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SAFT THE GOLDEN NUGGET THAT'S ELECTRIFYING TOTAL

If Total is ready to fork out nearly a billion dollars, it's because the group is looking to penetrate the energy storage market, which is expected to hit the 140 billion dollar range within the next ten years. The opportunity was too beautiful...

ONE SUNDAY NIGHT IN MID-MARCH, the head of Total, Patrick Pouyanné, met with Saft CEO Ghislain Lescuyer in a private room at a posh restaurant near the classic Opera house in Paris. The two men did not know each other, but they did have something in common: they were both catapulted to the helm of their firms after the sudden deaths of their respective CEOs. A rather odd coincidence that would not find its way into the evening's discussions. Particularly since Patrick Pouyanné had other things on his mind. Total's head honcho wanted to buy Saft, the French battery expert. And he was willing to pay handsomely. In less than two hours, he laid out his plans to Ghislain Lescuyer before hopping on a plane. It then took two months and a handful of high-priced banking consultants' input to seal the deal. On May 10th, following the Saft supervisory board's unanimous approval, Total announced its takeover bid. And in early August, the oil company declared holding 97.12% of the capital and voting rights in the French battery company. The transaction, worth nearly 950 million euros, constitutes Patrick Pouyanné's biggest acquisition since taking up the reins of the energy giant in October 2014.

At first glance, this purchase might seem surprising. Saft, a French golden nugget rather unfamiliar to the general public but highly praised worldwide for its expertise, doesn't seem to have anything in common with the oil company. So what's its core business? High-tech industrial batteries. For nearly a hundred years, this company, built through a series of acquisitions, has developed a unique expertise in this field.

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During the 1950s, it bought up Leclanché's mass market battery business, and twenty years later it produced the first nickel battery prototypes for the Concorde. Today, the company (with some 4,100 employees in 19 countries working at 14 production sites) supplies batteries for civil electronics as well as the aerospace and defense industries. The front-runner in several markets, it equips half of all satellites currently in operation. In 2011, it was even featured in the Guinness Book of World Records as having invented "the world's most powerful battery"! In short, Saft, whose headquarters have remained in France despite an American adventure, is powered by a remarkable group of engineers and renowned for its dependability and safety, with regular accolades, according to its CEO.

Expertise **Lithium-ion enabled Saft to become the world's leading manufacturer of high value-added batteries.**

5%

of Saft's business involves energy storage. Which might lead some to believe that Total will eventually drop the remaining 95%…

High technology. **Aerospace, civil electronics, the defense industry… Saft, whose know-how is world-renowned, also equips half of all satellites in operation today.**

TOTAL IS LOOKING TO INCREASE THE RENEWABLE ENERGIES SHARE OF ITS BUSINESS TO 20%

But what's the connection with Total? Even if he doesn't say it outright, Patrick Pouyanné is clearly paving the way for the post-oil world. A world in which decentralized electrical power generation and renewable energy will play a pivotal role. Last April, five years after taking over the solar panel manufacturer Sun Power, he presented his One Total plan, slating to boost the share of renewable energy to 20% of the group's business by 2035.

According to Emmanuel Fages (Roland Berger strategic consultants), he has his sights set on the extremely promising energy storage market. This market is still in the very early stages of development but makes many mouths water, especially industrial giants (such as automakers) and electronics leaders (like Panasonic, LG, Samsung and Siemens). And with good reason: between the advent of electric cars and the emergence of stationary batteries for individuals that will enable storage of renewable energy, experts say it could double over the next ten years and be worth 140 billion dollars.

