Principles and Profits Working Together

THE CLEAN YIELD

WINTER 2011 • VOLUME 27 • NUMBER 4

Ground Forces

The Occupy Wall St. movement has captured the moment, and its enduring impact could indeed be momentous. At this writing, November 7, some 1,500 occupations have spread across the world and have succeeded thus far in rechanneling the conversation in the U.S. from all-national-debt-all-the-time to at least some discussion of wealth and income disparity and political control. No small feat. And lo! Wall Street crime is back in the news.

We're awed, and truth be told, a little humbled. The occupiers have stood their ground in NYC. Then they amassed numbers large enough to shut down a port and define who rules the ground in Oakland. At banks, hedge funds, and major corporations, they are confronting establishment symbols and are changing the ground rules. OWS's goals may be amorphous, but the direction and tone are quite clear, and they are setting the stage for change: Bank of America backs down on debit card charges; President Obama eases on the terms of student loans and adopts a strident message in promoting his jobs agenda. We even detect chinks in the monolith of Republicans who took Grover Norquist's no-new-taxes pledge. None of these, nor a cascade of other positive changes, can be directly tied to the Occupy actions, but for the *zeitgeist* in which they are occurring, we owe OWS.

The SRI movement has also accomplished much, but it has taken four decades, and the gains are still fragile. In contrast to OWS, much of our success has been in small gains that add up: more women and minorities on boards, several toxins removed from retail products, more companies offering benefits to gay and lesbian couples, more recycling by electronics manufacturers and retailers, fewer endangered forests being destroyed by lumber companies and fewer at-risk fisheries being exploited by major grocers, far more corporations reporting on their sustainability risks. We've contributed in some measure to human rights victories, including the ending of apartheid. We've fought and won rear-guard actions to protect shareholders' proxy rights. Many of the continuing battles are on arcane, but important, legal points, such as the tussle at the SEC around the exact percentage threshold for outside shareowners to get nominees on the regular corporate ballot.

Our SRI style has been to ask corporations and governments to make voluntary changes.OWS's style is more strident and demanding. Recently, we're beginning to see a melding of the two approaches. SRI is looking for support beyond shareholders; OWS and kindred organizations are moving toward education and dialogue, our stock in trade.

Case in point: big donations by corporations to political campaigns. The SRI community has persuaded over 50 large corporations to voluntarily disclose their political contributions. However, according to one recent study, disclosure alone may not be enough to dissuade companies from making large donations, so we are reaching out beyond dialogue. Later this month, Clean Yield and the Vermont Public Interest Research Group (VPIRG) are putting together a forum on the Citizens United decision and corporate personhood [see invitation below]. Our common goal is to add to the groundswell to get corporate money out of politics. ■

Important Reminder for clients holding Ecolab: We urge you to vote *Against* on all three items on your proxy ballot. These votes oppose the Ecolab merger with Nalco, a company involved in fracking and nuclear power. Votes must be recorded before Nov 30.

INVITATION

Free and Open to the Public

Corporations are Persons? Get Real.
How Real People are Reclaiming Democracy

A forum featuring Ben Cohen & Jerry Greenfield, activists and cofounders of Ben & Jerry's Homemade; Cheryl Hanna and Jennifer Taub, professors from the Vermont Law School; and David Cobb, national spokesperson for Move to Amend

Tuesday, Nov 29, 7:00 P.M.

Christ Episcopal Church
64 Main Street
Montpelier, VT 05602

Sponsored by Clean Yield and the Vermont Public Interest Research Group (VPIRG)

MARKET NOTES

Partial Solar Eclipse

Since the first Earth Day in 1970, entrepreneurs—and not too much later, Wall Street—have devoted considerable attention to the potential of solar energy.

At first, most of the companies that manufactured solar energy components and systems were privately held. But as it became cheaper to produce chips and panels, a few of the companies, still in early development stages, were brought public by investment banks.

The companies, now buyable as stocks, remained as "development-stage" companies—all bright story and no profits—for years.

