

Why We Own Schneider Electric

Before an AI model can answer a question, electricity has to be transformed, protected, distributed and cooled without interruption. The chip gets the attention; the electrical architecture makes the answer possible.

That largely invisible system is where Schneider Electric operates. The company makes the electrical equipment, automation, cooling and software that help factories, buildings, data centres and infrastructure use power safely and efficiently. This is not a simple bet on more electricity consumption. It is an investment in the growing complexity of managing electricity as economies electrify and digitalise.

Structural demand: more electricity, less room for waste

Electricity demand is being pulled in several directions at once. Transport and industrial processes are electrifying. Buildings need to become more efficient. Renewable generation makes power systems more distributed and variable. At the same time, artificial intelligence is raising the density and urgency of data - centre investment.

The International Energy Agency estimates that global data - centre electricity consumption could rise from about 485 terawatt - hours in 2025 to around 950 terawatt - hours in 2030. It also warns that grid constraints and equipment bottlenecks may limit how quickly announced capacity is built. Both sides of that forecast matter. Demand for electrical infrastructure is strong, but execution cannot be assumed.

AI provides the vivid doorway, not the entire thesis. Every high - density rack needs switchgear, uninterruptible power, cooling, monitoring and increasingly sophisticated design. The same need to control energy, reliability and cost exists in factories, hospitals, offices, homes and grids. As electricity becomes a larger share of the energy system, the value of managing it well should rise too.

The advantage: connecting power, cooling and intelligence

Schneider's advantage is not one breakthrough product. It is the breadth of a system spanning low - and medium - voltage equipment, secure power, industrial automation, digital design and operating software. Customers can use its tools to model a facility, install the physical architecture and then monitor performance once it is running.

That integration matters when failure is expensive. In July, Schneider and AMD released a reference design for AMD's Helios AI platform. It supports racks of up to 246 kilowatts and modular clusters of up to 10.4 megawatts, combining electrical design, liquid cooling and monitoring software. The numbers may date quickly, but the strategic point is durable: as computing density rises, power and thermal management become harder engineering problems, not commodity accessories.

The company also benefits from a large installed base, long customer relationships, channel reach and specialist engineering knowledge. These can create repeat demand for replacement equipment, services and software. Yet breadth can become complexity, and scale does not guarantee that every digital product is loved by operators. Delta therefore needs evidence of customer adoption and system - level value, not just an impressive catalogue.

How the advantage becomes earnings

The economic mechanism is straightforward in principle. Structural demand drives more electrical and automation projects. Schneider's portfolio and engineering capability help it win a greater share of those projects and attach software, services and cooling. Higher volumes, favourable mix and productivity can then expand margins and generate cash for reinvestment.

The first half of 2026 provides evidence that this mechanism is working. Revenue rose 14.0% organically to EUR21.2 billion. Adjusted EBITA increased 22.1% organically to EUR4.1 billion, while the adjusted EBITA margin reached 19.3%, an organic improvement of 120 basis points. Energy Management, the larger division, generated EUR17.6 billion of revenue and a 22.4% adjusted EBITA margin. Management described data - centre and network demand as particularly strong and upgraded its full - year objective to 14 - 19% organic adjusted EBITA growth, combining 10 - 13% organic revenue growth with a 70 - 100 basis - point organic margin improvement.

Those figures are strong, but their composition matters. Raw - material costs and tariffs more than offset product pricing in the first half, and mix was a headwind. Trade working capital absorbed EUR1.2 billion and net debt increased to EUR15.4 billion from EUR13.7 billion at the end of 2025. The earnings story is therefore not simply "AI demand equals profit". It depends on supply - chain execution, pricing power, mix, productivity and cash conversion.

Capital allocation adds another test. Schneider agreed to acquire industrial - data company Cognite for an enterprise value of about USD3.1 billion and separately agreed to acquire roughly 90% of AiDASH for about USD350 million. The strategic logic - linking physical energy systems with industrial intelligence - is plausible. The investment case still requires evidence that those assets deepen the moat and earn an attractive return rather than merely enlarging the software story.

