



Socially Responsible Investment Report for:

Agilent

Santa Clara, CA

Ticker: A

Last Updated: February 10, 2020

I. Exclusionary Screening

Does Agilent appear on any of the following lists? In our exclusionary screening, a single appearance disqualifies an investment.

Fossil Fuels & Precious Metals Mining

- Carbon Underground 200
- CDP/CAI Carbon Major
- BICS - Oil, Gas & Coal
- BICS - Precious Metals Mining

Pornography, Gambling & Tobacco

- BICS - Casinos & Gaming
- BICS - Gaming Equipment
- BICS - Adult/nightclubs
- BICS - Tobacco

Agrochemicals & Animal Cruelty

- BICS - Crop Chemicals & Fertilizers
- Cruelty Free Investing 10 Worst

Defense & Retail Gun Sales

- SIPRI Top 100
- BICS - Defense Primes
- NRA Top Industry Allies

Private Prisons

- BICS - Security Services

CDP = Carbon Disclosure Project
CAI = Climate Accountability Institute
BICS = Bloomberg Industry Classification Systems

SIPRI = Stockholm International Peace Research Institute
NRA = National Rifle Association

II. Environmental, Social & Governance Data

What quantifiable environmental, social and governance data, policies or recognition does Agilent exhibit? Positive factors may help support a decision to invest.

General

Barron's 100 Most Sustainable Companies:

#1

Dow Jones Sustainability World Index:

Listed

CSR (Corporate Sustainability Reporting) since:

2001

Current MSCI ESG Rating:

AAA

GRI Criteria:

Compliant

Sustainability Leadership Award:

Yes

Climate Change & Fossil Fuels

CDP Climate Change 2019 Score:

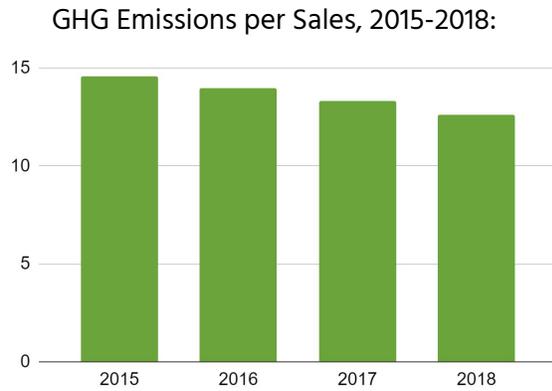
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CDP Reporting since:

2010

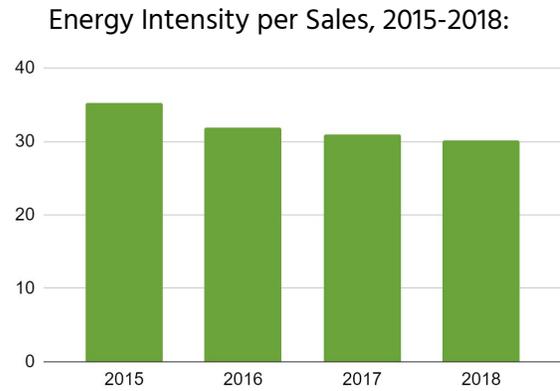
Overall GHG Reduction from 2014 Baseline:

8%



Overall energy Reduction Goal for 2024:

10%



Strategic climate initiatives:

- **Climate Change Strategy**
- **Renewable Energy Targets**
- **Incentives for Management of Climate Change**
- **Engages Policymakers on Climate Change**

Additional climate initiatives:

- **3rd Party Avoided Emissions**
- **Emission Reduction Activities**
- **Value Chain Engagement**

Environmental Stewardship

Environmental policies in place:

- **Energy Efficiency**
- **Supply Chain Management**
- **Quality Management**
- **Waste Reduction**
- **Water**

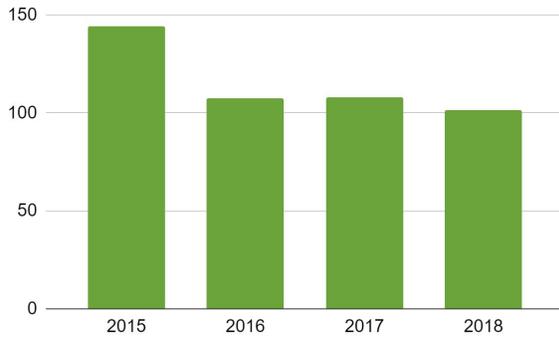
Increase in investment, sustainability initiatives:

