

Revitalizing a “sleeping beauty” – Amber Capital calls for strategic reset at Suez

- **Ending value destruction: stock has underperformed peer Veolia by -149%¹ over the past six years**
- **Ending poor capital allocation: EPS down ~-57%² over the past decade after nearly doubling capital employed base**
- **Amber proposes plan for “New Suez” with higher growth, higher returns and lower leverage**
- **Amber believes plan could unlock +150 bps to +300 bps³ incremental Return on Capital Employed vs current 6.2%**

London, July 18th, 2019 – On July 18th, Amber Capital sent a letter and a presentation (available on www.LeanerSuez.com) to the members of the Board of Directors of Suez, sharing its proposals for a strategic reset that the new management team should undertake to get the Company back on a path of value creation. After years of poor share price performance under the tenure of the outgoing management team, Amber Capital believes it is time for change at Suez.

Amber Capital currently holds a 1.9% stake in Suez SA (“Suez” or the “Company”) on behalf of the funds it manages. The decision to invest was rooted in the belief that the new management team has a compelling opportunity to unlock value at Suez should it implement a clear strategic reset to reposition the Company.

Following a detailed review of Suez’s performance and strategy over the past decade, Amber Capital’s analysis has concluded that:

- The stock has undeniably underperformed:** nearly eleven years after its IPO, Suez’s share price still trades below its IPO price of €14.0/Share² and below the most recent capital increase price for the GE Water acquisition which was executed at €15.8/Share². **On a relative basis, over the past six years Suez has underperformed, its direct peer Veolia by -149% and the Euro Stoxx Utilities index (SX6E) by -34%¹** - the underperformance of the company against its peers has been sustained over the past decade.
- Poor capital allocation has been the main reason for this underperformance:** Over the past decade (2008-2018), Suez has managed to grow its capital employed base by +84%² while reducing its Earnings by -46%. **Over the same ten years, the company failed to generate any growth² in either EBIT per share or Dividend per share and managed to shrink its Earnings per share by -57%².** Looking at the recent years (2014-2018), the Company’s Return on Capital Employed declined from 7.8% to 6.2%² - a 160 bps value destruction. Over the same period, financial leverage increased from 2.7x to 3.2x² in terms of Reported Net Debt to EBITDA.

¹ Source: Bloomberg

² Source: Suez

³ Source: Amber Capital estimate

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- iii) **Suez needs a strategic reset:** The new management team of Suez now has a compelling opportunity in our view to reposition the Company. **After years of limited portfolio management, Amber Capital believes the Company needs a thorough portfolio review to rotate out of mature assets and use proceeds to reinvest, delever and buyback shares.** Amber Capital believes this rotation would allow the “New Suez” to enjoy higher growth, higher returns and a lower leverage. The example of the disposal of Agbar Spain is taken as a case study for this asset rotation.
- iv) **Corporate governance must be improved:** Amber Capital believes that Suez should reduce the size of its board from 19 directors to the industry average of between 12 and 14⁴ in order to allow for a leaner, more agile corporate governance. In addition, the **CEO’s annual variable compensation plan should be improved** by including ROCE and Earnings per share as remuneration criterias instead of Revenues to further align with shareholders’ interests.

A bigger Suez does not mean a more valuable Suez. Amber Capital believes that through proper execution on the above pillars, the **new management team of Suez could enhance ROCE from +150 bps to +300 bps⁵ from the current low level of 6.2%** allowing the Company to get back on a path of value creation.

[Further information is available on www.LeanerSuez.com](http://www.LeanerSuez.com)

About Amber Capital

Amber Capital is an alternative asset management firm that primarily invests in Europe and has approximately \$1.6 billion in assets under management as of July 1, 2019. Founded in 2005, Amber Capital is based in London with offices in New York and Milan*. Central to Amber Capital’s investment methodology is the combination of value-oriented, bottom-up fundamental analysis and a focus on catalyst-driven situations across the capital structure.

The Investment Team is recognized for its European expertise, and ability to navigate the legal, socio-political and cultural nuances of in the region. Amber Capital has an active shareholder philosophy and draws on its expertise in corporate governance. The Investment Team engages with companies and relevant stakeholders, endeavoring to build trust with the goal of unlocking unrealized value.

* Amber Capital UK LLP is authorised and regulated by the FCA and is registered with the SEC; Amber Capital LP is registered with the SEC; Amber Capital Italia SGR, SpA is authorized by the Bank of Italy as an asset manager.

⁴ Source: Bloomberg

⁵ Source: Amber Capital estimate

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