

Legrand

Industry: Electrical
Components &
Equipment



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Sabine Augis
06 30 89 89 22
s.augis@hotmail.fr

Bertrand Billet
06 21 75 51 28
bertrandbillet@hotmail.com

Cedric Cossart
06 89 88 82 56
cedric.cossart@gmail.com

Hala Ghazi
06 14 18 86 50
g.hala@yahoo.fr

Xia Zhang
06 16 77 84 85
xiazha@gmail.com

Ticker: LR-FR
Price: 19.31

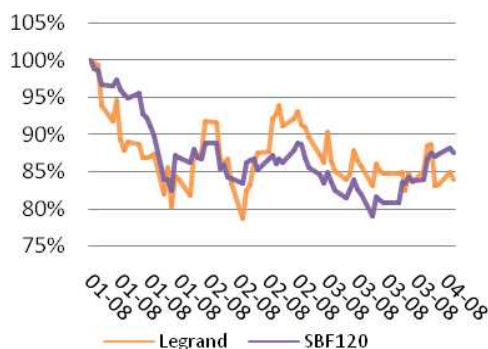
Recommendation: Buy
Price Target: €23

Earnings/Share

	Mar.	Jun.	Sept.	Dec.	Year	P/E Ratio
2006A	€-0.19	€0.37	€0.39	€0.44	€1.01	22.0
2007A	0.34	0.38	0.38	0.48	1.57	14.9
2008E	0.52	0.41	0.41	0.37	1.70	13.7
2009E	0.57	0.45	0.45	0.41	1.89	13.6

Highlights

- Due to the financial market illness and the economic deceleration, the current stock price of Legrand dropped to its IPO price 19.75. However, after having re-examined the growth potential and profitability of the company, we found an intrinsic value higher than its current price.
- Due to the announced economic slowdown, the revenue growth rate of Legrand is lowered to 9% for 2008, 10% for 2009, compared with 10.5% in 2007. The operating margin of the company is also gradually reduced to 16% by 2012, due to the soaring energy price, raw material price and fierce competition in the sector.
- Legrand has invested in fast-growing emerging countries and high-potential subsectors. Up-market series of Legrand, "Celiane" and "Axolute", with higher value added are expected to continue their success in France and Italy. The company may also gain market shares by launching of new products or introducing of existing products to new markets.
- Acquisitions are estimated to contribute 4%-5% on average to annual growth during 2008-2012. The electrical components and equipment market is shared between a small part of large industrial companies and a great number of small or medium size companies, which makes possible frequent acquisitions in the sector.
- According to our estimation, the target price of Legrand for next 12 months is 23€ ; P/E 2008E is 13.7. DPS 2008E is 0.8€, a growth of 14% compared to 2007.



Market Profile	
52 Week Price Range	17.98 - 28.40€
Average Daily Volume	654,571
Beta	1.15
Dividend Yield (Estimated)	4.14%
Shares Outstanding	270,975,739
Market Capitalization	5,232,541,520
Institutional Holdings	14.91%
Insider Holdings	5.00%
Book Value per Share (12/31/07)	7.86
Debt to Total Capital	48.70%
Return on Equity	19.66%

Source: Reuters

Important disclosures appear at the back of this report

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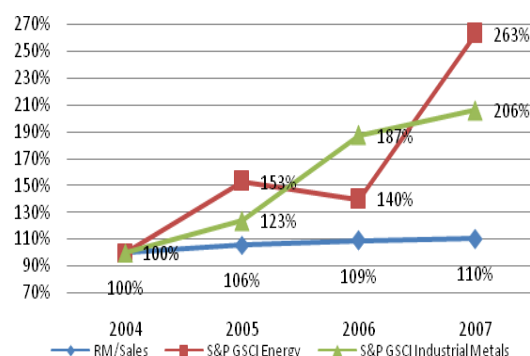
Investment Summary

After having re-examined the growth potential and profitability of the company, we determined a target price of 23 Euros. The turbulence in financial markets originating in the U.S. subprime sector has spread to other markets, leading to a generalized wariness and re-pricing of risks. Since January 2008 the stock price of Legrand has dropped by 16% compared with 12% in SBF 120. The slump in equity markets manifests the uncertainty of investors. However, after having re-examined the growth potential and profitability of the company, we found an intrinsic value higher than its current price.

The announced deceleration of world economy for 2008 reduces the projected revenue growth of Legrand to 9% for 2008, compared to the realized growth 10.5% in 2007. A recent report of IMF (International Monetary fund) indicated weakening of consumption, manufacturing activity in U.S. and deteriorating business confidence in Europe, where Legrand realized more than 57% of sales in 2007. Growth in emerging markets is also expected to ease by 1%, where 25% of the company's sales were realized in 2007. The projected growth for 2009 is 10%, slightly higher than for 2008, with expectation of a better economic environment at that time. The activities of Legrand showed a good resistance against economic cycle during 1998-2001. The company kept on average a growth rate of 12% per year, an operating margin of 15% for a world economic growth of 3.3%.

Soaring energy and commodity prices and fierce competition in the sector made us gradually reduce the adjusted operating income* by 150 basic points by 2012 from 2007. Plastics and metals account for about 36% and 47% of raw materials necessary for Legrand in manufacturing products. The energy and commodity prices have doubled since 2004. This increased the weight of raw materials in revenues by 1% in three years, even if the company has regularly increased prices of its products to compensate the rise in raw material prices and committed continual effort to cut costs of goods sold (see the figure below). Moreover, the intense competition in the sector from large industrial groups and local companies dampens the pricing power of Legrand. In consequence, we reduce gradually the adjusted operating margin of the company from 17.5% in 2007 to 16% in 2012.

*Adjusted operating income is the operating income before accounting entries (without cash impact) related to the acquisition of Legrand France.



Legrand has important market shares in fast-growing emerging countries. Notwithstanding the somber economic perspective for 2008, emerging countries keep a high growth rate of 7% on average. The strong momentum of domestic demands and large investment in manufacturing and construction industries in these markets represent considerable opportunities for Legrand. In China, the company is the number one in wiring devices and audio & video access controls. It has also a leading position in Mexico and Russia. In 2007, Legrand realized 25% of its sales in emerging countries.

Legrand invested in high-potential subsectors. In building markets, demand grows for technology enabling more secure and energy-efficient products. The acquisitions of Aples Technologies in France, TCL Wuxi in China, UStec in United States in 2007, Vantage in United States in 2006 strengthened the company's positions in energy-saving, lighting management, automation as well as access control and security for residential, commercial and industrial buildings. Up-market series of Legrand, "Celiane" and "Axolute", with higher value added are expected to continue their success in France and Italy. The company may also gain market shares by launching of new products or introducing of existing products to new markets.

Acquisitions are estimated to contribute 4%-5% on average to annual growth during 2008-2012. Since 2005, Legrand has concluded 15 acquisitions in developed and emerging countries. These acquisitions on one hand gave the company access to new markets, extended its product offers and gained market shares; on the other hand, created a great deal of cost synergies in sales and administrative costs, in lean manufacturing and in purchasing process. So far, the company has more than 50% of production realized in low-cost countries. We expect Legrand will continue this strategy in the future.

