

A photograph of a water treatment facility at sunset. In the foreground, a long, narrow channel of water flows over a series of metal weirs, creating a series of small cascades. The water is a deep blue-green color. In the background, there are large white storage tanks and a complex network of blue metal pipes and structural beams. The sky is a mix of orange, yellow, and blue, with the sun low on the horizon. The overall scene is industrial yet serene.

Global Equities case study:

# Kurita Water

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**Federated  
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International

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## CASE STUDY: Kurita Water

Kurita Water Industries Ltd. engages in the provision of water treatment solution products, technology, and maintenance services.

Employs approximately

**6,700**  
people 

Headquartered in Tokyo,  
Japan, and operates a  
network of companies in  
**18** countries and  
regions

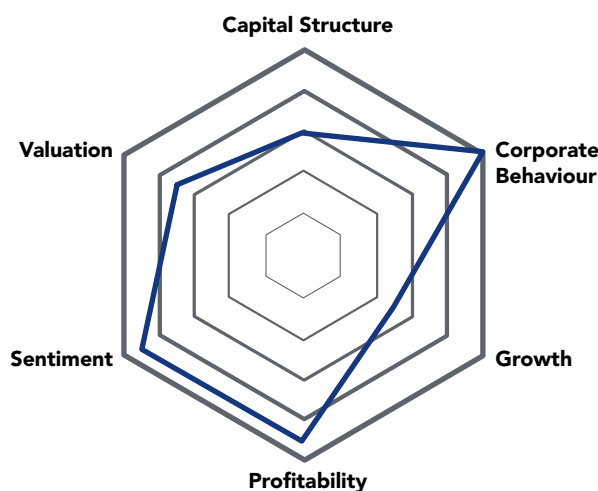


Our Global Equity strategies hold a diverse range of companies with attractive combinations of long-term fundamentals and good or improving ESG characteristics. One such holding is Kurita Water, a manufacturer of water treatment equipment and systems that are used in a variety of industries. It operates through two key business segments – Water Treatment Chemicals (providing treatment chemicals for boilers, cooling, wastewater and a variety of manufacturing processes) and Water Treatment Facilities (providing ultrapure water production systems, water treatment systems for general industrial use, wastewater treatment, and reclamation systems).

The company ranks well in the Alpha Model – our proprietary automated analyst which assesses the attractiveness of companies in the investable universe from multiple angles over the long term (see Figure 1). Indeed, it highlights a highly profitable company with strong corporate governance practices and a strong balance sheet, that is well liked by the market (see Figure 2). Its share price has regained momentum following the coronavirus-induced market crash in March. In addition, our analysis shows that its ESG profile has consistently improved over the past couple of years and it now compares very favourably to its peers.

In our assessment of the company we include quantitative proprietary in-house ESG metrics in our valuation of the company. The company ranks in the top quintile of its industry peer group for environmental, social and governance characteristics. Beyond the quantitative framework, the company also passes our subjective ESG analysis. Positive considerations include voting in favour of management at the latest AGM and management consideration of how it contributes to the Sustainable Development Goals (SDGs). We recognise that the company's environmental footprint is considerable, including its manufacturing emissions and through water use, however given the company's positioning on providing solutions, as well as robust policies and processes, we do not deem this to be a material concern.

**Figure 1.** Kurita Water ranks particularly well in our Alpha Model for corporate behaviour, profitability and sentiment



Source: Federated Hermes, as at December 2020.

**Figure 2.** Kurita Water's share price has recovered from the coronavirus-induced sell-off in March



Source: Bloomberg, as at December 2020.



