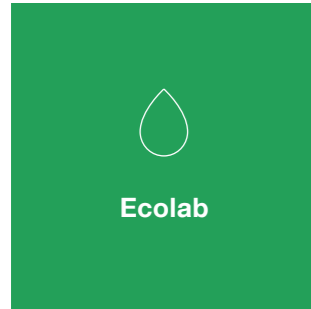


Ecolab

Water, hygiene and energy solutions

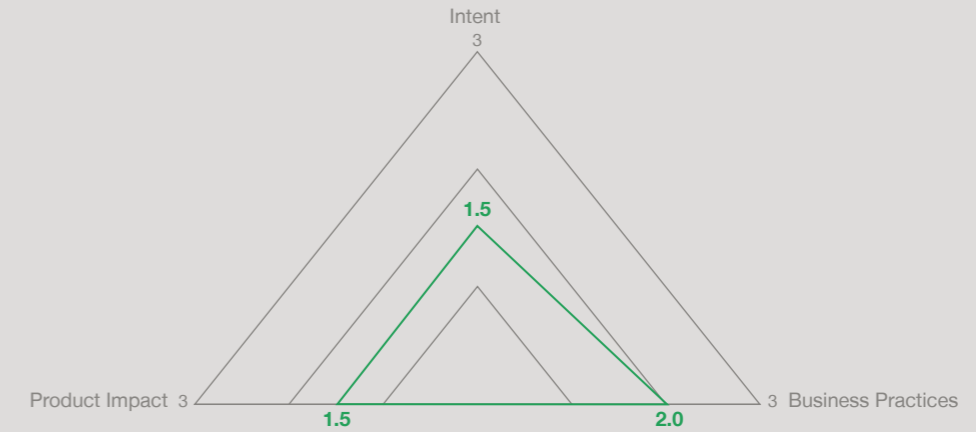


Ecolab provides a huge range of specialty chemical products to a broad customer base in the food, healthcare, energy, hospitality and industrial markets. The company provides a high level of customer service through product training, regular site visits, consultancy services, and data analytics to help customers run their operations as safely and efficiently as possible.

Investment Case

What challenge is the Company tackling?	It is estimated that by 2030 the world will need 35% more food, 40% more water and 30% more energy. These are interconnected: population growth and higher demand for food will require more energy and water to grow crops and rear animal protein; energy resources that are harder to reach will require more water to be extracted; and it takes energy to produce safe water. Ecolab's products help create a cleaner, safer and more efficient world. Ecolab helps its customers reduce the water, energy and labour intensity of their processes, helping them improve returns and meet sustainability goals. The company develops technologies that deliver results with the lowest environmental and economic impact. Companies rely on Ecolab to help ensure operational efficiencies, product integrity and brand reputation.
Is the Company's offering sufficiently different and better than the status quo?	With its broad product range and vast distribution network (c25,000 agents), Ecolab is a one-stop shop working closely with its customers to help them run their operations more efficiently and safely, and developing new products to meet their evolving needs. Its hand sanitizers prevent the spread of disease; its cleaning solutions keep equipment clean in food processing settings and its water solutions treat wastewater in industrial settings, preventing water pollution.
Is there a committed management team? What have they done before?	There is a long-standing management team with an impressive tenure; Chairman & CEO, Douglas Baker, has worked at Ecolab for 29 years and has been CEO for 14 years. Although insider ownership is low (c1.5%), the high level of variable compensation provides alignment with shareholders.
How does the Company treat stakeholders?	The company has a long track record of expanding its product range and its geographic footprint to meet customer needs, both in terms of performance and environmental impact. There is a code of conduct that outlines guiding principles on how to behave and interact with customers, colleagues, suppliers, competitors and communities. Ecolab are committed to health and safety and have set the bar high aiming for zero accidents, injuries and violations. In terms of supply chain management, suppliers must meet the company's Ethical Sourcing Standards and new suppliers are screened accordingly.
Is there a potential to create a profitable and defensible business?	As Ecolab sells non-discretionary items that literally 'go down the drain', c90% of revenues are recurring. The overall market in which it operates is estimated to be c€110bn; Ecolab is the largest player with c12% share, providing ample scope for growth.
Is the business attractively valued?	Underlying market growth driven by population dynamics, resource shortages and greater focus on business sustainability, combined with acquisitions and share buybacks should enable Ecolab to grow at 10–15% p.a. for many years to come. Through pricing and scale the company has expanded operating margins and make attractive returns on equity (c.20%). We believe the current valuation doesn't reflect the longevity of the growth opportunity.

Impact Analysis



Product Impact

The positive contribution that the business is making is clear and strong, however their involvement in the oil and gas industry as a material portion of revenues and indications that this is on the basis of maximising output rather than reducing environmental impact, reduce their score. Further engagement could change this view as we understand how senior management considers this business division.

Intent

The evidence from engagement to date suggests that environmental protection may not be ingrained into how they think but it certainly is ingrained into what they do and this is cemented by their approach to reporting on product impact.

Business Practices

Overall, Ecolab seem to have a good grasp of issues across their value chain. On the positive, reporting and Board diversity are strong points, yet there are a few points to follow up on with regard to governance and employees.

	Relevant Targets	Relevant Products
2 ZERO HUNGER 	Target 2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations	Ecolab helps ensure the quality and safety of more than 25% of the world's processed food at 5000 food and beverage plants around the world every year. Ecolab helps ensure that 44% of global processed milk is processed hygienically. Each year it helps support clean kitchens serving 45 billion restaurant meals.
3 GOOD HEALTH AND WELL-BEING 	Target 3.3 By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases Target 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	Ecolab's sanitizers helped clean 31 billion hands a year, preventing the spread of communicable diseases in a number of environments including food preparation and healthcare facilities.
6 CLEAN WATER AND SANITATION 	Target 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials Target 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals	Ecolab's products are used to treat, recycle and reuse industrial wastewater. In 2019, Ecolab helped customers to conserve 206 billion gallons of water. The company aims to conserve 300 billion gallons of water by 2030. We should monitor their progress towards this target.
7 AFFORDABLE AND CLEAN ENERGY 	Target 7.3 By 2030, double the global rate of improvement in energy efficiency	Ecolab helps customers improve their energy efficiency. In 2019, it helped customers save 28 trillion BTUs of energy.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	Target 12.2 By 2030, achieve the sustainable management and efficient use of natural resources Target 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle Target 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	Ecolab's products help customers use resources more efficiently and meet sustainability goals. In 2019, Ecolab helped their customers eliminate 113 million pounds of waste and save 28 trillion BTUs of Energy.

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