September 2021 | Valuentum Securities, Inc. | info@valuentum.com

[Volume 1, Issue 1]

Welcome to ESG Investing, the Valuentum Way!

Environmental, Social, Governance

The Investment Case for More Gender Diversity

Image: *The Impact Shares' YWCA Women's Empowerment ETF (WOMN) has trounced the S&P 500 since inception, while the SPDR SSGA Gender Diversity Index ETF (SHE) has bested the quantitatively-hailed small cap value ETF over the same time period.*

By Valuentum Analysts

There has been a plethora of research over the years regarding the value of diversity on teams, in corporate boardrooms, and across asset management. The CFA Institute defines diversity as "the spectrum of human attributes, perspectives, identities, and backgrounds," and notes that "the discussion around motivations for pursuing diversity in investment management often revolves around two main areas: 'the business case

Contents

Hot Topics!

The Investment Case for More Gender Diversity 1

Corporate Profile: Oracle's CEO Safra Catz 3

ESG-Focused Highlights

Dividend Aristocrat Albemarle Bets Big on Lithium 4

We are Big Fans of Ameresco 10

Dividend Growth Idea Republic Services Is a Stellar Enterprise 15

ESG Spotlight: Oracle 18

ESG Newsletter Portfolio 24

for diversity' (i.e., with more diverse perspectives, business outcomes will improve) and 'because it is the right thing to do.'

One of the forms of diversity is gender diversity. According to the most recent census data estimates, in the United States just over half (50.8%) of the population is female. That number doesn't account for those who don't identify as male or female, since the definition the Census Bureau uses relies strictly on the "biological attributes of men and women (chromosomes, anatomy, and hormones)." Though this doesn't help explain the full spectrum of gender diversity--since it doesn't include inclusive options--it does provide a benchmark to start from, given that women participate in the workforce at levels out of proportion with current demographics.

It has been documented that diverse teams create more innovative ideas and creativity, which can serve as quite an advantage in industries where margins are slim, or there are few barriers to entry. While a 2019 study summarized in the Harvard Business Review indicated that the value of gender diversity is highly context-dependent and tends to have the greatest benefit where it is already valued, the corporate environment, and arguably the stock market, itself, are a few of those areas where value has been demonstrated.

Firms that show a commitment to diversity have been rewarded by investors in the past. According to Stephen Turban, Dan Wu, and Letian (LT) Zhang, "By most measures, the global business community is becoming more supportive of women and of women's importance in economy. This leads to a positive feedback loop – firms that support gender diversity will capture these benefits earlier, leading them to

Corporate teams, boardrooms, and the financial industry will have a tremendous opportunity to capitalize on the unique talents of women who will provide industries with new ways to capture demand trends.

"It has been documented that diverse teams create more innovative ideas and creativity, which can serve as quite an advantage in industries where margins are slim, or there are few barriers to entry."

outlast their competitors." As reported by the CFA Institute, a recently published PwC Global survey showed that "85 percent of financial services CEOs polled said promoting inclusion and diversity helps enhance business performance."

Women in the workforce have suffered during the Covid-19 pandemic, staying home to care for children and sick family members more often than their male counterparts. Though male and female participation dropped in the early months of the pandemic, US Bureau of Labor Statistics data shows that the percentage of women in the labor force dropped from 59.2% in February 2020 to 57% in February 2021, while the percentage of men in the workforce dropped from 71.6% to 69.9% over the same time. From this participation gap of 12-13 percentage points, a gap that grows during times of economic stress, there are clear opportunities for corporations to concentrate on increasing gender diversity, but also in finding ways to better accommodate the needs of women in the workforce.

Additionally, in 2020, 36.7% of men and 38.3% of women in the US had completed four years of college or more, and that percentage will likely continue to increase for women as they outnumber men in college attendance. According to the National Student Clearinghouse, there are approximately 46.9% more women in colleges and universities than men. Corporate teams, boardrooms, and the financial industry will have a tremendous opportunity to capitalize on the unique talents of women who will provide industries with new ways to capture demand trends. Many companies are recognizing this, as there are a record number of female CEOs at Fortune 500 companies these days. However, there are still only 41 female CEOs in the Fortune 500 executive suite (8.2%), but a percentage that we think will increase in coming years.

Some female CEOs at the top include Karen Lynch of CVS Health (CVS), Mary Barra of General Motors (GM), Rosalind Brewer of Walgreens Boots Alliance (WBA), Gail Boudreaux of Anthem (ANTM), Jane Fraser of Citigroup (C), Carol Tomé of United Parcel Service (UPS), Safra Catz of Oracle (ORCL), Sonia Syngal of Gap (GPS), and Lisa Su, Ph.D., of Advanced Micro Devices (AMD). Dividend Growth Newsletter portfolio holding Oracle has been a standout outperformer this year, up more than 38% versus the market return of ~19%, both on a price-only basis.

A Couple Pioneering ETFs

For those looking for ETFs housing companies that are paying attention to the importance of gender diversity, there are a couple options.

Impact Shares' YWCA Women's Empowerment ETF (WOMN) tracks the performance of the Morningstar (MORN) Women's Empowerment Index. Some of the largest holdings include familiar names such as Microsoft (MSFT), Apple (AAPL), Amazon (AMZN), NVIDIA (NVDA), Facebook (FB), Alphabet (GOOGL, GOOG), Adobe (ADBE), Salesforce (CRM), and Johnson & Johnson (JNJ) -- companies that have shown a commitment to gender equality and women's empowerment (these top 10 companies make up about ~35% of the ETF's portfolio). Though WOMN is rather small at $31.5 million in AUM and has a rather high expense ratio of 0.75%, all net advisory fees from the management of the WOMN ETF are donated to the YWCA.

SPDR SSGA Gender Diversity Index ETF (SHE) offers another alternative. The goal of the SSGA Gender Diversity Index is to include companies that have greater gender diversity specifically within senior leadership than other firms in the sector. This focus allows SHE to weight more heavily other entities, rather than emphasizing technology at the top the way that WOMN does (note, both ETFs have ~32% weightings in technology). Some of the biggest holdings of SHE include Disney (DIS), PayPal (PYPL), Salesforce.com, Visa (V), Netflix (NFLX), and United Health (UNH) -- all of which garner weightings north of 4% each. SHE has a much more affordable expense ratio of 0.2% than WOMN, and a much larger AUM of ~$281 million. SHE has an SEC yield of ~0.83%.

Concluding Thoughts

The lower expense ratio and larger asset base at SHE may make it a relatively more attractive ETF for more conservative investors, but we like the overweighting of large cap tech in WOMN, despite its higher expense ratio and more speculative nature given the fewer assets backing it. Since WOMN began trading in late 2018, shares of the ETF have advanced ~70%, beating the S&P return of ~56%, both measured on a price-only basis. Though SHE has trailed the S&P 500 over this time, the ETF's return still bested quantitatively-hailed small cap value's (IWN) meager showing of ~19% during this time, both measured on a price-only basis. The long and short of gender diversity is that not only is more gender diversity the "right thing to do," but the investment case is quite strong.

Corporate Profile: Oracle CEO's Safra Catz

By Valuentum Analysts

Safra Catz was born in 1961 in Holon, Israel, a city along the Mediterranean coast. When she was a child, her family moved to Massachusetts to begin their new life in the US. She earned a bachelor's degree from the Wharton School of the University of Pennsylvania and a JD from the University of Pennsylvania Law School in the 1980s. In the 1990s, Catz married Gal Tirosh, and the couple had two sons.

After joining Oracle back in 1999, Catz rose through the ranks to become CEO of one of the largest tech companies in the US. **She became a member of Oracle's board in 2001 and was promoted to CEO in 2014.** Catz also serves on Disney's board of directors as her perspective is often sought by large enterprises, and in the past, she served as director of the banking giant HSBC Holdings.

Since taking over the top job at Oracle, Catz has aimed to pivot Oracle away from the legacy businesses (namely traditional data enterprise application services) built up by the firm's co-founder, Larry Ellison, and towards technologies of the future (such as offsite and hybrid cloud-computing services and solutions).

The lower expense ratio and larger asset base at SHE may make it a relatively more attractive ETF for more conservative investors, but we like the overweighting of large cap tech in WOMN, despite its higher expense ratio and more speculative nature given the fewer assets backing it.

By revamping Oracle's database offerings and placing a greater emphasis on growing the company's cloud-oriented enterprise resource planning ('ERP') services, **Catz has been able to revive Oracle's long-term revenue growth trajectory.** She played an outsized role in preventing Oracle from falling into the downward spiral that befell many of its peers over the past decade as they struggled to adapt to the proliferation of cloud computing and was able to do so while adeptly managing the company's cost structure during the transition. According to *Forbes*, Catz is a billionaire and well on her way to becoming a multibillionaire, aided by the strong showing shares of Oracle have put up over the past year.

Oracle recently moved its headquarters to Austin, Texas, to take advantage of the state's booming tech scene, favorable tax and regulatory regime, and the region's significantly more affordable cost of living as compared to California's Silicon Valley, where Oracle used to be headquartered. **With Catz at the helm, Oracle is in good hands.**

Dividend Aristocrat Albemarle Bets Big on Lithium

Image Source: *Albemarle Corporation – May 2021 IR Presentation*

By Callum Turcan

Dividend Aristocrat Albemarle Corporation (ALB) is a specialty chemicals company with three core business operating segments; 'Lithium' (primarily used for battery storage solutions), 'Catalysts' (primarily used in the oil refining industry), and 'Bromine Specialties' (primarily used as flame retardants). The company is focused on aggressively growing its lithium derivatives operations going forward, Albemarle's largest in terms of revenues and most profitable in terms of non-GAAP adjusted EBITDA performance. Let's learn more about this fascinating company.