Legrand itself may become a takeover target for large industrial groups. Since 2001, European Union rejected the acquisition of Legrand by Schneider for anti-trust regulation, rumors about a potential takeover of Legrand by any other industrial groups has never stopped. The fact that Legrand is in the center of rumors could be explained by the following reasons:

- Legrand, with a market capitalization of around 5.4 billions Euros, is an accessible target for large industrial groups.
- Legrand holds a high growth potential portfolio. As we have said above, Legrand invested in fast growing markets.
- Legrand is world leader in building market. As a pure player, Legrand doesn't seek to diversify in several industrial sectors, but offer a comprehensive range of products for buildings. The company operates in more than 70 countries and manages world recognized brands like "Bticino", "Legrand" and "Ortronics".
- The business of Legrand is very profitable. The company's operating margin, 17.5% in 2007, is among the highest in the sector. Operating free cash flow accounts for more than 12% of its total revenues.
- The end of restricted period to sell Legrand shares for two principal shareholders ----- KKR and Wendel., KKR and Wendel are two investment firms. They hold each one 30% of shares of Legrand. In 2006 they have agreed to restrict the sales of the shares of Legrand until the 8th April 2008. Now this agreement has expired, which gives the probability to acquire the control of Legrand.
- Recently European Commission has cleared the acquisition of the Moeller Group by Eaton Corporation. The Moeller Group is the German rival of Legrand. It has estimated sales of 1.02 billion Euros for 2007. Eaton Corporation is a diversified industrial company, listed in NYSE. The authorization of the acquisition by European Commission gave a positive signal to potential acquirer of Legrand in terms of anti-trust regulation.

Valuation

The average price of Legrand given by the following three methods is 23 Euros.

DCF ---- Valuation from Cash Flow

We derive a DCF valuation of € 5,977 millions Euros, taking the following factors into account in our free cash flow calculation.

Growth rate : In short term, we expect that the sales of the company will increase at a rate of 7-10% per year. This rate can be broken down into an organic growth of 4-5% and an external growth of 4-5%. The high growth in short term can be explained by company's investments in emerging countries, in high potential subsectors and in up-market products. Moreover, the activities of Legrand showed a good resistance against economic cycle during 1998-2001. The company kept on average a growth rate of 12% per year, an operating margin of 15% for a world economic growth of 3.3%.

Considering the economic slowdown, we have reduced the growth rate for 2008 to 9%, in contrast to 10.5% in 2007. From 2010, with an expectation of a higher level of concentration in the sector and less opportunity of acquisitions, the expansion of the company will slow down and tend to a long-term rate of 4%. The long-term growth rate of 4% is justified by a real growth of 1.5% in global economy plus an inflation rate of 2.5%.

- **Lower operating margin :** In view of increasing energy price, raw material price and fierce competition in the sector, the operating margin rate before accounting entries related to the acquisition of Legrand France (no cash flow effect) is expected to drop to 16% by 2012 from 17.5% in 2007.
- **Increasing taxes:** As Legrand has amortized the major part of its deferrable deficits till 2007, we expect that the effective tax rate will increase gradually to a normal level of 34% by 2012 from 29% in 2007.
- **More efficient investments :** Since Legrand continues its strategy of subcontracting and restructuring, the net fixed assets increase less rapidly than the sales in future years. The return on capital invested and the rotation of net fixed assets are expected to improve and reach the same level as its peers. (see table 1)
- **Stable working capital requirement:** Legrand has continuously reduced its WCR and shows a good control of it. We foresee that Legrand maintains its WCR at 13% of sales, the average of 2002-2007.
- **Diminishing net debt:** The 2006 credit contract imposes on Legrand to maintain the ratio Net Debt / EBITDA below 3.5. According to our prevision, the activities of Legrand generate enough cash. The net debt will drop. With increasing EBITDA in future years, the ratio Net Debt / EBITDA will fall to about 1.3 by 2012.
- **WACC at 8.96%:** The cost of equity is 11.28%, estimated by Fama-French three-factor model which takes into account the market risk, the size factor and the book to market ratio. The beta of Legrand is 1.15. Since the rating on debt of Legrand is BBB, the cost of debt before tax is estimated to be 6.3 %, considering a risk free rate of 4.3%.

DCF Valuation

WACC	
cost of equity capital	11.28
weight of equity	72.11%
cost of debt	4.47
weight of debt	27.89%
WACC	8.96

Years	2008	2009	2010	2011	2012
Sales growth	9.0%	10.0%	9.00%	8.0%	7.0%
Sales	4500	4950	5396	5828	6236
Margin rate	17.2%	17.0%	16.8%	16.5%	16.0%
Adjusted EBIT	774	842	907	962	998
Taxes	-197	-225	-259	-296	-322
Investments in Net fixed assets	-145	-166	-188	-173	-166
Working Capital Requirement	-48	-59	-58	-56	-53
OCF	383	392	402	437	457
OCF/Sales	9%	8%	7%	7%	7%
Enterprise Value	8163				
Net Debt	1859				
Equity Value	6304				
Price Per Share	23.3				
Forward P/E	13.7				
MV/BV	3.0				
EV/EBITDA	8.7				

MBO ---- Valuation from Goodwill

Goodwill results from the abnormal earning generated by Legrand. We have used in MBO the same previsions in terms of growth, margin and cash flow as in DCF.

Years	2008	2009	2010	2011	2012
Net Income	460.7	512.0	562.9	600.1	613.5
Equity(BV)	2110.2	2272.5	2414.6	2659.5	2875.1
AbnormalEarning	220.4	274.1	306.7	327.8	313.6
TerminalAbnormal Earning					4483.2
Goodwill	198.1	221.4	222.6	213.8	2811.7
EquityValue	5971				
Price Per Share	22.0				
Forward P/E	13.0				
MV/BV	2.8				
EV/EBITDA	8.4				

Valuation from Peer Group Comparison

Schneider and Hubbell are competitors of Legrand in the fields of electrical equipment and data network. They are also comparable in terms of size, margin and growth potential. The multiples of Legrand are higher than its peers. This can be explained by the following reasons:

- We expect lower risk premiums in the future. Since January, the index SBF 120 has dropped by 16%; the U.S. market index S&P 500 has dropped by 7%. The general depreciation of stocks results from an increase in risk premiums and a decline in estimated free cash flow. This revaluation of price finds its origin in US sub-prime crisis and in the announced economic deceleration. With an expectation of a better economic environment in next 12 years, we anticipate a lower level of risk premiums.
- The possibility of a potential takeover of Legrand by another industrial group is priced. A potential acquisition of Legrand may drive up stock price of the company. So a speculative premium is included in the price.

	Operating Margin		ReturnOnEquity		Net Debt/Equity(BV)	
	2007	2008 E	2007	2008 E	2007	2008 E
Legrand	16.0%	15.8%	19.5%	21.6%	87.6%	87.8%
Schneider Electric SA	14.3%	14.7%	18.3%	17.4%	47.6%	37.6%
Hubbell Inc	11.8%	12.3%	20.5%	17.7%	14.6%	7.8%

Current	P/E		MV/BV		EV/EBITDA	
	2008 E	2009 E	2008 E	2009 E	2008 E	2009 E
Schneider Electric SA	10.82	10.43	1.72	1.57	7.43	7.12
Hubbell Inc	11.59	10.36	1.84	1.64	6.78	N/A
Legrand	11.72	10.54	2.56	2.38	7.78	7.10
Target						
Legrand	13.65	13.60	2.98	3.06	8.72	8.55
Entreprise Value	8146					
Equity Value	6287					
Price per Share	23.2					

Sensitivity Analysis

The sensitivity analysis illustrates the variation in value of Legrand in case of variation in long-term growth rate, cost of equity and operating margin.

