

Business Better (Season 5, Episode 11): Sustainability Spotlight – A Conversation With Chart Industries, Inc.

Speakers: Brendan Collins, John Walsh, and Alison Snyder

Brendan Collins:

Welcome to Business Better, a Ballard Spahr podcast designed to help businesses navigate the new normal. I'm Brendan Collins. I'm a partner in Ballard Spahr's Environment and Natural Resources Group and the leader of our firm's manufacturing and consumer products industry group. Today's podcast show is part of our sustainability spotlight series, which highlights the sustainability efforts that businesses are making to combat climate change and other environmental challenges. And today's episode, we'll discuss Chart Industries. I'm joined by the sustainability team at Chart Industries, John Walsh and Ali Snyder. John, why don't you start us off by introducing yourself?

John Walsh:

Great. Thank you, Brendan, for having us on the podcast. We're excited to be here. My name is John Walsh and I am Chart's senior vice president of Investor and Government Relations. Joined the company back in 2022, about the same time that we announced a transformative transaction with the acquisition of Howden, which helped accelerate our sustainability journey and something I'm sure discuss on here. Prior to that, I was on Wall Street for 15 years in various research roles.

Brendan Collins:

Ali, welcome to the show. Tell us about yourself.

Ali Snyder:

Thanks, Brendan. Thanks for having us. I'm Ali Snyder, director of Sustainability and Marketing at Chart Industries. I've been with the company for just about five years now. I started out in Chart's emerging leadership program and my role then transitioned to product management and now to leading our global sustainability and marketing teams. So really over the past few years, being a part of both the sustainability and marketing function really allowed us to effectively integrate sustainability into the core of our commercial strategy, which has been very beneficial. As part of my role, I also oversee our annual sustainability reporting, double materiality assessment and other compliance items and then support here with stakeholder engagement efforts. Excited to be a part of the show.

Brendan Collins:

Let's start our discussion by learning more about Chart Industries and the industries it serves and the sorts of products that it produces.

John Walsh:

Certainly. So Chart Industries is a global leader providing equipment and solutions for industrial and energy markets. What does that actually mean, right? So what we're doing is really helping our customers across the entire value chain of a molecule. So this can be around the production of a molecule such as LNG where customers will use our equipment such as Braze Aluminum Heat Exchangers, also our process technology that we call IPSMR in order to produce that molecule.

We then help our customers move the molecules that they produce and that could be with our trailers, our ISO containers and other types of equipment. Then when you get to the demand side of the market, we help customers consume the molecule and that could be with regas, it could be with an HLNG vehicle tank or it could be with a fueling station. And then most importantly is we have this umbrella of aftermarket service and repair, so we're with our customers for the life of their project. Now, I gave you an example there with LNG, but we could insert any molecule. We could talk about hydrogen and it would be the same exact application across the value chain. We could talk about industrial gases.

So anytime you're taking a gas and converting it into a liquid or taking a liquid and converting it back into a gas, many times, Chart will be there to help with that process.

Brendan Collins:

What are some of the operations and manufacturing processes that Chart itself takes on?

John Walsh:

Yes, certainly. So we are a multinational corporation. We operate in over 50 countries with 64 manufacturing sites and over 50 repair and service sites globally. About one-third of our team is either an engineer or a welder, very important skillsets, as we deliver solutions to our customers. And we have a global install base of over 450,000 pieces of equipment. One of the things that we've done, not just to address tariffs and all that uncertainty in the world today, but we have a couple of core manufacturing principles that are rooted in what we call Chart Business Excellence. So these are things such as producing all of our equipment in multiple locations and multiple geographies. And this is very important because we need to be close to our customers to be able to help them not only deliver the equipment, but also then be there to support them as that equipment or solution is operating.

Brendan Collins:

So that explains to some extent your large geographic footprint where you have facilities in over 50 countries. In that context, what does sustainability mean for Chart and with that breadth of operations both in terms of the substantive operations but also the geography?

John Walsh:

And maybe I'll start high level there and then Ali can give you all the details here. I think what's really important is to understand that sustainability is core to Chart and it's been core to the journey we've been on. So if you go back in time, Chart was primarily a equipment provider into traditional oil field service-type applications. Then what we did is we transform the company truly becoming an energy transition company, taking our core products, our core IP around heat transfer and molecule movement and bringing that into sustainable verticals, whether that's hydrogen, LNG, clean water. And we did this through a series of organic investments and inorganic investments.