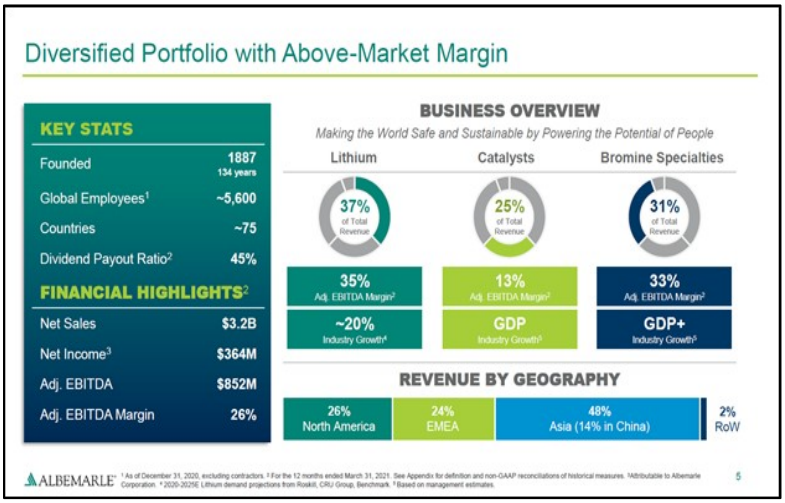

Image Shown: *An overview of Albemarle's business profile.* ***Image Source:*** *Albemarle – May 2021 IR Presentation*

Lithium Prices Are on the Rise

During the final quarter of 2020, Albemarle sold its economic stake in the Saudi Organometallic Chemicals Company LLC ('SOCC') for ~$0.01 billion in cash proceeds (and recorded a modest gain on the sale). In June 2021, Albemarle completed the sale of its Fine Chemistry Services ('FCS') business to W. R. Grace and Company (GRA) for $0.6 billion in total considerations (including a $0.3 billion cash component and $0.3 billion component consisting of preferred equity in a subsidiary of W. R. Grace). Back in 2018, Albemarle sold off its polyolefin catalysts and components portion of its Performance Catalysts Solutions ('PCS') business for $0.4 billion in cash to W. R. Grace.

On the acquisition front, Albemarle acquired a 60% interest in Mineral Resources Limited's (MALRF) Wodgina spodumene mine in Western Australia in 2019 for $0.8 billion in cash and the transfer of a 40% economic interest in two lithium hydroxide conversion trains that Albemarle is building in Western Australia. The total value of the deal with Mineral Resources was pegged at roughly $1.3 billion. Spodumene is utilized as an ore for lithium and represents a key part of the electric vehicle ('EV') battery supply chain.

Prices for lithium hydroxide and lithium carbonate (lithium derivatives) have surged higher during the past several months, according to data cited by the *WSJ* from *Benchmark Minerals* in early September 2021 and data from *Refinitiv Eikon* cited by *Reuters* in June 2021.

According to management commentary given during Albemarle's second-quarter 2021 earnings call, construction at the first Australian facility (Kemerton I) is expected to be completed by the end of 2021 and construction at the second (Kemerton II) is slated to be completed by the end of the first quarter of 2022. **Commercial production from these facilities is expected to commence in 2022**, and 100% of the output will be marketed by Albemarle (the firm has a 60% economic interest in the venture).

Albemarle had slowed development activities to preserve capital when the coronavirus ('COVID-19') pandemic emerged in 2020, though it has since resumed development activities in earnest, **prioritizing the Kemerton I facility to bring it online at a time when lithium derivatives prices are quite dear.**

"Albemarle is a Dividend Aristocrat that as of 2021 has boosted its annual payout the past 27 consecutive years. The top end of our fair value estimate sits at $247 per share of ALB, slightly above where shares of Albemarle are trading as of early September 2021."

Image Shown: *Albemarle has major lithium developments in Australia and Chile that when completed, are expected to drive its lithium derivatives production volumes significantly higher.* ***Image Source:*** *Albemarle – Second Quarter of 2021 IR Earnings Presentation*

Another key lithium development Albemarle is working on includes the La Negra III/IV lithium carbonate production facilities in Chile. Construction activities have been completed and the facilities are expected to begin commercial production in the first half of 2022. In 1984, Albemarle began producing lithium carbonate at the site and by 1998, a lithium chloride plant was brought online in the area. Since then, Albemarle has continued to invest heavily in the region, and its operations in the area produce lithium derivatives from brine in the Salar de Atacama salt flat.

Financial Update

Prices for lithium derivatives plummeted in 2020 and have only more recently begun to recover in earnest, meaning that weaker prices weighed on Albemarle's financial performance during the first half of 2021 (particularly when it comes to year-over-year comparisons). Looking ahead, rising lithium derivatives pricing combined with the higher production volumes seen of late supports the financial outlook of Albemarle's lithium business, and should provide a major catalyst to its company-wide financial performance going forward.

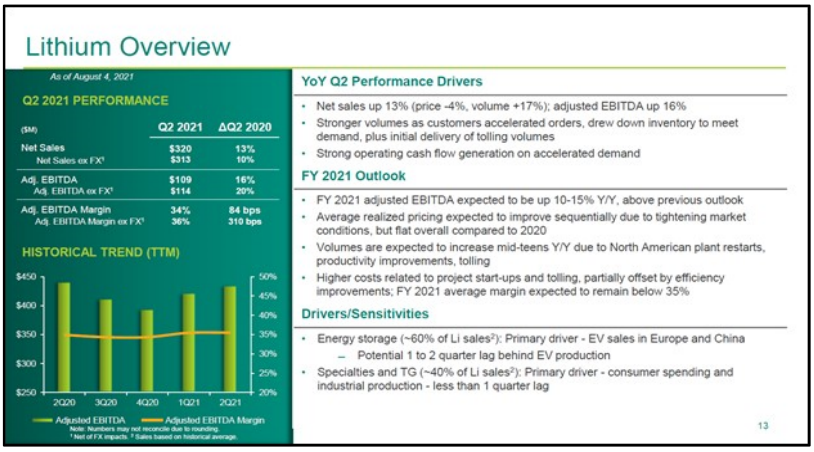

Image Shown: *The financial performance of Albemarle's lithium segment is expected to stage a meaningful recovery this year versus 2020 levels, aided volume growth and more favorably pricing for lithium derivatives seen of late.* ***Image Source:*** *Albemarle – Second Quarter of 2021 IR Earnings Presentation*

In February 2021, Albemarle raised $1.5 billion through a secondary equity offering to fund its growing capital expenditure expectations in the coming years while keeping in line with its long-term leverage ratio of 2.0-2.5x (defined as net debt to non-GAAP adjusted EBITDA). **With these cash proceeds and its recent divestment proceeds, Albemarle has the funds to invest heavily in its capital-intensive lithium business.** Albemarle expects to spend $0.85-$0.95 billion on its capital expenditures in 2021 (up somewhat from the approximately $0.85 billion spent on capital expenditures in both 2019 and 2020) while generating $0.55-$0.65 billion in net operating cash flow on a pro forma basis (taking recent divestment activity into account). **The company is guiding to generate a moderate amount of negative free cash flow this year.**

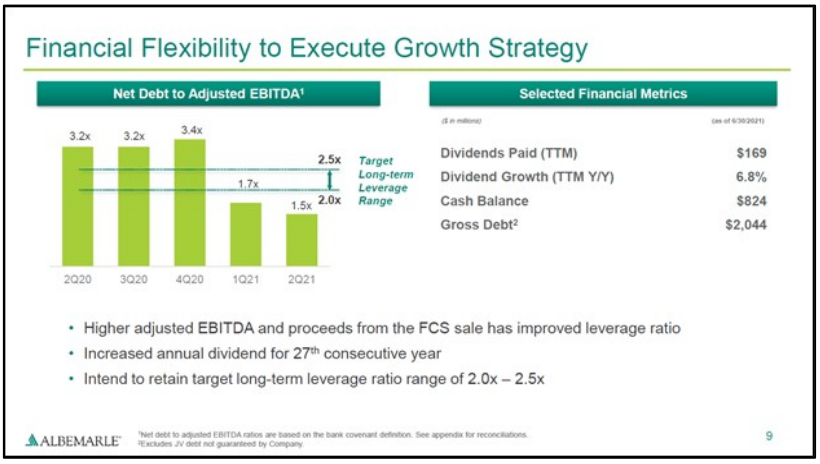

Image Shown: *Albemarle's financial position is supported by cash proceeds raised from a secondary equity offering and a recent divestment, providing the firm with the funds to bulk up its capital-intensive lithium business going forward.* ***Image Source:*** *Albemarle – Second Quarter of 2021 IR Earnings Presentation*

Albemarle has already identified numerous lithium projects that the company intends to develop over the coming years. **The trajectory of lithium derivatives prices will be key as Albemarle and other lithium players were burned when the previous lithium boom cycle went bust in 2018.**

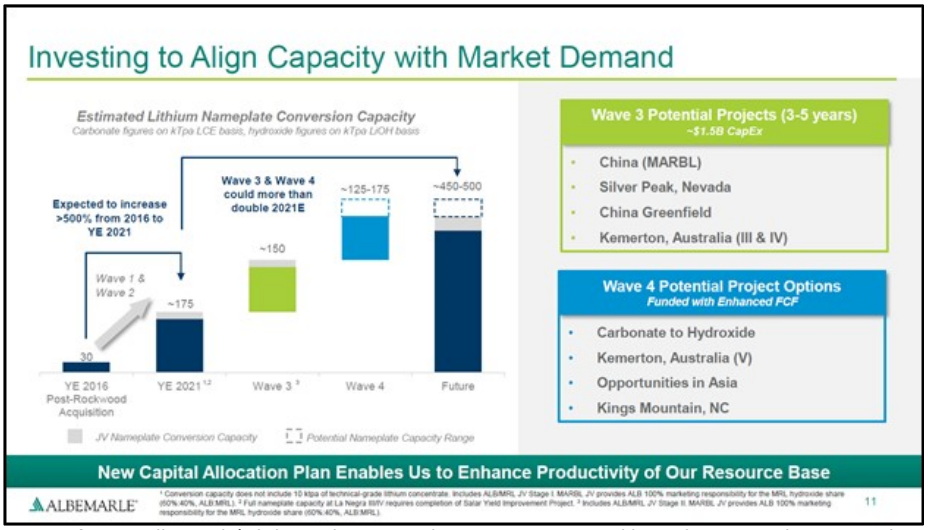

Image Shown: *Albemarle's lithium derivatives business is supported by its long growth runway, though the company's ambitions on this front are subject to the inherent boom-bust cycle of commodities.* ***Image Source:*** *Albemarle – May 2021 IR Presentation*

Outlook for Lithium Market

Over the coming years, **Albemarle expects demand for lithium to surge higher on the back of rising demand for battery storage solutions (lithium-ion batteries in particular) that are used in EVs.** During the January 2021 to August 2021 period, the vice minister of China's Ministry of Industry and Information Technology estimated China sold 1.7 million new energy vehicles ('NEVs') according to comments at a recent industry conference cited by *Reuters*. That was up from 0.6 million in the same period a year-ago, and for reference, China's total auto sales in unit volume terms were estimated to grow by 10% during this period. NEVs includes EVs and plug-in hybrids along with vehicles powered by hydrogen fuel cells.