		Cost of Equity				
		9.58%	10.93%	11.28%	12.28%	12.82%
Growth Rate	3.00%	25.5	20.0	18.8	16.0	14.8
	3.50%	28.9	22.2	20.8	17.6	16.1
	4.00%	33.2	24.9	23.3	19.4	17.7
	4.50%	38.7	28.2	26.2	21.6	19.6
	5.00%	46.3	32.4	29.9	24.2	21.8

		Cost of Equity				
		9.58%	10.93%	11.28%	12.28%	12.82%
Margin	-0.3 points/year	33.1	24.8	23.2	19.3	17.6
	-0.2 points/year	33.2	24.9	23.3	19.4	17.7
	+0.1 points/year	41.4	31.3	29.3	24.6	22.6
	+0.2 points/year	43.4	32.9	30.8	26.0	23.8

Business Description

Activity

Legrand is the world specialist in products and systems for electrical installations and information networks in residential, commercial and industrial buildings.

The Group offers complete solutions for home and building automation, incorporating in particular: wiring accessories, management of electrical installations and smart buildings, distribution and power, structured wiring systems, cable management systems and safety of residential and commercial buildings.

Legrand turned in an excellent performance in 2007. Sales growth was in double digits and adjusted operating income rose by over 17%, with margins showing a significant improvement, while net income surged by 67% and operating cash flow reached half a billion euros. Marking another year of sustained progress in all indicators, these results illustrate the structural change in the business model, with a combination of increased financial solidity and a marked acceleration in growth.

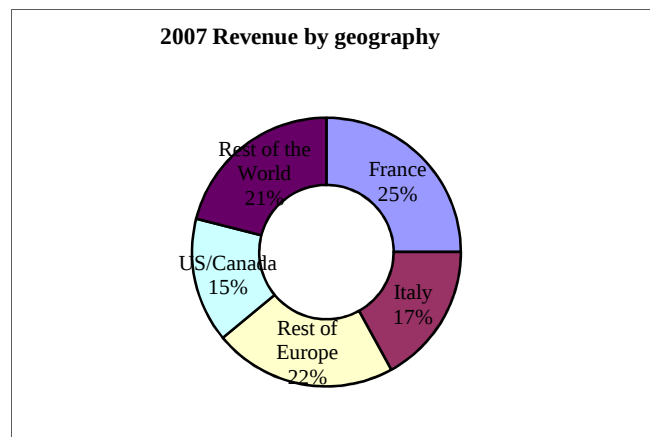
Its positioning on a single core business enables it to pursue a dual ambition, namely to become the leader in products and systems for electrical installations and information networks on all markets, and to become the benchmark player in smart electricity by providing innovative solutions and services. As a major player in its field, Legrand is developing and reinforcing its technological leadership on its markets by constantly increasing the added value of its offer by incorporating new technologies.

Geographical Expansion

Legrand's specialisation on one single market together with its ambitious growth strategy has enabled it to build up an outstanding coverage of this market. The Legrand Group has over 70 units worldwide and sells in more than 180 countries.

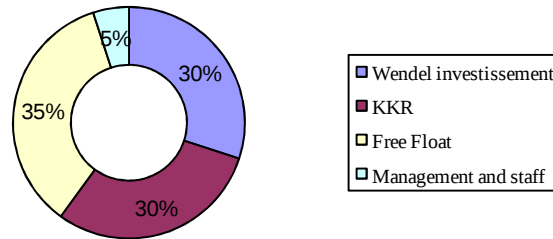
Legrand thus makes 75% of its sales outside France, notably over 25% in emerging countries.

Legrand's market, which represents around €60 billion, is very fragmented. The Group holds leadership positions in at least one of its major business areas in a number of countries among which France, Italy, Portugal, the Netherlands, Spain, Greece, Poland, United-Kingdom, Belgium, United-States, China, South Korea, India, Australia, Brazil, Mexico, Chile, Peru and Venezuela.



Development Strategy

At the heart of its mission, the Legrand Group offers innovative solutions to reduce energy consumption (lighting and heating management, shutter control), but also to protect against and prevent electrical risks, thus quite naturally involving the environmental dimension of Sustainable Development. The same is true of its other two components since, for many years now, the Group has harnessed the expert know-how of its teams to implement a wide range of good practices and thereby ensure responsible, sustainable and profitable growth in its business. This approach led to the setting-up of a Sustainable Development unit to unify the three aspects of the concept and consolidate the various actions concerned in the annual report.

Shareholder Structure

KKR, one of the world's largest and most successful private equity firms, has completed buyout transactions that are among the most complex in history. The firm's investment approach, however, is fundamentally simple: KKR acquires industry-leading companies and works with management to grow and improve them and thereby create shareholder value.

Wendel is one of Europe's leading listed investment firms. Its philosophy is to invest for the long term in industrial and service companies to accelerate their growth and help them become leaders.

Business Model and Strategy

The Group's strategy is to optimize its business model through initiatives focused on growth, costs and capital employed, accelerate its growth (in particular through targeted and self financed acquisitions) and increase its cash flow generation while maintaining or increasing its current margins.

Accelerate growth

In order to accelerate growth, Legrand intends to:

- Expand market coverage and improve its commercial efficiency;
- Focus on markets with high growth potential;
- Drive innovation by increasing the number of research and development projects designed to renew and expand Legrand's product range;
- Accelerate growth through targeted and recurring acquisitions;
- Develop added-value customer services.

Reduce costs to improve productivity

In order to improve its productivity, Legrand intends to capitalize on its operational initiatives implemented over the last few years. In particular, by relying on the new organization of its production activities into five industrial divisions, Legrand is looking to accelerate the specialization of its production sites, the transfer of certain activities to lower-cost sites and countries, the use of outsourcing and the realization of economies of scale.

Legrand intends to optimize its purchasing productivity based on initiatives launched in 2003 to centralize, globalize and standardize its purchasing functions.

Increase cash flow and optimize capital employed

Legrand seeks to increase its cash flow by continuing strong growth in net sales, cost reductions, optimization of Legrand's investments and management of its working capital requirements.

Legrand believes that, due to the development of its business model and its improved operational structure, the Group should be able to maintain capital expenditure ratios within a normalized range not exceeding 5% to 6% of consolidated sales.

Industry Overview and Competitive Positioning

The electrical components and equipment market, where Legrand lies, can be further divided into three subsectors: energy & infrastructure, industry and buildings. Legrand is engaged so far only in building market. It manufactures low-voltage electrical installations and data networks for residential, commercial and industrial buildings. According to company data, the accessible market amounts to 50-60 billions Euros, 34% in Europe, 28% in USA and Canada, 28% in Asia and 10% in the rest of world. In 2007, the revenues of the company were 4128.8 millions Euros, representing about 7-8% of world market.

The building market, with an important demand from renovation, is less subject to economic cyclicity. Opportunities in this market lie in optimization of energy use, building automation and security. Legrand has strengthened its market positioning in these high-potential markets through investments in acquisitions. In 2007 the company acquired Aples Technologies in France, TCL Wuxi in China, UStec in United States and Vantage in United States in 2006. Besides, Legrand invested on average 4-5% of its revenues each year in R&D. By the end of 2007, 53 new products have been launched, 38% of sales were made with new products. Up-market series of Legrand, "Celiane" and "Axolute" are expected to continue their success in France and Italy.

Fast-growing emerging countries represent considerable opportunities for companies in electrical components and equipment market. The strong momentum of domestic demands and large investment in manufacturing and construction industries in these markets attract manufacturers of electrical components and equipments from all over the world. Legrand realized 25% of its sales in emerging markets in 2007.

