Industrials - Electrical Components & Equipment

Legrand S.A. (LR FP)

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RATING	PRICE TARGET	PRICE	52-WEEK RANGE
SELL	**€134**	**€143.35**	**€109.5 - €160.1**

Legrand is a major global player in electrical and digital building infrastructure, offering a diverse portfolio of solutions across residential, commercial, industrial and datacentre end-markets. In 1Q26, the group delivered 11.4% YoY sales growth, with a 20.7% adjusted operating margin. Legrand combines stable cash generation with favorable structural tailwinds, notably through its growing exposure to datacentres and AI-related infrastructure demand. The business model is attractive, but the market seems to have already priced in very strong execution of the group's roadmap. At the current valuation, we believe Legrand is a high-quality company, but not an attractive entry point. Consequently, we assign a Sell rating with a price target of €134, based on our DCF valuation, using the average of our Gordon Growth (€125) and Exit Multiple (€143) approaches.

Investment Thesis

- **Constructive Sell:** We acknowledge the quality of Legrand's business, its strong execution track record in terms of M&A, and its attractive positioning in datacentre infrastructure.
- **Demanding market expectations:** We believe the market has already priced in much of this upside and now expects close to flawless delivery.
- **Key risk:** As datacentre infrastructure becomes more attractive, rising acquisition multiples could reduce value creation per euro invested.

At the current valuation, we foresee a risk that future value creation becomes increasingly dependent on flawless execution in datacentres and capital allocation.

Recent dynamics

1Q26 confirmed Legrand's two-speed profile. On the one hand, datacentres are driving the overall growth, with around 30% organic growth in this segment. On the other hand, the rest of the business remains more subdued, with residential and office markets declining, particularly in Europe and the US, while energy transition showed moderate growth. The adjusted operating margin remained high at 20.7%, unchanged YoY, while the gross margin declined by around 190bps, mostly due to raw material and component price increases. Management highlighted Legrand's pricing power by announcing during the earnings call that it would be raising selling prices for the year, suggesting that this gross margin pressure should be mostly temporary. However, the sharp increase in net debt following recent acquisitions reinforces our key concern: future growth is likely to remain increasingly dependent on disciplined capital allocation.

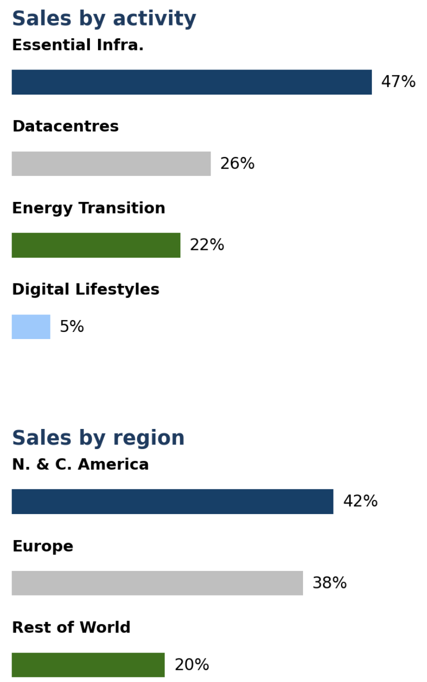
Key Estimates

(EUR)	2026E	2027E
Rev (M)	10,645	11,860
Adj. EBIT	2,198	2,444
DC growth (%)	27%	19%
M&A growth (%)	6%	4.5%

Model Inputs

WACC	8.29%
Cost of Equity	8.98%
Beta (levered)	1.17
Terminal growth	2.5%
Exit EV/EBIT	15.3x
Tax rate	26%
Forecast Horizon	10Y (FY26 - FY35)