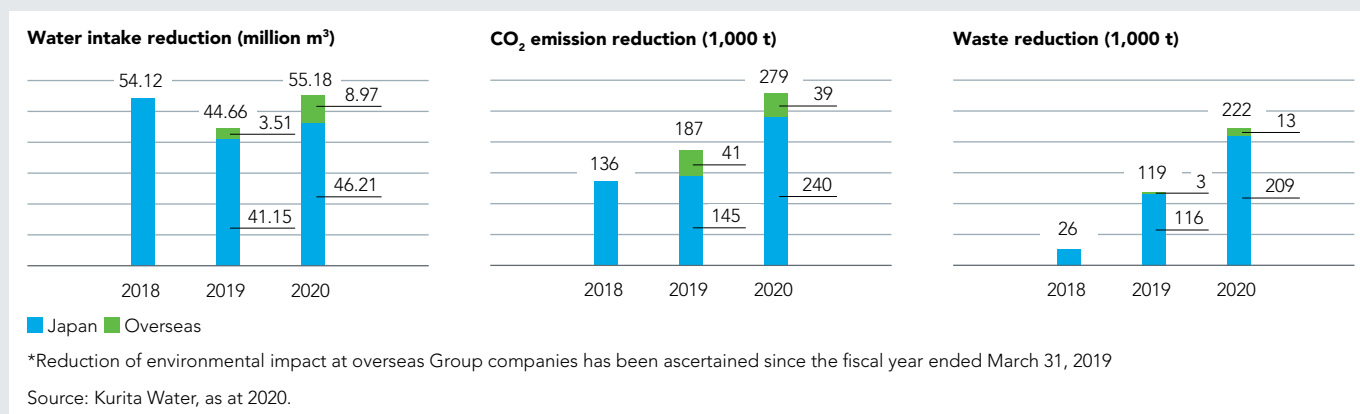
## Positive ESG momentum

*"Study the properties of water, master them, and we will create an environment in which nature and man are in harmony."*

So reads Kurita Water's philosophy, one which the company has embraced since 1989 – and this is evident from its latest [Sustainability Report](#). The group has set out several goals in

which it seeks to reduce not only its own environmental impact, but that of its clients too. These include initiatives to solve international issues related to the sustainability of water and the environment. A key target is to reduce water use, energy emissions and waste to help reduce the environmental impact for customers who use their products and services (see Figure 3).

**Figure 3.** Reduction of environmental impacts from customers' operations



Through its CSR initiatives, the company has set out priority themes that support the attainment of the SDGs highlighting the company's long strategic focus on sustainability. For example, one of its priority themes is to provide highly safe services and products, which supports the achievement of SDG 3 (good health and wellbeing) and SDG 12 (responsible consumption).<sup>1</sup>

Kurita Water has also established CSR Procurement Guidelines, as it believes it is crucial to reduce environmental impacts across the entire supply chain. For the year ended 31 March 2020, the company found that Scope 3<sup>2</sup> emissions account for 98.9% of its combined emissions in the Scope 1-3 categories<sup>3</sup>. It has also asked business partners to comply with environmental regulations and take steps to reduce their environmental impact.

**"Study the properties of water, master them, and we will create an environment in which nature and man are in harmony."**

What's more, Kurita Water helps to address the SDGs through its product offerings. It provides systems to recycle water, reduce waste, convert waste into fuel and provide equipment to improve the efficiency of boilers and cooling equipment. These products have been proven to dramatically reduce its clients' environmental impact, thereby helping to support SDGs 6 (clean water and sanitation), 12 (responsible consumption and production), 14 (life below water) and 15 (life on land).



## Creating shared value with society

Beyond its own CSR initiatives, Kurita Water is also a member of the Japanese Society of Industrial Machinery Manufacturers Basic Environmental Action Plan, which works on countermeasures for global warming. As part of this, the company regularly reports on the status of its response to climate change.

In October 2020, Kurita Water was also recognised for its achievements in the international water industry, becoming the recipient of the 'Distinction Award for Water Company of the Year'. The award reflected its strategic investment in an American venture that utilises the Internet of Things to provide water-saving solutions, and its overall technical expertise demonstrated by the launch of a water recycling technology system for the Japanese Experiment Module, 'Kibo', on the International Space Station<sup>4</sup>. Such an accolade serves to highlight Kurita Water's dedication to innovation with regard to water usage.

The ongoing coronavirus pandemic has accelerated the sustainability agenda and brought about some profound societal changes, while awareness of environmental issues has increased, which is resulting in more stringent regulations and a demand from consumers and investors alike for companies to 'do the right thing'. Kurita Water's products could play an important role across a variety of industries in helping companies achieve these aims, providing the company with a sustainable source of growth.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed.

<sup>1</sup> "Sustainability Report 2020," published by Kurita Group in 2020.

<sup>2</sup> Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organisation, but that the organization indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organisation's scope 1 and 2 boundary.

<sup>3</sup> "Kurita Water Industries Ltd. Integrated Report 2020," published in 2020.

<sup>4</sup> "Kurita Water Industries Receives Distinction Award for Water Company of the Year," published by Business Wire in October 2020.

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- **Fixed income:** across regions, sectors and the yield curve
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BD006943 0010083 12/20