,8	-57,9	-60,9	-240,7	-255,2	-275,6	-297,6	-321,4
Other operating charges	-105,5	-32,9	-33,9	-31,8	-33,4	-132,0	-140,0	-150,0	-150,0	-150,0
<b>EBIT</b>	<b>661,5</b>	<b>180,3</b>	<b>186,3</b>	<b>178,4</b>	<b>167,7</b>	<b>712,7</b>	<b>755,4</b>	<b>817,0</b>	<b>894,3</b>	<b>977,9</b>
Depreciation	-215,9	-47,3	-48,0	-58,5	-42,7	-196,5	-178,8	-162,7	-148,1	-134,7
Amortization of Goodwill	-62,4	-12,7	-12,7	-12,7	-12,7	-50,6	-32,8	-18,0	-18,0	-18,0
<b>EBITDA</b>	<b>939,8</b>	<b>240,2</b>	<b>247,0</b>	<b>249,6</b>	<b>223,0</b>	<b>959,7</b>	<b>966,9</b>	<b>997,7</b>	<b>1060,4</b>	<b>1130,6</b>
Financial expenses	-152,4	-25,8	-44,1	-41,1	-34,1	-145,1	-138,1	-131,5	-125,2	-119,2
Financial incomes	42,5	9,6	5,9	14,2	12,8	42,6	42,8	42,9	43,1	43,2
Exchange Gains/Loss	44,0	11,0	11,0	11,0	11,0	44,0	44,0	44,0	44,0	44,0
Loss on debt reimbursement	-	-	-	-	-	-	-	-	-	-
Earning Before Taxes and Minority Interest	595,6	175,1	159,2	162,6	157,4	654,2	704,0	772,4	856,2	945,9
Minority Interest	2,0	0,4	0,4	0,4	0,4	1,4	1,4	1,4	1,4	1,4
Pretax income	597,6	175,4	159,5	162,9	157,8	655,6	705,4	773,8	857,6	947,3
Taxes	-175,0	58,5	53,2	54,3	52,6	218,5	235,1	257,9	285,8	315,7
<b>Net Income</b>	<b>422,6</b>	<b>117,0</b>	<b>106,3</b>	<b>108,6</b>	<b>105,2</b>	<b>437,1</b>	<b>470,3</b>	<b>515,9</b>	<b>571,8</b>	<b>631,6</b>

Source: Company Documents, Student Estimate

*Sources: Company documents. Students Estimates*

**ASSUMPTIONS:**

**\* In our forecasts the sales scenario is build on 6% per year of sales increase over the next two years and 8% per year for the remaining.**

Our scenario is backed on the fact that the slowdown of US economy, notably on construction and equipement industry will hit strongly sales of Legrand over the coming 2 years.

The slowdown of US economy will tend to weaken Emerging and European countries growth. Nevertheless, we expect US economy to recover slowly, so that Legrand could experience sales increase of 8% per year after.

\* The "lean-processing" implemented by Legrand will deliver the same production efficiency as previous years. We expect inflation tension to stay at the level at which Legrand price power will help him to pass commodities inflation into price to customers. Therefore, operating charges are forecasted on the common size of sales pattern observed over the last three years.

\* Legrand has revealed that new fund raised is not expected over the coming years. Consequently, in our model financial expenses decrease on the same rythm; in average, 4,8% per year.

\* Impact of change:

We consider in our model that Euro will continue strengthen againts US dollar. But, due to the fact that Legrand has almost splited its suppliers (cash out) in accordance with cash received from clients in currency, we posted that only in case of abrupt increase of euro, Legrand hedge position in currency will make up approximately the same result in exchange gains.

