

Introduction to ESG: Why? How?

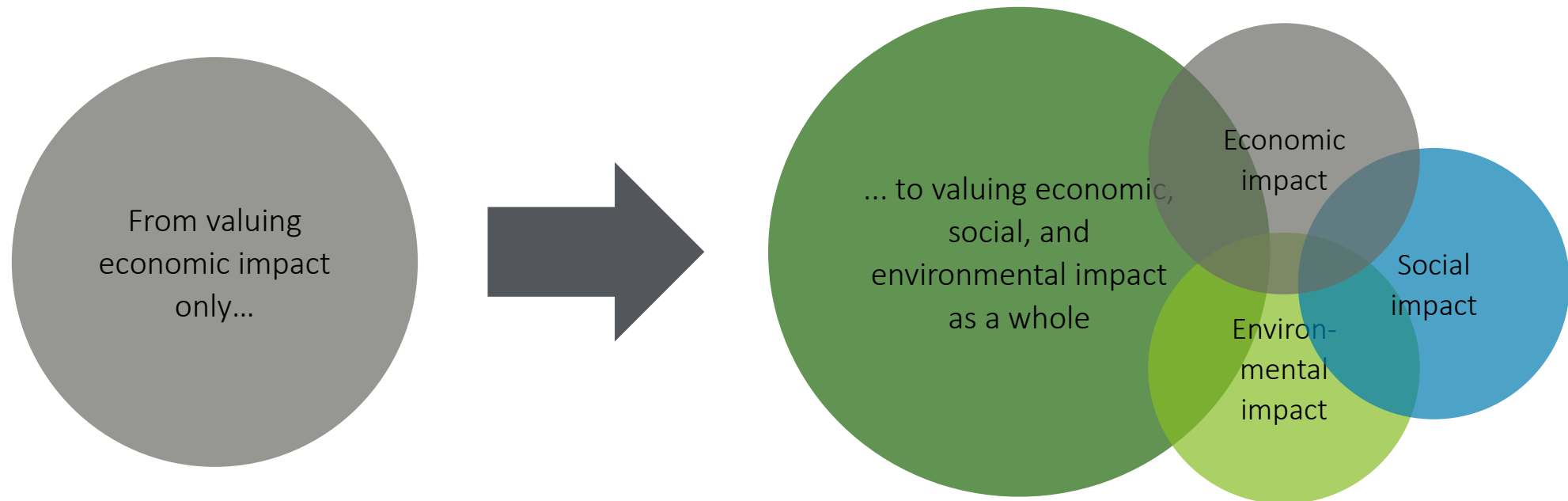
Insights from an economic and strategic advisor

“Impact is the invisible heart of markets that guides their invisible hand”

Sir Ronald Cohen, author of Impact



The Impact Revolution | A new understanding of value
From shareholder to stakeholder capitalism



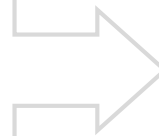
The Impact Revolution | A new understanding of value

We must measure impact to support decision-making processes aiming at maximising value for money in a holistic perspective – considering the climate, environment and wider society, future generations, and the business itself

New global paradigm – a holistic understanding of value

The past: Neoliberalism

Ideology emphasizing the value of free market competition, and commonly associated with laissez-faire economics. Prevalled until around the 2008 financial crisis.



The present: Impact capitalism

Fuelled by impact investment, we can address inequality and planetary degradation to develop a more sustainable world

Investments: From risk-return to risk-return-impact



The Impact Revolution transforms the way we consider social responsibility, business models, and investments

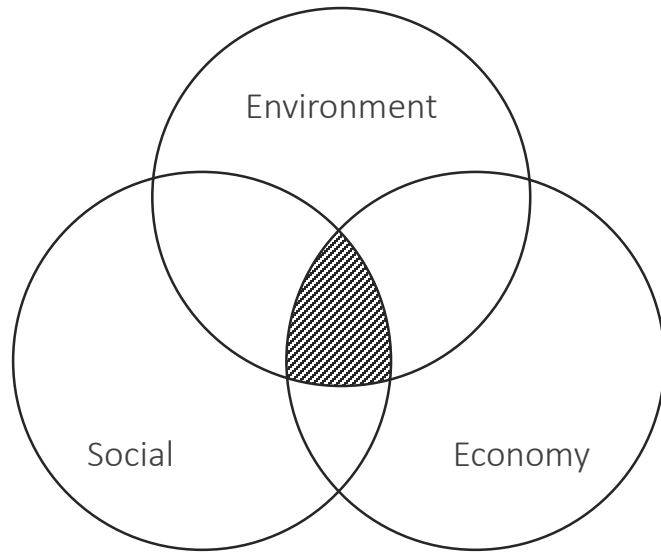


... and as such transforms our economies by turning them into powerful engines that drive capital to achieve impact alongside profit

