

May 6, 2021

## Dear Clients and Colleagues:

On April 22 and 23, 2021, United States (US) President Joe Biden convened 40 world leaders for a virtual Leaders Summit on Climate, to rally the world in combatting the climate crisis.

Many countries announced ambitious new climate targets, ensuring that nations accounting for half of the world's economy are now committed to the emission reductions needed globally to keep the goal of limiting global warming to 1.5 degrees Celsius within reach. For example<sup>1</sup>:

- The US submitted a new “nationally determined contribution” (NDC) under the Paris Agreement, setting an economy-wide emissions target of a 50-52% reduction below 2005 levels in 2030.
- Japan will cut emissions by 46-50% below 2013 levels by 2030, with strong efforts toward achieving a 50% reduction, a significant acceleration from its existing 26% reduction goal.
- Canada will strengthen its NDC to a 40-45% reduction from 2005 levels by 2030, a significant increase over its previous target to reduce emissions 30% below 2005 levels by 2030.
- The United Kingdom will embed in law a 78% greenhouse gas reduction below 1990 levels by 2035.
- The European Union is putting into law a target of reducing net greenhouse gas emissions by at least 55% by 2030, and a net zero target by 2050.
- China and Russia also reaffirmed commitments to reduce emissions, and agreed to cooperate with the US on climate change despite division on issues like trade and human rights.

During one of the sessions, Unleashing Climate Innovation, world leaders urged investment in mitigation and adaptation technologies, which include clean fuels such as hydrogen; renewables such as offshore wind and geothermal energy; energy storage; clean desalination; carbon capture;

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<sup>1</sup> <https://www.state.gov/leaders-summit-on-climate/day-1/>

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advanced mobility; sustainable urban design; and monitoring technologies to verify emissions and stop deforestation.

At Global Alpha, sustainability is one of our five major investment themes. The energy transition towards a low-carbon society provides long-term growth opportunities. We look for niche market leaders who will benefit from this secular growth trend. A few current holdings include:

- Clean Energy Fuels (CLNE US), based in the US, designs, builds and operates natural gas filling stations for vehicle fleets. It has 550+ stations in North America. Its primary fuel is Renewable Natural Gas (RNG), the only fuel available for heavy-duty vehicles that can have carbon-negative emissions (RNG avoids more emissions than it generates).
- Ormat Technologies (ORA US), based in the US, is a leading renewable energy provider globally with a 932 megawatt portfolio. Its business expands from geothermal to recovered energy and energy storage.
- Hexagon Composites (HEX NO), based in Norway, is a global market leader in a carbon fiber gas containment system used in the transportation industry. It operates in Norway, Germany and the US. Hexagon's products are mostly used for clean alternatives, such as RNG, hydrogen, and propane.

We also invest in companies related to electric vehicles (EV) and waste management but this week, we would like to profile one of our new holdings, Iwatani Corporation (8088 JP), which is the largest distributor of hydrogen, LPG, and helium in Japan.

### **Business Overview**

Founded in 1930, Iwatani is a leading distributor of gases for industrial and household use in Japan. It has several business areas. The industrial gases segment includes hydrogen, oxygen, nitrogen, helium, semi-conductor material gas and medical gas. The energy segment distributes a wide range of gases such as LPG, LNG, kerosene, and gasoline. The company also manufactures machinery and environmental-friendly materials, such as biomass fuels, eco PET resin and EV-related battery materials.

Iwatani is the only fully-integrated supplier of hydrogen in Japan, with a nation-wide network, including manufacturing, transportation, storage, supply, and security.

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### Target Market

Iwatani has a steadily growing product portfolio led by LPG, but the new growth driver is hydrogen.

Japan was the first country to adopt a "Basic Hydrogen Strategy" as early as in 2017. Japan aims to increase the number of fuel cell vehicles (FCVs) to 40,000 units by 2020, to 200,000 units by 2025 and to 800,000 units by 2030. It also aims to increase the number of hydrogen stations to 160 by 2020, to 320 by 2025, and to 900 by 2030.<sup>2</sup>

The Japanese hydrogen market is expected to grow 56-fold to JPY 408.5 billion by 2030, according to the market research company Fuji Keizai.<sup>3</sup>

### Competitive Advantages

- Top market shares in Japan
  - #1 in hydrogen sales volume with 70% market share
  - #1 hydrogen stations network with 33% market share
  - #1 in helium sales with 50% Japan market share, and 8% global market share
  - #1 in LPG sales in the retail market with 4.1% market share
  - #1 in LPG sales in the wholesale market with 13.1% market share
  - #1 in the portable gas cooking stoves market with 80% market share
  - #1 in the cassette gas canisters with 60% market share
- Close relationship with government as the industry leader
- High entry barriers: a highly regulated industry because safety is of the utmost importance when handling industry gases.

### Growth Strategy

- Distribution: expand distribution network for hydrogen and LPG

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<sup>2</sup> [https://www.meti.go.jp/english/press/2017/pdf/1226\\_003a.pdf](https://www.meti.go.jp/english/press/2017/pdf/1226_003a.pdf)

<sup>3</sup> [Japan, The New Hydrogen Nation](#)

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- Consolidation :
  - To acquire smaller LPG competitors
  - To acquire companies into its organized Marui Gas network

### Management

Akiji Makino has been Iwatani's Chairman and CEO since 2012. He joined the company in 2000 and has rich industry experience. Insiders own about 16%, including the Iwatani Naoji Foundation.

### ESG

Iwatani has been an industry leader in energy transition. Its sustainability report is very comprehensive. Iwatani's major offices are ISO14001 certified. The company is focused on eco-friendly products and promotes eco-efficient use of energy. At its workplace, Iwatani promotes diversity, employee development, and provides support for child care and nursing care.

Regarding corporate governance, Iwatani has met all the requirements of the Tokyo Stock Exchange. However, at Global Alpha, we apply more stringent requirements in line with western standards. For example, we encouraged the company to have at least one-third of board directors be independent, with a separate board chair and CEO, and at least one female board director.

### Risks

- Delay in the rollout of FCV commercialization and FC technology development
- Decline in LPG price
- Low industrial production

Have a good day.

The Global Alpha team

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