Xylem's Sustainability-Linked Loan Facility

WHO

xylem

Project Lead: Xylem
Lead Arrangers and Joint Bookrunner: Citibank,
N.A., JPMorgan Chase Bank, N.A., ING Bank
N.V., Dublin Branch, BNP Paribas Securities
Corp., Wells Fargo Securities, LLC.
Administrative Agent: Citibank, N.A.
Syndication Agent: JPMorgan Chase Bank, N.A.
Sustainability Coordinator: ING Capital LLC
National Association as Documentation Agents:
BNP Paribas and Wells Fargo Bank.

WHAT

In coordination with ING Bank and Sustainalytics, Xylem developed and secured a revolving loan facility (syndicated across 12 banks) that creates a financial incentive for the company to integrate sustainability and social value across its operations. The facility is expected to finance Xylem's capital expenditures and investments as needed. The interest rate is index-linked to Xylem's overall environmental, social, and governance (ESG) progress as measured by Sustainalytics. Unlike a green bond, which is static, performance will be measured annually through 2024 and the loan rate will increase or decrease in accordance with changes in that performance.

WHY

Xylem, as a global water technology provider, can contribute to major advances in industrial water conservation and efficiency with their products and services, in addition to practicing water stewardship within their own operations. To incentivize ambitious action and hold themselves accountable for achieving their 2025 sustainability goals, Xylem aligned its sustainability performance with its finance objectives with this sustainability-linked loan. At the same time, the investors involved in the development and operation of the loan facility were interested in supporting the long-term sustainability initiatives of Xylem's global business.

Sustainabilitylinked loans
are loans that
incentivize
borrowers with
margin reductions
or increases depending on
their ability to meet pre-set
environmental
performance targets.



Sustainalytics is one of the world's leading providers of ESG ratings and research. It is the market leader in Sustainable Loans, with over 40 companies using its ESG rating for over \$20 billion USD in ESG Linked, Sustainable Loans.

Xylem's 2025 water goal:



To help solve water affordability and scarcity through our solutions and products by saving more than 23 billion cubic meters of water.

For more information visit: xylem.com

CHALLENGES

- Technical: It took time and research to understand the different types of mechanisms available to tie sustainability to finance, including the identification of tracking metrics, internal monitoring, and ways to improve an ESG score.
- Communication: It was not always easy to communicate the value of this approach to banks and persuade them to participate in the sustainability loan structure. Most banks were not familiar with this structure before being approached by Xylem, and not all of them were ready to participate in that kind of innovative financing approach.

SUCCESSES

- In 2019, Xylem secured a first-in-its kind loan facility for \$1 billion that is directly tied to its annual sustainability performance metrics. This established them as a leader in the space of sustainability-tied financing for the industrial sector.
- The sustainability loan structure gained visibility within the company and enhanced the collective ambition to achieve corporate 2025 sustainability goals.
- Presuming that the sustainability goals can be met each year, this structure saves money for Xylem because they benefit from a preferential loan rate.

KEY INSIGHTS

- Persistent and patient convening, coordination, and facilitated discussions were essential to obtaining buy-in both internally within Xylem and from the bankers who might back the loan facility.
- Linking sustainability and finance provides a holistic view of long-term value and drives the integration of sustainability into business strategies across the company globally.

SCALING & REPLICATING

Having now undergone this process once, Xylem expects that any future financing objectives will likely tie to sustainability - this approach will be scaled over time through Xylem's business operations. The successful implementation of the sustainability loan structure elicited positive reactions among Xylem's customers and peers, many of whom were interested to learn about it and implement in their own organizations. So there is also potential for scaling across the industry.

TAGS

Stewardship Strategies

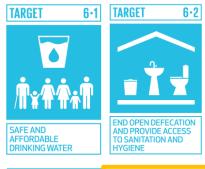
Water Management in Direct Operations

Value Chain Engagement

Collaboration at Watershed Scale

Nexus Approaches

SDG 6 Targets





6.6