Figure 2: Balance Sheet

€in millions

<b>BALANCE SHEET</b>						
<b>ASSETS</b>	<b>2007</b>	<b>FY2008e</b>	<b>FY2009e</b>	<b>FY2010e</b>	<b>FY2011e</b>	<b>FY2012e</b>
<b>Current Assets</b>						
Cash and cash equivalents	221,1	207,8	220,3	237,9	256,9	277,5
Marketable securities	0,2	0,5	0,5	0,6	0,6	0,7
Income Tax receivable	12,3	12,6	13,4	14,5	15,6	16,9
Accounts receivable	646,2	723,7	767,1	828,4	894,7	966,3
Other receivables	145,5	160,3	169,9	183,5	198,2	214,0
Inventories	624,4	652,4	691,6	746,9	806,6	871,2
Other Current Assets	11,8	27,8	29,5	31,9	34,4	37,2
<b>Total Current Assets</b>	<b>1661,5</b>	<b>1785,1</b>	<b>1892,2</b>	<b>2043,6</b>	<b>2207,1</b>	<b>2383,7</b>
<b>Non Current Assets</b>						
Intangible assets	1784,3	1759,9	1736,0	1712,5	1689,4	1692,3
Goodwills	1815,9	1834,1	1856,1	1878,3	1900,9	1900,9
Property, plants and equipment	756,7	732,3	723,6	717,8	712,2	712,2
Contribution in associated enterprises	14,0	16,6	19,7	26,2	31,1	31,1
Other fixed accounting caption	8,3	7,1	7,1	7,1	7,1	7,1
Differed taxes	64,3	50,3	50,3	50,3	50,3	50,3
Other non current assets	4,6	5,6	5,9	6,4	6,9	7,4
<b>Total Non Current Assets</b>	<b>4448,1</b>	<b>4405,8</b>	<b>4398,7</b>	<b>4398,6</b>	<b>4397,9</b>	<b>4401,3</b>
<b>Total Assets</b>	<b>6109,6</b>	<b>6191,0</b>	<b>6290,9</b>	<b>6442,2</b>	<b>6605,0</b>	<b>6785,0</b>
<b>LIABILITIES</b>	<b>2007</b>	<b>FY2008e</b>	<b>FY2009e</b>	<b>FY2010e</b>	<b>FY2011e</b>	<b>FY2012e</b>
<b>Current liabilities</b>						
Current loans	654,7	683,4	724,4	782,4	845,0	912,6
Taxes payables	39,6	36,8	39,0	42,1	45,5	49,1
Accounts payable	474,0	514,2	545,1	588,7	635,8	686,6
Provision and other Current Liabilities	497,9	529,2	561,0	605,8	654,3	706,7
Other Current Liabilities	86,9	90,6	88,6	95,7	103,4	111,6
<b>Total Current liabilities</b>	<b>1753,1</b>	<b>1854,2</b>	<b>1958,1</b>	<b>2114,7</b>	<b>2283,9</b>	<b>2466,6</b>
<b>Non Current liabilities</b>						
Deferred taxes	654,9	612,9	582,3	552,6	524,0	496,9
Non current provisions	81,0	90,0	90,0	90,0	90,0	90,0
Deferred compensation plan liabilities	125,1	120,0	120,0	120,0	120,0	120,0
Non current debt	1364,4	1371,6	1382,0	1391,8	1399,4	1408,9
Other debt on securities	0,0	0,0	0,0	0,0	0,0	0,0
Other loans	0,0	0,0	0,0	0,0	0,0	0,0
<b>Total Non Current Liabilities</b>	<b>2225,4</b>	<b>2194,5</b>	<b>2174,2</b>	<b>2154,4</b>	<b>2133,4</b>	<b>2115,8</b>
<b>Shareholder Equity</b>						
Common stocks	1083,9	1083,9	1083,9	1083,9	1083,9	1083,9
Reserves	1238,4	1249,6	1265,8	1280,3	1294,9	1309,8
Conversion Reserves	-194,0	-194,0	-194,0	-194,0	-194,0	-194,0
<b>Total Shareholder Equity</b>	<b>2128,3</b>	<b>2139,5</b>	<b>2155,7</b>	<b>2170,2</b>	<b>2184,8</b>	<b>2199,7</b>
Minority interest	2,8	2,8	2,8	2,9	2,9	2,9
<b>Total Equity</b>	<b>2131,1</b>	<b>2142,3</b>	<b>2158,5</b>	<b>2173,1</b>	<b>2187,7</b>	<b>2202,6</b>
<b>Total Equity and Liabilities</b>	<b>6109,6</b>	<b>6191,0</b>	<b>6290,9</b>	<b>6442,2</b>	<b>6605,0</b>	<b>6785,0</b>

Sources: Company documents. Students Estimates

(1) For balance sheet assumptions model look after this page.

**ASSUMPTIONS:**

- \* Current assets & liabilities are estimated on common size of sales pattern observed over the last 3 years.
- \* Since, Legrand expected to maintain almost its level on debt at what it is on December 07 balance sheet, we have set up the financial leverage steady for the next 5 years. In fine, Long term debt over Total equity remain nearly at 64% year after year.
- \* Goodwill will grow on the same rate of the last three year for the 3 coming years, due to M&A activities observed in Legrand group. We expect also Goodwill to be steady after.
- \* We expect PPE to follows the same model of Goodwill.
- \* We have assumed Intangible assets decrease approximately at the rate 1,4% per year.

*Source: Company Documents, Student Estimates*

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**Figure 3.1: Economic Value Added Model – Valuation of LEGRAND SA**

€in millions

Economic value Added Model - Valuation of LEGRAND (If not precised calculations are done in M€)

Mains Valuation Assumptions		
Working Capital as percentage of sales		14%
Growth of sales per year	Year 1	6%
	Year 2	6%
	Year 3	8%
	Year 4	8%
	Year 5	8%
	Beyond (long term growth)	3%
Operating margin		51,00%
SG & Administrative (as percentage of sales)		26,50%
R & D		5,50%
Tax rate		33,33%

10Y - Risk free rate (EUR)	3,97%
Legrand's Beta	0,906
Market risk premium	8,42%
<b>Cost of Equity</b>	<b>11,60%</b>
Tax rate	33,33%
<b>Cost of debt (after tax)</b>	<b>5,03%</b>

Share of equity	60,97%
Share of debt	39,03%

<b>WACC</b>	<b>9,03%</b>
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Engaged equity		2007	2008	2009	2010	2011	2012	2013 and beyond
(+) Goodwill	M €	1815,9	1834,1	1856,1	1878,3	1900,9	1900,9	N/A
(+) Other intangible assets	M €	1784,3	1759,9	1736,0	1712,5	1689,4	1692,3	N/A
(+) Other fixed assets	M €	847,9	811,9	806,7	807,7	807,6	808,1	N/A
(+) Working Capital	M €	563,1	596,9	632,7	683,3	738,0	797,0	N/A
<b>= Invested equity</b>	<b>M €</b>	<b>5011,2</b>	<b>5002,7</b>	<b>5031,4</b>	<b>5081,9</b>	<b>5135,9</b>	<b>5198,3</b>	<b>N/A</b>