85%
(to \$7.4M)

Overall water use reduction since 2014:

5.6%

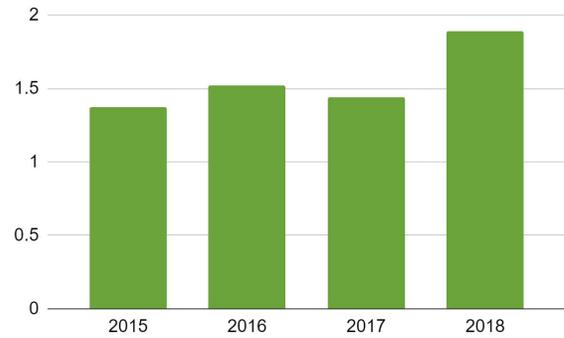
Water intensity per sales, 2015-2018:



Overall solid waste diversion from landfills:

93%

Waste generated per sales, 2015-2018:



Human Rights & Well-Being

Human rights policies in place:

- **Equal Opportunity Policy**
- **Health and Safety Policy**
- **Human Rights Policy**
- **Policy Against Child Labor**
- **Consumer Data Protection Policy**

Purchase order agreements including human rights clauses:

100%

Forbes World's Best Employers Rank:

150

Employees calling Agilent a great place to work:

85%

Diversity, Equity and Inclusion

Percent of women in full-time workforce:

38%

Percent of managers who are women:

29%

Percent women in senior leadership (3/15):

20%

Percent women on Board of Directors (3/11):

27%

Gender Pay Gap for Senior Management:

98%

Ranking in Equileap's Top 200 Companies for
Gender Equality 2018:

55

Ceo Action for Diversity & Inclusion Signatory:

Yes

Corporate Responsibility

2018 foundation giving:

\$9M

Approximate employee volunteer hours:

50,000

in 28 countries.

Annual PTO days offered for individual
employee volunteering:

6

Data sources may include:

- Sustainability and other report(s) published by the company.
- Bloomberg LP ESG Data (via Data License).
- Global Reporting Initiative (GRI)
- CDP
- Science-Based Targets initiative (SBTi)
- Climate Accountability Institute (CAI)
- Fossil Free Funds
- Dow Jones Sustainability Indices (DJSI)
- Barron's 100 Most Sustainable US Companies
- Newsweek Green Rankings
- State Street Global Advisors' Gender Diversity Index
- The 2019 Top 50 DiversityInc
- HRC's 2020 Corporate Equality Index
- PEOPLE's 50 Companies That Care
- Fortune's 50 Best Workplaces for Charity and Volunteering
- Points of Light Civic 50 Honorees
- Stockholm International Peace Research Institute (SIPRI)
- Institute for Clinical and Economic Review (ICER)
- Roundtable on Sustainable Palm Oil (RSPO)
- National Rifle Association (NRA)

III. Research Narrative

What else has our research process told us about how Agilent conducts business, in terms of its products and services, its environmental impact, and its approach to governance?

Summary

The company is at the forefront of the environmentally friendly design of scientific instruments, with many of its latest offerings providing significantly less electrical consumption and smaller footprints. Its products benefit society in a number of ways including drug discovery, cancer research, cancer diagnostics, gene therapies, forensics, and food & environmental safety. Agilent spends a notable amount of money on R&D to develop innovative technologies. The company gets high marks for transparency on environmental and CSR efforts. The company has a well-respected management team and a strong corporate culture.

We would like to see Agilent take on more aggressive emissions and energy targets. Agilent's gender and ethnic diversity is ahead of the industry, but we believe the company would benefit from continued improvement. While one-fifth of the business serves chemical and energy end markets, it is worth noting that this relates mainly to characterization, quality control, and environmental safety.