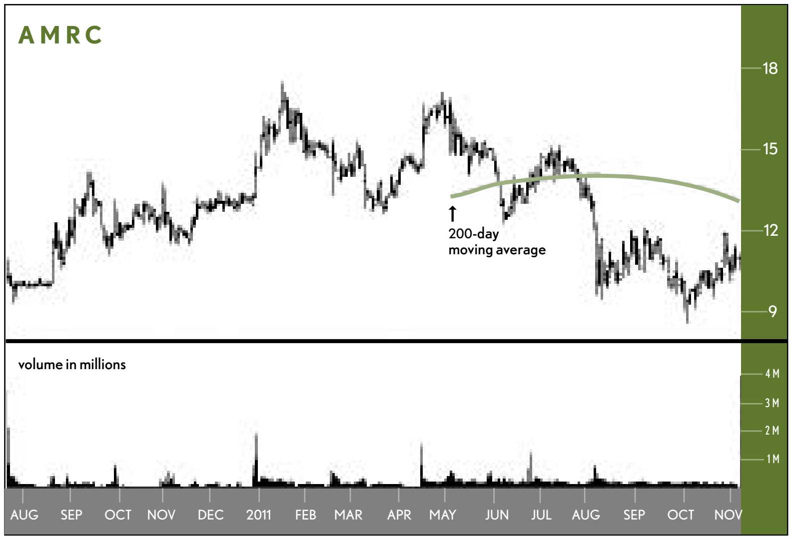
Development-stage stocks are always speculative. They are not candidates for the Clean Yield core universe.

Fast-forward nearly two decades. Energy prices soar and, due to technological advances, solar costs plummet. The cost differential between fossil-fuel-derived electricity and solar energy shrinks enough that it is no longer a dream that solar energy will one day be a partial substitute for conventional sources. Countries all over the globe institute significant subsidies to try to close the cost gap.

Within the last three years, a new class of solar companies emerges: ones with profits. To be sure, subsidies continue to underlie the earnings, but they are real profits, and a few of the companies do not need subsidies to prosper.

From an investor's perspective, the emergence of profitable companies meant that these stocks could be analyzed and "fairly" valued like any other stocks. Surely, the sector would stay volatile, but long-term investors could expect to be rewarded with capital appreciation.

Such was the environment when Clean Yield Asset Management took the plunge a few years ago and began adding solar companies to its universe. We have actively invested in a few pure plays, most notably **First Solar** (FSLR) and **GT Advanced Technologies** (GTAT). The former is a 12-year-old, very



AMERESCO, INC. (AMRC)

Revenues: $618.2 Million
EPS: 2012E $0.90
2011E $0.78
2010A $0.69
Web site: www.ameresco.com

Projected Annual Growth Rate: 20%
Dividend: N/A
52-Week High–Low: $17.46 – $8.60
Risk: High

Power Play

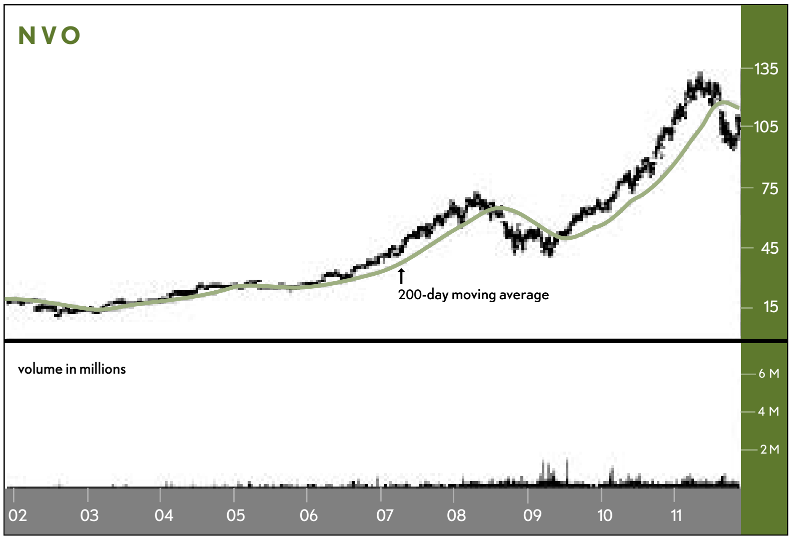
Clean Yield clients frequently ask us to invest in clean-energy stocks, but, as we've discussed here before, this ain't easy. Many of the technologies are relatively new, the companies often lack track records, and the marketplace is extremely volatile, so it is hard to predict which players will keep their lights on. That said, we think Ameresco, an energy efficiency company, has a bright outlook, and it now joins a handful of solar and energy equipment companies in the CY universe as a clean-energy pure play.

