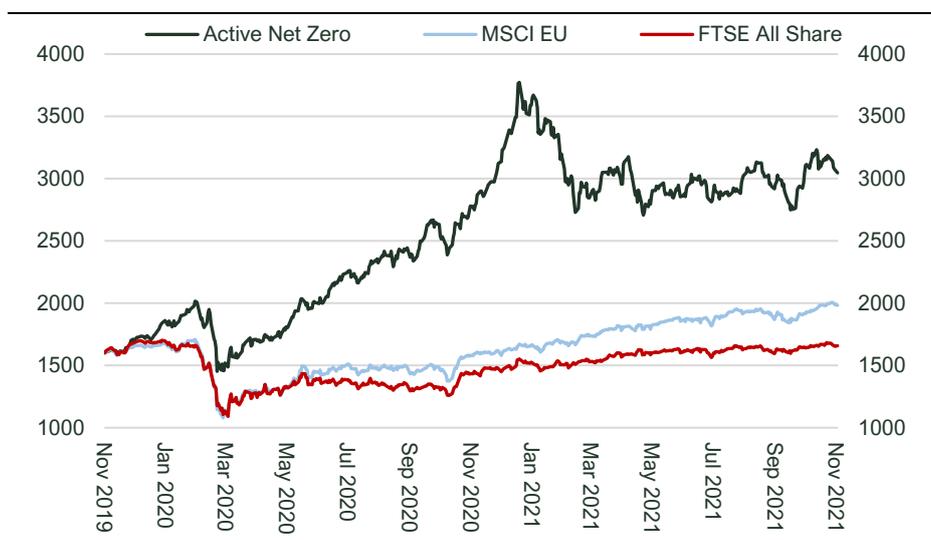




# Active Net Zero Clean Energy Index

## Inaugural Investor Event Roundup

### Active Net Zero Clean Energy Index – 2 Year Performance



Source: FactSet, Longspur Radnor Indices

**Longspur Research and Radnor Capital Partners have launched the Active Net Zero Clean Energy Index to allow investors to measure the performance of companies actively enabling climate solutions.**

**We recently held an inaugural investor event where management from four index constituents; Drax, Ceres Power, Fastned and Ilika presented. Over the course of 90 minutes, each of the four companies walked investors through their business model, how they play a key role as an enabler in the transition to a net zero world.**

**In this note, we provide a succinct summary of the key takeaways from each presentation. For those who were unable to make the event, a recording of the event can be accessed from this [link](#).**

- **Drax Group (DRX LN | £2.3bn).** Drax has gone through a seismic shift in the last decade to become the single largest source of stable renewable power in the UK.
- **Ceres Power (CWR LN | £2.0bn).** Ceres is a UK based IP centric engineering technology company licensing its in-house solid-oxide fuel cell technology into the transport, automotive and power generation markets
- **Fastned (FAST NA | €0.9bn).** Fastned is a pan-European developer and operator of fast charging sites for EVs, with more than 150 locations across five European countries. It represents one of the few listed ways to play EV penetration and demand for on-route fast charging solutions.
- **Ilika (IKA LN | £0.2bn).** Ilika is a key player in the battery market. Ilika's solid state technology aims to supersede the performance characteristics of widely used lithium-ion batteries across a variety of end markets.

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## Drax Group | DRX LN | £2.3bn – Mark Stafford (Head of IR)

### 2 Year Share Price

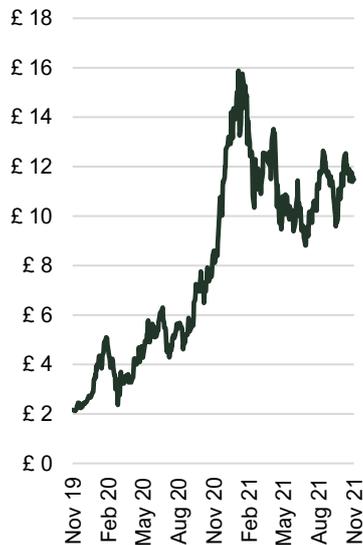


*Drax has gone through a seismic shift in the last decade, from the UK's largest coal powered generator to its single large source of stable renewable electricity in the country. Head of IR, Mark Stafford, took investors through the key divisions of the business today, its plans to become a systemically important source of negative carbon in Europe, and key catalysts to look out for in the coming months in funding its Carbon Capture plant.*