Products & Services

Agilent makes laboratory equipment, consumables, and services, and was originally part of Hewlett Packard, where it was known as HP Labs. During the 1960s, HP Labs branched out into medical electronics and analytical instrumentation, with the launch of the first gas chromatograph (GC) and later in the 1970s with the launch of the first mass spectrometer (MS). In 1999, HP announced a strategic realignment to spin-off an independent measurement company that would be composed of test and measurement components, chemical analysis, and medical businesses with the new company to be called Agilent Technologies. Today, Agilent operates three business

segments: Life Sciences and Applied Markets (46% of revenues), Agilent CrossLab (35% of revenues), and Diagnostics & Genomics (19% of revenues).¹ Approximately 56% of total sales relate to recurring revenues such as services, consumables, and informatics, while the remaining 44% of the business is instrument sales.² Agilent's primary end markets include pharmaceuticals, biotech, diagnostics, academic & government, food safety, environment & forensics, and chemical & energy.

The Life Sciences & Applied Markets Group (LSAG) produces laboratory informatics software, mass spectrometry equipment, gas chromatographs, cell analysis instruments, liquid chromatography (LC) systems, lab automation and robotic systems, etc. The primary purpose of this type of equipment is to enable customers to identify, quantify and analyze the physical and biological properties of samples, as well as allow life sciences customers to evaluate samples at the molecular and cellular level.

The Agilent CrossLab offers consumables, software, and services to laboratories that are vendor neutral, meaning that Agilent may provide services to labs that use competitor instruments. CrossLab products include sample preparation consumables, filtration products, GC and LC columns, chemical standards, replacement parts, sample introduction glassware, etc. Crosslab's services include instrument repair services, educational and compliance support, lab supply management, procurement, and software to connect the entire lab.

The Diagnostics and Genomics Products segment produces cancer diagnostics, companion diagnostics (used to identify patients most likely to benefit from a specific drug), next generation sequencing target enrichment, polymerase chain reaction (PCR) instrumentation, and nucleic acid solutions. The Nucleic Acids Solutions division is a contract manufacturer of synthesized oligonucleotides, which are Good Manufacturing Practices (GMP) grade active pharmaceutical ingredients (APIs) used by biotech companies in their next generation gene therapy drugs.

Agilent is the second largest producer of GMP-grade nucleic acids in the world, and there are only a handful of companies that are capable of producing oligonucleotides at scale to be used in therapeutics. Agilent is positioned to partner with biotech companies to produce the nucleic acids for their gene therapies, as oligonucleotides have been a core expertise of the company for decades. The FDA is seeing a significant increase in clinical trials for gene therapies, with more submissions in 2018 than in the past decade combined.³ In 2019, Agilent invested \$185 million to

¹ <https://www.sec.gov/Archives/edgar/data/1090872/000109087219000022/0001090872-19-000022-index.htm>

² <https://www.sec.gov/Archives/edgar/data/1090872/000109087219000022/0001090872-19-000022-index.htm>

³ https://s24.q4cdn.com/305549747/files/doc_presentations/AID_Presentation_Web.pdf (slide 79)

double the manufacturing capacity of its GMP nucleic acid production site, with the potential to eventually expand to four times its current capacity.⁴

By end markets, Agilent's business consists of Pharmaceutical Customers (30%), Food & Environmental (22%), Chemical & Energy (22%), Diagnostics & Clinical (16%), and Government & Academic (10%).⁵ Within the Chemical & Energy end markets, Agilent's tools are used to measure and control the quality of finished products and verify the environmental safety of natural gas, refining, and chemicals markets.

Agilent's products and services benefit society in numerous ways. In essence, the company's instruments allow scientists to better understand the properties of samples. Within the healthcare space, the equipment is used in drug discovery, cancer research, and companion diagnostics. Additionally, Agilent is at the forefront of the gene therapy revolution, which has the promise to cure many types of rare, previously untreatable diseases. In the area of environmental sciences, the equipment helps scientists detect and study pollutants in air, soil, and water. Finally, the instruments are used in food safety applications to identify toxins in food and thereby protect public health.

Agilent's primary R&D and manufacturing sites are in California, Delaware, Massachusetts, Texas, Australia, China, Denmark, Germany, Italy, Japan, Malaysia, Singapore, and the UK. Agilent has 14,800 employees.