Ameresco makes buildings and operations more energy efficient through engineering design and implementation. The value add typically includes new heating and cooling systems, installation of solar panels, lighting improvements, and other energy infrastructure upgrades. Its services even include the construction and operation of small-scale renewable-energy plants, usually using gas harvested from landfills as fuel. The company's customers include a full range of schools, municipal office buildings, and private companies. Unlike many of its competitors, Ameresco sells efficiency hardware in addition to designing and installing systems. This benefits customers, since they do not have to source materials from multiple vendors.

Ameresco went public only in 2010, but it has been around and profitable since 2002. The company operates in 29 states and five Canadian provinces, making it well positioned geographically. That said, there is plenty of room to grow overseas, where many of the most rewarding energy efficiency opportunities now lie. Approximately 3/4 of the firm's business is in energy efficiency projects, with the other quarter coming from alternative-energy installations, primarily solar. The stock has had its share of ups and downs since going public—hardly surprising given the market's fickleness regarding clean energy. It took a beating with the rest of its clean-energy peers (and the market) during August and September but has recently made a small comeback in expectation of a good earnings report in November. Ameresco is still trading near the lower end of its 12-month range. With its current fair price, we see solid growth potential in coming years.

Corporate Responsibility

Ameresco is ripe for dialogue in several corporate responsibility areas. The company meets CY's basic screens, and its core business increases other organizations' sustainability. However, the company has yet to publish a sustainability report on its own operations. Of particular concern, the company's eight-member board and all of its executive officers are white males. ■



NOVO NORDISK (NVO)

Revenues: $10.8 Billion
EPS: 2010A $4.38
2011E $5.44
2012E $6.23
Web site: www.novonordisk.com

Projected Annual Growth Rate: 15%
Dividend: 1.6%
52-Week High–Low: $132.88 – $94.58
Risk: Medium

Sugar Plum

Novo Nordisk's logo, Apis, the sacred bull of ancient Egypt, is intended to evoke the company's ethos. The bull is adorned with symbols that represent the dualities of life and death, night and day. The company manufactures life-saving insulin and is simultaneously a model of the dialectic between corporate profits and responsibilities. The two companies that formed Novo Nordisk both began in the Netherlands in the 1920s, focusing on insulin production and diabetes research. This set the stage for today's business: more than 32,000 employees in 150 countries, centered on a disease that now affects nearly 285 million people. NVO also has smaller units that focus on hemophilia, growth hormone therapy, and hormone replacement therapy.

Novo Nordisk hit a sweet spot during the last decade. Its modern insulin products and injection devices have boosted earnings consistently, shooting up 20% to 30% during the past two years. It's not just a sugar high. Though the next few years are likely to prove somewhat more anemic because of price pressures from healthcare reform and increasing competition in the diabetes market, the market for automated insulin delivery devices is still growing in the U.S., and NVO has a healthy pipeline of new drugs. In addition, diabetes is a disease that, unfortunately, is expected to almost double in prevalence in the next 20 years. The company has very little debt, a reasonable and regularly increasing dividend, and plenty of room to grow. The stock price pulled back from its summer highs along with the broader market. It is creeping up again as investors capitalize on the downswing, but it continues to be reasonably priced given its long-term growth potential and dividend yield.

Corporate Responsibility

In 1951, Novo's predecessor established the Novo Foundation, with the object of supporting scientific, social, and humanitarian causes. The company still understands the triple bottom line of economic, social, and environmental responsibility. In 1994, Novo Nordisk published an environmental report, one of the first in the world. Today, it publishes an award-winning annual report that integrates financial, social, and environmental performance. While the company does some animal testing, it is committed to high ethical standards of care, as well as finding alternative tests wherever feasible. Novo Nordisk actively engages a broad array of stakeholders when dealing with controversial issues such as animal testing and stem cells. The company's board and executive management each include one woman. ■

profitable manufacturer of solar panels and systems using a proprietary thin-film technology. The latter is a 17-year-old company that makes the machines that make the components for solar panels.