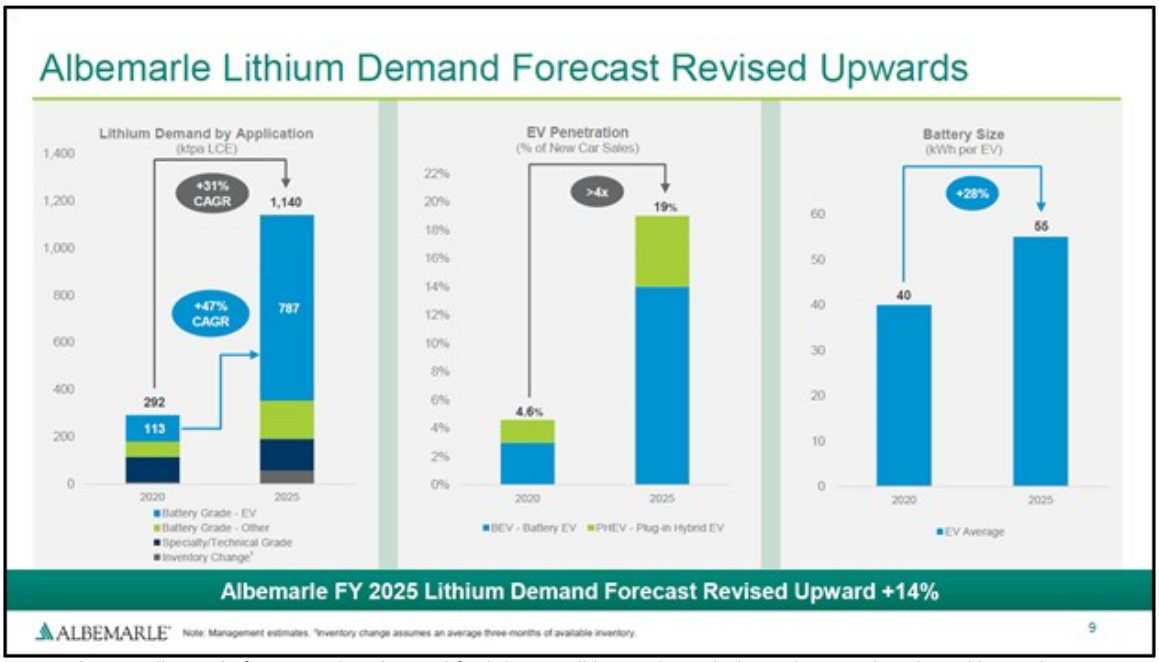

Image Shown: *Albemarle forecasts that demand for lithium will boom through the mid-2020s decade and beyond.* ***Image Source:*** *Albemarle – May 2021 IR Presentation*

Albemarle, citing third-party data, estimates that 0.6 million EVs were produced in 2015, which rose to 3.4 million in 2020, and by 2025, believes that figure will rise to 15.3 million. Investments in EV charging infrastructure will be essential in making this growth trajectory possible, as will driving down production costs as government subsidies and other benefits will eventually fade.

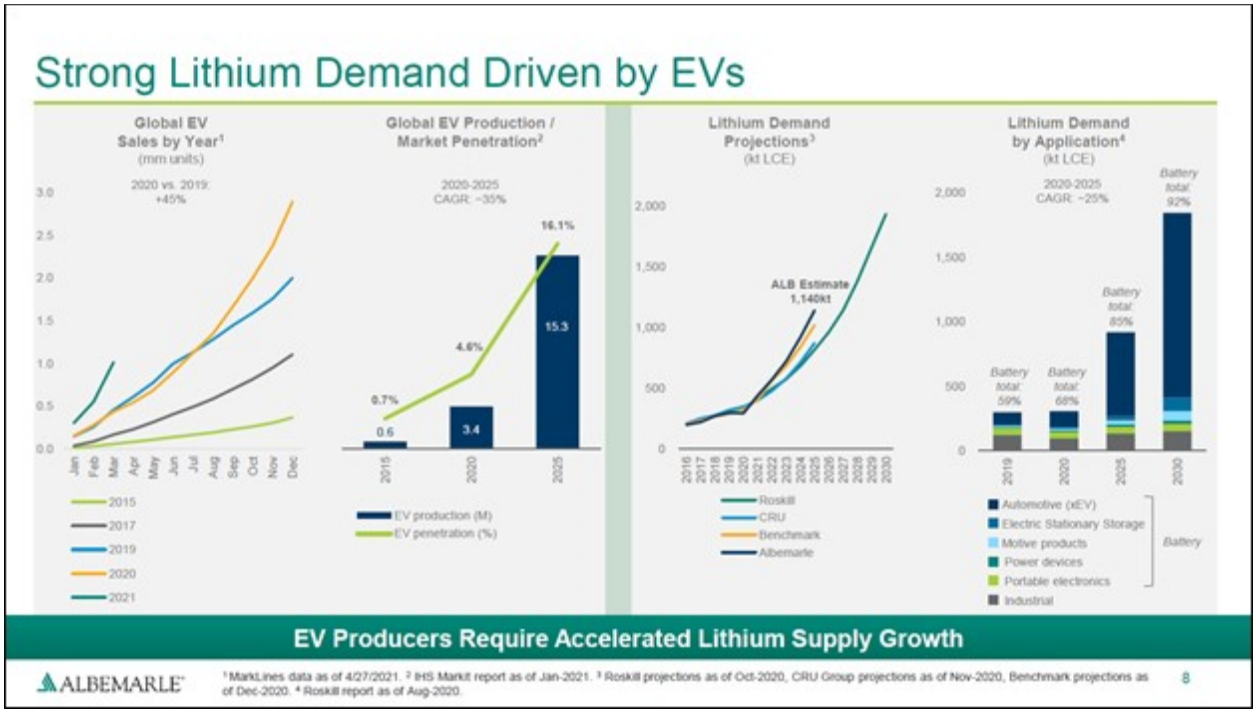

Image Shown: *Albemarle's lithium growth ambitions are underpinned by the booming EV market.* ***Image Source:*** *Albemarle – May 2021 IR Presentation*

Farther out, utilities (XLU) with large renewable energy power generation operations represent another major source of potential demand growth for lithium derivatives. **Wind and solar power plants need battery storage solutions to keep supplying power to consumers when the wind isn't blowing, and the sun is not shining, as these are intermittent sources of power.** Utility-scale battery storage solutions are prohibitively expensive in many instances, though economies of scale and future technological innovations should help drive down prices over time.

Dividend Aristocrat

Albemarle is a Dividend Aristocrat that as of 2021 has boosted its annual payout the past 27 consecutive years, though shares of ALB yield a modest ~0.7% as of this writing. The company's stock price has surged higher 150%+ the past year as of this writing. **The top end of our fair value estimate sits at $247 per share of ALB**, slightly above where shares of Albemarle are trading as of early September 2021. While management is prioritizing Albemarle's investments in its business, we still expect the firm to steadily boost its dividend in the coming years, though at a modest pace.

We caution that Albemarle's Dividend Cushion ratio is rather weak (near 0.0) due to its sizable capital expenditure expectations and net debt load. **The company will need to retain access to capital markets to fund its dividend obligations, refinancing needs, and capital investment ambitions going forward.** At the end of June 2021, Albemarle had a net debt load of $1.2 billion (inclusive of negligible short-term debt, exclusive of long-term 'Investments' that are primarily represented by strategic assets). The company generated a modest amount of negative free cash flow during the first half of 2021, highlighting why Albemarle tapped equity markets earlier this year.

During Albemarle's second quarter of 2021 earnings update, management raised the company's full-year 2021 guidance for several items (save for its expected non-GAAP adjusted EBITDA margin performance). Supply chain hurdles and headwinds from raw material pricing increases weighed somewhat on its guidance boost, which was largely offset by stronger than expected performance from its Lithium business segment along with lower interest expenses and tax rates. However, there is a significant amount of noise here due to its recent divestment activity and the volatile nature of the commodities and chemicals business in general. As noted previously, Albemarle expects to generate negative free cash flows in 2021, though we forecast that the firm's free cash flow generating abilities should improve in the coming years.

FY 2021 Guidance Revised; Updated for FCS Sale

	Revised 2021 Guidance	FCS Impact[1] Jun 1 – Dec 31, 2021	Pro Forma Revised 2021 Guidance
Net Sales	$3.3 - $3.4B ↑	$95 - $105M	$3.2 - $3.3B
Adj. EBITDA	$810 - $860M ↔	$35 - $45M	$775 - $815M
Adj. EBITDA Margin	24% - 25% ↓		24% - 25%
Adj. Diluted EPS	$3.60 - $4.00 ↑	$0.25 - $0.30	$3.35 - $3.70
Net Cash from Operations	$590 - $690M ↑	$40 - $45M	$550 - $650M
Capital Expenditures	$850 - $950M ↔	$4 - $8M	$850 - $950M

Additional revised inputs for 2021: depreciation and amortization $260M - $280M; adjusted effective tax rate 16.0%-17.0%; Corporate costs $115M - $125M; interest and financing expenses $35M-45M; weighted-average common shares outstanding – diluted 117.4M.

ALBEMARLE

[1]On June 1, 2021, Albemarle completed the sale of its Fine Chemistry Services (FCS) business to W.R. Grace & Co. for gross proceeds of $570 million.

10

Image Shown: *A look at Albemarle's updated guidance as of the second quarter of 2021.* ***Image Source:*** *Albemarle – Second Quarter of 2021 IR Earnings Presentation*

Here is what Albemarle's management team had to say regarding the outlook for the firm's Lithium business segment during the company's second-quarter 2021 earnings call (emphasis added):

> *"**Adjusted EBITDA for lithium is expected to increase by 10% to 15% over last year, an improvement from our previous outlook. Lithium volume growth is expected to be in the mid-teens on a percentage basis**, mostly due to higher tolling volumes, as well as the restart of North American plants at the beginning of the year and improvements in plant productivity. Our pricing outlook is unchanged. **We continue to expect average realized pricing to increase sequentially over the second half of the year, but to remain roughly flat compared to full year 2020.***
>
> *We also continue to expect [adjusted EBITDA] margins to remain below 35%, owing to higher costs related to project start-ups and incremental tolling costs. **Margin should improve, as the plants ramp up commercial sales volumes.**" --- Scott Tozier, Executive Vice President and CFO of Albemarle*

We appreciate that Albemarle expects its lithium derivatives business to enter 2022 on the upswing. Management expects Albemarle's realized lithium derivatives pricing will be flat in 2021 versus 2020, as relatively weak realized pricing during the first half of 2021 is offset via much stronger realized pricing in the second half. Furthermore, **Albemarle expects to realize $75 *million* in productivity improvements in 2021** according to recent management commentary (the firm plans to build on this momentum in the coming years).