A financially strong business, not just a good story

A compelling theme is only useful to an investor if the company behind it can convert opportunity into durable profit, year after year, including through parts of the cycle that are harder than the current one. Before extending any credit to the theme, the more basic question worth asking is: is this a genuinely well - run, profitable company? On the evidence to date, the answer is yes - and the trend has been strengthening.

Profitability. Schneider's underlying operating margin - the profit it keeps on every euro of sales once the business of running it is costed in - has now expanded for five consecutive years, rising from around 18% in 2023 to close to 19% in 2025. That improvement accelerated sharply in the first half of 2026: organic margin expanded by a further 120 basis points to 19.3%, comfortably ahead of the company's own guidance, prompting management to raise

its full - year target twice this year. Return on capital invested in the business - the profit earned on every euro tied up in it, measured against the 9% cost of equity hurdle Delta applies - has followed the same path, rising from around 9% five years ago to roughly 11.5% in 2025, a five - year high, with no year of deterioration along the way.

Earnings growth. Profit is growing faster than sales, which is the more demanding test of quality. Revenue rose by low to mid single digits in each of the past three years, while adjusted operating profit grew a little faster over the same period - and that gap widened sharply in the first half of 2026, with adjusted profit up more than 20% organically against 14% organic revenue growth. Full-year guidance for 2026 was raised twice this year, to 10-13% organic revenue growth and 14-19% organic profit growth, implying management itself expects that gap between profit and sales growth to persist through the second half.

Shareholder returns. Ultimately none of this matters to an investor unless it shows up in the return delivered to shareholders. Over the five years to the end of 2025, Schneider's shares delivered a total return - share price growth plus dividends - that compounded at roughly 17% a year, a run that absorbed a difficult 2022 and a flat 2025 without breaking, and one that has continued into 2026 with a further double-digit gain year to date. It is not the smoothest run in the portfolio, but it is a genuinely strong one, delivered through a full cycle rather than a single good year.

None of this is guaranteed to continue - we return to that below - but the combination of a fifth straight year of margin expansion, profit growing faster than sales, and a competitive multi-year shareholder return gives us real confidence that Schneider has both the profitability and the financial discipline to keep funding the investment its impact case depends on.

Leadership we can trust

A good business also needs to be well led, because a strong number today means little if we cannot trust the people producing it to keep acting in shareholders' and stakeholders' long-term interests. On the structures we look for, Schneider's board is well governed. The roles of Chief Executive and Chair are held by separate individuals, and the board maintains a lead independent director who leads its own annual self-assessment, chairs sessions held without the chair present, and engages directly with shareholders on governance matters - a genuine check on power even though the chair's own long tenure means they are not independent under our own tenure test. More than three-quarters of the board, on our stricter independence standard rather than the company's own more generous count, are independent, spanning a reasonable balance of tenures and a genuinely diverse mix of skills, gender and nationality.

The board's own performance is reviewed every year, with a summary of the findings - including specific areas the directors themselves flagged for improvement - made public rather than kept behind closed doors. There is a single class of listed share, so no shareholder carries disproportionate voting power by virtue of share class, though long-held shares do carry double voting rights under a mechanism common to French listed companies, a nuance worth continued monitoring rather than a present cause for concern. The one structural gap against our own standard is that directors serve staggered four-year terms rather than standing for re-election every year; this is normal practice for a French company of Schneider's kind, but

fuller annual accountability of the whole board to shareholders is an area we would like to see move further over time.

This governance foundation is matched by a genuinely disciplined record of capital allocation. Returns on capital invested in the business have risen for five straight years to a multi-year high, comfortably clear of the cost of capital, at the same time as the company has continued to return surplus cash to shareholders through an active buyback programme. Executive pay is substantially performance-linked, with the larger part of variable compensation tied to multi-year group financial and sustainability targets rather than paid out regardless of results - and the most recent year's payout, below target in a period of mixed results, shows the structure has genuine downside as well as upside. Taken together, this gives us real confidence that Schneider is overseen by leadership that acts in the long-term interests of shareholders and other stakeholders alike.

From company strength to the Delta decision

Schneider Electric sits primarily within Delta's Climate Action theme. Its central contribution is enabling customers to electrify operations and manage energy more efficiently. There are secondary links to Nature Innovation, where lower energy and resource intensity can reduce pressure on natural systems, and to Human Advancement, through safer, more resilient infrastructure. Those are supporting lenses, not three equal reasons to own the company.