EBIT		661,5	712,7	755,4	817,0	894,3	977,9	1007,2
NOPAT		441,0	475,1	503,6	544,7	596,2	651,9	671,5
RoCE		-	9,48%	10,07%	10,83%	11,73%	12,69%	12,92%
WACC		9,03%	9,03%	9,03%	9,03%	9,03%	9,03%	9,03%
<b>EVA</b>		-	<b>22,49</b>	<b>51,71</b>	<b>90,21</b>	<b>137,22</b>	<b>188,04</b>	<b>201,96</b>
Terminal EVA		-	-	-	-	-	-	<b>3347,95</b>
Discounted EVA		-	<b>20,6</b>	<b>43,5</b>	<b>69,6</b>	<b>97,1</b>	<b>122,0</b>	<b>2112,9</b>

<b>MVA</b>	<b>2465,78</b>
<b>Total Equity (2007)</b>	<b>2131,10</b>
<b>LEGRAND</b>	<b>16,96</b>

Source: Company Documents, Student Estimates

Figure 3.2: Sensitivity Analysis

## 1. Current market turmoil drives increase of market premium

*Nota: 13% of WACC corresponds to a double of current market premium, at 16%*

WACC	8%	9,03%	10%	11%
LEGRAND (EUR)	22.46	16.96	13.27	10.38

## 2. Weakness of sales due to current residential market outlook

*Nota: 6% of sales increase means approximately 3% of organic growth*

Sales	6% - 2Y and 8% - 3Y	6% - 3Y and 8% - 2Y
LEGRAND (EUR)	16.96	16.37

## 3. Inflation in commodities prices or something weakening gross margin

Gross margin	48%	49%	50%	51%
LEGRAND (EUR)	10.88	12.91	14.94	16.96

## 4. Goodwill appreciation

Goodwill changes (in average per year)	No change	1%	3%
LEGRAND (EUR)	17.23	17.01	16.53

## 5. Terminal Value

If we assume long term growth rate of sales beyond 2013 at 4% rather than 3%, we come out we a targeted price at 18.72\$

## 6. Combinaison of main factors (Cost of capital and Gross margin) affecting shares price

Long term sales = 3%

WACC	9.03%	9,03%	10%	10%	10%	11%	11%	11%
Gross margin	51%	50%	48%	49%	50%	48%	49%	50%
LEGRAND (EUR)	16.96	14.95	8.04	9.78	11.53	5.82	7.34	8.86

Long term sales = 4%

WACC	9.03%	9,03%	10%	10%	10%	11%	11%	11%
Gross margin	51%	50%	48%	49%	50%	48%	49%	50%
LEGRAND (EUR)	18.72	16.40	8.39	10.35	12.31	5.91	7.58	9.26

*Sources: Students Estimates*

On the following pages, conclusions on the previous analysis.

## Conclusions

Among all variables used in our valuation model, it comes out that, our EVAs targeted price is heavily affected by changes in:

**- Cost of Capital, especially market premium variable :**

Every 100bp changes in WACC drives a decrease of 5€ in shares price.

Due to current market turmoil, this scenario could not be ruled out. Notably, because we used historical market premium in Europe in our model.

**- Gross margin**

We assumed operating margin from 48% to 51%. This embarks prices from 10.88€ to 14.94€

**- Terminal Value / Long term growth of sales**

The combination of these two factors give out share price ranging from 5.82€ to 16.40€

**Taking into account economic outlook and Legrand management skills, our alternatives scenarios are drawn in the following table:**

	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Alternative 4
WACC	9.03%	9.03%	10%	10%	10%
Gross margin	50%	50%	50%	50%	50%
LEGRAND (EUR)	16.40	14.95	12.31	11.53	11.53

Figure 4: Comparable Definition – Valuation of LEGRAND SA

Comparable: Definition	
<b>ROE</b>	A measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested (Net Income divided by Total Shareholder's equity)
<b>ROA</b>	An indicator of how profitable a company is relative to its total assets (Net Income divided by Total Assets)
<b>Total Debt/Total Asset</b>	(ST Borrowings + LT Borrowings / Total Assets) * 100
<b>Total Debt/EBITDA</b>	Total debt to earnings before depreciation interest and taxes is calculated as ST Borrowings plus LT Borrowings divided by trailing 12 month EBITDA
<b>CFO/Total Debt</b>	Trailing 12-Month Cash From Operations/Short & Long Term Borrowings
<b>P/E Ratio</b>	Ratio of the price of a stock and the company's earnings per share
<b>P/Forecast E. Ratio in one year</b>	Forecast Ratio of the price of a stock and the forecasted earning's per share
<b>Enterprise Value in M€</b>	Enterprise Value= Market Capitalization+Preferred Equity +Minority Interest+ST & LT Debt-Cash and Equivalents
<b>EV/S</b>	Enterprise Value/Trailing 12 Month sales
<b>EV/EBITDA</b>	Enterprise Value/Trailing 12 Month EBITDA
<b>EV/EBIT</b>	Enterprise Value/Trailing 12 Month EBIT
<b>P/BV</b>	Ratio of the stock price to the book value per share
<b>P/EV</b>	Ratio of the stock price to the enterprise value
<b>P/FCF</b>	Equal to period end stock price divided by trailing 12-Month free cashflow per share
<b>P/CF</b>	Ratio of a stock's price divided by the cash flow per share
<b>Total Debt/EV</b>	Total Debt divided by the enterprise value
<b>EV/Market Cap.</b>	Enterprise Value / Market Capitalization
<b>PEG Ratio</b>	A ratio used to determine a stock's value while taking into account earnings growth. This is the PER divided by the annual EPS growth.