Both stocks did very well until June 2011, when they, and nearly all other solar stocks, fell off a cliff, both plunging more than 50% during the third quarter.

We are not surprised when this happens to development-stage companies, but we are somewhat taken aback when it happens to the stocks of companies with lots of earnings power.

The major shadow that enveloped the sector was the Solyndra scandal. Solyndra was a high-profile designer and builder of large rooftop solar systems. When the company suspended operations in August and was subsequently condemned for its ties to politicians and dependence on government loans, the "who's next" question mark took down all solar stocks.

Solyndra also failed because prices for its products had dropped precipitously. This was a result of increasing supply, a long-term plus for the industry but a short-term negative as it eroded earnings. Some of the excess supply came from Chinese manufacturers, who were subsequently accused of unfairly dumping it on world markets. Furthermore, it was becoming increasingly clear to investors that the debt crisis in Europe and the deficit paralysis in Washington would probably lead to less government support for renewable energy projects.

So, are solar stocks a sector to forget as a bad memory? Hardly. Short-term the sector is in terrible shape, and it is unlikely to recover anytime soon. These stocks will be used for tax selling during the next month, putting further down-pressure on the stocks. Long-term, however, the sector looks even more promising—a record number of megawatts will ship next year, and the costs continue to fall. Also, the nuclear meltdowns in Japan have forced some countries to recommit to their subsidy programs. Once the supply and demand come into better balance, probably by the fall of next year, the sun should start shining again on these stocks. ■

Minding Our "B"s-ness

Smugness is an occupational hazard in our line of work. After all, in SRI we place ourselves in judgment of other companies, and it's easy to slip into a posture of superiority. Until recently, no one was around to hold us to the standards to which we held others. Now comes B Lab, the nonprofit that certifies companies as B Corporations when they meet high environmental, governance, and social standards and are responsive to the long-term interests of all stakeholders.

The big idea behind the B Corp movement is to separate "good" companies from companies that may just be good at green marketing. B Lab "measures" corporate social responsibility (CSR) through a self-administered questionnaire and then sets a challenging bar to be certified. B Corp. certification also requires that companies add wording to their original corporate charter mandating that directors consider "…the social, economic, legal, or other effects of any action on the current and retired employees, the suppliers and customers…and the communities and society in which the Company… operates…and on the environment and the economy of the state, region, and the nation." Finally, every few years, B Lab audits B Corporations for compliance.

Certified B Corporation bcorporation.net

For Clean Yield, answering "to B or not to B" was easy. We knew we would find value in B Lab's systematic review, and, sure enough, we found that quite a few of our policies and procedures needed updating. However, we were able to make the grade last April without a major overhaul. As required, we'll be periodically re-examining our status to maintain our certification. At this writing, we are among 471, mostly small, companies that proudly wear the Certified B Corp label.

Clean Yield then faced another question: two Bs or not two Bs? The second B would be for Vermont Benefit Corporation. Becoming a VBC changes our legal status, effectively limiting potential buyers to social-mission devotees. It also requires additional compliance reporting. We decided to go ahead anyway.

Our home state enacted a law last year creating this new kind of entity. Companies codify specific public benefits in their articles of incorporation. Preserving the environment and increasing the flow of capital for public benefit are among the "benefits" we adopted. Following the B Corp model, all stakeholders—employees, customers, the community, the environment—as well as shareholders are to be considered in policymaking. Each year, the directors must evaluate the company and report publicly on progress toward achieving its public benefits.

Vermont Benefit Corporation

On July 1, when the law went into effect, Clean Yield became the first Vermont Benefit Corp. The state hopes the new structure will burnish its social image and attract new CSR-oriented businesses. At Clean Yield, we hope the enforced discipline of the new law will keep our eyes trained on our social mission. (We know it will help keep us contrite.) ■

THE CLEAN YIELD GROUP
P.O. Box 874
16 Beaver Meadow Road
Norwich, VT., 05055
802.526.2525 voice
802.526.2528 fax
www.cleanyield.com

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Norwich, VT., 05055

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