- **What does it do?** Drax today is the U's largest source of renewable power, making up c10% of the renewable energy supply through its various divisions. These include a Biomass power generation unit, a wood pellet manufacturing business in the US, Hydropower assets, and a wholesale B2B power supply business.
- **Who are its customers?** Drax upstream biomass generation unit sells on to UK-based utilities. Its vertically integrated wood pellet business sells product internally for power generation in the biomass plant, as well as to third party electricity producers in North America and Asia Pacific.
- **Why is it an enabler of Net Zero?** While under some debate, we believe Drax's biomass business today is a critical source of stable low carbon power generation. The company takes offcuts and waste from wood products used in industry (non-primary wood supply), converts them into pellets, and burns them in its biomass power plant to create electricity. Carbon emitted from the burning of wood pellets is then offset by growing new trees in a sustainably managed forest. Importantly, Drax's new BECCS (BioEnergy Carbon Capture and Storage) plant is targeting 8mt of carbon captured by 2030, making the company fully carbon negative while extending the operation of its biomass plant economically viable past subsidy expiration in 2027. As a pioneer of BECCS technology, Drax seeks to leverage its expertise to build similar plants for third parties throughout the world. With reports suggesting c2-4bn tonnes of negative emissions required to meet 2050 Net Zero targets, that's equivalent to 500-1000 of Drax's BECCS plants.
- **What are potential upcoming catalysts?** Mark Stafford outlined several key upcoming news events that could be material for the company. The day prior to the webinar, the UK government announced its ambitions to allocate £1bn of funding to negative emissions technology. Any news on the specific projects, including Drax's BECCS project, would be a positive validation of their solution as part of the UK's net zero energy mix. Any further clarity on the likelihood, or returns profile, of BECCS would also be taken positively. The company will host its CMD on 1<sup>st</sup> December which may provide greater inside into their low carbon and negative emissions technologies.
- **What is the valuation?** Drax trades on 6x fwd EV/EBITDA making it one of the cheapest utilities in the sector. Low carbon peers such as Orsted, Verbund, Acciona, EDPR, and Neoen all trade on marked premiums to Drax.

## Ceres Power | CWR LN | £2.0bn – Elizabeth Skerritt (Head of IR)

2 Year Share Price



Ceres Power is a UK-based engineering company that licenses its in-house solid-oxide fuel cell technology for use in the transport, automotive, and power generation markets. Ceres is an IP-based business, licensing its technology to third parties as opposed to manufacturing in-house, aiming to improve scalability and returns, whilst limiting capital intensity. Head of IR Elizabeth Skerritt ran through the company's technology, their competitive environment, and plans to enter into the electrolysis market following a recent equity raise.

- **What does it do?** There are three main schools of hydrogen fuel cell technology; Alkaline, PEM, and Solid-Oxide (SOFC). Ceres utilises SOFC which it believes, due to its ability to withstand higher temperatures than both PEM and Alkaline, enables it to use less pure forms of hydrogen. This means it can operate using some existing fuels/fuel infrastructure that are readily available today (methanol, ammonia, other biofuels), as opposed to relying on delivery of pure hydrogen which is expensive to produce and thus more scarce. In short, it aims to enable the hydrogen economy. The company recently raised c£180m of capital in order to expand into the much larger electrolysis market where they can produce hydrogen, as opposed to producing electricity from fuel cells.
- **Who are its customers?** Ceres have thus far licensed their technology to the likes of Doosan, Miura, Bosch, and Weichai. In its newer electrolysis business, the company aims to market its technology to customers in the Oil & Gas, and Energy storage sectors.
- **Why is it an enabler of Net Zero?** Many believe, unlike previous hydrogen hype cycles, this one is different as a result of stricter regulation, international pressure for net zero compliance, greater social buy-in, lower cost of technology, and lower cost of renewable electricity supply (making green hydrogen economically possible). By playing a key role in the design and licensing of hydrogen fuel cell technology, Ceres hopes to be an enabler of the switch to hydrogen mobility which would result in a net zero transport sector (c15-20% of CO<sub>2</sub> emissions globally) should the technology be fully adopted. Of course, this is not economically/technically viable for all forms of transport such as passenger cars or LCVs where li-ion makes more sense. However Weichai are looking to utilise the technology for range extension on its bus fleets. In the electrolysis business, Ceres hopes to become a major producer of green/blue hydrogen which could then be used in the industrial, automotive, power generation and energy storage markets.
- **What are potential upcoming catalysts?** Ceres is demonstrating its first large scale 1MW electrolysis facility following the c£180m capital raise earlier this year. Any developments on this will be meaningful for the shares, given the end-market demand for electrolysis (transport, energy storage, industry etc) is many multiples that of fuel cells (transport and energy production). Thus TAM (total addressable market) would expand considerably for Ceres. Any further regulatory announcements encouraging the use of hydrogen for transport, power generation, or domestic heating would also be positive.
- **What is the valuation?** Ceres Power trades on a lofty 57x fwd EV/Sales due to its revenue consisting of early-stage licensing agreements. The company is well followed with 8 analysts covering the stock. As one of the earlier hydrogen stocks, it has become a bell weather for investor appetite in longer duration clean energy themes.