Source: Reuters, Bloomberg, Reilly & Brown – Investment Analysis & Portfolio Management

Figure 4: Comparable Valuation of LEGRAND SA

Comparable Company Analysis & Price Target *									
Company	LEGRAND SA	ABB	MATSUSCHIT A Electric Works Ltd.	SCHNEIDER E.	COOPER	GEWISS	EATON	HUBBELL	
	France	Switzerland	Japan	France	USA	Italia	USA	USA	
Ticker	LR	ABBN	6991	SU	CBE	GEWS	ETN	HUB	
Code RIC	LEGD.PA	ABBN.VX	6991.T	SCHN.PA	CBE.N	GEWI.MI	ETN.N	HUB.N	
Stock Price ( March 28) in €	19,50	17,14	5,95	82,23	25,13	3,500	50,24	27,27	
Stock Price ( March 28) in Local Curr.	19,50	26,94	933	82,23	39,68	3,500	79,35	43,06	
Market Capitalization	5418,14 M€	8 085,66 MCHF	50879,64 MUSD	19 666,86 M€	6696,05 MUSD	403,29 M€	12121,41 MUSD	2544,78 MUSD	

Exchange Rates (03/28/2008)	
€/\$	0,6332
€/Y	0,0064
€/£	1,2626
€/CHF	0,6362

Comparable:									
ROE	19,83	44,21	6,62	16,03	26,04	11,51	21,43	19,86	
ROA	6,99	13,38	3,86	7,18	12,03	8,68	8,00	11,52	
Total Assets/Equity	2,87	2,68	1,64	2,15	2,16	1,43	2,60	1,72	
Total Debt/Total Asset	33,05	8,63	7,46	29,46	20,64	3,21	25,44	12,67	
Total Debt/EBITDA	2,30	0,58	0,66	1,60	1,32	0,17	2,08	0,66	
CFO/Total Debt	0,34	1,14	1,44	0,47	0,63	5,12	0,34	1,42	

Comparable										Median	Implied Value
	Enterprise Value (in M€)	7218,74	33874,61	4774,84	25445,29	4881,42	406,69	9570,07	1721,30		
P/E Ratio	12,75	18,08	15,80	12,07	12,06	13,19	12,35	12,62		13,62	20,82 €
P/Forecast E. Ratio in one year	11,35	15,25	14,56	10,29	10,34	12,33	9,96	10,93		11,88	20,40 €
EV/S	1,75	1,83	0,43	1,47	1,29	1,26	1,16	1,07		1,28	14,29 €
EV/EBITDA	8,23	11,63	5,47	9,60	7,91	6	9,15	7,56		8,19	19,41 €
EV/EBIT	10,91	13,37	8,93	11,54	9,01	8,37	12,77	9,08		10,50	18,76 €
Total Debt/EV	0,28	0,05	0,12	0,26	0,16	0,07	0,23	0,09		0,16	10,97 €
EV/Market Cap.	1,33	0,91	1,06	1,29	1,15	1,01	1,25	1,07		1,13	16,62 €
P/BV	2,56	5,32	0,99	2,15	2,35	1,52	2,34	2,38		2,45	18,67 €
P/FCF	9,96	21,77	22,80	14,28	8,79	17,37	13,06	8,07		14,51	28,41 €
PEG Ratio	0,82	0,18	1,16	0,89	0,23	1,81	1,31	0,34		0,84	20,04 €

Valuation Method	Price	Weight
Comparable	20,88 €	50,00%
EVA	16,96 €	50,00%

Price Target	18,92 €
Today's Price of LEGRAND SA	19,50 €
Expected Return on one Year	-2,97%
Rating - Recommendation	UNDERPERFORM

**Comments:**  
*\*Choice of Competitors:* We have selected 7 competitors to LEGRAND SA worldwide (ABB/MATSUSCHITA/SCHNEIDER/COOPER/GEWISS/EATON & HUBBEL). We have excluded some major leading competitors such as Siemens and General Electrics to value LEGRAND SA but the comparable Method.  
*\*Sources:* Reuters/Bloomberg/ Company Datas

Price	
Price	18,71 €
Cost of Equity - Ke	11,60%
One Year Price Target	20,88

**Comments:****\*Choice of Competitors:**

We have selected 7 competitors to LEGRAND SA worldwide (ABB/MATSUSCHITA/SCHNEIDER/COOPER/GEWISS/EATON & HUBBEL).

However we have excluded some major leading competitors such as Siemens and General Electric. These two competitors play on a part of the same market of LEGRAND SA, but, have a much more activities. We can not take into account these companies to value LEGRAND SA by the Comparable method.

**\*Comparable Method:**

We have chosen different comparable for our valuation.