A combination of significant volume increases as its lithium developments in Australia and Chile achieve commercial production and stronger realized lithium derivatives prices, assuming the current trajectory holds, should provide Albemarle's financials a powerful boost next year. **Economies of scale, productivity gains, and the steady ramp in the production volumes of lithium derivatives should provide a further boost to Albemarle's financial performance in the 2023+ period, though please note its business remains exposed to the boom-bust cycle of commodities pricing.**

Concluding Thoughts

We are keeping an eye on the lithium industry as demand for battery storage solutions continues to soar. Lithium derivatives prices have surged higher in recent months, which is largely why shares of Albemarle have more than doubled over the past year. **Albemarle offers investors a way to play both the ongoing EV boom and the recovery in global refined petroleum product demand (via its Catalysts business operating segment) as the world slowly emerges from the worst of the COVID-19 pandemic. We include shares of ALB as an idea in our ESG Newsletter portfolio.**

We are Big Fans of Ameresco

Image Source: *Ameresco Inc – August 2021 IR Presentation*

By Callum Turcan

Ameresco Inc (AMRC) provides its customers with an expansive slate of clean energy and energy efficiency solutions ranging from upgrades to energy infrastructure (e.g., battery storage, lighting improvements and smart metering) to the development, construction, and operation of renewable energy projects (e.g., biogas and solar PV power plants) at the facilities of its clients. **Ultimately, Ameresco's goal is to help reduce its clients' ongoing operating expenses by delivering material energy-related cost savings.** Ameresco's offerings cover a lot of ground in the clean energy arena. The lion's share of its revenues come from its activities in the US as of 2020.

Ameresco helps develop bespoke energy solutions for airports, public housing authorities, commercial, industrial, educational, and healthcare customers, and various local, state, and federal government entities in North America and the UK. The clean energy solutions provider also helps its clients secure the financing needed to fund these endeavors, including providing the financing itself, and will at times own and operate the power plants developed at or near its clients' facilities. At the end of December 2020, Ameresco owned and operated 130 power plants, primarily biogas and solar facilities.

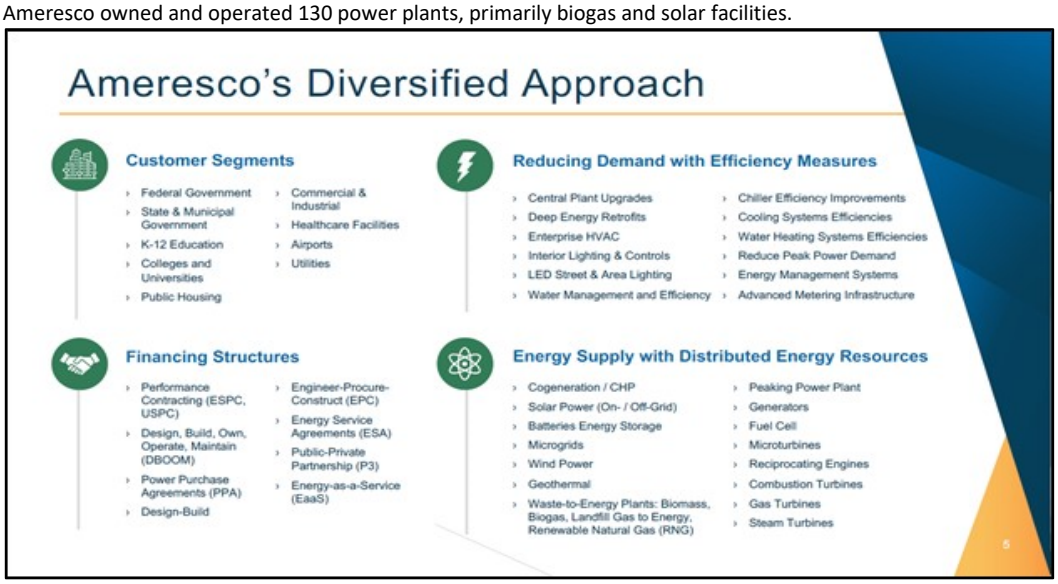

Image Shown: *An overview of Ameresco's expansive slate of energy efficiency and green energy solutions, and the various financing structures it offers its customers.* ***Image Source:*** *Ameresco – August 2021 IR Presentation*

The company is uniquely well-positioned to capitalize on the "green energy revolution" in a variety of ways. Ameresco has ample expertise navigating the sea of forever changing local, state, and federal subsidies and the prowess required to adapt to the ever-changing regulatory environment when it comes to energy efficiency and renewable energy developments. Additionally, Ameresco has a lot of expertise operating renewable energy power plants. Most importantly, the core of Ameresco's value offering to its customers is focused on reducing their operating cost structure; any public relations win for its customers is purely an incremental bonus.

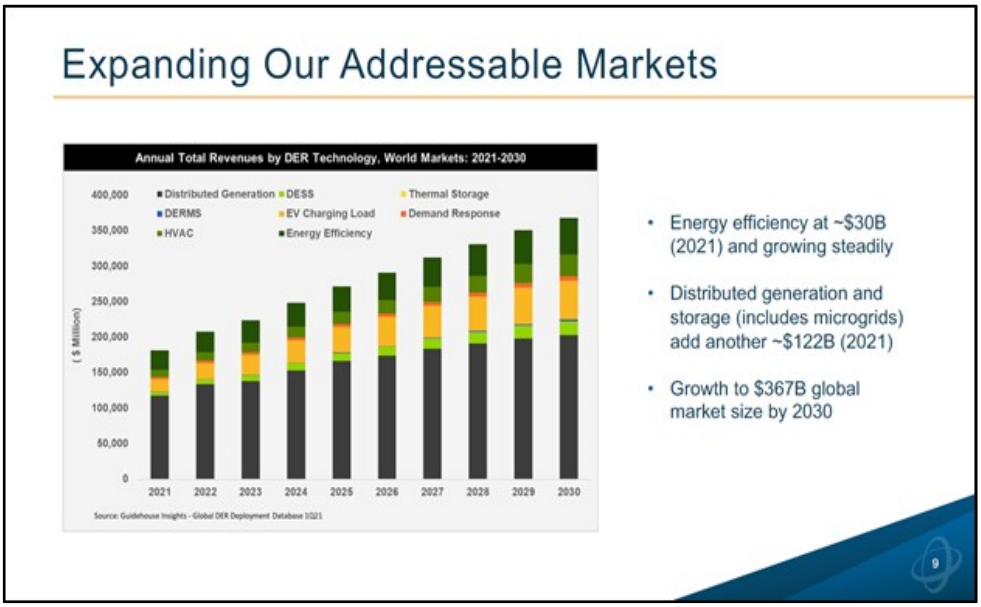

Image Shown: *Ameresco is catering to several market opportunities that are in high demand and are expected to grow at a brisk pace over the coming decade.* ***Image Source:*** *Ameresco – August 2021 IR Presentation*

Financial Resilience

Ameresco has put up tremendous growth over the past several years. The company's GAAP revenues grew 31% from 2018 to 2020 while its GAAP operating income climbed higher 21% during this period. Please note that Ameresco's outstanding diluted share count grew by almost 5% during this period due primarily to stock-based compensation and the firm's preference to invest in the business, as compared to buying back its stock. In the graphic below, we highlight Ameresco's GAAP financial performance from 2018 to 2020.

Ameresco (GAAP Financial Performance)			
In Millions of USD, Except Per Share Amounts			
Year	2018	2019	2020
Revenues	$ 787	$ 867	$ 1,032
Gross Profit	$ 173.61	$ 168.12	$ 187.55
Gross Margin	22.06%	19.39%	18.17%
Operating Income	$ 59.10	$ 51.61	$ 71.50
Operating Margin	7.51%	5.95%	6.93%
Net Income	$ 37.98	$ 44.44	$ 54.05
Net Income Margin	4.83%	5.13%	5.24%
Diluted EPS	$ 0.81	$ 0.93	$ 1.10

Image Source: *Valuentum, Company Financials*

Here, we must stress the improvement in the company's performance during the 2019 to 2020 period, even in the face of the coronavirus ('COVID-19') pandemic. This trend continued into 2021. Ameresco's GAAP revenues grew 21% year-over-year during the first half of 2021 while its GAAP gross margins expanded by ~115 basis points year-over-year and stood at roughly 19.1% during this period.

Within its second quarter 2021 earnings press release, Ameresco's management noted that (emphasis added):

> *"We grew our portfolio of operating Energy Assets by 33 megawatt equivalents ('MWe') during the quarter,* ***continuing the expansion of this higher margin, recurring revenue business, which provides great long-term visibility.*** *Our Projects business continued to benefit from the ongoing shift to more comprehensive projects that utilize a broad portfolio of advanced clean energy technologies in which Ameresco has substantial expertise providing us a competitive advantage. We also are gaining traction in our Energy-as-a-Service ('EaaS') offering. Our recent EaaS win at Northwestern University highlights* ***the growing interest in these "no up-front capital" solutions*** *that address deferred maintenance, escalating energy costs, resiliency and customer commitments to lowering their carbon footprints. We are all seeing a heightened awareness of the importance of resiliency and sustainability across all markets, and* ***we believe this is not only impacting our business in the short-term, but that it is paving the way for outstanding long-term growth.*** *" --- George Sakellaris, President and CEO of Ameresco*

The company's GAAP operating income rose 77% year-over-year and its GAAP operating margin stood at approximately 7.6% during the first half of 2021, up ~240 basis points year-over-year. **While the COVID-19 pandemic created significant noise, we appreciate Ameresco's enduring resilience and its pivot towards more lucrative offerings with greater visibility given the recurring nature of these revenues** (with an eye towards its 'Energy Assets' segment). Ameresco's GAAP diluted EPS grew to $0.48 during the first half of 2021, up from $0.22 during the same period in 2020. Ameresco's non-GAAP adjusted EBITDA grew by 42% year-over-year in the second quarter of 2021, reaching over $34 million. As we noted in our previous articles covering Ameresco, the company's cash flow statement is a messy read due primarily to factors relating to its sizable financing operation, specifically energy savings performance contracts ('ESPCs').

In short, ESPCs "allow federal agencies to procure energy savings and facility improvements with no up-front capital costs or special appropriations from Congress. An ESPC is a partnership between an agency and an energy service company ('ESCO'). Since the inception of U.S. Department of Energy ('DOE') indefinite-delivery, indefinite-quantity ('IDIQ') ESPCs in 1998, agencies have used the ESPC contracting vehicle since 1998 to significantly reduce energy and operating costs and make progress toward meeting federal sustainability goals," according to the US DOE's website. In the UK, Canada and elsewhere, there are different considerations as it relates to economic benefits from the relevant government body or bodies, but the general concept is the same (i.e., government entities increasingly are offering economic incentives to encourage energy efficiency and green energy initiatives). Ameresco is well-versed in this arena.

At the end of June 2021, Ameresco had a net debt position just north of $0.3 billion (inclusive of short-term debt and long-term financing lease liabilities, exclusive of restricted cash), **and maintaining access to capital markets is part of its business model.** Given the stellar performance of shares of AMRC of late combined with its rock-solid financial performance, we expect Ameresco will retain quality access to capital markets at attractive rates going forward. During the first half of 2021, the firm raised over $0.1 billion through a secondary offering (specifically, Class A common stock).

