S&P Global
Ratings

Environmental, Social, And Governance Evaluation

OVHcloud

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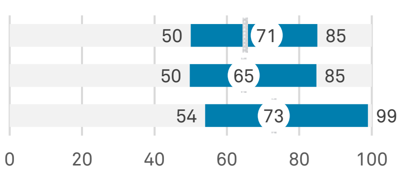
Summary

Founded in 1999, OVHcloud is a France-based cloud provider that serves over 1.5 million customers globally, including large corporates, small and midsize enterprises (SMEs), and individuals. It generated €788 million in revenue in 2022, mostly from cloud-related services (77%) as well as web-related services. Unlike most cloud service providers, OVHcloud designs and assembles its own servers. The company was listed in France in October 2021, and 15% of its capital is now floating, while the founding Klaba family retains 69% of the shares and voting rights.

S&P Global Ratings' ESG Evaluation of 71 reflects OVHcloud's initiatives to embed sustainable business practices, combined with our view of its adequate preparedness to future disruptions. The company operates in an industry with rising environmental and social risks, including the energy impact of increasing data storage and traffic, as well as data privacy concerns and potential talent shortages. It also benefits from early investments in energy- and water-efficient data centers and a formalized climate-neutrality strategy. OVHcloud's offering, which is centered on transparent pricing, reversibility (clients can switch to another cloud provider), and data sovereignty-has contributed to its rapid growth and good levels of customer retention and satisfaction. Following its IPO, the company has aligned its governance with the high standards of French listed companies, including comprehensive disclosures of nonfinancial information. Overall, we consider OVHcloud to have demonstrated its ability to adequately navigate risks and capitalize on secular industry trends, including the increasing fragmentation of the internet, and concerns over data privacy, which supports our adequate preparedness opinion.

ESG Profile Components (figures subject to rounding)

Entity-specific assessment			Sector/region analysis			Achieved and attainable scores
E (30%)	36	+	E (30%)	35	=	E
S (30%)	30	+	S (30%)	35	=	S
G (40%)	39	+	G (40%)	34	=	G

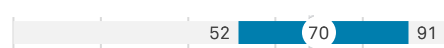


Entity within its primary sector/region

Entity's sectors/ regions versus all sectors/ regions

Min and max scores possible given sectors/regions. The gray line represents performance in line with industry standards.

ESG Profile 70



Preparedness +1

Low	Emerging	**Adequate**	Strong	Best in class

ESG Evaluation

71

A higher score indicates better sustainability. Figures subject to rounding.

Component Scores

Environmental Profile

Sector/Region Score	35/50
Greenhouse gas emissions	Strong
Waste and pollution	Good
Water use	Strong
Land use and biodiversity	Good
General factors (optional)	None
Entity-Specific Score	**36/50**
E-Profile (30%)	**71/100**

Social Profile

Sector/Region Score	35/50
Workforce and diversity	Good
Safety management	Good
Customer engagement	Good
Communities	Good
General factors (optional)	None
Entity-Specific Score	**30/50**
S-Profile (30%)	**65/100**

Governance Profile

Sector/Region Score	34/35
Structure and oversight	Good
Code and values	Good
Transparency and reporting	Good
Financial and operational risks	Neutral
General factors (optional)	None
Entity-Specific Score	**39/65**
G-Profile (40%)	**73/100**

ESG Profile (including any adjustments) **70/100**

Preparedness Summary

OVHcloud has demonstrated its ability to adequately navigate risks and capitalize on secular industry trends, including the increasing fragmentation of the internet and concerns over data privacy. Its rapid expansion from a local data center and cloud services provider to the No. 1 European cloud player and No. 9 globally has been underpinned by a well-defined long-term strategy to provide a European alternative in a cloud industry dominated by large U.S. firms. We also view positively its commitment to sustainable business practices as part of its long-term strategy.

Capabilities	
Awareness	Good
Assessment	Good
Action plan	Good
Embeddedness	
Culture	Good
Decision-making	Good

Preparedness Opinion (Scoring Impact) **Adequate (+1)**

ESG Evaluation **71**

Note: Figures are subject to rounding.