Legrand faces fierce competition from large industrial companies and specialists in the same sector. The electrical components and equipment market is shared by a small part of large industrial companies with a diversified product portfolio and a great number of specialists in certain subsector. Legrand is a specialist in building market. Large industrial groups such as Siemens, ABB, Schneider and General Electric are important rivals of Legrand. They have in disposal more financial resources, which allow them to invest a great deal in R&D and in acquisitions to gain market shares. Legrand itself could be a target of potential takeovers launched by one of these industrial groups. Another threat for Legrand comes from worldwide specialists in the same sector. Companies like Hager and Gewiss, follow the same business model as Legrand, manufacture and commercialize similar products in overlapped markets, and so reduce the pricing power of Legrand.

The electrical components and equipment market is fragmented by regional electric standards and norms. For new-comers, these norms form a slight barrier to enter.

Since July 2006 European guideline on dangerous substances-use-restriction forbids utilization of certain products as lead. Legrand anticipated suppression of these substances and gives favor to processes in regard with environmental views since 2004.

SWOT matrix of Legrand	
Strengths	Weaknesses
- Leader in the sector of low-voltage electrical installations and information networks for buildings - Large range of products - Continual policy of innovation - Reduction of industrial wastes and dangerous substances according to legislations - Solid financial situation to auto finance organic and external growth - Strong marketing campaign	- Increase in raw materials prices - High financial leverage compared to peers - A single gamble on building market - Realization of 25% of revenues by 2 distributors
Opportunities	Threats
- Sector entry barriers to new-comers in respect to electrical norms - Weak cyclicity of the sector - High-growth prospect of emerging markets - Globalization and reduction of costs	- Highly regulated electrical sector - Environmental legislations on industrial wastes - Fierce competition in the sector - Deceleration of world economy and disrupted housing market in US

Financial Analysis

Legrand has shown a solid financial structure, driven by an impressive sales growth and a good cost control. Its ability to generate high free cash flow enables Legrand to auto finance its acquisitions. Nevertheless it's gearing remains relatively high. Assuming the economic slowdown, we foresee a more moderate growth of its sales and adjusted operating margin for the next few years.

EARNINGS

A strong growth of sales nurtured by the setting up on growing markets of emerging countries, the launch of up market products and the deployment of sales force

Total revenues grew at a 2004-2007 CAGR of 12.16 % to reach 4,128.8 Millions € in 2007. The main drivers of growth are :

- External growth : thanks to its acquisitions Legrand has access to fast-growing markets of emerging countries (TCL and Shidean in China, Cemar in Brazil, Kontaktor in Russia, Macse in Mexico) and to the market of residential automatism (OnQ, Vantage and UStec). See figure 1
- A diversified offer and innovative products (energy savings solutions, electricity quality solutions, lighting control) : within 4 years the number of new products launched have increased sixfold and represents today 38 % of total sales. Celiame in France or Axolute in Italia (upmarket products launched respectively in January 2007 and December 2005) have contributed to 23 % of sales growth in France and Italy in 2007. In spite of the US property market crisis, Legrand has realised a 1.6% growth of its sales thanks to its sales force and high added value activities (residential automatism, energy savings solutions). See figure 2
- Due to the economic slowdown, the sales for 2008 are expected to be 9%.

An improvement of cost structure : The price rise in raw materials is widely compensated by a raise in selling prices, a relative drop of personnel expenses and to a lesser extent by a relative decrease in R&D expenses

The make or buy approach, lean manufacturing as well as synergies created thanks to acquisitions enable Legrand to reduce its personnel costs to reach 25.8 % of sales in 2007 that is to say – 3.6 points in comparison with 2004. **See Figure 3** Legrand intends to continue this costs optimisation and stabilize its R&D expenses to 4-5% of its sales.

Leading to a robust operating profit growth See figure 4

Considering sales growth anticipation and costs evolution, we foresee for 2008 an adjusted operating margin close to the one in 2007 (17.5% that is to say + 1.3 points in comparison with 2004).

A drop of financial expenses and a low average tax rate

Net financial expenses have been divided by 4 in the last 4 years due to the reduction of debt.

See figure 8b

The average tax rate was maintained around 25 % during 2006 and 2007 thanks to deferrable deficits and a decrease in tax rate in Italy in 2007. Nevertheless it should in the next few years reach a normal level of 35%. **See figure 5**

Leading to an impressive net profit growth

Thus 2004-2007 CAGR of net profit amounts to 147.13 %. **See figure 6**

CASH FLOW

An autofinancing growth thanks to a strong ability to generate high cash flow

Legrand has structurally improved its ability to generate in a recurrent manner a significant level of free cash flow (2004-2007 CAGR FCF = 15.2 %) through:

- An increase in operating cash flow (with a 2004-2007 CAGR of 21.7 %) essentially generated by a continuous increase in net profits. See Figure 7
- A continuous reduction of Working Capital Requirement except in 2006
- The maintenance of capital expenditures at a level of 4% of sales. Legrand expects to maintain its Capex to 4% of sales and its working capital to 13% of sales.

BALANCE SHEET & FINANCING

A high gearing despite debt reimbursement

The LBO in 2002 caused a high level of debt for the group. Nevertheless the debt refinanced at a more favourable rate (2006 credit contract) and the raised funds with the IPO in 2006 (866 millions €) enabled Legrand to reduce debt, to regain a reasonable gearing. **See figure 8a**

Furthermore the 2006 credit contract imposes on Legrand to maintain a Net Debt/EBITDA ratio less than 3.5. Legrand intends to keep this ratio around 2.

In March and in May 2007, the shareholders have authorized a total stock buyback of 850 millions €, which is expected to end by 2010. The shares bought back are used for exercise of stock options, for allocation to employees and for cancellation. By the end of 2007, 11-million shares have been repurchased by the company for 280.8 millions.

Fixed assets are essentially composed of intangible assets (40%), goodwill (41%) and property plant and equipment (17%) due to acquisitions and subcontracting. **See figure 9**

Investment Risks

Economic Risk

Legrand depends on the sector of construction; that makes it sensitive to a reversal of economic situation. The main clients of the company are electrical professionals and building contractors. Therefore the level of activity in the new construction and renovation sectors should be followed attentively. A slowdown in this sector will have a negative effect on the bottom line of the company.

The company is exposed to the current recession in US residential market.

Regulatory & Environmental Risks

Given that Legrand operates in a regulated environment, any change in the regulations may affect the operating activities. The group has developed environmental risk prevention but it's always subject to claims for violations of applicable environmental laws and regulation. Therefore these actions may harm Legrand's reputation and affect its cash flows.

Threat from Competitors

Legrand is not protected by real technological barriers. He could suffer from the ascent in power of a new actor in the sector. Its only protections live in the knowledge of the standards in the different countries, the customer loyalty and the innovation.

Commodity Risk

Legrand has been suffering from increasing commodity prices. The raw materials represent about 30 % of its sales. Currently a major part of increase in raw material costs is compensated by increasing the company's product prices. Due to the fierce competition in the sector, the pricing power of Legrand is diluted. The margin of the company will be reduced if commodity prices continue to rise.

Liquidity Risk

Legrand has a good capacity of repayment because on December 31st, 2007 the Group has the possibility to borrow an additional 1,043.8 million euro amount in conformance with the syndicated loan.

Exchange Rate and Interest Rate Risk

The appreciation of Euro punishes the competitiveness of exporting. This constitutes a source of slowing down for Legrand. In 2007 38% of the turnover have realized in currencies other than the euro. 85% of the company's debt is contracted in variable rate. Legrand manages this risk by caps and swaps. With increasing risk premiums on financial market, it's more costly for Legrand to finance its growth by borrowing.