## Fastned | FAST NA | €0.9bn – Victor van Dijk (CFO)

### 2 Year Share Price



Fastned is a pan-European developer and operator of fast-charging sites for EVs. It has more than 150 locations across five European countries and represents one of the few listed ways to play the continued penetration of EVs, and the demand for fast on-route charging solutions. CFO Victor van Dijk took us through the origins of the business, their current growth ambitions, the opportunity for DC charging, and plans for the company's recent substantial equity raise.

- **What does it do?** Fastned is a charge point owner and operator, with over 150 locations across Europe. The company permits and buys land on which it will install the relevant grid infrastructure and charging points to support DC fast charging. Originally founded in 2012, Fastned is one of the earliest players in the EV charging story giving it a considerable head start in acquiring more attractive commuting locations.
- **Who are its customers?** Fastned's customers are EV drivers predominantly in the Netherlands, Germany, UK, Switzerland, Belgium and France. It provides 100% renewable electricity through its charging stations, selling electricity at a spread above the agreed price by its power suppliers.
- **Why is it an enabler of Net Zero?** Fastned's infrastructure is key in enabling the mass adoption of electric vehicles. A major roadblock in the wider adoption of EVs stems from "range anxiety" or the fear of running out of battery charge before reaching your destination. There are a variety of charging models available to the consumer including at-home, on-street, destination, and on-route. Fastned's locations are primarily located at on-route locations where drivers need access to quicker DC charging in order to reduce waiting times. Thus allowing drivers to extend their travel range in a relatively short period. Much controversy surrounds the energy supply used by many EV charging stations – however Fastned guarantee 100% renewable energy supply to their customers thus ensuring that the value chain from generation to consumption remains truly net zero.
- **What are potential upcoming catalysts?** Fastned recently raised cEUR150m in new equity to fund the rollout of further stations in their network. Recall the company aims to hit 1,000 charging stations in the mid-term. News of installation progress at, or above, street expectations would be taken well by the market. Any further regulation or subsidies supporting adoption of EVs across Europe would also be taken positively.
- **What is the valuation?** Fastned is yet to make a profit due to the continued capex involved in rolling out their charging network. Thus the company currently trades on 25x FY23 EV/Sales. However, a consolidated shareholder register (<25% free float) significantly constrains liquidity in the stock making relative peer valuations difficult to use.

## Ilika | IKA LN | £0.2bn – Steve Boydell (CFO)

### 2 Year Share Price



*Ilika is a key player in the battery market. Its solid-state technology aims to supersede many of the performance characteristics of widely used lithium-ion batteries across a variety of end-markets. Steve Boydell, CFO, ran investors through the company's technology, its various uses across several end-markets, and the recent capital raise which funds their ambition to expand into the significant EV battery market.*

- **What does it do?** Ilika designs and manufactures solid-state batteries in two key product families. Stereax is their family of micro solid-state batteries for use in applications across medical technology (implants) and unobtrusive IoT sensors. Meanwhile Goliath is a family of larger pouch cells for use in consumer electronics and electric vehicles. Solid-state batteries similar to lithium-ion, except the anode electrolyte is essentially removed and replaced with a ceramic plate. This means Ilika batteries occupy half the volume, can withstand higher temperatures, charge faster, and are more easily recyclable than most lithium-ion batteries.
- **Who are its customers?** Ilika doesn't disclose its full client list, however across its two divisions the company supplies firms across the medical, industrial, civil, aerospace, automotive, and consumer electronics end-markets.
- **Why is it an enabler of Net Zero?** As a key player in the shift towards greater use of batteries as power supplies, Ilika is a key enabler of the Electric Vehicle industry which will play a large part in abating emissions from the Transport sector (c15-20% of CO<sub>2</sub> emissions globally). The use of Ilika's technology across other end-markets like IoT will also indirectly contribute to net zero through increased digitisation and energy efficiency.
- **What are potential upcoming catalysts?** Ilika recently raised £23m to scale and commercialise their production plant for the Goliath pouch cell batteries to tackle the c\$84bn electric vehicle market. This will 10x their current production capacity from 1kWh to 10kWh in total. News on progress in the buildout of this new facility, as well as new customer wins, would be taken positively.
- **What is the valuation?** Ilika is yet to generate a profit due to continued investment into its products and production capacity as they meet end-market demand. Bloomberg consensus has the company delivering £8m in sales by FY23 putting the valuation at 27x FY23 EV/Sales.