Fig 1: FY2025 sales mix



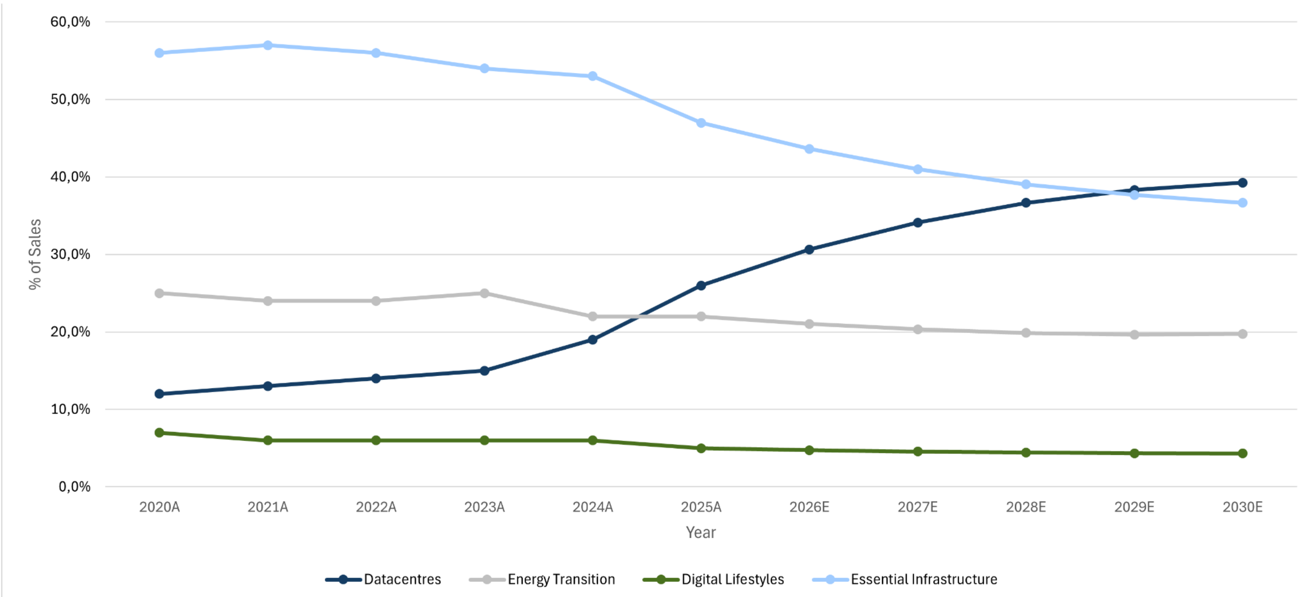
On datacentres

It is important to mention datacentres specifically, as this is currently the key topic at Legrand. As we saw, this business line is driving the growth of the company, supported by strong demand for electrical and digital infrastructure linked to AI and hyperscale investments. Thus, we need to look more closely at this segment, as it represents both a major growth driver and a key part of the current valuation debate.

Management announced that it no longer comments on orders or book-to-bill, as it has "a lot of difficulty to bridge the orders with the sales". This is not a red flag in itself, but it is still important to note that the project-based nature of the datacentre business can make quarterly sales development less predictable.

On the other hand, the new 800V DC architecture is an important point to monitor. In a full 800V DC scenario, some of Legrand's datacentre revenues, particularly rack PDUs, UPSs and low/medium voltage equipment, could be negatively impacted. However, this should be partly offset by positive exposure to racks, busways, busbars, cooling, software and services. Moreover, management believes that the transition should be more progressive than some investors expect, and that Legrand is well positioned to address both hybrid architectures and the full 800V DC architecture.