Environment

A number of Agilent's recent product launches help customers meet their sustainability goals in their own laboratories. For example, its Ultivo Triple Quadrupole LC/MS instrument is 70% smaller than its predecessor and is the smallest of its kind on the market.⁶ Agilent's Intuvo 9000 Gas Chromatograph System uses an efficient direct heating system that requires less than half of the electrical power and takes up about half the bench space of predecessor GC instruments.⁷ Agilent also has a next-generation microwave plasma atomic emission spectrometer that not only eliminates the need to use water in analyzing samples, but also runs on air instead of combustible

⁴ https://s24.q4cdn.com/305549747/files/doc_presentations/AID_Presentation_Web.pdf

⁵ <https://www.sec.gov/Archives/edgar/data/1090872/000109087219000022/0001090872-19-000022-index.htm>

⁶ https://s24.q4cdn.com/305549747/files/doc_presentations/AID_Presentation_Web.pdf (slide 26)

<https://www.agilent.com/en/products/liquid-chromatography-mass-spectrometry-lc-ms/lc-ms-instruments/triple-quadrupole-lc-ms/ultivo-triple-quadrupole-lc-ms>

⁷ https://www.agilent.com/about/companyinfo/sustainability/Agilent_Report_CSR_2018.pdf (page 24)

gases, thus greatly improving overall lab safety and reducing operating costs as it can run unattended without the need to monitor flammable and expensive gases.⁸

Many of Agilent's products have a positive environmental impact as they have applications in environmental sciences in measuring and analyzing the impact of chemicals and pollutants in the environment. For example, Agilent's GC/MS instruments can screen for 171 volatile organic air pollutants.⁹ Agilent equipment is also helping customers identify problems associated with pharmaceuticals and personal-care products present in water. Agilent has produced a new method for dioxin analysis in food samples, which helps customers meet regulatory requirements in the US and Europe, as the instruments can detect toxins in food samples at very low concentration levels. Agilent's measurement equipment is also used for the analysis of soils, sludges, and sediments.

Internally, Agilent uses the ISO14001 environmental management system to monitor and reduce environmental impacts from GHG emissions. Agilent says that energy use is its most significant environmental impact, as the company consumed 137,000MWh in fiscal 2017, amounting to 59,000 MT of GHG emissions.¹⁰ Agilent reports that it tracks energy consumption quarterly against its targets. In the company's CDP response, it said it has commissioned over 20 energy and water conservation projects at its major sites with potential annual energy saving of around 6,000 GWh. The projects include upgrading to LED lighting across major sites and new boiler and chiller plant installations. By 2017, the company achieved energy reduction per square foot of 2.38% (against a 3% target 2014 baseline). With an increase in headcount, Agilent has seen a 14% net reduction in energy use per headcount compared to 2014. In 2017, Agilent saw a net reduction of 6% in energy consumption per annual revenue dollar compared to 2016. Agilent has reduced water consumption per square foot by 9% (and 21% by headcount) and the company believes that it is well on its way to meet its target of a 20% reduction compared to its 2014 baseline over ten years.¹¹ Agilent says that all employees are entitled to benefit from incentives for the management of climate issues and individual performance bonuses can be rewarded based on meeting energy conservation targets or the implementation of noteworthy environmental projects.

⁸

<https://www.agilent.com/about/companyinfo/sustainability/Agilent-2017-Corporate-Social-Responsibility-Report.pdf> (page 14)

⁹ <https://www.agilent.com/about/companyinfo/sustainability/Agilent-2017-Corporate-Social-Responsibility-Report.pdf> (page 77)

¹⁰ <https://www.cdp.net/en/responses/391>

¹¹ <https://www.cdp.net/en/responses/391>

Management Integrity & Ethics

Agilent has been publishing comprehensive corporate social responsibility reports since 2001, and the company has received numerous accolades for its sustainability efforts, most recently ranked #1 on Barron's 2020 list of the 100 Most Sustainable Companies in the US (Agilent was #3 in 2019 and #17 in 2018).¹² Agilent also earned a 2018 Sustainability Leadership Award from the Business Intelligence Group, which selected it as a winner based on its commitment to sustainability through innovative product design.¹³ Also in 2018, Agilent received the highest score among the Life Sciences Tools & Services industry in RobecoSAM's annual Corporate Sustainability Assessment (RobecoSAM is a leader in ESG rating methodologies). Agilent scored particularly high marks in the areas of environmental reporting, corporate governance, codes of business conduct, innovation management, and talent attraction & retention.¹⁴ Forbes has named Agilent one of the "World's Best Employers," and Agilent made Equileap's 2018 list of Top 100 Companies for Gender Equality Globally.¹⁵ Agilent is a member of both the Dow Jones Sustainability Index North America and the Dow Jones Sustainability Index World, has committed to the UN Sustainable Development Goals, and has been participating in annual CDP surveys since 2010.