A quick primer on ESG

How did ESG get to permeate the financial agenda? The shortest history of ESG

Sustainability



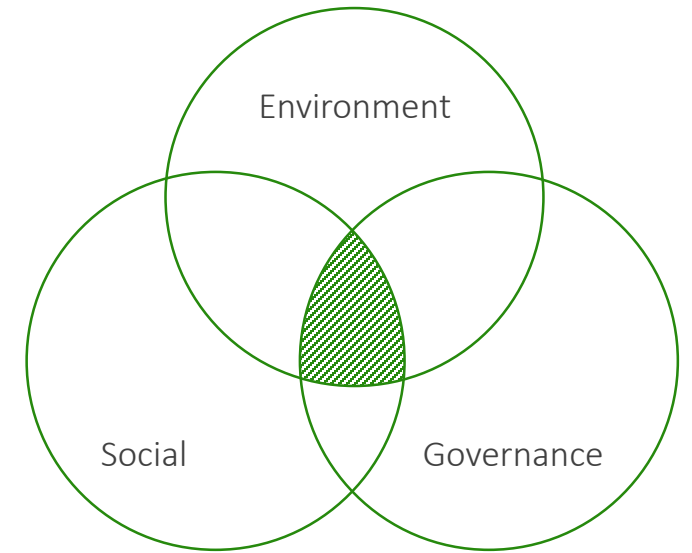
1987: The Brundtland Report from the World Commission on Environment and Development, (UN) frames “sustainable development”

Corporate social responsibility (CSR)



Although anchored in some business practices from the mid-XIXth century, older CSR is popularised in the 2000s

Environment, Social, Governance (ESG)



2005: The Freshfield Report (UNEP Finance Initiative) enshrines ESG as pillars for responsible investment

The shift to stakeholder capitalism

In the past years, we have observed the continued uptake of the ESG agenda across all market stakeholders



Limited partners

88%

Consider ESG factors with the same scrutiny as operational and financial considerations

69%

Expect GPs to formally report on ESG initiatives and outcomes at least annually



Consumers

51%

of global consumers find sustainability more important than one year ago

90%

of Gen X are willing to spend 10% more on sustainable products



Regulators

EU taxonomy-related disclosures (eligibility and alignment)

from 2023

Disclosure of requirements of EU CSRD effective gradually

from 2025



Financiers

+50%

Net global inflow to ESG funds in Q4 2022

44%

Of surveyed institutional investors have stopped investments out of ESG considerations



Employees

67%

are more willing to apply for jobs in organizations they consider sustainable

34%

are willing to accept a lower salary to work for a sustainable organisation



Valuation

Research shows that top ESG performers on average have higher EV/EBITDA multiples

S&P 500 ESG index has been outperforming S&P 500 for the past 3 years

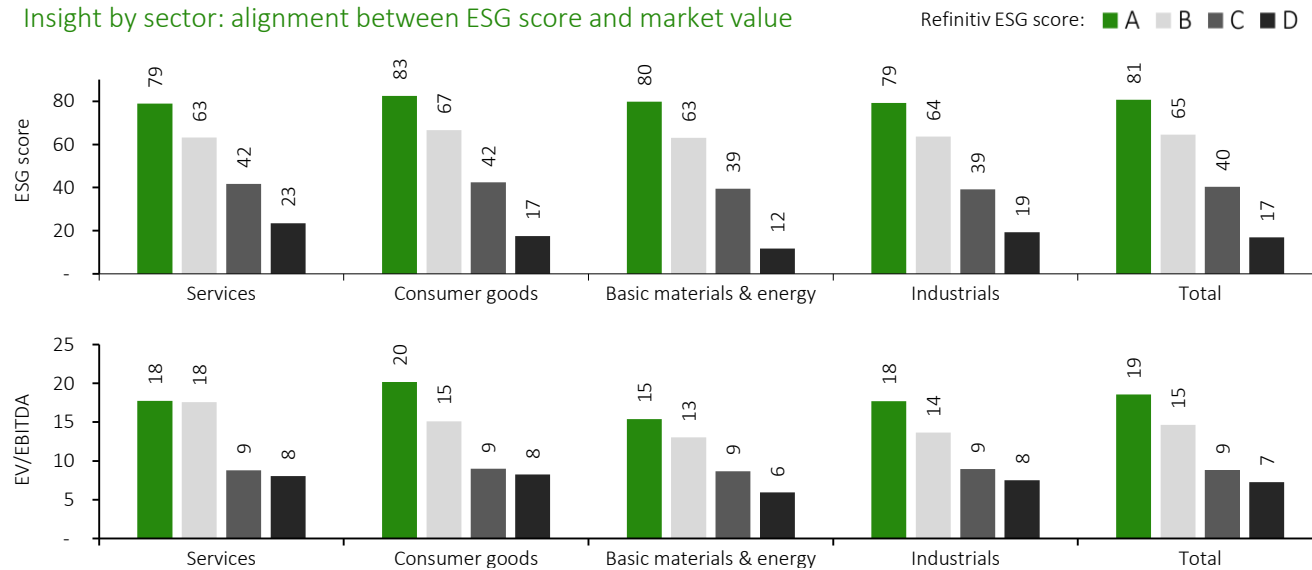
The value of ESG in deals and investment