## Active Net Zero – The Concept

The IPCC Special Report on Global Warming of 1.5°C requires the world to eliminate net greenhouse gas emissions by 2050 if it is to keep global warming to within 1.5°C of pre-industrial levels and avoid the worst impacts of climate change. Pursuing this target is consistent with the Paris Agreement and countries representing over 60% of global emissions have already announced net zero targets including the USA, EU, China, Canada, Japan and South Korea. In fact, all the G7 countries except Italy have announced net zero targets.

The IPCC report shows that failing to achieve net zero will leave the world and its economies exposed to severe risk. We believe investors who want the environment to be considered in their investment strategies will want those investments to be consistent with a net zero approach. Increasingly, investing in activities that are not consistent with net zero will be seen as out of mandate. We also believe that a significant number of investors want to invest in delivering a net zero solution, not just complying with it. This is where active net zero is important.

The Institutional Investors Group on Climate Change (IIGCC) represents over 350 members with over US\$42tr of assets. It sees two dimensions for investors to be considered in alignment with the temperature goals of the Paris Agreement.

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### Two dimensions for investors

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**Decarbonising investment portfolios** in a way that is consistent with achieving this net zero goal



**Increasing investment in 'climate solutions'** required to meet that goal, such as renewable energy, low carbon buildings, and energy efficient technologies

*Source: IIGCC*

We describe companies in the **second dimension as Active Net Zero companies**; those actively working to deliver a net zero solution.

## Identifying Active Net Zero Companies

The Longspur Radnor Index methodology is based on company revenues.

To be eligible for inclusion, a company must have an Active Net Zero Score of at least 50% based on company revenues from Active Net Zero activities. Revenues are segmented based on whether they are active, passive or negative. Negative net zero activities are those based on fossil fuels including coal, oil and natural gas. Whilst companies that produce fossil fuels can be included, revenues from this sector count against its active revenues, making it difficult for those with significant fossil fuel activities to be included.

There is some merit in using capex rather than revenue as it is a good sign of a company's intentions. However, we are concerned with what a company is doing now

rather than what it intends to do, and capex is seldom shown in segmental notes to annual accounts, making its use here difficult. However, where segmental capex is available, we are happy to include companies on that basis.

As the clean energy sector includes early-stage technologies, a number of companies are pre-revenue. Where a company is pre-revenue or does not have revenue in a specific year, we are happy to use segmental opex. We see the inclusion of these companies as a key differentiator of the index, especially as, in order to achieve net zero, development of these technologies needs to be accelerated. The IEA 2020 Energy Technology Perspectives report highlights that the technologies required to meet around 75% of the emissions reductions needed for net zero are currently not mature.

## Identifying Active Net Zero Activities

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In order to use widely accepted definitions, we consider net active zero activities to be those outlined in the Annex to the EU Sustainable Finance Taxonomy (Regulation 2020/852 of the European Parliament and of the Council); 3.1 – 3.5, 3.9, 3.14 and 4.1 – 4.25. Under 3.5, Manufacture of other low carbon technologies, we include the supply of materials for low carbon technologies including mining of key minerals such as lithium, graphite, manganese and cobalt for energy storage where this is done sustainably. These activities are in line with the pathways set out in the IPCC Special Report on Global Warming of 1.5°C and in the IEA Net Zero by 2050 Roadmap.

As currently drafted, the Taxonomy omits nuclear energy, but this is still a matter of debate. For the purposes of this index we include electricity generation and hydrogen production from nuclear fission and fusion. While there are many good reasons to discard these technologies, they remain contributory technologies to a net zero world, which is the focus of this index.

Negative net zero activities are those based on fossil fuels including coal, oil and natural gas. Transition technologies which will not be part of a net zero end game are treated as per their net zero world contribution, which may be negative. So, for example, gas generation revenue will be treated as negative.

## Activities Summarised

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The eligible renewable energy businesses accepted for inclusion in the index and therefore considered an Active Net Zero activity are detailed below.

### **Renewables - Wind & Solar:**

Company in the wind sector are involved in the manufacturing of turbines or associated parts, are wind developers and or generators, or are involved in the development of technologies for wind turbines. Generators of electricity using PV material, solar developers or companies engaged in the development of solar technologies are eligible.