And while we were doing this journey, not only did we supply equipment to customers, but then we started supplying them process technology, so we can become, for lack of a better word, a one-stop shop if someone's interested in LNG or someone's interested in hydrogen liquefaction. And I bring this up because it's very core that the management team had a vision to take this equipment traditionally 80% energy and industrial gases and pivot it into these faster growth markets. Now today, traditional energy is about 5% of the company. So it's been an incredible journey for us, an incredible journey as we've helped our partners. And then let me hand it over to Ali to really talk about how we did it and the details around it.

Ali Snyder:

Yeah, thanks, John. I think you really hit the nail on the head there. I would say, and John touched on it, but the way that we really look at sustainability within Chart is really two-pronged and that's, how are we contributing to environmental improvement in our own operations, and then how are we helping our customers meet their own sustainability goals? And we really think about those two areas and the success that we have from them by measuring progress. And we really look at those two areas in measuring progress and we do that through a combination of internal KPIs. We continue to follow third-party frameworks. And I think most, importantly, we listen to our customers and we really adhere to customer-specific requirements when building our sustainability strategy.

We also recently completed a double materiality assessment, which helps us to ensure that we're really continuing to align with evolving stakeholder expectations, including regulatory and investor priorities. But I would say sustainability for us and the way that we define it is something that's constantly changing, constantly evolving and moving forward based on the input and the expectations from our stakeholders and our customers. But with that being said and the way that John put, it's really always been a part of Chart's core strategy and Chart's DNA, but we continue to make progress through measuring our progress and taking action that way.

John Walsh:

What might be a great example, if you look at some of our core products, so take for example, a heat exchanger, this was traditionally used in oil and gas and petrochemical applications. We're now taking the same core technology that's been part of Chart for decades and bringing it into LNG, into hydrogen and helium, into biogas, into carbon capture, into water, and most recently, into the data center vertical. So again, we really think of Chart as a collection of core technologies and equipment that we're able to repurpose for where we see the most impact and growth of our customers.

Brendan Collins:

That's great. Well, when it comes to Chart's own operations and managing sustainability there, you mentioned, Ali, that you have a number of scoring systems or KPIs that you use. Are you able to provide a little insight into what some of the frameworks you're using are and what are you finding are the most critical KPIs that you're targeting?

Ali Snyder:

Sure. Yeah, absolutely. I would say, over the past really year or so, Chart has really focused on preparing for upcoming compliance, most notably CSRD, the Corporate Sustainability Reporting Directive. And really what a lot of these regulations are doing are taking a lot of these key frameworks that already exist and putting them into regulations. So really, some of the key frameworks that we align with are SASB, TCFD and the UN Sustainable Development Goals. And even though CSRD is pushed out a couple of years now for 80-plus percent of businesses, any company who has been paying attention to these frameworks or preparing for CSRD should really be in good shape to align with other upcoming regulations such as California.

And yeah, I would say our double materiality assessment that I mentioned earlier in the podcast as well was a really good supplement for a lot of the frameworks that we align with because it helps identify and prioritize some of the metrics and the KPIs that we are tracking and reporting. And for us, it's really all about creating that consistent baseline that we can use to flex, to meet market-specific needs when compliance does become imminent for us and ensuring that we're tracking and reporting and aligning with the right frameworks and KPIs.

Brendan Collins:

Could you talk a little bit about the double materiality assessment? I don't know if you've ever been through one of those before, but maybe give our listeners a little sense of the scope and purpose of that.

Ali Snyder:

Sure. So the double materiality assessment, it is required under the CSRD regulation, but essentially what it does is it takes perspectives from all of our key stakeholders, so including employees, customers, investors, etcetera, and proactively interviewing, surveying and gaining insights from our key stakeholders to really understand where are our opportunities and where are our challenges and what are the timeframes associated with each of these. So we measure this by speaking with our stakeholders and really the output of this double materiality assessment, which is essentially a few month-long effort, is coming up with a list of our material items or material topics that we should be focusing on as a company.