Fig 2: Datacentres revenue mix, 2020-2030E



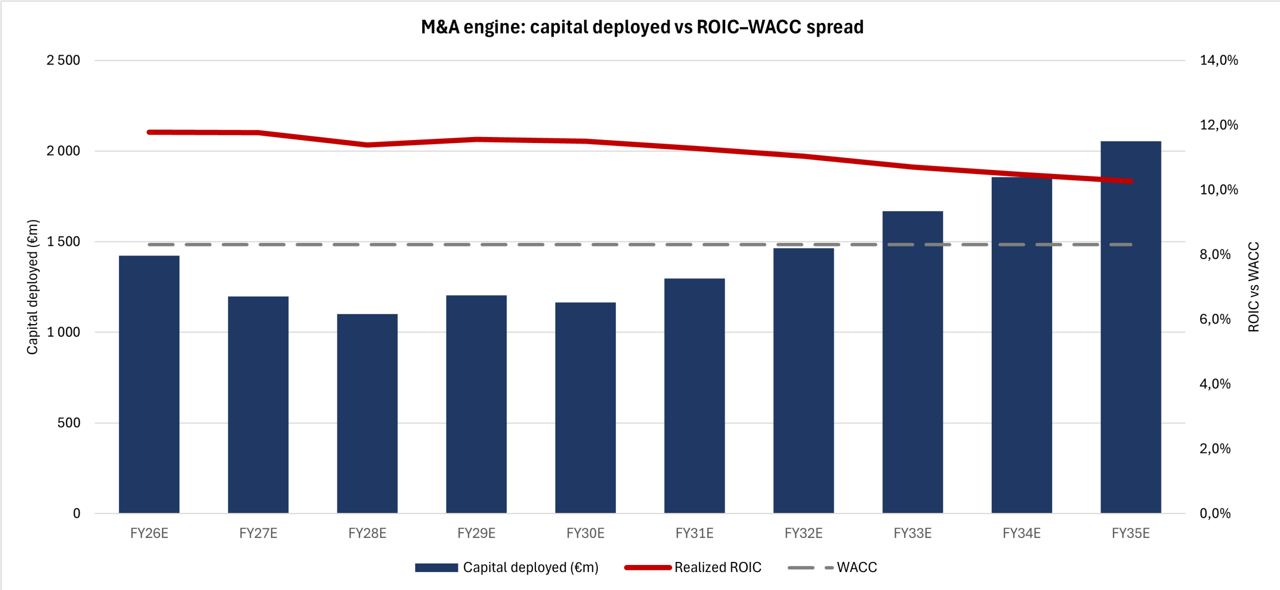
Valuation

Our €134 target price is based on a 10-year DCF, using the average of our Gordon Growth and Exit Multiple approaches. Peer multiples are used as a cross-check only. The DCF is based on a WACC of 8.29%, which consists of a cost of equity of around 8.98% and a cost of debt of around 3%. Our assumptions are as follows:

- **M&A valuation**: We estimate M&A value creation using an economic profit framework. For each forecast year, we forecast acquired sales, capital deployed and realized ROIC, then compare the latter with the group WACC. The resulting ROIC-WACC spread is capitalized and discounted back to present value. Including a terminal value for future M&A value creation beyond FY35, we estimate an M&A contribution of €23.08 per share.
- **Sales:** Management is confident in reaching €15bn in sales by 2030. This is based on a combination of organic growth and M&A contribution. In our model, aggregated growth goes from 12.3% in FY26 to 5.5% in FY35, reflecting high growth in the datacentre business, and resilience in the legacy business lines.
- **Adjusted EBIT margin:** The adjusted operating margin is above 20%. We keep it growing slightly from 20.7% in FY26 to 21.7% in FY35, driven by operating leverage, mix improvement and disciplined cost management. We do not assume aggressive margin expansion, as datacentre growth also comes with ramp-up costs and a different gross margin structure.
- **FCF:** Legrand's cash flows are of very good quality, with strong conversion from net income. With controlled capex, estimated at around 3% of sales, cash generation remains one of Legrand's best assets.

- **Capital allocation:** Legrand plans to maintain a balanced capital allocation policy, combining continued M&A transactions with a 50% payout ratio. This is attractive, but also reinforces the importance of acquisition discipline, as M&A is becoming an increasingly important growth driver.