25% of its turn over is realized with only two distributors. Legrand is not covered against a default risk.

Figure A : Income Statement
€ in millions

Consolidated Statement of Income

(in € millions)	Legrand 12 months ended December 31,		
	2007	2006	2005
Revenue (Note 1 (k))	4,128.8	3,736.8	3,247.9
Operating expenses			
Cost of sales	(2,060.5)	(1,881.7)	(1,675.4)
Administrative and selling expenses	(1,081.8)	(977.7)	(835.6)
Research and development costs	(219.5)	(237.9)	(238.6)
Other operating income (expense) (Note 20 (b))	(105.5)	(109.9)	(92.6)
Operating profit (Note 20)	661.5	529.6	405.7
Finance costs (Note 21 (b))	(152.4)	(157.4)	(206.5)
Financial income (Note 21 (b))	42.5	33.7	25.4
Exchange gains and losses (Note 21 (a))	44.0	40.4	(32.3)
Loss on extinguishment of debt (Note 15 (a))	0.0	(109.0)	0.0
Finance costs and other financial income and expense, net	(65.9)	(192.3)	(213.4)
Share of profit of associates	2.0	0.8	1.3
Profit before tax	597.6	338.1	193.6
Income tax expense (Note 22)	(175.0)	(82.9)	(89.8)
Profit for the period	422.6	255.2	103.8
Attributable to:			
– Legrand	421.0	252.0	101.4
– Minority interests	1.6	3.2	2.4
Basic earnings per share (euros) (Notes 10 and 1 (s))*	1.584	1.019	0.534
Diluted earnings per share (euros) (Notes 10 and 1 (s))*	1.573	1.009	0.527

Source: Legrand Documents

Figure B : Balance Sheet

€ in millions

Consolidated Balance Sheet

	Legrand		
	December 31,	December 31,	December 31,
(in € millions)	2007	2006	2005
ASSETS			
Current assets			
Cash and cash equivalents (Note 1 (d))	221.1	178.9	133.2
Marketable securities (Note 9)	0.2	0.4	0.6
Income tax receivables	12.3	14.2	6.1
Trade receivables (Notes 1 (e) and 7)	646.2	620.8	563.2
Other current assets (Note 8)	145.5	132.2	127.5
Inventories (Notes 1 (i) and 6)	624.4	560.1	474.5
Other current financial assets (Note 24)	11.8	22.2	33.4
Total current assets	1,661.5	1,528.8	1,338.5
Non-current assets			
Intangible assets (Notes 1 (f) and 2)	1,784.3	1,840.0	1,861.3
Goodwill (Notes 1 (g) and 3)	1,815.9	1,633.2	1,780.0
Property, plant and equipment (Notes 1 (h) and 4)	756.7	789.2	833.6
Investments in associates (Note 5)	14.0	10.5	9.5
Other investments (Note 5)	8.3	5.0	4.1
Deferred tax assets (Notes 1 (j) and 22)	64.3	124.6	61.5
Other non-current assets	4.6	4.8	4.6
Total non-current assets	4,448.1	4,407.3	4,554.6
Total Assets	6,109.6	5,936.1	5,893.1



	Legrand		
	December 31,	December 31,	December 31,
(in € millions)	2007	2006	2005
EQUITY AND LIABILITIES			
Current liabilities			
Short-term borrowings (Note 18)	654.7	790.7	319.3
Income tax payable	39.6	32.7	22.3
Trade payables	474.0	454.4	377.0
Short-term provisions and other current liabilities (Note 19)	497.9	436.8	406.9
Other current financial liabilities (Note 24)	86.9	66.6	59.9
Total current liabilities	1,753.1	1,781.2	1,185.4
Non-current liabilities			
Deferred tax liabilities (Notes 1 (j) and 22)	654.9	663.9	720.3
Long-term provisions and other non-current liabilities (Note 16)	81.0	109.8	134.0
Provisions for pensions and other post-employment benefits (Notes 1 (q) and 17)	125.1	147.6	139.7
Long-term borrowings (Note 15)	1,364.4	1,055.5	1,803.3
Subordinated perpetual Notes (Note 13)	0.0	9.5	28.5
Related party borrowings (Note 14)	0.0	0.0	1,334.8
Total non-current liabilities	2,225.4	1,986.3	4,160.6
EQUITY			
Share capital (Note 10)	1,083.9	1,078.8	759.4
Retained earnings (Note 12 (a))	1,238.4	1,217.6	(157.1)
Translation reserves (Note 12 (b))	(194.0)	(136.6)	(64.3)
Equity attributable to equity holders of Legrand	2,128.3	2,159.8	538.0
Minority interests	2.8	8.8	9.1
Total equity	2,131.1	2,168.6	547.1
Total Liabilities and Equity	6,109.6	5,936.1	5,893.1

Source: Legrand Documents

Figure C: Statement of Cash Flows

€ in millions

Consolidated Statement of Cash Flows			
(in € millions)	Legrand		
	12 months ended December 31,		
	2007	2006	2005
Profit for the period	422.6	255.2	103.8
Reconciliation of profit for the period to net cash provided by operating activities:			
– Depreciation expense (Note 20 (a))	131.5	142.0	144.0
– Amortization expense (Note 20 (a))	76.2	98.0	111.0
– Amortization of development costs (Note 20 (a))	8.2	3.4	0.4
– Amortization of finance costs	1.4	2.1	3.2
– Loss on extinguishment of debt	0.0	109.0	0.0
– Changes in deferred taxes	46.1	(14.5)	12.9
– Changes in other non-current assets and liabilities	(5.8)	0.2	16.4
– Share of profit of associates	(2.0)	(0.8)	(1.3)
– Exchange (gain)/loss, net	(4.0)	(0.9)	18.1
– Other adjustments	6.9	26.1	25.3
(Gains)/losses on sales of assets, net	(12.9)	(1.1)	7.1
(Gains)/losses on sales of securities, net	(0.2)	0.0	0.1
Changes in operating assets and liabilities:			
– Inventories	(32.6)	(74.5)	(6.6)
– Trade receivables	(13.5)	(38.4)	(5.2)
– Trade payables	18.3	62.4	33.9
– Other operating assets and liabilities	45.3	13.3	(12.6)
Net cash provided by operating activities	685.5	581.5	450.5
Net proceeds from sales of fixed assets	38.8	27.5	10.9
Capital expenditure	(149.4)	(130.8)	(112.0)
Capitalized development costs	(22.0)	(22.1)	(21.5)
Changes in non-current financial assets and liabilities	(0.4)	(0.5)	0.0
Proceeds from sales of marketable securities	0.1	0.1	0.3
Purchases of marketable securities	0.0	0.0	40.2
Acquisitions of subsidiaries, net of the cash acquired (Note 3)	(265.1)	(85.9)	(399.8)
Investments in non-consolidated entities	(5.2)	(2.0)	0.0
Net cash used in investing activities	(403.2)	(213.7)	(481.9)
– Proceeds from issues of share capital (Note 10)	5.1	866.2	0.0
– Share buybacks and transactions under the liquidity contract (Note 10)	(280.8)	0.0	0.0
– Dividends paid to equity holders of Legrand	(133.1)	(110.6)	0.0
– Dividends paid by Legrand subsidiaries	(3.0)	(3.2)	(1.2)
– Reduction of subordinated perpetual Notes	(9.5)	(19.0)	(40.5)
– Proceeds from new borrowings and drawdowns	418.3	2,255.8	179.2
– Repayment of borrowings	(124.5)	(3,444.9)	0.0
– Debt issuance costs	(0.5)	(6.1)	0.0
– Loss on extinguishment of debt	0.0	(109.0)	0.0
– Increase (reduction) in bank overdrafts	(106.2)	258.5	(49.7)
Net cash (used in) provided by financing activities	(234.2)	(312.3)	87.8
Effect of exchange rate changes on cash and cash equivalents	(5.9)	(9.8)	8.5
Increase in cash and cash equivalents	42.2	45.7	64.9
Cash and cash equivalents at the beginning of the period	178.9	133.2	68.3
Cash and cash equivalents at the end of the period	221.1	178.9	133.2
Items included in cash flows from operating activities			
– Interest paid during the period	102.0	122.1	150.7
– Income taxes paid during the period	109.5	86.3	57.8