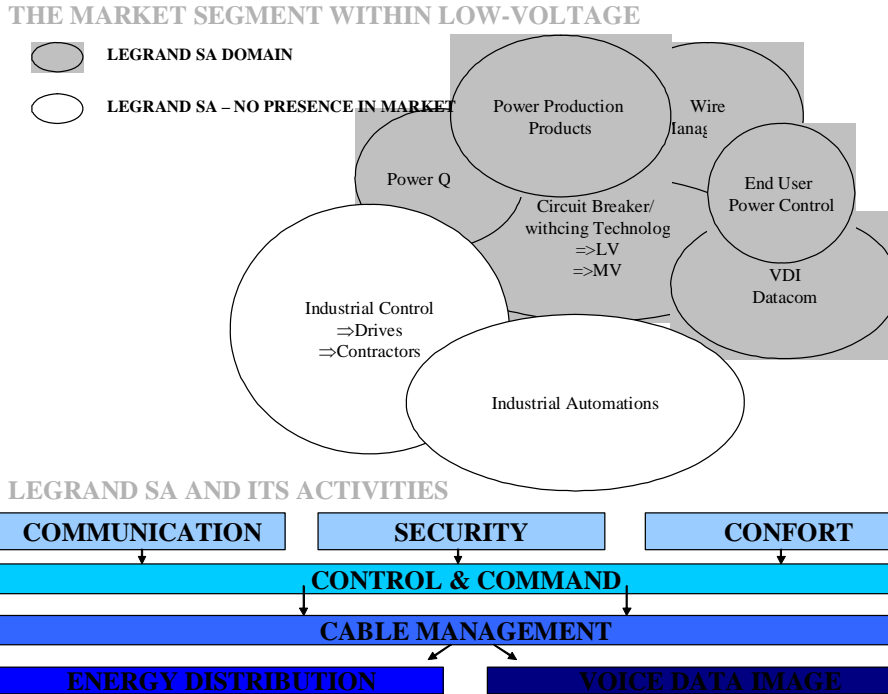
Next, we have calculated the median of each of them and the implied value (Median times LEGRAND SA comparable divided by the current Stock Price of our company).

Finally, the targeted price is an average of the different implied values. We value LEGRAND SA at **€18,71**, and in one year at **€20,88**

*Source: Source: Company Documents, Student Estimate*

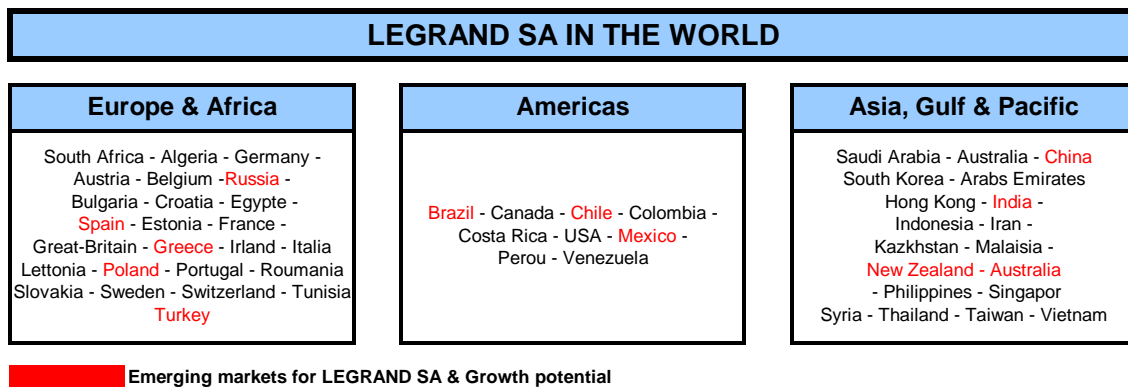
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Figure 5: System LEGRAND SA & the Low-voltage segment market



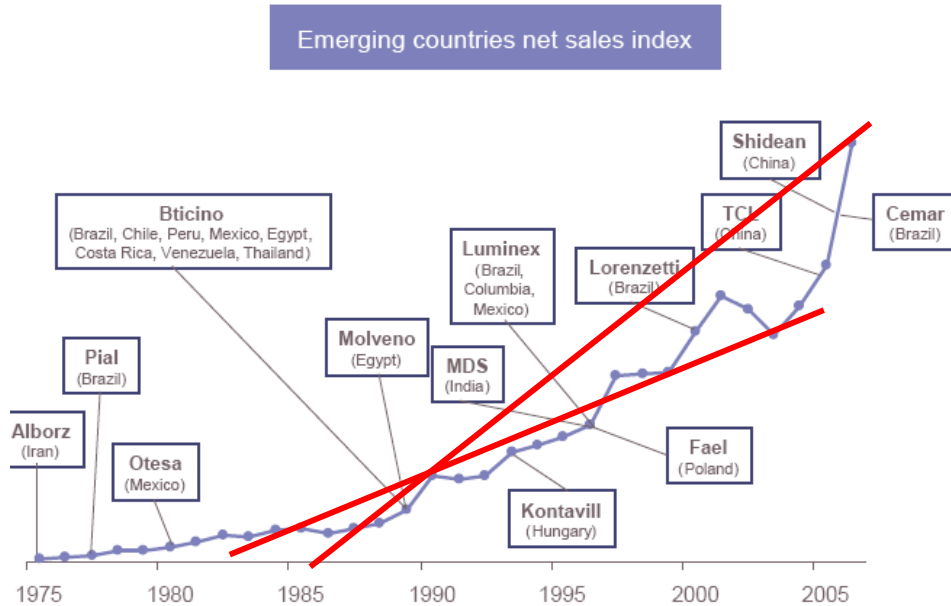
Source: Company Documents, Student Sources

Figure 6: New geographic areas: LEGRAND SA in the Emerging countries



Source: Company Documents

Figure 7: Potential in Emerging Markets for LEGRAND SA.



Source: Global Insights 2007.