The company's near-term liquidity needs can be met through its cash on hand ($59 million at the end of June 2021, exclusive of restricted cash) and its senior secured revolving credit line that matures in June 2024. In June 2021, Ameresco's credit line had its borrowing capacity upsized to $180 million from $115 million, and the facility had $141 million in remaining borrowing capacity at the end of the second quarter. Furthermore, Ameresco noted in its latest 10-Q SEC filing that (financial figures are in thousands of USD):

> On July 27, 2021, we entered into a $44,748 non-recourse solar debt financing with a group of lenders. The financing consists of a 25-year 3.25% fixed rate term loan of $40,683, a 9-year $4,065 floating rate term loan and additional funding available of up to $60,000…

Management noted during Ameresco's second quarter earnings call that "using this [non-resource] facility [mentioned above], we drew down approximately $45 million to finance over 10 solar projects nationwide across multiple customer classes." We appreciate that Ameresco appears to retain an attractive cost of capital as this will be key to supporting its impressive growth trajectory going forward.

Backlog and Outlook

Ameresco had a total project backlog of $2.2 billion at the end of June 2021, represented by $1.4 billion in awarded project backlog and $0.8 billion in contracted project backlog. The company's operating and maintenance ('O&M') revenue backlog stood at $1.1 billion at the end of the second quarter. Ameresco had 376 MWe in 'Energy Assets' under development after the firm added 23 MWe gross developments to its assets under development portfolio last quarter, keeping in mind it brought 33 MWe into operation. The company's 'Energy Asset Visibility' is defined as "estimated contracted revenue and incentives throughout PPA [power purchase agreements] term on our operating energy assets" and that figure stood at $1.0 billion at the end of the second quarter.

Please note that the COVID-19 pandemic created sizable headwinds for Ameresco's ability to grow its backlog, though things are improving on this front. Management noted during the firm's second quarter earnings call that "we are very pleased to report that we have already converted $98 million of awarded backlog to contracted backlog since the end of the quarter." Additionally, management noted that "we are continuing to grow our higher-margin recurring revenue businesses, providing us with considerable long-term visibility" which speaks favorably to Ameresco's cash flow outlook.

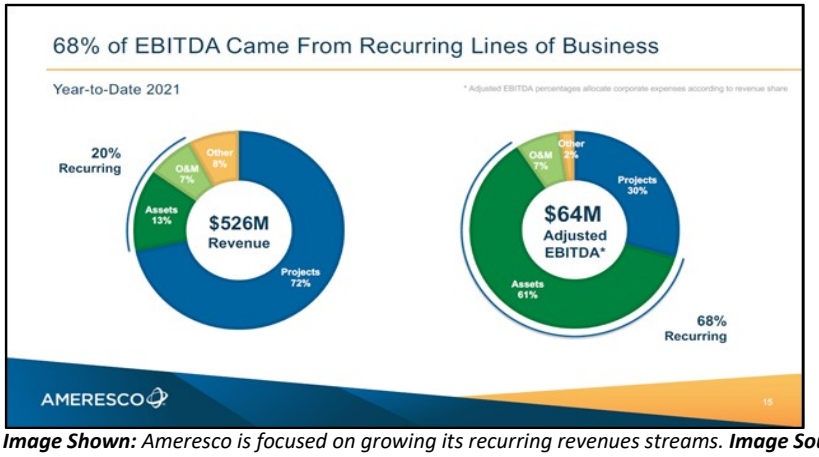

Image Shown: *Ameresco is focused on growing its recurring revenues streams.* ***Image Source:*** *Ameresco – August 2021 IR Presentation*

In August 2021, the US Department of Defense ('DoD') announced Ameresco, as part of a broader group, had been "awarded an indefinite-delivery/indefinite-quantity multiple award design-build ('DB')/design bid build ('DBB') construction contract for large general construction projects located primarily in the Naval Facilities Engineering Systems Command ('NAVFAC') Mid-Atlantic area of operations ('AO'). The maximum dollar value including the base period and four option years for all eight contracts combined is $950,000,000." Please note that the size of the contract awarded to Ameresco and its economic impacts to the firm going forward were not made readily available. We appreciate that Ameresco continues to win key contracts as the firm continues to extend its already long growth runway.

Ameresco provided near term guidance in its second quarter earnings press release. This guidance was the same as the forecast put out during its previous earnings update, though please note **Ameresco boosted its guidance during its first quarter update** versus the forecast laid out in within its fourth quarter 2020 earnings report.

The company now aims to grow its revenue by 10% and its non-GAAP adjusted EBITDA by 23% in 2021 on a year-over-year basis at the midpoint of its guidance. Ameresco also expects to post non-GAAP adjusted EPS growth of 20% this year at the midpoint of guidance when excluding the impact of certain one-time favorable tax benefits realized last year. During the second half of 2021, Ameresco forecasts that it will bring another 22 MWe-42 MWe of 'Energy Assets' online, which will help make this growth story possible.

FY 2021 Guidance Ranges		
Revenue	$1.11 billion	$1.16 billion
Gross Margin	18.5%	19.5%
Adjusted EBITDA	$140 million	$150 million
Interest Expense & Other	$20 million	$22 million
Effective Tax Rate	12%	18%
Non-GAAP EPS	$1.22	$1.30

Image Shown: *An overview of Ameresco's guidance for 2021.* ***Image Source:*** *Ameresco – Second Quarter of 2021 Earnings Press Release*

Looking farther ahead, Ameresco aims to commission three renewable natural gas ('RNG') plants in 2022 and another four in 2023 according to recent management commentary. Ameresco brought the McCarty Road RNG facility online last quarter which had ~12 MWe of capacity, representing a little over a third of the MWe capacity at its 'Energy Assets' that were turned online in the second quarter. As an aside, the company also brought four solar power plants online in the second quarter. **RNG facilities are more important than initial glances would first suggest.**

Please note that RNG production generates renewable identification numbers ('RINs') that enable traditional refineries in the US to maintain compliance with the Renewable Fuel Standards ('RFS') program (in short, the RFS aims to boost domestic production of biofuels, such as ethanol). For reference, RINs can be sold to traditional refineries that process crude oil into refined petroleum products (such as gasoline and diesel) that do not produce enough biofuel themselves to fully comply with the RFS program. Additionally, importers of gasoline and diesel also need RINs to comply with the RFS program.

While many traditional domestic refiners and importers of refined petroleum products have their own US biofuel production operations that generate RINs, generally speaking, those operations do not produce enough RINs to enable those firms to fully comply with the RFS program. The production of RINs at US enterprises that are not traditional refineries and/or importers of gasoline and diesel, and thus do not need to utilize theirs RINs to comply with the RFS program, **can sell those RINs at market prices which in turn creates a sizable economic benefit for Ameresco and its partners**.

RINs pricing has been strong recently according to recent management commentary from Ameresco and data provided by the US Environmental Protection Agency ('EPA'). Domestic refined petroleum product demand has aggressively recovered from the worst of the COVID-19 pandemic according to the US Energy Information Administration ('EIA'), aided by the return of the daily commute and the rebound in domestic air travel.

Ameresco has some exposure to this dynamic as management recently noted "we contract a portion of our anticipated production to support healthy project financing and reduce volatility. The remaining production is sold on a merchant basis, which allows us to take advantage of upside from positive price movements," regarding Ameresco's RNG operations and RIN production. This strategy has been working out favorably for Ameresco of late and was cited as a reason for its strong financial performance in the second quarter of this year. Management also noted that Ameresco's RNG operations benefited from efficiency gains at its facilities during the firm's latest earnings call.

Image Shown: *An overview of the composition of Ameresco's operational 'Energy Assets' portfolio and the various 'Energy Assets' assets currently under development.* ***Image Source:*** *Ameresco – August 2021 IR Presentation*

Here, we would like to stress again that Ameresco is incredibly well-versed in maximizing the economics of its green energy projects through a combination of rock-solid operational execution and a great understanding of the relevant subsidy and regulatory regimes. Should these regimes change, Ameresco has the prowess required to adapt quickly for the benefit of its customers, its business, and its shareholders.

New Director

In July 2021, Ameresco announced the appointment of Claire Hughes Johnson to its board of directors. She is an independent director with "more than two decades of experience directing product innovation, go-to-market and operational strategy for a range of technology industry leaders;" Johnson currently works as an executive at the fintech firm Stripe and previously worked at Alphabet Inc's (GOOG) (GOOGL) Google for a decade. Ameresco announced in conjunction with this update that longtime board member and Ameresco co-founder David Anderson was stepping away from the company. We wish both of them the best in their future endeavors.

We are highlighting this news to showcase that Ameresco is refreshing its boardroom and bringing in outside expertise at a crucial time in its business. Having fresh faces in the boardroom can be quite important, and we are big fans of companies that add independent voices to its board of directors as those members can provide input and strategic directives from a new perspective. Furthermore, greater independent director representation on a company's board of directors helps ensure that the board is better aligned with shareholder priorities over the long haul.

Concluding Thoughts

The economic and investment landscape is changing, and Ameresco is well-positioned to capitalize on the "green energy revolution" and growing interest in environmental, social, and governance ('ESG') investing standards. Ameresco's focus on reducing operating costs for its clients while bolstering their green energy credentials and helping secure financing for the relevant projects underpins the value proposition of the company's offerings. **We view Ameresco's capital appreciation upside quite favorably and include shares of AMRC as an idea in our ESG Newsletter portfolio.**