For Delta, quality and impact are necessary but not sufficient. A good company can still be a poor investment if the price assumes uninterrupted data-centre growth, permanently high margins or flawless acquisitions. Our valuation discipline should therefore focus on normalised margins and cash conversion, the durability of Energy Management growth, reinvestment needs and the returns earned on Cognite and AiDASH. We do not need to predict every AI chip cycle; we do need to avoid paying today for an outcome that leaves no room for error.

Outcomes: useful evidence, bounded claims

Schneider reports that its solutions enabled customers to save or electrify 129.5 million megawatt-hours in the first half of 2026 and that more than 50 million tonnes of carbon emissions were saved or avoided during the period. It also reports an 82% reduction in its own Scope 1 and 2 emissions from a 2017 baseline and a 12% reduction in selected Scope 3 emissions from 2021. These measures help test whether commercial growth is accompanied by measurable progress.

They are company-reported estimates, not a licence to attribute every avoided tonne to Schneider alone. The baselines, counterfactuals, product-use assumptions, attribution method and level of independent assurance need to be understood before Delta repeats them without qualification. Customer cases can add texture: Schneider reports that its work at the Aspiria campus cut annual energy use by 16%, saved USD1.5 million in energy costs and reduced emissions by 10,000 tonnes. A named case is more tangible than an aggregate, but it remains a company case study until independently verified.

The outcome evidence should follow the investment logic, not substitute for it. If Schneider's systems genuinely help customers reduce energy use, manage more complex loads and avoid downtime, those outcomes can reinforce demand, customer loyalty and the company's licence to operate. If the claimed benefits are difficult to reproduce or measure, the impact case - and potentially the competitive case - weakens.

Value, decision, and tension

We own Schneider Electric because three things line up: a durable, structural source of demand from the electrification and rising complexity of the world's power systems; a genuinely well-run, financially strengthening business behind that demand, with margins, profit growth and shareholder returns all improving through a full cycle; and a board and management team we trust, on the evidence, to act in shareholders' and stakeholders' long-term interests. Few companies we cover currently offer conviction on all three fronts together.

We do not own it on the assumption that every announced data-centre project will be built as planned, that the current margin inflection is permanent, or that Cognite and AiDASH will earn back what they cost. The central tension is a familiar one: the strongest end markets attract the most competition and the most optimistic expectations, and Schneider's shares currently reflect real confidence that recent momentum continues. Net pricing was still negative in the first half of 2026, meaning volume and productivity - not pricing power - have done the work of margin expansion so far, and the second half faces a materially tougher comparison on both. Valuation discipline, not enthusiasm for the theme, is what should ultimately govern position sizing.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- Data - centre and large project demand could normalise after an exceptional run, or grid delays and Middle East-related supply chain and input cost disruption could slow the pace of conversion into revenue.
- The margin gains behind the recent quality story have leaned on volume and productivity while net pricing remains negative; if pricing does not turn positive as guided, or productivity fails to repeat against a materially tougher second-half comparison base, the margin inflection could prove less durable than the first-half numbers suggest.
- The pending Cognite and AiDASH acquisitions could take longer to integrate or earn a lower return than intended, diluting the capital allocation record described above.
- Board accountability is weaker on one specific point: staggered four year terms give shareholders less annual leverage over the full board than an annual election structure would.
- The impact case can fail on its own terms too: efficiency gains could be outpaced by growth in total electricity demand, and the company's own outcome estimates are self-reported and not independently verified.

The thesis would weaken materially if order growth failed to convert into cash, if margin gains reversed without a clear cyclical explanation, if Cognite and AiDASH delivered returns below the cost of capital, or if outcome reporting became less transparent just as the claims grew larger.

Schneider Electric is compelling because it supplies an essential and increasingly complex layer of the electrified economy - and because the company supplying it is, on the evidence, a financially strengthening business overseen by leadership we trust, not merely a story attached to an AI theme. The investment case rests on Schneider continuing to turn the necessity of managing electricity well into durable revenue, cash and profit - funded by real financial discipline and overseen by a board and management team acting in shareholders' and stakeholders' long-term interests - while we keep our valuation conclusion separate from our enthusiasm for the theme.

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