Figure 8: LEGRAND SA: a fundamental policy of acquisitions

15 ACQUISITIONS TARGETED IN ONLY 3 YEARS:  
PRINCIPAL SOURCE OF GROWTH




Source: Company Documents

Figure 9: LEGRAND SA S.A. Competitors and their main characteristics

Name	Origin	Part of Electricity	Global Sales Equi. Euros	Growth 2007	Expected growth 2008 (consensus)	Main market	Second market	High Voltage	Medium Voltage	Low Voltage
LEGRAND	France	100,00%	4 128	10,49%	5,99%	Europe (65%)	USA (17,2%)			X
<b>Global Competitors</b>										
ABB	Swiss	44%	18 929	19,54%	15,70%	Europe (46,8%)	Asia (25%)	X	X	X
GE	US	20,50%	110 086	13,38%	13,18%	N-Amer (56,4%)	Rest (43,6)	X	X	X
Matsushita	Japan	93%	10 529	3,78%	4,55%	Asia (85,9%)	Europe (10%)	X	X	X
Schneider	France	100%	17 309	26,07%	7,38%	Europe (46,6%)	N-Amer (27%)		X	X
Siemens	Germany	23,60%	72 448	18,97%	9,41%	Europe (48,9%)	N-Amer (20,5%)	X	X	X
<b>Quoted Regional Competitors</b>										
Cooper	US	74%	3 829	13,86%	11,76%	N-Amer (70%)	Europe (17%)	X	X	X
Eaton	US	37%	8 454	6,55%	21,61%	N-Amer (68,5%)	Europe (20%)		X	X
Gewiss	Italy	100%	308	-1,99%	11,69%	Europe (Italy)	Europe (Germany)			X
Hubbell	US	na	1 644	4,95%	4,08%	na	na	X	X	X

Source : Reuters except for Legrand, Annual Reports

 Peer Group Comparison

Source: Reuters except for LEGRAND SA (annual Reports)

Figure 10: LEGRAND SA. Competitors and their main ratios

Name	Origin	EPS 2006	EPS 2007	EPS 2008f	EPS 2009f	PER 2007	PER 2008f	PER 2009f	ROE 2006	ROE 2007	ROE 2008f	Price To Book	Beta
<b>LEGRAND</b>	France	0,96	1,58	1,61	1,82	14,74	12,47	11,01	11,77%	19,83%	18,75%	2,513	0,859
<b>Global Competitors</b>													
ABB	Swiss	0,41	1,08	1,02	1,12	13,92	15,25	15,07	23,02%	44,21%	30,72%	5,320	1,722
GE	US	1,18	1,43	1,57	1,75	15,37	13,98	12,53	17,38%	19,44%	20,66%	3,285	0,574
Matsushita	Japan	0,30	0,63	0,77	0,87	17,96	14,56	14,93	5,35%	6,62%	6,51%	0,990	0,897
Schneider	France	5,89	6,78	7,38	7,78	11,51	10,29	10,03	15,02%	16,03%	16,06%	2,146	1,111
Siemens	Germany	3,47	4,24	5,78	7,72	17,60	13,86	10,38	10,35%	13,13%	22,40%	2,263	1,195
<b>Quoted Regional Competitors</b>													
Cooper	US	1,63	2,42	2,30	2,56	10,47	10,34	9,91	19,57%	26,04%	21,48%	2,350	1,252
Eaton	US	3,72	4,14	5,06	5,86	12,75	9,96	9,06	21,85%	21,43%	19,35%	2,340	1,497
Gewiss	Italy	0,26	0,26	0,25	0,27	13,53	12,33	13,03	11,99%	11,51%	5,70%	1,520	0,883
Hubbell	US	1,64	2,27	2,52	2,81	12,45	10,93	10,06	15,66%	19,86%	19,80%	2,380	1,181
<b>Average</b>		<b>1,95</b>	<b>2,48</b>	<b>2,83</b>	<b>3,26</b>	<b>14,03</b>	<b>12,40</b>	<b>11,60</b>	<b>15,20%</b>	<b>19,81%</b>	<b>18,14%</b>	<b>2,51</b>	<b>1,12</b>