And those material topics are something that was deemed priority from all of our stakeholders and thus should be KPIs, which we track and report on and are relevant to our business. So it was a really good way of understanding based on our business, based on our stakeholders, "What are the key topics that we should really be focusing our attention on?" Because when you look at sustainability really, you could be tracking and reporting on thousands and thousands of metrics and being able to understand and prioritize, "Which ones are most relevant to my business?" is really, really beneficial. So I think that was a great exercise for Chart and it helped us gain a lot of insights into where we should be focusing in on and what's important.

Brendan Collins:

When Chart took on this double materiality assessment, is that something you were able to manage with internal resources or did you need to use an outside contractor for that work?

Ali Snyder:

Yeah, so given that it was required under compliance, we certainly wanted to adhere correctly to any legal requirements. We do work with a third-party ESG consultant called ClimeCo and we have done so since we started reporting any sort of sustainability metrics and they have helped us with our annual sustainability report since 2020. So they've been a great partner for us.

Brendan Collins:

Having completed the double materiality assessment, did that change the way you view sustainability with a lens to business performance?

Ali Snyder:

Yeah, I would say it was great to get clarity and reinforcement from our double materiality assessment. I think that it reinforced the strategy that we already had. And what I mean by that is I think we really look at sustainability at Chart as a value driver. So many of the environmental improvements that we're working on as a company also drive efficiency and lower operational costs, for example. So I guess two examples that come to mind for me are water-related projects that we have across the company. So for example, our hoser facility in India recently implemented a water conservation project where they harvest rainwater and increase use of recycled water, which essentially helps reduce fresh water use while ensuring reliable operations in that region, which is very water scarce and thus lowers costs for that particular facility.

One of our facilities in Theodore, Alabama where we manufacture the world's largest cryogenic bulk tanks, we're actually utilizing our own water treatment systems to minimize water consumption by recycling test water because tanks of those size require hydrostatic testing. So we utilize our own water treatment systems to recycle that water using reverse osmosis and a UV system, so we lower our water-related costs and we also impact positively to the environment. And then I guess I would say, in Europe, we've improved energy efficiency across many of our sites by upgrading equipment and processes to reduce scope 2 emissions and that also helps to manage the rising energy costs. So we've seen a cost benefit there.

And then globally, which I love to talk about this, we've implemented what we call internally as a global site sustainability checklist. So we've done an extensive exercise to really identify and implement low-hanging-fruit-type projects with a high ROI and a positive environmental impact. So things like upgrading to LED, lighting, fixing air leaks, installing motion sensors, projects like that. We've mandated that each of our manufacturing facilities adopts these projects and we've really seen some fantastic results. It's really helped to standardize our smart sustainability practices across the company and it's been something that has been relatively simple for our facilities, but adopting that mindset across the company that sustainability is a value driver, it's good for the business, is something that we've always looked at sustainability that way.

And then just one more thing I would add is that a lot of our customers are increasingly expecting sustainability practices from their suppliers. So I think the way that we approach sustainability both for our customers and within our own operations has definitely been a competitive advantage for us.

Brendan Collins:

When you were identifying these projects that Chart would like to see all of its manufacturing facilities adopt, did you use an internal cost of carbon to identify the key projects or was it a more holistic approach?

Ali Snyder:

Yeah, so I would say the latter. I would say that, when putting together our sustainability checklist globally, it's been a comprehensive-type approach, very holistic. So I'll pause there. We have a global sustainability committee at Chart. So really that committee consists of our sustainability leaders and experts at each of our manufacturing facilities and sites globally. And during every one of our meetings for that committee, we're sharing best practices, we're sharing projects and project results and we're helping other sites determine how they can implement these same projects and get positive results. So that has been really valuable for us, the sharing of best practices.

Like John said, we're a global company, 64-plus manufacturing sites, 50-plus service and repair sites and there's a lot of great pockets of work happening across the global organization. And this committee, as simple as it sounds, is very valuable in bringing together those pockets of expertise and those valuable projects, so that they can be replicated.

Brendan Collins:

I know many of our clients report that those sorts of committees that you were just describing have some of the greatest engagement and enthusiasm of any of the internal meetings that they attend. Yeah.

Ali Snyder:

Definitely, yeah, and I would say just to your other point too, I know that you mentioned an internal price of carbon. While we don't necessarily do that, we do factor ESG and sustainability into our CapEx process. So whenever any of our facilities are requesting project or requesting funds for a CapEx project, they are required to input emissions impact and other environmental impact. And that is a factor that our leadership takes into account

when approving projects across our facilities. So I think that's a huge win, is even though it is nonmonetary when you're looking at assigning a price to the carbon, it is something that our leadership takes into account before approving or denying a project.

