
Sustainability

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HIGHLIGHTS FROM THE JOHNSON CONTROLS' CLEANTECH ANALYST DAY

This past week we visited the headquarters of Johnson Controls (JCI: NYSE: \$27.56 | Not rated) in Glendale, Wisconsin to attend the company's CleanTech analyst day. The meetings featured talks from various heads of Johnson Controls' commercial buildings and hybrid vehicles businesses, and included a tour of the company's 320,000-square-foot headquarters. Johnson Controls is the world's largest provider of energy efficiency solutions for commercial buildings and a leading provider of lithium-ion batteries for hybrid vehicles. Below we provide some of the energy efficiency-related highlights from the company's analyst day presentation.

- **The cleantech "megatrend."** Clean technology is now a "long-term global growth megatrend," according to JCI management. Johnson Controls defines clean technology as products or services that improve operational performance, productivity or efficiency while reducing costs, energy consumption waste or pollution. Management specifically noted that buildings in North America and Europe, which together account for 40% of the world's energy consumption and 70% of electricity usage, represent the single biggest opportunity for cleantech. The second biggest opportunity for cleantech is in the transportation sector, according to the company.
- **Energy solutions market a \$24 billion opportunity.** Johnson Controls estimates the energy solutions market is a \$24 billion global opportunity, growing at approximately 9%-14% per year. Key market drivers for the energy solutions market include: 1) climate legislation and energy security; 2) corporate climate commitments; 3) volatile energy costs; 4) innovative funding models (see PACE program discussed on next page); 5) deployment of smart-grid technology; and 6) energy efficiency renewable resource standards. Growing governmental regulations and oversight of cleantech offer Johnson Controls a significant long-term opportunity to expand its relationships with governments around the world. The company is actively working to effect favorable energy legislation and policy mandates that will drive demand for its products and services.
- **China represents an enormous long-term opportunity.** China accounts for 50% of new construction globally, according to Johnson Controls, making the country perhaps the single largest opportunity for energy-efficiency measures in the world. According to estimates from management consulting firm McKinsey & Co., approximately

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350 million Chinese will move into China's cities from rural areas over the next decade and a half. With government regulations limiting urban sprawl, the Chinese must build up and not out. As a result, McKinsey estimates that 50,000 skyscrapers will be built in China in the next 15 years, significantly expanding an already sizeable green building market opportunity.

- **Government legislation/regulation are key market drivers.** Legislation and regulation are now both key drivers in the energy efficiency marketplace. In the United States, there have been energy efficiency bills in both the lower and upper house (the American Energy and Security Act of 2009 in the House and the American Clean Leadership Act of 2009 in the Senate). The Senate bill has been passed out of committee and includes the following features:
 - National electricity and renewable electricity standard
 - Energy efficiency building retrofit program
 - Energy efficiency programs for states
 - Building codes incentives
 - Building performance information
 - New clean energy deployment administration

Meanwhile, recent events in the Gulf of Mexico are spurring interest in energy and climate bills that otherwise would not have been brought up or passed this year, according to Johnson Controls. The company believes that if no energy/climate legislation is passed this session, the EPA will take matters into its own hands. (We note that the Senate recently voted to uphold the EPA's power to regulate greenhouse gas emissions.) This bodes well for increased activity in the energy efficiency and green building market, according to JCI.

- **Non-governmental organizations gaining influence.** JCI noted that NGOs, such as the Clinton Foundation through its Clinton Climate Initiative, are taking a much larger role now in the green market. NGOs now act as "accelerators" for projects and solutions promoting environmental sustainability, and help to sustain and promote these ideas to the public at large. In turn, the public puts pressure on organizations to change and "go green."
 - **PACE program gaining momentum.** Property Assessed Clean Energy, or PACE, is a financing solution that enables property owners to pay for energy efficiency, renewable energy and water efficiency projects via an additional assessment on their property tax bill over a five to ten-year term. The PACE program benefits building owners by: 1) eliminating the need for large upfront cash payments; 2) offering a competitive cost of capital; 3) solving credit rating collateral issues; 4) potentially moving the projects off-balance sheet; and 5) allowing owners to pass through retrofit costs to tenants. PACE also benefits local governments by supporting local businesses through job creation, while being tax neutral with no risk to the general fund. Finally, for ESCOs and contractors, PACE programs are "game-changers" for private sector investment as they offer longer payback projects, among other reasons. Johnson Controls noted that PACE financing will be one of the keys to unlocking the huge retrofit opportunity in the commercial building sector.
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- **IT convergence.** JCI sees the “smart building” as the starting point that is needed before a “smart grid” is even possible. Put simply, the “smart grid” can’t analyze much without a “smart building” providing it with real-time information. The company noted that the integration of equipment and controls coming together in one product has been a major advancement for the industry.
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