Source: Legrand Documents

Table 1 Forecast

€ in millions

	2005	2006	2007	2008	2009	2010	2011	2012
BFR = 13% sales				422	486	537	585	644
Investment in Operating Fixed Assets (net)	522.4	-213.3	402.9	368	398	429	422	423
In % of Sales	16.1%	5.7%	9.8%	8.2%	8.0%	7.9%	7.2%	6.8%
Depreciation and Amortization	-255.4	-243.4	-215.9	-223.1	-231.3	-240.5	-249.1	-257.2
Operating Fixed Assets	4488.5	4277.9	4379.2	4524.5	4690.8	4878.8	5051.9	5217.6
Rotation (Sales/Operating Fixed Assets)	0.72	0.87	0.94	0.99	1.06	1.11	1.15	1.20

	2005	2006	2007	2008	2009	2010	2011	2012
Sales	3247.9	3736.8	4128.8	4500.4	4950.4	5396.0	5827.6	6235.6
Sales growth	11.0%	15.1%	10.5%	9.0%	10.0%	9.0%	8.0%	7.0%
EBITDA	661.1	773	877.4	934.1	1023.3	1120.1	1204.8	1254.9
Depreciation and Amortization	-255.4	-243.4	-215.9	-223.1	-231.3	-240.5	-249.1	-257.2
EBIT	405.7	529.6	661.5	711.1	792.1	879.5	955.7	997.7
Operating Margin	12.5%	14.2%	16.0%	15.8%	16.0%	16.3%	16.4%	16.0%
Net Financial costs	-213.4	-192.3	-65.9	-55.0	-57.5	-59.9	-62.4	-64.8
Share of Profit of Associates	1.3	0.8	2	2.1	2.1	2.2	2.3	2.3
EBT	193.6	338.1	597.6	658.1	736.7	821.8	895.6	935.2
Income Tax	-89.8	-82.9	-175	-197.4	-224.7	-258.9	-295.5	-321.7
	-46%	-25%	-29%	-30%	-31%	-32%	-33%	-34%
Net Income	103.8	255.2	422.6	460.7	512.0	562.9	600.1	613.5
Net Margin	3.20%	6.83%	10.24%	10.24%	10.34%	10.43%	10.30%	9.84%

	2005	2006	2007	2008	2009	2010	2011	2012
Dividend		134.9	189.7	216.3	250.9	301.0	355.2	397.8
Exercise of Option, FreeShares and Stock Buyback			275.1	265.3	98.9	119.8		
Shareholders' Equity		2168.6	2131.1	2110.2	2272.5	2414.6	2659.5	2875.1
Net Debt			1866	1859	1783	1770	1658	1570
Net Debt/EBITDA			2.0	2.0	1.7	1.6	1.4	1.3

		2007	2008	2009	2010	2011	2012
ROE		19.66%	21.72%	23.36%	24.02%	23.65%	22.17%
ROC		9.87%	10.26%	10.88%	11.38%	11.59%	11.38%

All data are given in millions € and all graphs are generated from Legrand data.