Environmental Profile

71/100

Sector/Region Score (35/50)

Cloud service providers that operate data centers have higher exposure to greenhouse gas (GHG) emissions, water use, and waste generation than traditional telecommunication service providers. They consume significant electricity and water to power and cool servers. The assembly and construction of data centers and other equipment also results in high levels of waste that may not be easily recyclable, or reusable given how quickly some underlying components become obsolete. OVHcloud has only one data center in a country highly exposed to natural disasters (Singapore).

Entity-Specific Score (36/50)

Note: Figures are subject to rounding.

Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
Strong	**Good**	**Strong**	**Good**	**None**

OVHcloud's direct GHG emissions intensity will remain lower than that of global peers. Its scope 1 and 2 emissions intensity are already significantly below most peers' at about 74 carbon dioxide (CO_2)-equivalent tons per $1.0 million of revenue in 2021. Its data centers also have among the lowest levels of power usage effectiveness, at 1.3 in 2021, compared with an average of 1.4 for the industry, according to our estimates. This strong performance is mostly due to OVHcloud's water cooling system, which allows its data centers to run without air conditioning. We expect the company will maintain this performance as it executes its carbon-neutrality strategy (covering scope 1, 2, and 3 emissions). Although such an emissions-reduction strategy is common across many large and diversified technology groups providing cloud services (so-called hyperscalers), it stands out compared with peers of a similar size. To achieve this, OVHcloud is transitioning to 100% low-carbon energy, mostly through power purchase agreements with providers of renewable electricity, which we view as an advanced practice. It also aims to neutralize its scope 3 emissions by 2030 through engaging with suppliers, extending the lifespan of equipment, and offsetting residual emissions.

The company's water metrics compare favorably to many peers' due to its closed-loop cooling technology. Its estimated water usage effectiveness of 0.26 kilowatt-hours per liter, and water intensity of about 90 cubic meters per $1.0 million of revenue, are lower than the industry average. The company continues to refine its estimates of water metrics and intends to comply with the ISO 30134-9 methodology for fiscal year 2024.

OVHcloud aims for zero waste to landfill by 2025 and has good initiatives to improve waste management, in line with many industry peers. The company generates significant industrial waste, as well as scrap iron and cardboard, mostly from assembling servers. To reach zero waste to landfill by 2025, OVHcloud's initiatives include selling secondhand servers (since 2010), increasing equipment made from recycled components, and lengthening servers' lifespans. We believe the company may more easily reuse equipment reaching end of life than many peers given it has its own assembly facilities. The company is currently refining its methodology for measuring waste and we expect that it will disclose more information on its footprint in 2023.

OVHcloud has limited exposure to biodiversity risks given most of its infrastructure is built on existing data centers. It performs environmental impact assessments in line with local regulation.

Social Profile

65/100

Sector/Region Score (35/50)

Cloud services providers face similar social risks as the telecom sector, primarily data privacy, network stability, talent management, and connectivity, especially in rural areas. About 80% of the company's operations are in European countries (mostly France, Germany, Poland, and the U.K.) with high social standards. It also has operations in North America, including in the U.S. (13%), where we see slightly higher exposure to social risks.

Entity-Specific Score (30/50)

Note: Figures are subject to rounding.

Workforce and diversity	Safety management	Customer engagement	Communities	General factors
Good	**Good**	**Good**	**Good**	**None**

OVHcloud's differentiated offering supports high levels of customer attraction and retention, and we expect satisfaction to have rebounded after a fire 2021. Its offering is based on the principles of transparent pricing, reversibility (clients have flexibility to switch to another cloud provider), and data sovereignty, which distinguishes it from some industry peers. After a drop registered in 2021 due to a fire in one of OVHCloud's data centers (the company promptly responded with compensation) we expect customer satisfaction to have returned to normal. OVHCloud's offering also supports rising revenue retention and low churn rates. Moreover, we note positively its ability to rapidly adjust its offering following the fire, for example, by strongly incentivizing customers to acquire data backup solutions.

The company's data privacy policies are in line with industry practices. OVHcloud has obtained relevant ISO certifications and developed policies and procedures. We also view positively that it recently obtained a label certifying the relative robustness of these practices by the French National Cybersecurity Agency.

