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Stock Highlight for the Quarter to 30 September 2021

This quarter we would like to focus on Veolia Environnement SA, a century-old French utility company headquartered in Paris. With nearly 179,000 employees and operations in 48 countries, Veolia provides environmental management services (water, waste, and energy management solutions) to public authorities, individuals, and industrial and commercial customers worldwide. Veolia divides its operations into three segments, waste, water, and energy, each of which accounted for a respective 40.8%, 39.7%, and 19.5% of revenue (June 30, 2021).

In waste management, the company provides a wide range of collection and recycling services with expertise in handling liquid, solid, non-hazardous, and hazardous wastes. The water segment is involved in all stages of the water cycle, from drinking water production to wastewater treatment. Veolia is even the world's largest water company. The energy business encompasses energy services, heating and cooling networks, and electricity. Veolia has been part of the utilities sector of the European share portfolio since September 2014.



Historical performance (total return in %) Source: Bloomberg Finance L.P.

Year-to-date, Veolia is up 40.88% (as of September 30, 2021) and is part of our top 10 contributors to return of the European share portfolio. Despite the significant outperformance this year, we believe Veolia still has upside potential. In fact, Veolia reported strong semi-annual results this year with double-digit increase in both revenue +11.2% (€13.64 billion) and EBITDA +31.4% (€2.08 billion) over the previous year. Those solid results, well ahead of expectations, were fueled by resilient activities (water, municipal waste, heating), solid

commercial dynamism with continued price increases, and strong momentum in key growth businesses.

We remain confident Veolia can perform well in the current volatile environment as the company's source of revenue is well diversified. The waste business is more cyclical, but Veolia intends to increase the profitability and structural growth of its division by expanding exposure to hazardous waste treatment which exhibits efficient scale.

In €M	H1 2019	H1 2020	H1 2021	Var. vs H1 2020 ⁽¹⁾	Var vs H1 2019 ⁽¹⁾
Revenue	13 324	12 412	13 645	+11.2%	+4.6%
EBITDA	2 002	1 599	2 081	+31.4%	+6.2%
Current EBIT	857	438	901	+108.1%	+7.8%
Current net income	352	7	516	na	+49.0%

(1) At constant Forex Source: Veolia Environnement SA

The water and the energy segments are by nature more defensive. However, the weight of municipal clients limits pricing power in the energy business.

In addition, Veolia has a significant exposure to the smart cities theme (importance of air quality, improving energy efficiency of buildings, managing complex energy systems, effective water & waste solutions) and will profit from the increasing sustainability push in major cities and urban areas based on its dominant presence in environmental and energy services. This provides a major market opportunity for Veolia and important growth opportunities.

We have strong conviction in Veolia because it is a well-managed company under the leadership of Antoine Frérot, the CEO of Veolia since 2009. He has been working for Veolia since 1990 and has spent most of his career in the company.

His first mission as a CEO, was to regain investors' confidence given the previous management ongoing issues. In 2012, he implemented a transformation plan whose success improved the shareholders' equity and resulted in cumulative cost savings of €1.85 billion, exiting noncore activities and decreasing the debt.

Unlike other companies in the utilities sector, Veolia's management has always been reluctant to make transformative acquisitions until the acquisition of Suez last June. Veolia promised to acquire Suez for €10.4 billion to create an undisputed European champion of ecological transformation able to compete with Chinese competitors.

With combined revenue of nearly €37 billion, the new entity will create value for the shareholders due to enhanced growth potential and substantial industrial, operational, and purchasing synergies. Veolia will seek approval from the EU antitrust agency in October and expects the operation to be finalized by the end of this year.

We also like the fact that climate issues are an integral part of Veolia's overall business strategy.

The company launched in 2019 a strategic program "Impact 2023" with the ambition to make Veolia the benchmark company for ecological transformation. The mission is to resource the world by preserving, replenishing, and improving access to the resources and by creating a positive impact on the planet.

For instance, Veolia supports cities and industrial companies as they move toward a low-resource, and low-carbon economy that will have fewer impacts on the environment and a greater social impact.

In addition, Veolia contributes to the United Nations Sustainable Development Goals (SDGs) by implementing 13 (out of 17) SDGs. As an example, Veolia is a major player in sustainable cities (SDG 11) through its management of essential services like water, sanitation (SDG 6), energy (SDG 7), and waste (SDG 11).

SUSTAINABLE DEVELOPMENT GOALS



Source: Veolia Environnement SA

Veolia encourages innovative industrial production methods (SDG 9) and more responsible consumption through the circular economy (SDG 12). Besides, Veolia's capacity for innovation (SDG 9) and its strong partnerships (SDG 17) are key to achieve the SDGs and combat climate change (SDG 13).

Of course, Veolia is exposed to downside risks as the main driver of variability in operating profit for the company relates to its waste business. This is because of the significant correlation between waste organic growth with industrial production and the link to commodity prices and inflation trends.

Therefore, one of the main risk factors for Veolia relates to global economic conditions including conditions in financial markets. Any inability to compete successfully in their markets may harm the business. This could be a result of many factors, which may include geographic mix and the introduction of improved service offerings by competitors. Veolia is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices.

Additionally, antitrust issues could impede the ongoing merger with Suez.

As a conclusion, we think Veolia's business model would be very difficult to disrupt as the company benefits from a well-diversified source of revenue from its three businesses (waste, water, and energy) which are all managed at the local level. The company exhibits considerable scale and technical expertise relative to its competitors and the acquisition of Suez is a real game changer on the market. As a result, we believe the company is uniquely positioned to benefit from the major trends driving the industry as Veolia is continuously reinventing and reinforcing its core business activities to enhance impact and performance. Veolia is enriching its water and wastewater services, including innovative sludge management solutions and inclusive solutions to improve access to water. Veolia is also modernizing and diversifying its energy grid business by transforming coal-powered heating networks using green energy, deploying new services for electricity grids, and developing mini heating or cooling networks.

In subsequent quarterly reports we will bring you further case studies in our "Highlights" series.

As always, please do not hesitate to contact us if you have any questions or comments, about the contents of this report or your portfolio in general.

Portfolio Management Team, ISGAM AG