Brendan Collins:

You mentioned a few minutes ago that Chart's customers are looking to Chart both for Chart's own sustainability profile, but also to support them in their own sustainability efforts. John, can you talk a little bit about what you're hearing from your customers in that regard?

John Walsh:

Certainly. And so our customers are on similar sustainability journeys to ourselves, right? And one that is a really hot topic and interesting of today is around the data center, right? So here you have customers that are very cognizant of the energy usage of their facilities. They're very cognizant of the water use of their facilities. And what we're able to do and what we highlighted on our most recent earnings call, we can get you a copy of it, is how we support the data center market. So this is a new market for Chart where, again, we took that traditional equipment that used to go into a midstream oil and gas field and now we're selling it into the data center market. And we're working with both the operators of the data centers and also the EPCs of the data centers as well.

And so what we can do is help them with reduce their cooling needs, which in turn helps them with their energy intensity. We have a business that can help them capture the carbon depending on what kind of power cells they might be using. We can also help them with their water needs potentially as well. What we've seen right now from that market is they've come to us for a solution around their heating and cooling needs, but as a full solution company, there's more we can offer to them. But that's one where the customer is very much engaged with wanting to understand how what we're doing helps them on their own sustainability journey because it's not just important to them, but it's very important to their stakeholders in particular.

And so we have a data center example there. A couple of other ones that I think are great examples, in Europe, we had a industrial gas customer who wanted to use a Chart solution to help them make green hydrogen that they were using as an input at one of their own industrial process plants. So here, they were converting to a more sustainable input into what they were producing. And I think that's a great example. We see a lot of that, particularly in Europe and around hydrogen, where a customer can be their own offtake, particularly for that molecule. That's still, I would say, relative to something like LNG, still in its infancy in terms of the adoption curve.

Then we have a super fun one to talk about. Opus One Winery is a customer of ours where they are capturing the carbon from their process and recycling it back into their winemaking process. So here, they are reusing the carbon. It's also helping them on their sustainability journey and they've been a fantastic partner of Chart over several years. And there's actually a video on our website if you want to see it. And then I would also be remiss not to mention that our Chart water business, while you might not have heard about it, we treat over 4.5 billion gallons of water to bring clean water, particularly around arsenic and PFAS/PFOS removal. So again, we're helping our customer on their journeys while also making the world a little bit better at the same time.

Brendan Collins:

I think sometimes the sustainability stories that are most compelling are when companies are making strides in terms of resources that are important to their business. And here, we've heard on this call about how Chart both has a number of water conservation initiatives as part of its sustainability program and is also in the business of treating water. And I think those linkups often are the most compelling stories internally and externally for companies that are active in the sustainability space. We've talked about measuring progress and things like that. What are some of

the goals, specific goals, if you can share them, that Chart has in mind for its own sustainability ledger and how's the progress towards those goals?

Ali Snyder:

Yeah, I would say we've really made strong progress over the years. Like we mentioned earlier, sustainability has been part of Chart's DNA since we've become a business, but it really wasn't until 2019 that we started reporting on our sustainability efforts. I guess this year, particularly, we made a lot of good progress including re-baselining our scope 1 and 2 emissions after our acquisition of Howden in March 2023, which John mentioned. So that is best practice under Greenhouse Gas Protocol. Really improving our data accuracy has been something that we've been focusing on this year and identifying a roadmap of opportunities across our facilities. We've also supported customers in avoiding millions of metric tons of CO2 emissions through the use of our equipment. Internally, we've improved energy efficiency and expanded renewables amongst other projects.

So looking at our performance internally, we've exceeded our greenhouse gas emissions intensity goals for the last three, four years. So in 2021, Chart set an initial target to reduce greenhouse gas intensity by 30% across our company-owned operations by 2030 compared to a 2020 baseline. And then after we reached this target eight years ahead of schedule, we revised our goal in 2022 to a 50% reduction target by 2030 and then we successfully achieved that updated intensity target the next two years following. So moving forward, we're really just continuing to identify cost-effective ways to reduce our emissions and challenge ourselves and understand where our highest impact areas are across the business and where we can really make an impact for both ourselves and our customers.

