

Atlas Copco

Sustainable Growth Hypothesis:

Atlas Copco manufactures and services industrial equipment, including compressors and vacuums for the semiconductor industry. The company's compressors are its most material business and help to reduce its customers' energy consumption. Its efficiency compared to alternatives is its key selling point. Atlas Copco supports our **planet** theme through **products** which help customers to do more with less.

1. Growth: How likely is the company to deliver 10% p.a. profit growth over the next decade?

- Atlas is the quintessential steady compounder, having grown revenues ~8% per annum as it has taken share in its core compressors market and moved into new markets such as vacuums. Consolidating these markets and increasing service revenues in each will make double-digit earnings growth over the next decade probable rather than possible.

2. Resilience: How much control does the company have over its own success?

- A decentralised structure makes Atlas an agile, highly effective organisation. Meanwhile, the service element yields recurring revenues and ensures they are close to customers, heading off disintermediation risk.

3. Valuation: What is our insight?

- This is a cash-generative business with a record of deploying that cash in smart ways. A reverse discounted cashflow calculation implies a competitive advantage period of just ten years, far too short for a business of this quality.

4. Products: To what extent will the core products & services create value for society over the next decade?

- Atlas is a self-described enabler of the transition to a low-carbon economy. Its products help decarbonise industrial processes and while they are incremental innovations rather than disruptive ones, Atlas's high market shares ensure these products make a difference.

5. Practices: Does the company show leadership in its business practices?

- Atlas is a highly decentralised organisation, which has thrived on giving responsibility and accountability to people throughout the organisation and relying on them to create opportunities. If the talent pipeline wilts or people don't feel valued, the business's growth will ultimately suffer. For this reason, people management is a priority for the firm.

6. Ambition: What is the company's purpose, and how ambitious are they?

- "We want to be part of the solution to the climate challenge, by developing energy-efficient products and making our own operations as efficient as possible. So no matter if you invest in, work for or buy from the Atlas Copco Group, you are part of contributing to a better tomorrow." Our job as sustainable investors is partly judging when statements like the above from the outgoing CEO are sincere. Everything we've seen from the company suggests that in this case it is.

7. Trust: Should we trust the company with our clients' capital?

- Most executives have spent decades at Atlas, with the incoming CEO set to be just the 13th since it was founded in 1873. Capital allocation is also excellent, both in the businesses purchased and in those spun off when seen as non-core. The presence of the Wallenberg family as significant shareholders and board members ensures alignment with our time horizons.

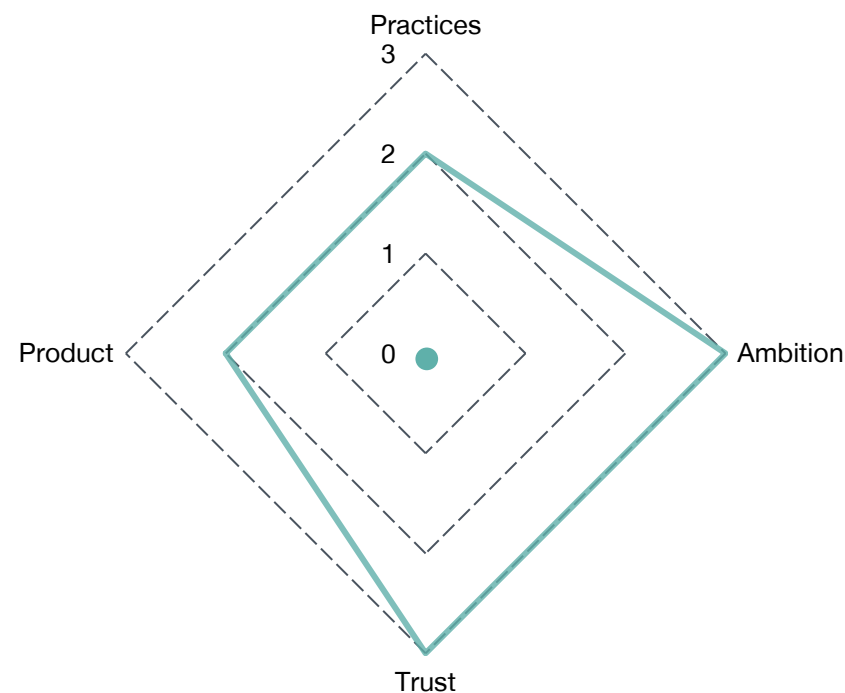
8. Engagement: No company is perfect, what should be our engagement priority?

- We should continue to challenge Atlas on whether they are getting sufficient diversity of strategic inputs all the way through the company, and not frame this narrowly in terms of gender diversity on the board.

9. Milestones: What developments should we pay most attention to? Where could we be wrong?

- We must watch organic growth to ensure innovation is continuing. Periodically the company has become too large, we'd like to see the occasional divestments continue.

Compass Scores



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