Figure 1

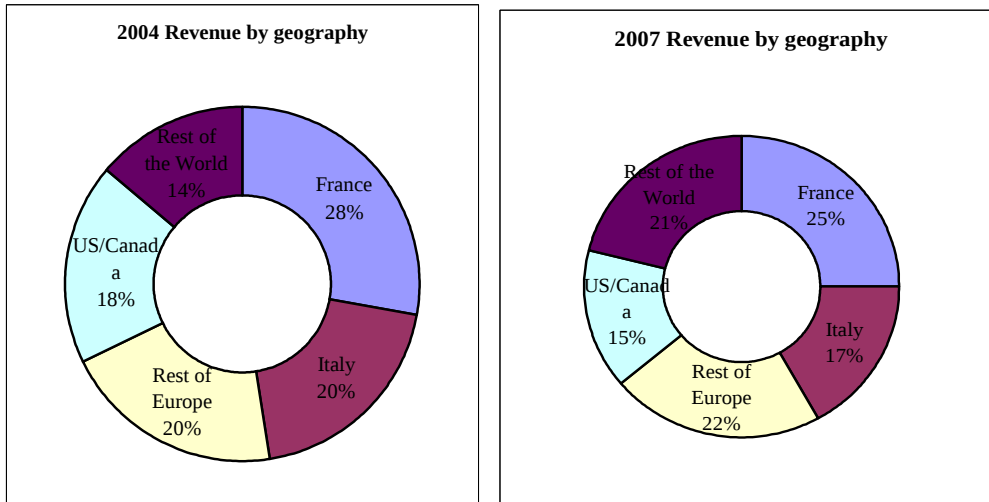


Figure 2

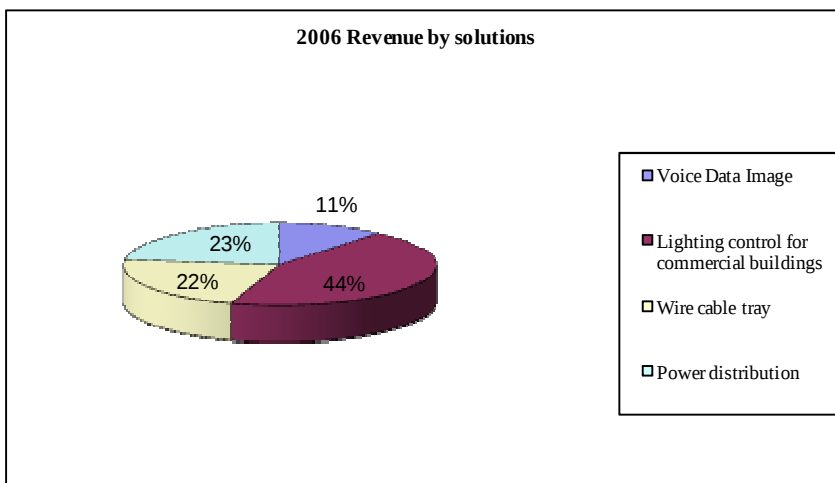
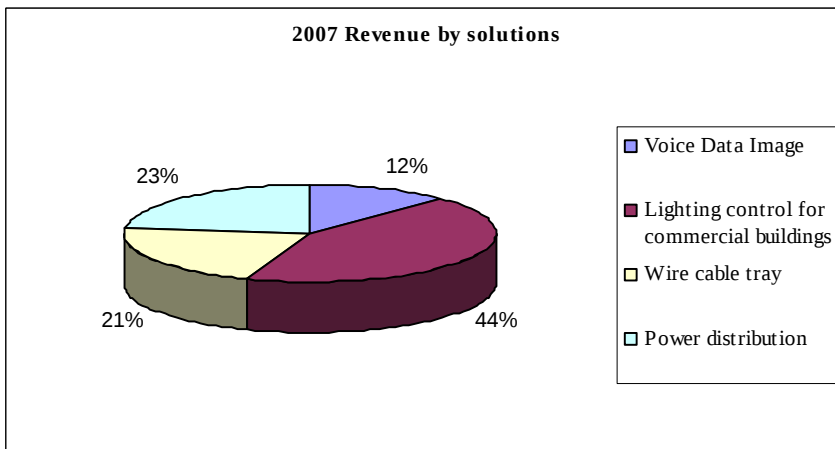
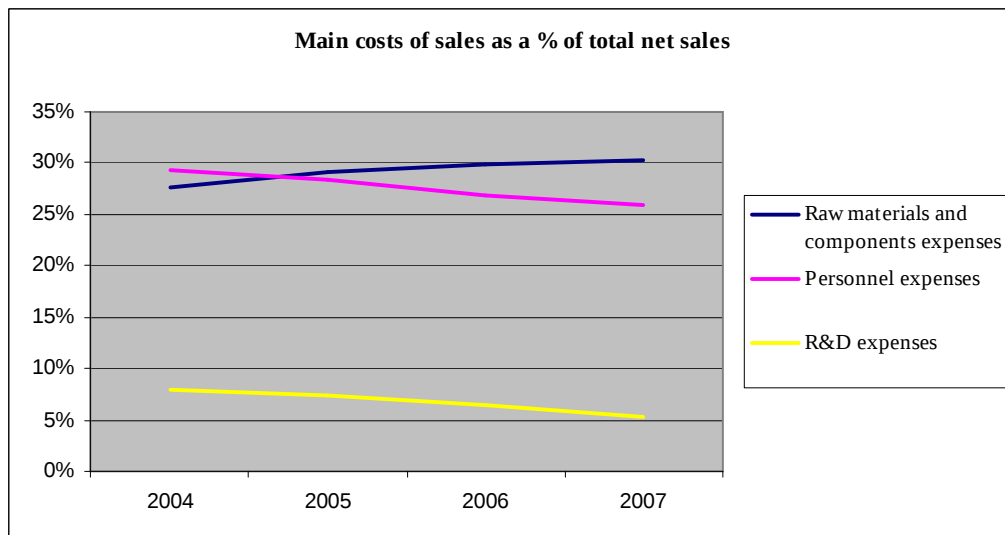


Figure 3



	2004	2005	2006	2007
Number of employees	24775	30237	30706	33656
Variation in number of employees		22,0%	1,6%	9,6%
Variation in personnel expenses		6,9%	9,5%	5,9%