Saft even tried to tackle the beast in the mid-2000s, when John Searle was at the helm (before he passed away at the end of 2014). In 2006, the company signed a joint venture with the American auto parts manufacturer Johnson Controls to make the lithium-ion batteries which powered the first generation of electric and hybrid vehicles. Five years later, sensing the huge potential of this market (like Tesla's wild bet with Panasonic to build a Gigafactory in the Nevada desert), Saft opened a major lithium-ion battery factory in Jacksonville, Florida. But the adventure was short-lived. As Pierrick Bauchet from the private equity firm Inocap explains, "The electric vehicle and storage applications market didn't take off as fast as predicted, and the competition was particularly intense." As a result, the Jacksonville factory was quickly outproducing demand. In 2015, weighed down by the slump in the electricity markets and the depreciation of its American factory, Saft found its net profits had fallen by more than 30%, so it decided to refocus on its core business. "At the end of 2015, we launched Power 2020, a new strategic plan that prioritizes the aspects of our business that make up Saft's DNA: high value-added batteries," confides Ghislain Lescuyer.

Today, only 5% of the business is related to energy storage, which might lead some to believe that Total will eventually let the other 95% go.

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INTERVIEW

“Electricity is the energy of the future”

Patrick Pouyanné, Total's CEO.

Total has decided to develop a new business line dedicated to electricity. Why?
For many reasons, electricity is the energy of the future. Firstly because gas is the most promising hydrocarbon, and its primary market is electricity. And because I'm convinced electric vehicles are going to boom faster than anticipated, particularly in large Western cities and China due to the public health and pollution issues. That's why Total decided to create a new branch dedicated to gas, renewables and electricity, which will encompass Saft, SunPower and the distributor Lampiris. Naturally we are and will remain oil and gas specialists, but we're positioning ourselves on the markets of the future.
Why choose to take over Saft?
In 2015, while drafting our long-term strategic plan, we took a serious look at the group's various business lines, especially renewable energies. We wondered about Tesla's announcements and the future of power storage, which seemed like a key link to the development of these renewables. Saft's name was mentioned by two different Total teams, and in very positive terms. So, as with SunPower in 2011, we decided to invest in a major industry expert with renowned technological expertise, rather than solely focusing on energy storage R&D.
According to some observers, 95% of Saft's business is of no interest to Total...
If we're allocating almost 1 billion euros to buy Saft, it's certainly not just for the 5% of its business that's generated by energy storage! We're interested in all of Saft’s technologies as we're convinced that its superior insights stem from its expertise in cutting-edge fields such as aerospace. Of course, we're also looking to help Saft expand its reach into new markets, which its size previously prohibited. But first, we're going to take the time to understand their business, which is new to us at this point. The energy business is constantly changing, the mix is leaning toward a combination of renewable gas and storage, and we believe that saft’s know-how will be a key advantage for us to better grasp this trend.

▪ BY J.D.L.B.

➢ "Not at all," Patrick Pouyanné asserts (see above interview), emphasizing Total's interest in Saft's cutting edge technologies expertise. "The future of batteries is far from set in stone. By acquiring Saft, Total also gains valuable R&D in future electrochemical couples," agrees wholeheartedly Geoffroy Pereira, a stock exchange analyst at Gilbert Dupont.
Saft employees responded favorably to the announcement of Total's friendly takeover. After the painful episode of the Alcatel handover in 2003 (when Saft was sold to Doughty Hanson, a British investment fund, which sold its shares on the stock market eighteen months later), being back in a major group seems like very good news. "Total is, after all, one of the largest private groups in France. And it seems to have real plans for us," exclaims Poitiers factory labor union representative Philippe Fredon. And Total is French, which is a significant advantage in this highly strategic industry. "When you know that Saft works with DCNS and equips French nuclear warheads, it's clear the company couldn't be sold to just anyone," whispers an employee. By joining the Total group, Saft was able to ensure a certain degree of autonomy in how it operates. It also hopes to benefit from the oil giant's hefty war chest. Total plans to invest 500 million euros annually in its new Gas, Renewables and Power division. For starters, Total has already announced that it could forego its dividends from Saft in the coming years, which should enable Saft to "recharge its batteries". ▪ JULIE DE LA BROSSE