OVHcloud's talent and safety strategy is overall in line with average industry practices. The company operates in a male-dominated industry that relies on digital skills and is exposed to potential talent shortages. OVHcloud partners with universities, encourages internal mobility through training, provides multiple benefits including childcare and share participation, and invests to ensure a smooth onboarding process to mitigate these risks, in line with average industry practices. Although the proportion of women among overall employees and managers remains lower than many peers (22% in 2022), it is constantly increasing. This is balanced by a relatively low gender pay gap in France (2.1% in 2021) and the company's comparably high share of women in executive positions, at 31% since September 2022. OVHcloud's employee survey shows adequate satisfaction. Its turnover has fluctuated over the past three years but remains overall below the industry average.

The company has direct exposure to safety risks related to the assembly of servers, unlike peers that outsource this task. The frequency and severity of incidents among employees have fluctuated over the past three years but declined more recently as the company continues improving its routines and training. Similar metrics are not available for contractors, although we understand the company records any safety incidents that occur on its sites.

Governance Profile

73/100

Sector/Region Score (34/35)

OVHcloud is headquartered in France, which we view as being among the most advanced countries in terms of ESG regulations and governance standards. It also has operations in 18 other countries, mostly in Europe and North America, which have high governance standards.

Entity-Specific Score (39/65)

Note: Figures are subject to rounding.

Structure and oversight	Code and values	Transparency and reporting	Financial and operational risks	General factors
Good	**Good**	**Good**	**Neutral**	**None**

OVHcloud's governance structure is now in line with that of other listed French companies. The company went public in October 2021, with currently about 16% of its capital publicly traded, while the founding Klaba family retains about 69%. Through this transition, OVHCloud aligned its governance structure with the recommendations of the French AFEP-MEDEF corporate governance code. Therefore, its board of 11 now includes five independent directors (45%) and two employee representatives--a level of independence comparable with other listed and controlled companies in France, but below the average of the SBF 120 index of 62% (in 2021). Independent directors are well represented in the board’s committees, which partly balances the influence of the founding family, in our view. OVHcloud’s board diversity has also markedly increased, to now comprise 45% women (aligned with the SBF 120 average of 45%) and a mix of skills and backgrounds relevant to its business model, including engineering, technology, finance, risk management, and control. Board members’ attendance of 98% in 2022 also demonstrates their overall commitment.

The group has a comprehensive code of ethics that applies to all employees and suppliers, in line with its peers and local practice. The company has published a code of ethics that defines its business values, including innovation, passion, and teamwork; outlines the role of the compliance team in monitoring the code’s implementation; and reiterates its commitment to sustainability as part of its long-term strategy. In line with standard industry practices, it asks for a formal commitment to its code of ethics from employees, as well as from companies in its value chain. OVHcloud’s remuneration policies link its CEO’s variable pay to financial and operational objectives, but also 25% to talent management and power usage effectiveness. The ratio between the CEO's annual renumeration and that of median employees, at 23x, is lower than we typically see among peers.

Transparency and reporting practices generally meet local and international standards. OVHcloud’s reporting follows the requirements of the French Nonfinancial Performance Declaration, with independent third parties providing limited assurance on the nonfinancial information report. In particular, it discloses a range of relative sustainability metrics relevant to the cloud industry, such as power, water, and carbon effectiveness, in line with industry peers, or social metrics and granular remuneration information. However, it lacks, for instance, disclosures on its waste or tax reporting broken down by geography.

Preparedness Opinion

Adequate (+1)

Preparedness	Low	Emerging	Adequate	Strong	Best in class

OVHcloud has demonstrated its ability to adequately navigate risks and capitalize on secular industry trends. This includes the increasing fragmentation of the internet and concerns over data privacy. The company has established processes to maintain its awareness of emerging risks in an industry highly exposed to potential disruptions.

The company's ability to anticipate some structural trends in the cloud industry has been a key factor supporting its rapid expansion. Founded in 1999, it has expanded from a local data center and cloud services provider to the No. 1 European cloud player, and No. 9 globally. OVHcloud increased its revenue at a compound annual rate of over 20% between 2010 and 2020, while diversifying its product offering (notably toward telecom and webhosting activities), and its regions of operations (although France still represented 52% of revenue in 2021). This expansion has been underpinned by a well-defined long-term strategy to provide a European alternative in a cloud industry dominated by large U.S. firms. In our view, the strategy capitalizes on some structural market trends, including the increasing fragmentation of the internet and regionalization of data storage amid rising geopolitical risks. It also addresses mounting concerns over the protection of customer data given OVHcloud is not subject to extra-territorial laws including the U.S. Cloud Act (which can require communications service providers to share customers' personal data with U.S. law enforcement), unlike many of its industry peers. The group relies on formal processes for risk identification and assessments, which are overall comparable with those of relevant peers.