Brendan Collins:

You've both mentioned the Howden acquisition in 2023. How was that motivated by or how did it support the sustainability mission of Chart?

John Walsh:

Yeah, that's a great question. And so when you think about Chart historically, we were on a journey to reduce our business cyclicality by moving more into the aftermarket. A lot of Chart's legacy products were more around stationary equipment, whether that would be liquefaction, bulk trailers, tanks. Howden is primarily around compression and so about half of their business at the time of acquisition was for aftermarket service and repair. If you look at Chart today, now over one-third of our revenue is aftermarket service and repair and over 50% of our profit comes from the segment that contains our aftermarket service and repair business.

So this helped us transform the business to really be a equipment supplier into these markets where each of us historically might have sold a component. Now we're really selling a solution to our customer and I'll use a hydrogen example. If you looked at what we used to sell to a hydrogen customer before someone who was producing hydrogen, we had everything but the compressor, right? When we brought the compressor in-house, that now allows us to support the customer with the entirety of the liquefaction plant except for the electrolyzer. And what that allows us to do is actually help manage lead times and be more responsive to our customer.

So what Howden really did was, one, allow us to transition from a equipment supplier to a solutions provider. It brought us more aftermarket. It gave us more of a geographic reach. So Chart Legacy was very much North American focus, whereas Howden was outside the US. So it broadened our ability to serve customers globally and bring them more of a solution into these fast growth sustainability markets.

Brendan Collins:

That's fascinating and it features sustainability not just as in the sense that we're talking about on this call, but also in the business sustainability sense with adding that sustained cash flow that comes from aftermarket operations. A really excellent example. One of the ways in which companies these days are addressing their own internal goals, like the ones that Ali was just talking about a few minutes ago, are to use carbon credits as part of a portfolio to reach reductions or emission targets. Is Chart exploring the use of carbon credits in its program?

Ali Snyder:

So while Chart doesn't primarily generate or sell carbon credits ourselves, we do play a key role in enabling our customers to do so. Our technologies, particularly in areas like carbon capture, hydrogen renewable fuels support activities that qualify for carbon credits by reducing or avoiding greenhouse gas emissions. We've begun evaluating carbon credits into our own program primarily for scope 1 offsets in areas where operational abatement wouldn't currently be feasible, but we do carefully evaluate credits based on quality verification by third-party's permanence and we do continue to monitor how this space evolves and where Chart could potentially play.

Brendan Collins:

I see we're drawing to the end of our time, but I didn't want that to pass without noting that you've recently released your 2024 sustainability report. Before we close, do you have any highlights you'd like to share with the listeners?

Ali Snyder:

Yeah, yeah. We're really excited to have launched our sixth annual sustainability report this year, just a couple weeks ago actually, and I think it really reflects a lot of the progress that we've made across emissions reduction, safety, talent development and community engagement. So just real quick, a few highlights. From a safety standpoint, we achieved our lowest ever total recordable incident rate of 0.40, which really shows how seriously we take protecting our team members. On the environmental side, we reduced our greenhouse gas emissions intensity by 18% since last year with scope 1 and 2 emissions dropping by over 23 and 12% respectively.

We also completed our first double materiality assessment this year, like I mentioned earlier, which helps us really take a closer look at our risks and opportunities across the business. That work is really setting us up to be well-prepared for upcoming regulations like California CSRD and others. On the people side, we saw more than 400 team members engaged in our employee resource groups across 10 countries and over 25% of our global team participated in Chart-related volunteering. So that is a level of involvement that we're really proud of.

We expanded all of our leadership and talent development programs across the company. We hit a record internship participation, which included high schoolers all the way to graduate students. And then beyond that, we strengthened partnerships with HBCUs, STEM programs, technical schools and we also improved supplier engagement using tools such as Sphera, CRM, and iPoint. And then through it all, we really gave tangible examples of how we're focused on enabling customers to achieve their business objectives and sustainability goals and that's really where we're confident that we can really make a big impact. So definitely, I recommend that all of our listeners check it out.

Brendan Collins:

Well, with that, I want to thank John Walsh and Ali Snyder of Chart Industries for this excellent presentation. Thank you both for your time, for all the work you're doing with Chart and with its customers to promote sustainability.

John Walsh:

Great. Thank you.

Ali Snyder:

Thank you.

Brendan Collins:

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