Dividend Growth Idea Republic Services Is a Stellar Enterprise

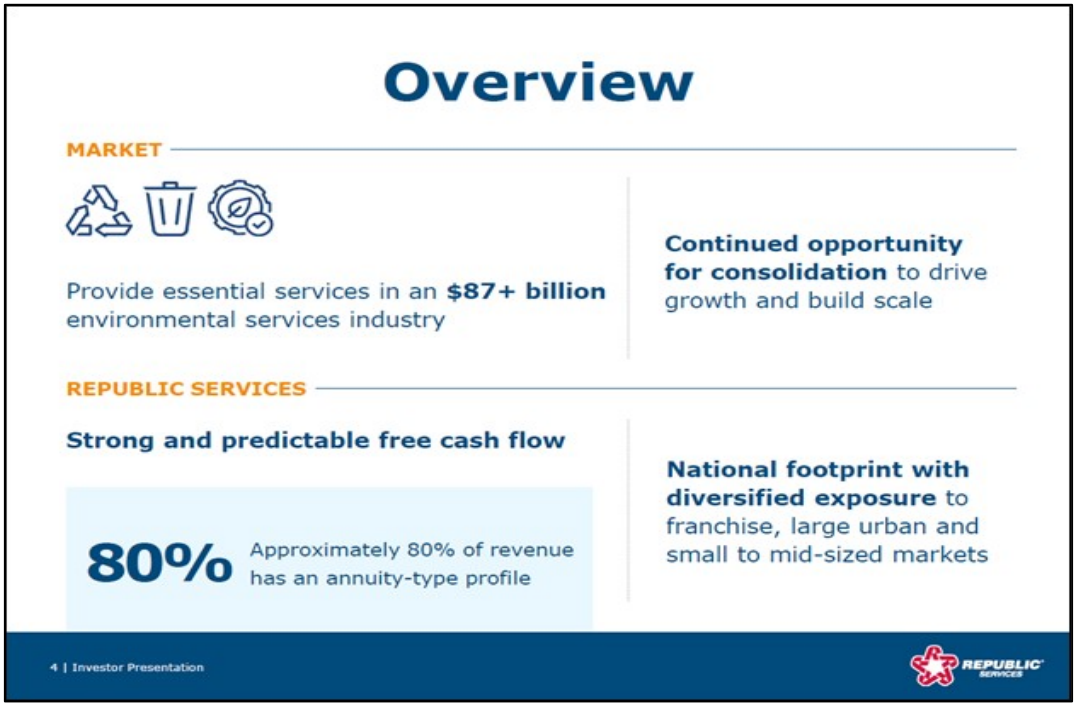

Image Source: *Republic Services Inc – August 2021 IR Presentation*

By Callum Turcan

The waste management industry is an incredibly attractive one for investors seeking dividend growth opportunities. One of our favorite firms in the space is Republic Services Inc (RSG), which is included as an idea in the Dividend Growth Newsletter portfolio. Roughly 75% of Republic Services' revenues come from its collection business and approximately 80% of its revenue has an annuity-type profile, **highlighting the incredibly stable nature of its cash flow profile.**

On July 29, Republic Services posted second-quarter 2021 earnings that beat both consensus top- and bottom-line estimates, and **its strong performance enabled the firm to raise its full-year guidance (again) for 2021.** Furthermore, Republic Services announced it was increasing its quarterly dividend by 8% sequentially on July 29. Shares of RSG yield ~1.5% on a forward-looking basis as of this writing.

Earnings Update and Guidance Boost

In the second quarter of this year, Republic Services' GAAP revenues grew 15% due to a combination of pricing strength and volume growth. The company's recycling business also showed signs of significant improvement last quarter on both a year-over-year and sequential basis. Here is what management had to say during Republic Services' second quarter earnings call (emphasis added):

> *"Retention on our small and large container business remains that historically high level at 94%. If you further consider all permanent units of service retention is even higher at 95%. As anticipated,* ***the pricing environment was strong in the second quarter, total core price was 5.2% and average yield was 2.6%. This level of core price matches the highest level in our company's history.***
>
> *During the second quarter, we delivered outsized growth in our business as the economy improved.* ***Second quarter volume increased 8.1% compared to the prior year, which exceeded our expectations.*** *The outlook for growth in the remainder of the year, both organically and through acquisitions is strong." --- Jon Vander Ark, President and CEO of Republic Services*

A core part of the company's business model is built upon pursuing bolt-on acquisitions to enhance its growth trajectory. Republic Services sees its acquisition pipeline sitting north of $0.6 billion in 2021 according to recent management commentary. During the first half of 2021, Republic Services spent roughly $0.6 billion on acquisitions. **Economies of scale, pricing strength, and digital initiatives support the firm's margin outlook.** In the second quarter of 2021, Republic Services' GAAP operating income rose ~230 basis points year-over-year, hitting approximately 18.4%. Republic Services noted its non-GAAP adjusted EBITDA margin rose ~110 basis points year-over-year in the second quarter, reaching ~30.6% of its revenues.

Here is what we had to say regarding Republic Services' digital initiatives in our June 2021 article covering the firm (link here):

> Republic Services' website and mobile app function as online account management, tools and its e-commerce operations provide the firm with a lower cost sales channel that still enables it to meet the needs of its current and future customer base.
>
> **The rollout of the company's RISE dispatch platform and RISE in-cab technology system offers Republic Services further cost savings.** By providing more real-time routing information and data visualization tools, Republic Services aims to generate sizable productivity gains by improving the ability of its employees to efficiency and safely operate. The garbage hauler noted that "we continued our high-performing safety record, reducing safety incidents 18% versus the prior year" in the first quarter.
>
> Additionally, Republic Services is focusing on improving customer connectivity and enabling automated service verification communications to further support its operations. In 2020, Republic Services largely completed the rollout of its RISE dispatch platform and this year, the firm will be focused on rolling out the RISE in-cab technology improvements. These types of digitally-oriented investments support Republic Services' long-term outlook.

In the upcoming graphic down below, Republic Services provides a snapshot of its digital strategy and what the firm is focused on going forward.

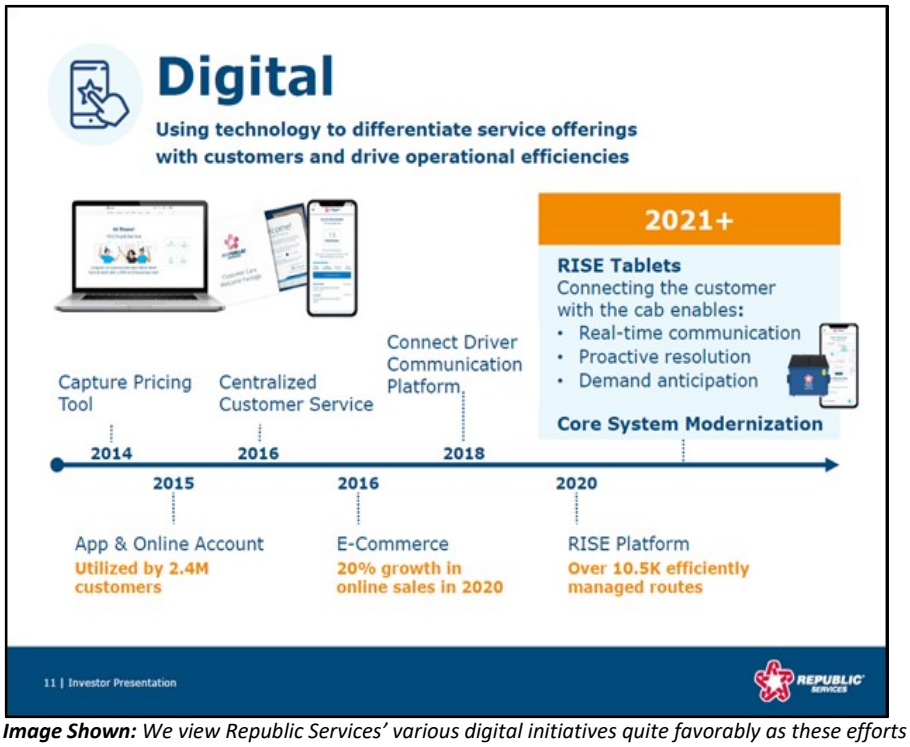

Image Shown: *We view Republic Services' various digital initiatives quite favorably as these efforts support its margin outlook.* ***Image Source:*** *Republic Services – August 2021 IR Presentation*

Republic Services posted $1.96 in GAAP diluted EPS during the first half of 2021 (up from $1.47 in the same period last year) and **generated $0.9 billion in free cash flow during the first half of this year** (up from $0.7 billion in the same period in 2020). **The company spent $0.3 billion covering its dividend obligations during the first half of 2021** and less than $0.1 billion buying back its stock during this period. We view the strength of Republic Services' forward-looking dividend coverage quite favorably as its Dividend Cushion ratio sits well above parity at 1.8, earning the firm a "GOOD" Dividend Safety rating. These metrics incorporate our expectations that Republic Services will steadily grow its payout going forward, and the firm also earns a "GOOD" Dividend Growth rating.

For all of 2021, Republic Services is now guiding to post $4.00-$4.05 in non-GAAP adjusted diluted EPS and adjusted free cash flow of $1.45-$1.475 billion after its latest guidance boost. Please note that Republic Services also raised its guidance during the first quarter of 2021. Back when Republic Services published its fourth quarter 2020 earnings report, the firm forecasted that it would post $3.65-$3.73 in non-GAAP adjusted diluted EPS and adjusted free cash flow of $1.3-$1.375 billion this year. We appreciate Republic Services' growing confidence in its near-term performance and the company's promising long-term growth trajectory.

Balance Sheet Update

One of Republic Services' biggest weaknesses from a financial perspective is its large net debt load, which stood at $8.9 billion at the end of June 2021 (inclusive of short-term debt, exclusive of 'restricted cash and marketable securities'). **We view that burden as manageable** considering Republic Services had a well-staggered debt maturity schedule at the end of June 2021 (see upcoming graphic down below) along with an incredibly stable cash flow profile, a stellar business model (waste management is an essential service that is always in demand), and ample pricing power.

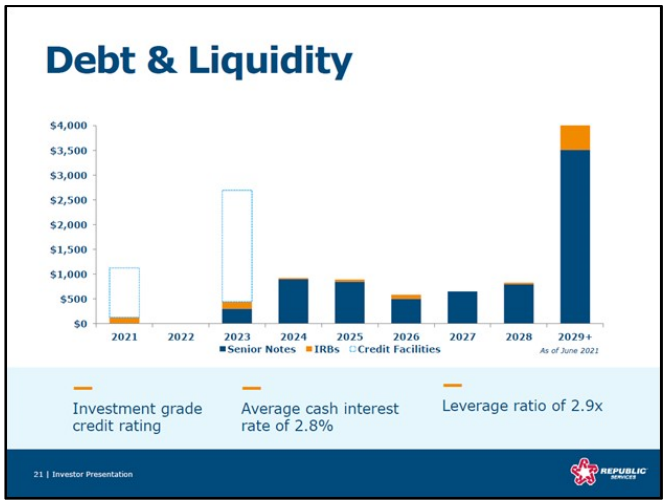

Image Shown: *Republic Services had a well-staggered debt maturity schedule at the end of June 2021, and that should support its future refinancing activities.* ***Image Source:*** *Republic Services – August 2021 IR Presentation*

As of the end of June 2021, Republic Services had a rock-solid investment grade credit (Baa2/BBB+/BBB) from the "Big 3" rating agencies. We expect the firm will retain ample access to capital markets at attractive rates going forward, aided by the recent technical strength seen at shares of RSG of late.

The company's free cash flows easily covered its dividend obligations during the first half of this year, and its share repurchases have historically been relatively tame as Republic Services prefers utilizing its "excess" free cash flows (free cash flows after covering dividend obligations) and balance sheet strength to fund bolt-on acquisitions. Management remains committed to investing in the business and rewarding income-seeking investors, and we view Republic Services' capital allocation priorities quite favorably.