OVHcloud has a track record of adequately managing disruptions, although it remains highly exposed given the nature of its industry. The board has identified material disruptive risks, including data leakages from cyber attacks or damaged infrastructure, technological obsolescence, talent shortages, fair business practices, and environmental risks. It relies on a materiality matrix to explore the likelihood and impact of these risks on its stakeholders and business and uses scenario planning to evaluate potential operational disruptions such as the failure of a data center. The board and executive management have already proven their ability to navigate disruptions, including the recent fire at one of its data centers. We recognize OVHcloud has shown transparency in its management of the event, including through daily updates and individual follow-ups with customers. It has also shown flexibility by rapidly adjusting its business practices to incorporate some of the lessons learned, such as incentivizing customers to have data backups and reinforcing the safety standards of its buildings above existing regulations. Because of its integrated business model, OVHcloud was also able to manufacture servers to replace those damaged during the fire, which contributed to its relatively rapid recovery.

OVHcloud is committed to implementing sustainable business practices as part of its long-term strategy and action plans. The company further formalized its sustainability agenda in 2022 with a focus on guaranteeing data sovereignty and supporting a sustainable cloud market for the benefit of society. Its board--through the newly established strategic and corporate social responsibility committee--and the executive leadership are aware of the key ESG risks and opportunities the cloud industry is facing, including climate change, cybersecurity, and business ethics, and monitors OVHcloud's performance through a range of indicators. Furthermore, the company has already taken multiple measures to differentiate itself from its industry peers, including by investing in environmentally efficient infrastructure and ensuring transparent pricing.

Sector And Region Risk

Primary sector(s)	Telecom
Primary operating region(s)	France United States Canada Poland Germany

Sector Risk Summary

Environmental exposure

The telecom sector is experiencing a rapid rise in energy consumption driven by the explosion of data usage and processing across its networks. The growth in data traffic directly results in higher electricity consumption and indirectly relates to global greenhouse gas emissions. Telecom-related emissions are mostly Scope 2 (related to energy consumption) and come from both the production of devices (including smartphones) and their usage (in data centers, networks, and direct consumer usage). Environmental responsibility for telcos also includes the end-of-life implications of handsets and equipment used in telecom networks. In many countries, especially in emerging market, there are no facilities to recycle handsets. The telecom sector has more limited exposure to water and land use risks, with the exception of water consumption in data centers. In addition to its effect on the environment, the sector is exposed to climate risks because a notable portion of its operating infrastructure (as well as customers) is exposed to extreme weather conditions like hurricanes, tornadoes, ice storms, or flooding.

Social exposure

Data privacy and network stability are the main social factors for telecoms because they are responsible for transmitting information. Failure to protect people's privacy could have significant regulatory and reputational implications for a telco. Also, debate over the societal impact of excessive social media use and the effects of misinformation could increase social pressure to reduce or change usage patterns. Rising health concerns around potential radiation from telecom equipment and devices could affect consumer perceptions of telecom service providers. Telcos are also large employers, typically with a significant unionized workforce (in particular for incumbent players), so human capital management is another key social risk. Given the sector's large and ethnically diverse customer base, community relationships and sensitivity are low but important social-cohesion risks. Safety management risks stem from the industry's technicians and personnel building, and maintaining the telecom infrastructure including towers and data centers. Given the sector's expansive reach and visibility, consumer confidence in telcos' community engagement, social equity, and corporate citizenship also contribute to our social risk assessment.