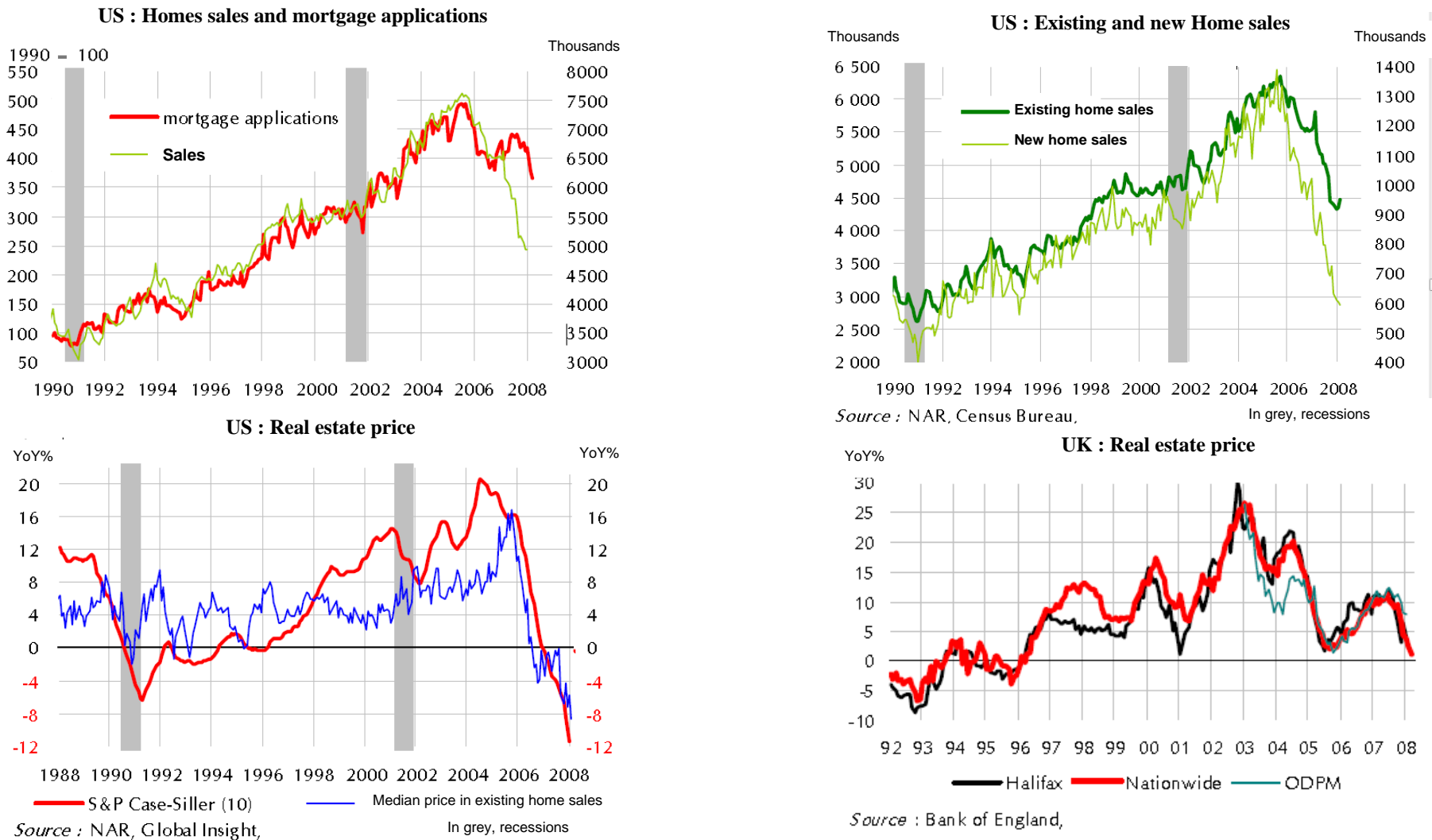
Source : Reuters except for Legrand, Annual Reports

Peer Group Comparison

S/€:	0,6332
€/Yen	0,006378
€/£	1,26263

Source: Reuters except for LEGRAND SA (annual reports)

Figure 11: Real Estate Market in the USA & in the U.K. relative to the Risk Investment of LEGRAND SA



Source: NAR, Global Insight, Bank Of England, Census Bureau

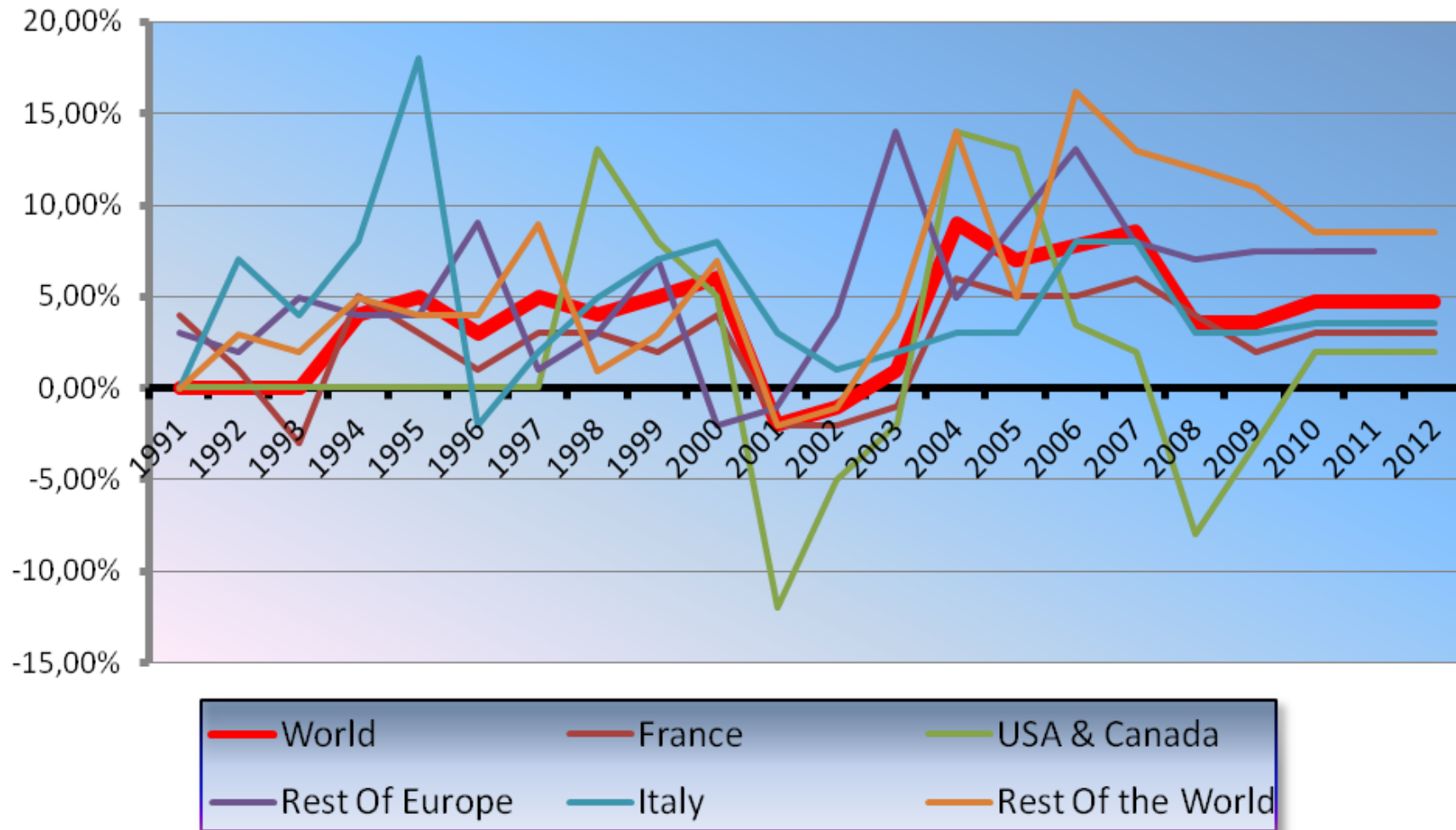
Figure 12: LEGRAND SA's organic growth vs. GDP growth per area, year on year