ESG Consideration

On a final note, Republic Services announced in May 2021 that the firm had "been named to 3BL Media's 100 Best Corporate Citizens of 2021 ranking, recognizing outstanding environmental, social and governance ('ESG') transparency and performance among the 1,000 largest U.S. public companies. This is the second consecutive year Republic has received this recognition." During Republic Services' latest earnings call management had this to say on the topic of ESG (lightly edited):

> *"Next, we believe sustainability is more than environmental stewardship, but also a platform for growth… For example, we are proud to report a 5% reduction in operational greenhouse gas emissions in 2020 compared to the prior year, this year, we expanded and converted a landfill gas to energy plant to high BTU and have 15 additional projects in the pipeline. These projects, reduce landfill emissions, generate more renewable energy and improve our economics. We are also making the communities in which we operate better places to live. So far this year, we've supported more than 25 charitable efforts in neighborhood revitalization projects through financial contributions and volunteer efforts." --- President and CEO of Republic Services*

We appreciate Republic Services' commitment to maintaining its ESG standing.

Concluding Thoughts

Republic Services is a great company with a stellar free cash flow and income growth trajectory. **The company's recent guidance increases highlight the enduring resilience of Republic Services' business model. We include shares of RSG as an idea in our ESG Newsletter portfolio.**

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

ESG Spotlight: Oracle (ORCL)

In the inaugural edition of our ESG Newsletter publication, we are going to shine a spotlight on Oracle Corporation (ORCL). The tech giant offers an expansive slate of database, enterprise resource planning ('ERP'), infrastructure-as-a-service ('IaaS'), platform-as-a-service ('PaaS'), and other IT offerings. Over the past decade, Oracle has pivoted away from on-premise offerings and hardware towards off-site and hybrid offerings and cloud-provided services. More recently, Oracle's efforts have started to pay off. Shares of ORCL have surged higher by ~34% year-to-date as of the end of normal trading hours on September 14 (excluding dividend considerations) as investors have warmed up to its improving growth outlook. Shares of ORCL yield ~1.5% as of this writing.

Over one-third of Oracle's board of directors are women or those that come from a diverse background, according to the company's 2020 Proxy Statement. The majority of Oracle's board members (nine out of 14) are independent directors and the CEO and the Chair roles are split between Safra Catz (CEO and board member of Oracle) and Larry Ellison (co-founder, CTO and Chair of Oracle). Oracle has only one class of voting stock, no supermajority voting provisions, and provides for outside shareholders to call for a special meeting. In our CEO profile article included in this ESG Newsletter, we provide an overview of Catz and her numerous accomplishments.

The company has set serious green energy goals, publishes an annual report on sustainability, and has a website dedicated to its progress on ESG issues. Its green energy goals include utilizing renewable energy across 100% of its operations by 2025, focusing on recycling its hardware (in fiscal 2020, Oracle reused or recycled 99.6% of the retired hardware assets it collected), eliminating waste at its facilities (waste sent to landfills from its facilities has fallen by roughly one-quarter on a square foot basis since 2015), and plans to push 100% of its key suppliers to have an environmental program in place by 2025. Oracle has a chief sustainability officer ('CSO') position currently held by Jon Chorley, who is also the firm's Group Vice President, Supply Chain Management Product Strategy.

Across Oracle's ~50 offices around the world, all those facilities are now using 100% renewable energy, and all of Oracle's European Cloud regions are now using 100% renewable energy as well. Considering Oracle's operations consist primarily of selling software and services to its clients, with hardware representing a modest portion of its business in the cloud-computing era, its environmental footprint is rather small. The environmental footprint Oracle does leave is being mitigated by its recycling efforts, and commitments to utilizing renewable energy sources.

In our view, one of the biggest risks Oracle faces comes from malevolent cyber actors in the form of cybersecurity attacks and potential breaches, if Oracle's security efforts are not up to the task (this would be considered a risk on the social side of the ESG matrix). Oracle places a great emphasis on cybersecurity across its suite of offerings. That process includes the "strict separation of duties in Oracle Database" and "isolated network virtualization in Oracle Cloud Infrastructure" as part of its "built-in security controls." Furthermore, Oracle aims to "automate security to reduce complexity, prevent human error, and lower cost with automated patching for Autonomous Database and threat mitigation for Oracle Cloud Infrastructure" and the company utilizes "always-on encryption and continuous monitoring of user behavior with Autonomous Database and Oracle Cloud Infrastructure."

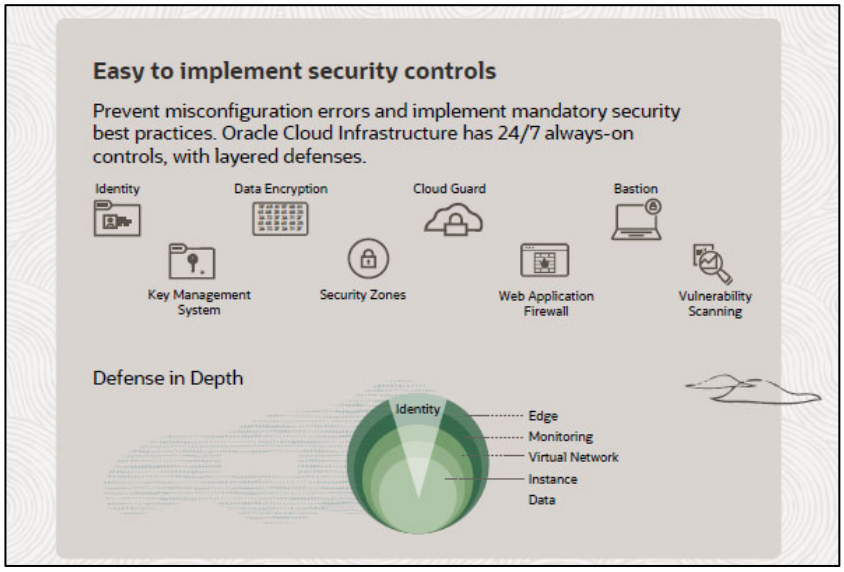

Image Shown: *An overview of the cybersecurity measures at Oracle Cloud Infrastructure.* ***Image Source:*** *Oracle – Oracle Cloud Infrastructure security PDF*

The company's improving revenue growth trajectory in recent fiscal years (which ends in May) indicates that Oracle's offerings are resonating well with its customers. **From fiscal 2019 to fiscal 2020, Oracle's GAAP revenues grew by 4% to $40.5 billion.** Declines at its 'hardware' and 'services' business operating segments were offset by growth at its 'cloud services and license support' and 'cloud license and on-premise license' segments during this period. **Managed operating expense growth enabled Oracle's GAAP operating income to grow to $15.2 billion in fiscal 2020, up 10% year-over-year.**

Oracle faced sizable headwinds from the coronavirus ('COVID-19') pandemic in fiscal 2020 as enterprises and governments put off IT projects for a variety of reasons, though the tech giant was still able to put up solid financial performance. When Oracle reported its first quarter earnings for fiscal 2022 (period ended August 31, 2021) on September 13, the company's top-line performance missed consensus estimates though its bottom-line performance beat consensus estimates. Its GAAP revenues grew by 4% year-over-year last fiscal quarter with growth led by its cloud-oriented operations, while its GAAP operating grew by 2% year-over-year as Oracle stepped up its cloud computing investments.

ORACLE CORPORATION

Q1 FISCAL 2022 FINANCIAL RESULTS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
($ in millions, except per share data)

	Three Months Ended August 31,				% Increase (Decrease) in US $	% Increase (Decrease) in Constant Currency (1)
	2021	% of Revenues	2020	% of Revenues		
REVENUES						
Cloud services and license support	$ 7,371	76%	$ 6,947	74%	6%	5%
Cloud license and on-premise license	813	8%	886	9%	(8%)	(9%)
Hardware	763	8%	814	9%	(6%)	(7%)
Services	781	8%	720	8%	8%	7%
Total revenues	9,728	100%	9,367	100%	4%	2%
OPERATING EXPENSES						
Cloud services and license support	1,214	13%	1,011	11%	20%	19%
Hardware	245	2%	246	2%	(1%)	(2%)
Services	644	7%	623	7%	3%	2%
Sales and marketing	1,854	19%	1,854	20%	0%	(1%)
Research and development	1,684	18%	1,589	17%	6%	5%
General and administrative	298	3%	295	3%	1%	0%
Amortization of intangible assets	303	3%	345	4%	(12%)	(12%)
Acquisition related and other	21	0%	19	0%	4%	4%
Restructuring	38	0%	174	2%	(78%)	(78%)
Total operating expenses	6,301	65%	6,156	66%	2%	1%
OPERATING INCOME	3,427	35%	3,211	34%	7%	5%
Interest expense	(705)	(7%)	(614)	(6%)	15%	15%
Non-operating expenses, net	(41)	(1%)	(2)	0%	*	*
INCOME BEFORE PROVISION FOR INCOME TAXES	2,681	27%	2,595	28%	3%	1%
Provision for income taxes	224	2%	344	4%	(35%)	(36%)
NET INCOME	$ 2,457	25%	$ 2,251	24%	9%	7%
EARNINGS PER SHARE:						
Basic	$ 0.89		$ 0.74			
Diluted	$ 0.86		$ 0.72			
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:						
Basic	2,769		3,041			
Diluted	2,861		3,107			

Image Shown: *Oracle's revenue growth trajectory is steadily improving.* ***Image Source:*** *Oracle – 8-K SEC filing covering the first quarter of fiscal 2022*

The company is aggressively buying back its stock, which saw Oracle cut its outstanding diluted share count by 8% year-over-year in the first quarter of fiscal 2022. Management noted during Oracle's latest earnings call that its net operating cash flows came in at $15.3 billion during the trailing twelve month period ended August 2021, up 17% year-over-year, **while its free cash flows (defined by the company) came in at $12.6 billion during this period, up 9% year-over-year** (keeping in mind Oracle is ramping up its investments in its cloud operations to support its growth runway on this front).

During the first quarter of fiscal 2022, Oracle generated $4.3 billion in free cash flow and spent $0.9 billion covering its dividend obligations along with $8.0 billion buying back its stock. This played an outsized role in boosting Oracle's GAAP diluted EPS to $0.86 in the first quarter of fiscal 2022, up 19% year-over-year.

Oracle's share buybacks have been funded in part by the vast cash holdings on its balance sheet, though over time, we would prefer the company pare down its net debt load. At the end of August 2021, Oracle had a net debt load of $43.4 billion (inclusive of short-term debt) though its $39.3 billion in cash, cash equivalent, and marketable securities on hand combined with the stability of its cash flow profile should enable the firm to keep a hand on its balance sheet going forward. Fitch Ratings downgraded Oracle's long-term issuer default rating to BBB+ with a negative outlook in March 2021, though that remains in investment grade territory.