Figure 4a

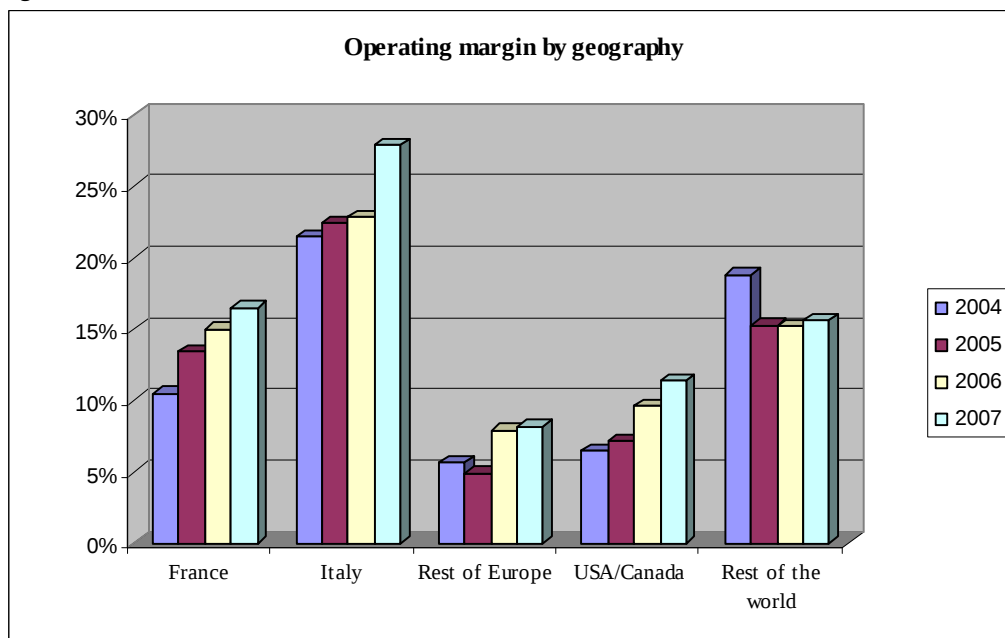


Figure 4b

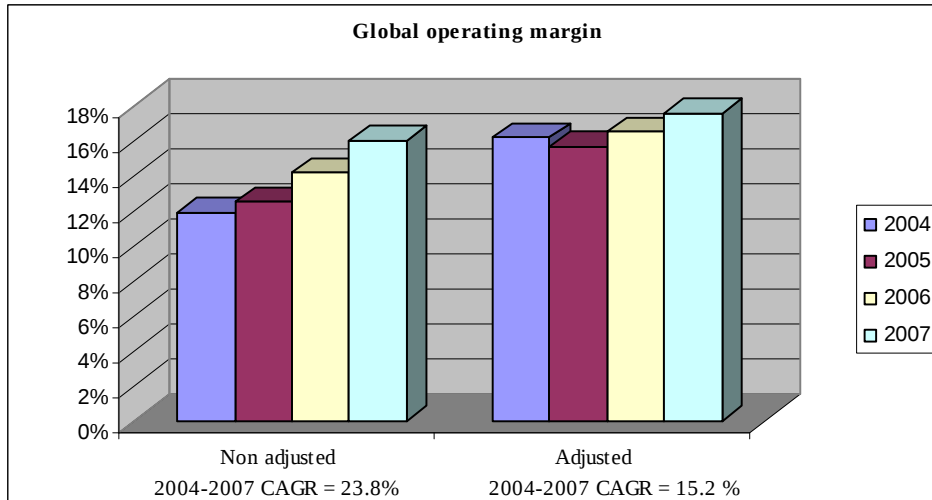


Figure 5

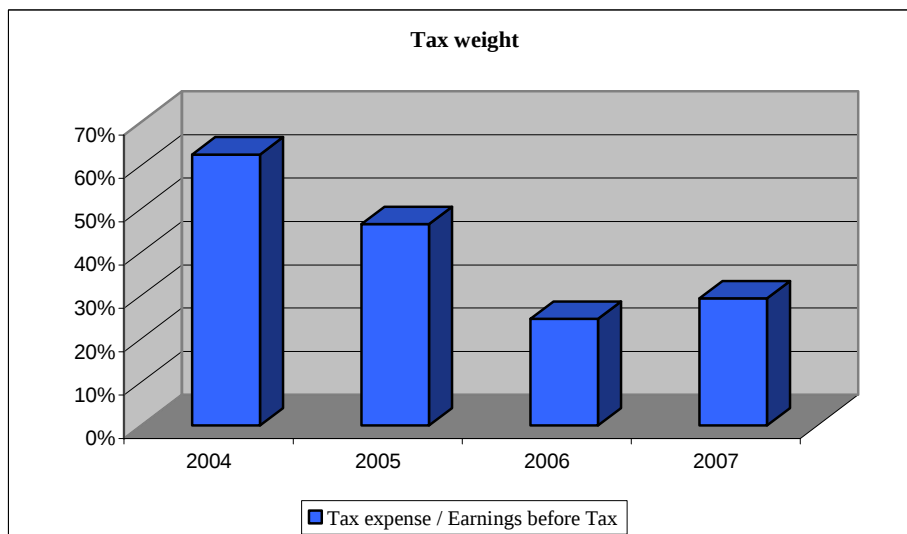


Figure 6

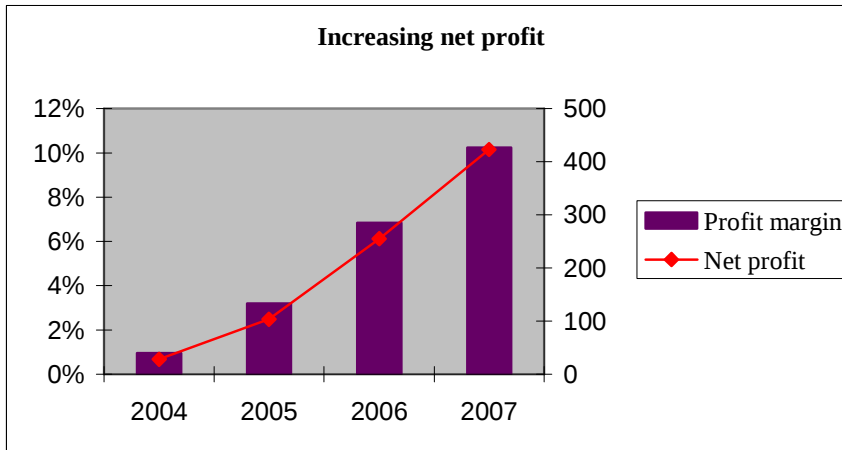


Figure 7

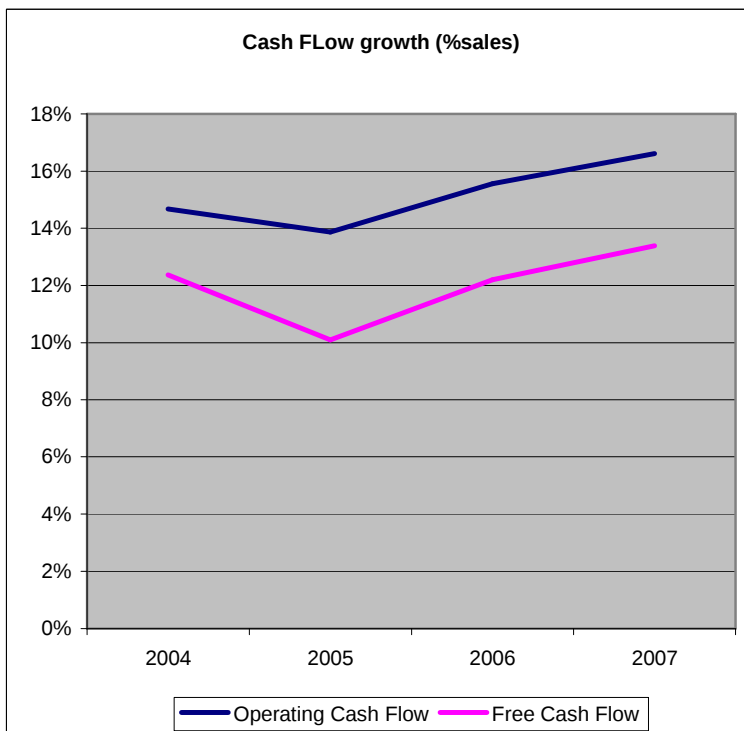


Figure 8a

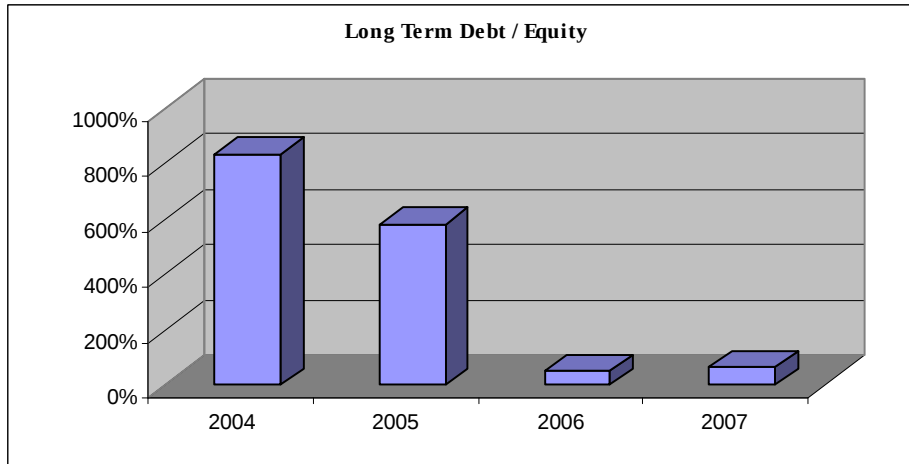


Figure 8b

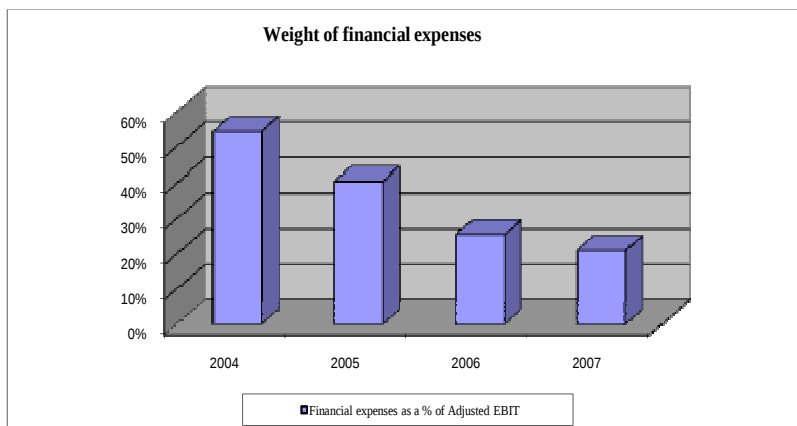
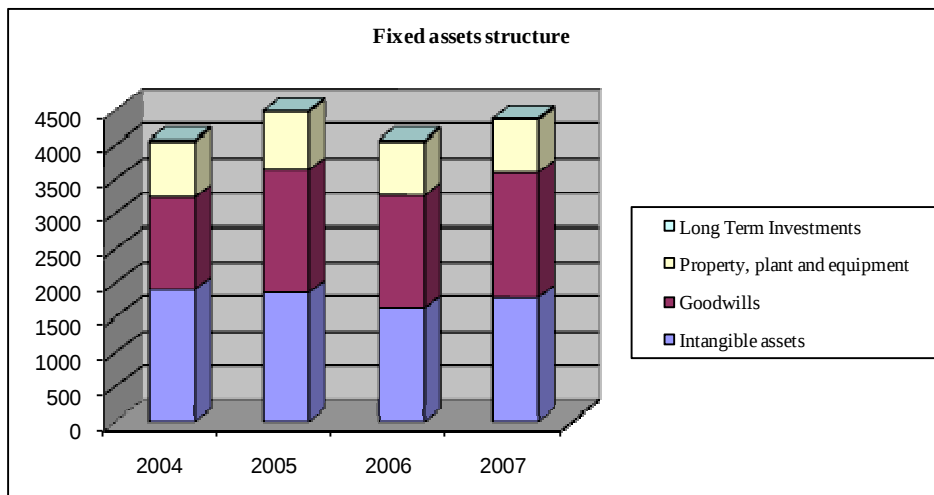


Figure 9





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