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
World	Industry Average	N/A	N/A	N/A	9,0%	11,0%	4,0%	6,0%	3,0%	0,0%	6,0%	-1,0%	-5,0%	2,0%	9,0%	8,0%	9,0%	5,0%	0,0%	3,0%	4,0%	4,0%	4,0%
	LEGD Org Gr.	N/A	N/A	N/A	4,0%	5,0%	3,0%	5,0%	4,0%	5,0%	6,0%	-2,0%	-1,0%	1,0%	9,0%	7,0%	7,8%	8,6%	3,6%	3,6%	4,7%	4,7%	4,7%
France	GDP	1,0%	1,4%	-0,9%	2,2%	2,1%	1,1%	2,2%	3,5%	3,3%	3,9%	1,9%	1,0%	1,1%	2,5%	1,7%	2,5%	1,8%	1,7%	2,0%	2,1%	2,1%	2,2%
	LEGD Org Gr.	4,0%	1,0%	-3,0%	5,0%	3,0%	1,0%	3,0%	3,0%	2,0%	4,0%	-2,0%	-2,0%	-1,0%	6,0%	5,0%	5,0%	6,0%	4,0%	2,0%	3,0%	3,0%	3,0%
USA & Canada	Weighted GDP	1,7%	-0,1%	3,3%	2,9%	2,4%	3,6%	4,5%	4,2%	4,6%	3,7%	0,8%	1,8%	2,4%	3,6%	3,1%	2,8%	2,3%	1,4%	1,9%	3,0%	3,0%	3,0%
	LEGD Org Gr.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13%	8%	5%	-12%	-5%	-2%	14%	13%	3%	2%	-8%	-3%	2%	2%	2%
Rest Of Europe	Euro zone GDP	N/A	N/A	N/A	N/A	N/A	1,6%	3,3%	1,9%	4,1%	3,3%	1,0%	1,1%	1,2%	1,7%	2,0%	3,2%	2,2%	2,5%	2,7%	3,0%	3,1%	3,1%
	LEGD Org Gr.	N/A	3,0%	2,0%	5,0%	4,0%	4,0%	9,0%	1,0%	3,0%	7,0%	-2,0%	-1,0%	4,0%	14,0%	5,0%	9,0%	13,0%	8,0%	7,0%	7,5%	7,5%	7,5%
Italy	GDP	2,8%	-0,8%	0,1%	3,3%	2,3%	-0,5%	3,6%	0,1%	3,4%	3,5%	0,2%	1,0%	0,0%	0,6%	0,7%	2,8%	2,1%	0,5%	1,4%	2,2%	2,3%	2,3%
	LEGD Org Gr.	N/A	7,0%	4,0%	8,0%	18,0%	-2,0%	2,0%	5,0%	7,0%	8,0%	3,0%	1,0%	2,0%	3,0%	3,0%	8,0%	8,0%	3,0%	3,0%	3,6%	3,6%	3,6%
Rest Of the World	Weighted GDP	N/A	N/A	N/A	0,4%	0,9%	3,2%	1,4%	0,1%	2,1%	4,4%	1,5%	4,0%	6,8%	3,6%	5,4%	6,1%	6,2%	5,8%	6,0%	7,1%	7,3%	7,3%
	LEGD Org Gr.	N/A	3%	2%	5,0%	4,0%	4,0%	9,0%	1,0%	3,0%	7,0%	-2,0%	-1,0%	4,0%	14,0%	5,0%	16,2%	13,0%	12,0%	11,0%	8,5%	8,5%	8,5%

	Correlation from 91 to 07 (org vs gdp)	R <sup>2</sup> from 1991 to 2007 (org vs gdp)	LEGRAND SAles share per area	Low voltage market size in billion
World			100%	54,5
France	0,5627	0,3160	26,4%	3,5
USA & Canada	0,8510	0,7760	19,0%	14
Rest Of Europe	0,3506	0,2120	0,2130	14
Italy	0,4615	0,2130	18,7%	3
Rest Of the World	0,4601	0,1650	14,60%	20

Source: IMF, US Department of Commerce, EU, Insee, Istituto Nazionale di Statistica, Student estimates

Figure 13: LEGRAND SA's organic growth forecast graph from the previous table



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