During Oracle's latest earnings report, management noted that IaaS and PaaS offerings now represent one-quarter of the company's revenues with an annual run-rate of $10.0 billion. Oracle's CEO noted that "IaaS and SaaS are Oracle's fastest growing and highest margin new businesses. As these two cloud businesses continue to grow they will help expand our overall profit margins and push earnings per share higher" in the firm's latest earnings press release. We appreciate Oracle's strength on these two fronts.

Management had plenty more to say during Oracle's latest earnings call. The company's CEO noted that Oracle's total cloud revenues had an "accelerating growth rate that we expect will exit the fiscal year in the mid-20s" and that when "excluding legacy hosting services, infrastructure cloud services grew in the mid-30s, and we saw triple-digit booking growth this quarter. So I expect the infrastructure revenue growth will ramp higher through the fiscal year." Oracle's CEO noted that the company expected to grow its revenues by 3%-5% year-over-year on a non-GAAP basis during the current fiscal quarter, supported by growth at its cloud services and license support segment. As it concerns Oracle's full fiscal year guidance, management had this to say during the company's fiscal first quarter earnings call (emphasis added):

> *"Now to guidance what you are all waiting for.* ***I remain highly confident that fiscal year 2022 revenue growth will accelerate because our fast-growing cloud businesses are becoming a larger portion of our total revenue. I see total revenue growth for fiscal year 2022, which is the one wherein, somewhere in the mid-single digits in constant currency and accelerating.*** *Cloud is fundamentally a more profitable business compared to on-premise. And as we look ahead to next year, we expect company operating margins will be the same or better than pre-pandemic levels." --- Safra Catz, CEO of Oracle*

Oracle's management team also noted that the firm's cloud-oriented Oracle Fusion ERP and NetSuite ERP businesses continued to perform well last fiscal quarter. Please note that growth at its cloud offerings supports Oracle's cash flow profile given that recurring revenue streams represent the bulk of this business, allowing for greater visibility as it concerns Oracle's future financial performance.

We are impressed with Oracle's pivot to the cloud and view the company's growth outlook quite favorably. Oracle recently moved its headquarters to Austin, Texas, from California's Silicon Valley, and the move has not stymied the company's ability to continue innovating. **Our ESG rating for Oracle sits at 96 on a scale of 1-100 (100 being the best)**, and we attached our ESG ratings matrix to the end of this article to highlight how we arrived at that rating along with some notes (concepts that we also covered in this article). **Oracle is a great enterprise, and one that fits in well with the rise of ESG investing. We include shares of ORCL as an idea in our ESG Newsletter portfolio.**

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2021, 2020 and 2019

(in millions)	Year Ended May 31, 2021	2020	2019
Cash flows from operating activities:			
Net income	$ 13,746	$ 10,135	$ 11,083
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,537	1,382	1,230
Amortization of intangible assets	1,379	1,586	1,689
Allowances for doubtful accounts receivable	192	245	190
Deferred income taxes	(2,425)	(851)	(1,191)
Stock-based compensation	1,837	1,590	1,653
Other, net	(39)	239	157
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in trade receivables, net	141	(690)	(272)
Decrease in prepaid expenses and other assets	622	665	261
Decrease in accounts payable and other liabilities	(23)	(496)	(102)
Decrease in income taxes payable	(1,485)	(444)	(453)
Increase (decrease) in deferred revenues	405	(222)	306
Net cash provided by operating activities	15,887	13,139	14,551
Cash flows from investing activities:			
Purchases of marketable securities and other investments	(37,982)	(5,731)	(1,400)
Proceeds from maturities of marketable securities	26,024	4,687	12,681
Proceeds from sales of marketable securities and other investments	1,036	12,575	17,299
Acquisitions, net of cash acquired	(41)	(124)	(363)
Capital expenditures	(2,135)	(1,564)	(1,660)
Net cash (used for) provided by investing activities	(13,098)	9,843	26,557
Cash flows from financing activities:			
Payments for repurchases of common stock	(20,934)	(19,240)	(36,140)
Proceeds from issuances of common stock	1,786	1,588	2,155
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(666)	(665)	(503)
Payments of dividends to stockholders	(3,063)	(3,070)	(2,932)
Proceeds from borrowings, net of issuance costs	14,934	19,888	—
Repayments of borrowings	(2,631)	(4,500)	(4,500)
Other, net	196	(133)	(136)
Net cash used for financing activities	(10,378)	(6,132)	(42,056)
Effect of exchange rate changes on cash and cash equivalents	448	(125)	(158)
Net (decrease) increase in cash and cash equivalents	(7,141)	16,725	(1,106)
Cash and cash equivalents at beginning of period	37,239	20,514	21,620
Cash and cash equivalents at end of period	$ 30,098	$ 37,239	$ 20,514
Non-cash investing and financing activities:			
Fair values of stock awards assumed in connection with acquisitions	$ —	$ —	$ 8
Change in unsettled repurchases of common stock	$ 66	$ (40)	$ (140)
Supplemental schedule of cash flow data:			
Cash paid for income taxes	$ 3,189	$ 3,218	$ 2,901
Cash paid for interest	$ 2,408	$ 1,972	$ 2,059

Image Shown: *Oracle is a tremendous free cash flow generator.* ***Image Source:*** *Oracle – Fiscal 2021 Annual Report*

`

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol): **Oracle Corporation (ORCL)**

Overall Score = **96**

1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**

Revenue breakdown: Oracle generates virtually all of its revenues through the sale of software, services, and hardware IT offerings.

2	**Environmental**	
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	Energy, water intensivity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**5**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**

Environmental Notes Oracle has committed to using renewable energy to power 100% of its operations by 2025.

3	**Social**	
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk	**5**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings	**3**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)	**1**
Social Notes	Oracle has sizable cybersecurity risks, and over one-third of its board of directors come from diverse backgrounds.	
4	**Governance**	
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes	**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes	**4**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)	**1**
Governance Notes	Oracle seperates its CEO and Chair roles, though co-founder Larry Ellison is both Chairman and CTO of the firm.	
5	**Other**	
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)	**0**

ESG Newsletter Portfolio

Idea	Symbol	Weighting
CORE		
Clearbridge Large Cap Growth ESG ETF	LRGE	10.0%
YWCA Women's Empowerment ETF	WOMN	10.0%
NAACP Minority Empowerment ETF	NACP	10.0%
Vanguard ESG US Stock ETF	ESGV	5.0%
iShares Edge MSCI USA Leaders ETF	SUSL	5.0%
iShares MSCI Global Impact ETF	SDG	5.0%
iShares Global Clean Energy ETF	ICLN	5.0%
Invesco QQQ Trust ETF	QQQ	2.5%
Utilities Select Sector SPDR Fund ETF	XLU	2.5%
EQUITY		
ASML Holdings	ASML	7.5%
Taiwan Semiconductor Manufacturing Company	TSM	7.5%
Facebook, Inc.	FB	5.0%
Oracle Corporation	ORCL	5.0%
Republic Services	RSG	5.0%
Ameresco, Inc.	AMRC	5.0%
Albemarle Corporation	ALB	5.0%
South32	SOUHY	2.5%
NextEra Energy	NEE	2.5%
Cash		0.0%
		100.0%

This is not a real money portfolio. Inception 9/15/2021. Data as of 9/15/2021.

** Reflects federal funds target rate range*

Standard Disclaimer: The simulated ESG Newsletter portfolio is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of the simulated ESG Newsletter portfolio and accepts no liability for how readers may choose to utilize the content.

Valuentum Securities, Inc.

Volume 1, Issue 1

Valuentum's ESG Newsletter is published monthly.

To receive this newsletter on a monthly basis, please subscribe to Valuentum by visiting our website at http://www.valuentum.com.

Or contact us at info@valuentum.com.

Copyright ©2021 by Valuentum, Inc. All rights reserved.

No part of this publication may be reproduced in any form or by any means.

The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only and should not be considered a solicitation to buy or sell any security. No warranty or guarantee may be created or extended by sales or promotional materials, whether by email or in any other format. The securities or strategies mentioned herein may not be suitable for all types of investors. The information contained in this report does not constitute any advice, especially on the tax consequences of making any particular investment decision. This material is not intended for any specific type of investor and does not take into account an investor's particular investment objectives, financial situation or needs. This report is not intended as a recommendation of the security highlighted or any particular investment strategy. Before acting on any information found in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due diligence, and if necessary, seek professional advice.

The sources of the data used in this report are believed by Valuentum to be reliable, but the data's accuracy, completeness or interpretation cannot be guaranteed. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report and accepts no liability for how readers may choose to utilize the content. In no event shall Valuentum be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document. Investors should consider this report as only a single factor in making their investment decision.

Valuentum is not a money manager, is not a registered investment advisor, and does not offer brokerage or investment banking services. Valuentum has not received any compensation from the company or companies highlighted in this report. Valuentum, its employees, and independent contractors may have long, short or derivative positions in the securities mentioned herein. Information and data in Valuentum's valuation models and analysis may not capture all subjective, qualitative influences such as changes in management, business and political trends, or legal and regulatory developments. Redistribution is prohibited without written permission. Readers should be aware that information in this work may have changed between when this work was written or created and when it is read. There is risk of substantial loss associated with investing in financial instruments.

Valuentum's company-specific forecasts used in its discounted cash flow model are rules-based. These rules reflect the experience and opinions of Valuentum's analyst team. Historical data used in our valuation model is provided by Xignite and from other publicly available sources including annual and quarterly regulatory filings. Stock price and volume data is provided by Xignite. No warranty is made regarding the accuracy of any data or any opinions. Valuentum's valuation model is based on sound academic principles, and other forecasts in the model such as inflation and the equity risk premium are based on long-term averages. The Valuentum proprietary automated text-generation system creates text that will vary by company and may often change for the same company upon subsequent updates.

Valuentum uses its own proprietary stock investment style and industry classification systems. Peer companies are selected based on the opinions of the Valuentum analyst team. Research reports and data are updated periodically, though Valuentum assumes no obligation to update its reports, opinions, or data following publication in any form or format. Performance assessment of Valuentum metrics, including the Valuentum Buying Index, is ongoing, and we intend to update investors periodically, though Valuentum assumes no obligation to do so. Not all information is available on all companies. There may be a lag before reports and data are updated for stock splits and stock dividends.

The portfolio in the Valuentum ESG Newsletter portfolio is hypothetical and does not represent real money. Past simulated performance, whether backtested or walk-forward or other, is not a guarantee of future results. Actual results may differ from simulated portfolio information being presented in this newsletter. For general information about Valuentum's products and services, please contact us at valuentum@valuentum.com or visit our website at www.valuentum.com.

Amended June 1, 2021