Fig 3: M&A value creation



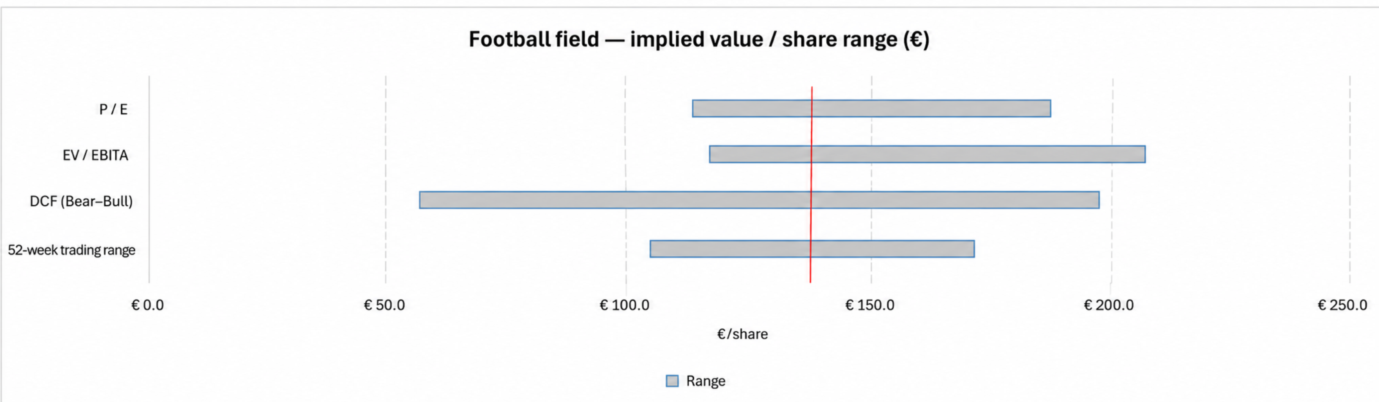
Multiple-based valuation

We also performed a multiple-based valuation using selected electrification peers. The peers were chosen because of their relative comparability with Legrand's lines of business, namely Schneider Electric, which we view as the most comparable one, ABB, Eaton and Hubbell.

Based on this peer group, Legrand appears to trade at a discount on selected valuation metrics, particularly EV/EBITA and P/E. However, we use this multiple-based valuation mainly as a cross-check rather than as our primary valuation method, as our price target is based on the DCF valuation.

Electrification peers already benefit from a valuation premium linked to structural growth themes such as electrification, energy transition and datacentre infrastructure. The size of this premium differs depending on each company's exposure to datacentres, growth profile and profitability.

Fig 4: Football field



Risks & Catalysts

Key risks to our thesis

Our thesis faces three main upside risks:

- **Stronger datacentre growth:** Datacentre growth could normalize later than expected, especially if hyperscaler capex continues to grow and Legrand captures part of this demand.
- **Disciplined and accretive M&A:** Legrand's management could continue to find relevant and reasonably priced M&A opportunities that support growth while preserving returns and value creation. This would weaken our main concern around rising acquisition prices.
- **Recovery in building markets:** Building markets could recover faster than expected, particularly in Europe, if macroeconomic and geopolitical conditions improve. This would reduce the concentration risk around datacentres.

Potential Catalysts

The following represent key catalysts for our investment thesis:

- **Capital Markets Day:** The CMD, which will take place on September 29th in Singapore, will give us more insight into the group
- **OpenAI and Anthropic IPOs:** Both OpenAI and Anthropic have submitted draft S-1 registration statements to the SEC. These IPOs could become major sentiment catalysts for AI-related infrastructure stocks.
- **M&A activity:** New acquisitions, especially in datacentres and energy transition, will be important to monitor. The key point will not only be the number of deals, but also the valuation multiples paid and the expected returns and integration of such acquisitions.

Conclusion

Legrand remains a high-quality company, with strong management, resilient cash generation and one of the best positions in electrical and digital building infrastructure. The group is well exposed to structural themes such as electrification, digitalization, energy efficiency and datacentre demand. However, we believe the current valuation already reflects a large part of this quality and growth potential. The premium is partly justified, but appears demanding at current levels, leaving limited margin of safety. Therefore, we assign a Sell rating with a target price of €134. We would become more constructive if the share price were to move closer to our target price, at which point the risk-reward would need to be reassessed.