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Europe's (sometimes) overlooked industrial champions

While economic growth remains mediocre, PMIs (purchasing managers' indices) weak, and any strong recovery from China is seems delayed, several European industrial champions continue to grow in 2024, despite demanding conditions. In these cases, structural trends are mitigating, or in some cases even overcompensating for, cyclical headwinds.

With this year's Hannover Trade Fair (the "Hannover Messe") – a leading showcase for European industrial talent – approaching, we take a look at three drivers that are supporting the outlook for these European industrial champions: electrification, datacentres, and digital industries. Indeed, this year edition of the Trade Fair is focusing on several industry trends that, as we will see, are strongly supportive of these drivers.



Electrification

Ambitious carbon pledges mean the world requires new pathways to quickly improve our energy mix. The IAE estimates that today electricity accounts for around 20% of energy consumption. As the below chart shows, various scenarios are possible (shown here are the stated policy scenario, the

announced pledge scenario, and net zero by 2050) but all of them see a significant substitution of fossil fuels with electricity – in the most ambitious scenario, net zero emissions by 2050, the International Energy Agency (IEA) expects an increase of this share of 8% by 2030.

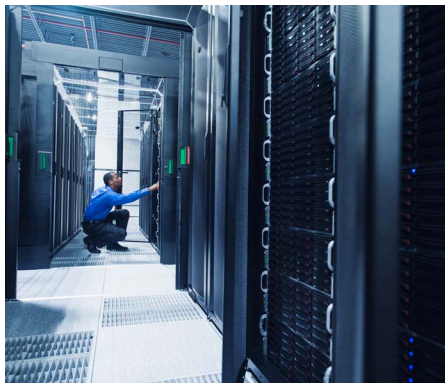


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Whichever scenario prevails, we will continue to see ambitious pledges from states and corporates, and this will mean a rapid increase in demand for electricity as a cleaner energy source at the point of use. Meanwhile, the share of renewables within the electricity mix will, of course, also increase quickly – the IEA estimates that 2023 annual global renewable electricity capacity additions have risen to 500 GW (with two thirds solar). With, on the one hand, more volatility energy sources and, on the other, higher electricity demand (from, for example, the growing proliferation of datacentres, smart industry, and smart homes), huge investments in new electrical infrastructure will be needed, and several European corporates are at the forefront offering the latest solutions in this area.

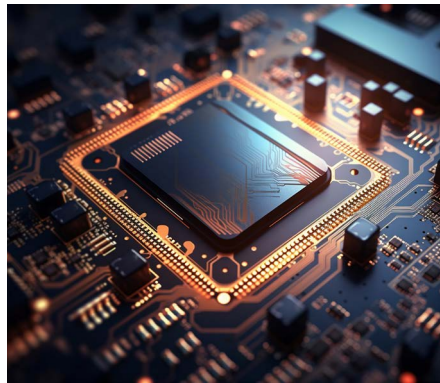


Datacentres

Cloud-based services and artificial intelligence (AI) are driving the growth in datacentres, with power demand for these facilities expected to nearly double by 2030 in the United States alone. Schneider Electric, a French provider of digital automation and energy management solutions, estimates that datacentre power consumption related to AI workloads will rise

from 4.5 GW in 2023 to 14 to 19 GW by 2028 – a compounded annual growth rate of 25%-33%:

Datacentres are increasingly aiming for a greater share of green energy and are entering into long term agreements with suppliers and energy management providers, providing opportunities in this area. Indeed, datacentres with a high AI related workload require a different design where air cooling is not suitable. Again, this is creating opportunities for several European leaders in this area, offering liquid-cooled AI training servers and associated enabling technologies, such as power control and datacentre infrastructure management (DCIM) software.



Digital industries

The borderline between industrial and software companies is blurring, and European industrials are very well positioned with respect to technologies that more efficient product design and production. In particular, providers of product lifecycle management (PLM) software and systems – that can often significantly shorten product development processes – are showing strong growth rates. As well as some newer players, incumbents with decades of experience are also

The view from Hannover

Once a year, European, US and Asian industrial champions convene at the Hannover Messe to display their capabilities. Some interesting themes from this year:

- **Artificial intelligence:** the first generative AI tools to support engineering processes are coming soon, greatly speeding up the creation of digital twins support the translation into the physical production.
- **Sustainability:** more and more corporates have now set ambitious carbon reduction targets, also including Scope 3 emissions. These require both a holistic understanding of the value chain, as well as reliable calculations of product carbon footprints. To facilitate this, we are seeing the evolution of product lifecycle management solutions to meet these needs.
- **Virtual PLCs (programmable logic controllers):** While PLCs remain a well-established solutions for discrete manufacturing, we are now seeing the first applications of virtual solutions in the field. As safety requirements and latency times are mission critical for any manufacturer, traditional solutions will remain the first choice for the coming years, but the landscape changing here.

active here. A German technology company, for instance, claims to be the global market leader in providing controllers that link innovative software to the factory floor – it has a high market share in China, while one in three industrial machines across the globe runs on its controllers. And while this is a rapidly evolving sector, this kind of high market share supports invaluable domain knowhow.

A bright outlook

Many European industrials compete on a par with their US peers and competitors, with some categories providing double digit



topline growth for providers. Indeed, the overall midterm outlook for some categories of European industrials is strong and investors should focus on providers focused on the energy transition and enabling the next generation of AI and industrial automation. And, as mentioned, this year's edition of the

Hannover Messe will focus on several trends that are highly relevant for these companies, including AI and machine learning, energy for industry, and "Industrie 4.0". This focus is testament to the continued and growing importance of Europe's industrial champions to our broader economy.

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