Regional Risk Summary

France

France has strong institutions and rule of law, with free flows of information throughout society and open debate on policy decisions. Checks and balances between institutions are generally effective. Overall, corporate governance is in line with advanced economies' standards. In addition to the EU Non-Financial Reporting Directive's recommendations requiring the disclosure of ESG data, French companies must also disclose the social and environmental consequences of their activities under domestic law (Grenelle Act), the financial risks they face from climate change, and their remediation strategies (Energy Transition Law). Under the 2019 law Pacte, companies must consider environmental and social issues when developing their strategy. The strong regulatory framework is complemented by the Afep-Medef Code, the corporate governance recommendations from AFG (French Asset Management Association), and recommendations from the Financial Markets Authority. All three provide non-binding guidance for best practice on governance and pay. Despite waves of privatization, the state remains an important player in the French capital markets as a shareholder of several large, listed companies. On diversity, the Copé-Zimmermann Law has required listed companies to reach at least 40% female board membership since 2017. France ranks 22 of 180 on Transparency International's 2021 Corruption Perceptions Index.

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations. Governance is characterized by a very stable political system, a strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally very good. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors, with separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The U.S. ranks 27 of 180 on Transparency International's 2021 Corruption Perception Index.

Canada

Canada has strong rule of law, with extensive checks and balances supporting its strong institutions. Canadian governments at all levels have actively pursued environmental and social regulations. While there's no federal regulatory agency, the Ontario Securities Commission (which oversees the Toronto Stock Exchange) carries significant weight regarding corporate governance recommendations. Canada follows a principles-based approach to corporate governance and, overall, standards are good and improving. Companies usually have smaller boards, meet more often, and have fewer joint CEO/chair positions, but board renewal and over-boarding are issues. However, boards can lack adequate independence, and remuneration or nomination committees are less common than in other jurisdictions. Amendments to the Canada Business Corporation Act (CBCA) came into effect on Jan. 1, 2020, requiring new diversity disclosures for all companies incorporated under the CBCA. The amendments also broaden the definition of diversity to include aboriginal persons, visible minorities, and persons with disabilities. Local institutional investors have been active on ESG and stewardship amid growing regulatory momentum to improve companies' ESG disclosures led by the Canadian Securities Administrator. Private and public sector corruption levels are low: Canada ranks 13 of 180 on Transparency International's 2021 Corruption Perceptions Index.

Poland

Poland has a solid institutional framework. However, the government has tightened its control over the Constitutional Tribunal and other judicial bodies, which could weigh on the checks and balances between institutions and respect for rule of law. Governance best practices are based on the Warsaw Stock Exchange's Code of Best Practice for listed companies, which was last updated in 2021. The code includes recommendations and principles that companies must apply on a comply-or-explain basis. Application of the code is, however, limited among companies. Important changes to the previous code include recommendations on board diversity, whereby boards should target 30% female representation, and ESG, with companies now asked to disclose how ESG factors are integrated into their business strategy. Companies are governed by a two-tier system, with a supervisory board sitting on top of a management board. Supervisory board members are elected for relatively long terms, ranging typically from three to five years. Boards often lack independence and the code's recommendation--for supervisory boards to include at least two independent members--is seldom followed. Poland ranks 42 of 180 on Transparency International's 2021 Corruption Perceptions Index.

Germany

Germany has strong institutional and governance effectiveness. Rule of law is strong, the judiciary is independent, and corruption is viewed as a minor issue. Germany ranks 10 of 180 on Transparency International's 2021 Corruption Perceptions Index. The German Corporate Governance Code (Kodex) is the reference document for best practices and works on a comply-or-explain basis. Its last iteration came into effect in 2020 when the EU Shareholder Rights Directive II was transposed into German law. Notable improvements include recommendations on board independence and board oversight of related-party transactions and executive pay, with a shareholder vote on the remuneration report becoming mandatory in 2022. While the recommendations are less specific than most European codes, companies exhibit strong governance practices. Companies are typically governed by a two-tier board system: a management board overseen by a supervisory board comprising non-executives including shareholder and employee representatives. The 2021 Act on Strengthening Financial Market Integrity (FISG) is an important milestone aimed at strengthening financial oversight at German companies. Besides requiring a minimum number of financial experts on boards, since January 2022 all listed companies must also form an audit committee.

Appendix

Related Research

- "Environmental, Social, And Governance Evaluation: Analytical Approach," published September 20, 2022
- "The ESG Risk Atlas: Sector And Regional Rationales And Scores," published July 22, 2020
- "Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide," published July 22, 2020
- "How We Apply Our ESG Evaluation Analytical Approach: Part 2," published June 17, 2020

This report does not constitute a rating action.