Agilent is led by CEO Mike McMullen, who has been with the company and its predecessor, HP, since 1984. McMullen has served as CEO since 2015. After graduating with a degree in economics and business administration from the University of Delaware, he initially joined HP as a financial analyst, but was later assigned to revitalize HP's mass spectrometry products and liquid chromatography offerings, which had gone stale amidst competition from Waters and Finnegan Instruments. McMullen is credited with having played a substantial role in building out Agilent's strong business in Asia in the 1990s.

Following Agilent's spin-off from HP, McMullen noted that one of his priorities was to study the key elements of HP's success and make sure they were preserved in the new Agilent. He was particularly concerned at that time about private equity companies acquiring instrument companies only to cut R&D expenses. In an interview with American Laboratory, Mr. McMullen noted: "My background is finance. I understand that cutting expenses, especially post-acquisition, can improve earnings over the short term, but this will be at the expense of long-term innovation

¹² <https://www.barrons.com/articles/the-100-most-sustainable-companies-51581095228>

¹³

<https://www.bintelligence.com/blog/2018/7/17/43-people-projects-and-organizations-awarded-for-driving-sustainability-efforts>

¹⁴ <https://www.agilent.com/about/companyinfo/sustainability/RobecoSAM-corporate-sustainability-assessment.pdf>

¹⁵

<https://equileap.org/wp-content/uploads/2018/10/Equileap-Gender-Equality-Global-Report-and-Ranking-2018.pdf>

and true organic growth. Society is better served by having strong, innovative companies that are creating new products for new markets. When I brief financial analysts about our business, I expect at times they may suggest that Agilent cut its R&D spending. I've heard it before, and there are plenty of opportunities for investments in firms that underfund R&D over the short term. However, the short term can extend into the long term." Mr. McMullen believes that Agilent has been successful over the years as its engineers have been adept at designing products that improve the cost of ownership, throughput, reliability, and ease of use of scientific instruments. Mr. McMullen describes a work culture at Agilent that encourages personal growth, innovation, risk-taking, and development of deep technical insight. Mr. McMullen has said that Agilent's corporate culture encourages innovation and views failure as a learning experience. As a result, Mr. McMullen claims that the product development team has decades of experience in specific product segments, and that unplanned employee turnover is less than half of Agilent's competitors.

In 2014, Agilent spun-off its former electronic measurement business, Keysight Technologies, in order to focus more on its healthcare, life sciences, food safety, and environmental sciences businesses. The electronic measurement business at the time was a slower moving and more cyclical entity that did not fit well with Agilent's objective to move to more recurring revenue streams. Since the time of the spin-off in 2014, Agilent has accelerated internally generated revenue growth. At the same time, the company has expanded its operating margins by 4.8 percentage points since fiscal 2015, all while investing approximately 8% of annual revenues on R&D.¹⁶

While Agilent has completed some acquisitions over the years, most of its growth has been internally generated. Agilent's acquisitions have largely been smaller tuck-in acquisitions for technologies such as cell analyzers, which are used in developing immuno-therapies to help create engineered T-cells that can recognize cancer cells.

In 2014, Agilent agreed to pay the government almost \$850,000 to resolve bid-rigging allegations. Agilent made a voluntary disclosure to the Inspector General of the Department of Defense that certain sales of electronic measurement instruments to the government were the result of improper coordination of pricing and bidding strategy with its distributors. The government said that Agilent fully cooperated in the investigation and noted: "We commend Agilent for its prompt disclosure of improper price coordination, and subsequent cooperation with the government's investigation."

¹⁶ https://s24.q4cdn.com/305549747/files/doc_presentations/2020/Agilent_JPM2020_FINAL.rev1.pdf
https://s24.q4cdn.com/305549747/files/doc_presentations/AID_Presentation_Web.pdf

Agilent has room to improve the gender diversity of its workforce, with 38% female employees overall and 29% women managers. The 15-member senior leadership team has just 3 women (20%), and 3 of 11 board members (27%) are women. Agilent does not report on the ethnic diversity of its workforce, but as a global team there is evidence of ethnic and cultural/geographic diversity on its senior leadership team and board of directors.

Agilent is not currently involved in any material legal disputes.

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