### **Renewables - Biomass & Biofuels**

Eligible companies are involved in biomass through the process of using plant or animal material as fuel to produce electricity, heat or biofuels. Under the Index methodology, eligible companies that supply the biomass are involved in engineering the technology and or equipment or are involved in the production or consumption or biomass as fuel for electricity, heat or biofuel.

### **Small Scale Renewables - Hydro power, tidal and geothermal**

Hydroelectric generation is eligible as are of other small-scale technologies that can be more reliable than wind and solar in adverse conditions. Geothermal power uses natural heat below the earth's surface to generate electricity and whilst this form of renewable generation is only significant in areas where this form of natural heat is readily available, it forms an important part of the energy mix in a net zero world.

### **Energy Efficiency**

Companies are considered eligible in this sector if through developing technologies they are able to improve efficiency of both generation and distribution of electricity. Technologies can range from reducing losses on the grid, or reducing use of energy in homes, retail or commercial buildings.

### **Hydrogen**

Hydrogen technology could be a significant driver in the energy transition. A company is eligible if it is involved in the production and storage of green or blue hydrogen, as well as hydrogen and fuel cell technologies or alternative fuel vehicles using hydrogen.

### **Energy Storage**

Due to the intermittency of renewables such as wind and solar, energy storage and battery technologies are crucial in the shift to net zero. Eligible companies in the energy storage sector are involved in the development of battery technology or other forms of energy storage solutions, such as EV charging and the manufacturing of EVs.

### **Mining**

Mining of materials used for low carbon technologies including mining of key minerals such as lithium, graphite, manganese, and cobalt for energy storage, where this is done sustainably.

## **Issues along the Value Chain**

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There are issues where a company such as an energy retailer supplies both low renewable and fossil fuel derived energy. In these cases, the positive and negative impact of the revenue from each source are weighed against each other. If the revenue is not split, we estimate a split based on any other disclosed supply data. Similarly, grid (transmission) companies are assessed on how much clean and dirty power is being transmitted. Traditional grids and retailers themselves do not bring about the changes required but initiatives such as smart grid technologies and smart meters are enablers and we count as positive contributions.

### **The coal fired car**

We see the manufacture of EVs as a key element of a net zero world. There have been a number of papers pointing out that at present where these vehicles charge on grids which are fossil fuel dominated, they do not contribute to mitigating climate change. However, we assume that grids will move to a net zero solution so that the EVs are then essential to decarbonising a key section of transport needs.

### **Energy efficiency**

Energy efficiency is a key route to meeting net zero targets. For some observers there is no difference between a low energy LED lightbulb and a low emission gas turbine. Of course, gas turbines are still relative high emission, whereas LED lightbulbs are a major leap (notwithstanding the Khazzoom-Brookes postulate). However, our key criteria are that LEDs are part of the zero-emissions end game but combined cycle gas turbines (CCGTs) are not. So, we include efficiency but not CCGTs. For the same

reason we exclude bus companies unless the majority of their journeys are in low emission vehicles.

### **Waste to energy**

We consider the biogenic content of waste to energy as an active net zero activity. For most commercial waste we consider this at 50% if no other information is available. While the remaining content can be seen as a negative contributor to a net zero world, we see the offsetting benefits of dealing with unrecyclable waste as a benefit and allow this to be treated as a neutral activity.

### **Blue hydrogen**

Hydrogen produced from methane, using steam methane reformation with carbon capture and storage can be a viable low carbon solution whilst producing the significant quantities of hydrogen required for decarbonising industry. As such we see it as a positive activity in a net zero world.

### **Mining**

We see similar issues with mining where mined material can be used in a variety of applications. Some may be active net zero, but not all. For example, where a graphite mine supplies exclusively to battery anode producers, this is clearly an active net zero activity. But if less than half of this mine supplies such an activity it would not be suitable for this index.

The key question in making these distinctions is **“will the activity contribute to a net zero world beyond the company itself?”**

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## **Eligibility and Screening Criteria**

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The universe is all European listed companies with Europe, defined as the European Economic Area plus Switzerland and the UK.

To be eligible for inclusion in the Index, constituent companies are subject to the following screening criteria:

- Have an Active Net Zero score of at least 50% based on a company’s revenue characteristics
- Minimum free float adjusted market capitalisation criteria
- Minimum trading volume criteria
- Subject to individual security maximum weightings cap.

Rebalancing will be carried out annually on 30 June.

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