The value of ESG investment is increasingly quantified

Multiple research shows a clear correlation between ESG performance and enterprise value.

It is difficult to establish causal links for financial performance, but analyses suggest that the correlation between ESG performance and higher valuation remains even when holding traditional explanatory factors of financial performance constant (e.g. EBITDA margin, industry beta, etc.).

Insight by sector: alignment between ESG score and market value



Source: Deloitte Analysis, Refinitiv



A good business strategy is a good sustainability strategy – and the other way around



How is ESG operationalised

Businesses are harnessing the concepts of materiality and additionality to build bespoke ESG strategies as an integrated part of the core business strategy

One size does not fit all

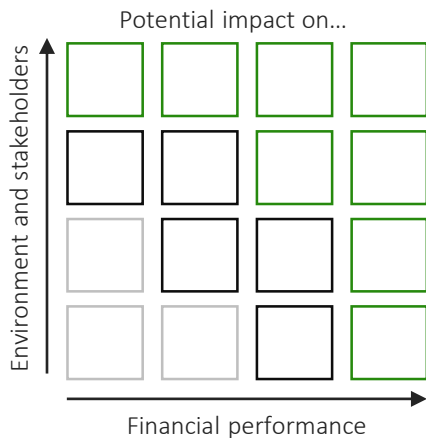


ESG considerations are industry-specific and are assessed through a materiality assessment



A double materiality assessment captures the ESG issues that are relevant inside-out and outside-in

Double materiality assessment



Strategic roadmap

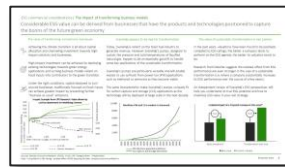


Once materiality is understood, a sustainability strategy can be developed to capture opportunities and address threats.

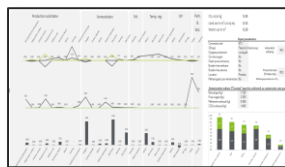


The strategy addresses commercial opportunities tied to ESG and outline how they contribute to generate value. It addresses regulatory concerns too

Market-driven ESG assessment



- Value drivers and opportunities
- Costs and threats



- Quantified impacts
- Exit considerations

Monitoring and KPIs



The strategy provides a view on Once a the ESG journey to be achieved



KPIs are developed for monitoring purposes, but data availability, quality and consistency remain key issues

Actionable data to measure ESG value



Towards portfolio ESG dashboards



ESG KPIs are progressively adopted in board remuneration

KPIs, terminology and reporting should be aligned with international and local frameworks and standards



Environmental

Emissions to climate

- Energy consumption
- CO₂ emissions and other emissions

Resources

- Resource management and material handling (hazardous substances)
- Water management (waste water and cooling water)
- Waste
- Asbestos

Product innovation

- Life cycle footprint/circular economy
- Product sustainability/environmental impacts

Other issues

- Proximity to protected areas
- Site history/potential contaminations
- Environmental management
- Insurance & indemnities
- Noise
- Permits & regulatory compliance



Social

Employment quality

- Employee attraction and retention
- Labour standards
- Employee engagement

Health & safety

- Processes & management systems
- Accident rate and illness
- Awareness raising

Human rights

- Indigenous rights
- Child labour
- Forced labour

Diversity and equal opportunities

Training and development

Product responsibility

- Responsible marketing
- Product safety and liability

Community

- Good citizen & neighbour
- Government and civil-society relations



Governance

Vision and strategy

- Company values
- Business ethics
- Transparency of reporting
- Policy development
- Risk management
- Compliance

Ethics, anti-corruption and bribery

- Bribery and corruption
- Whistleblower function
- Anticompetitive behaviour
- Lobbying
- Political contributions

Board functions

Board structure

- Board composition
- Committee structures

Shareholder rights

- Stakeholder dialogue

Thank you

You are always welcome to reach out

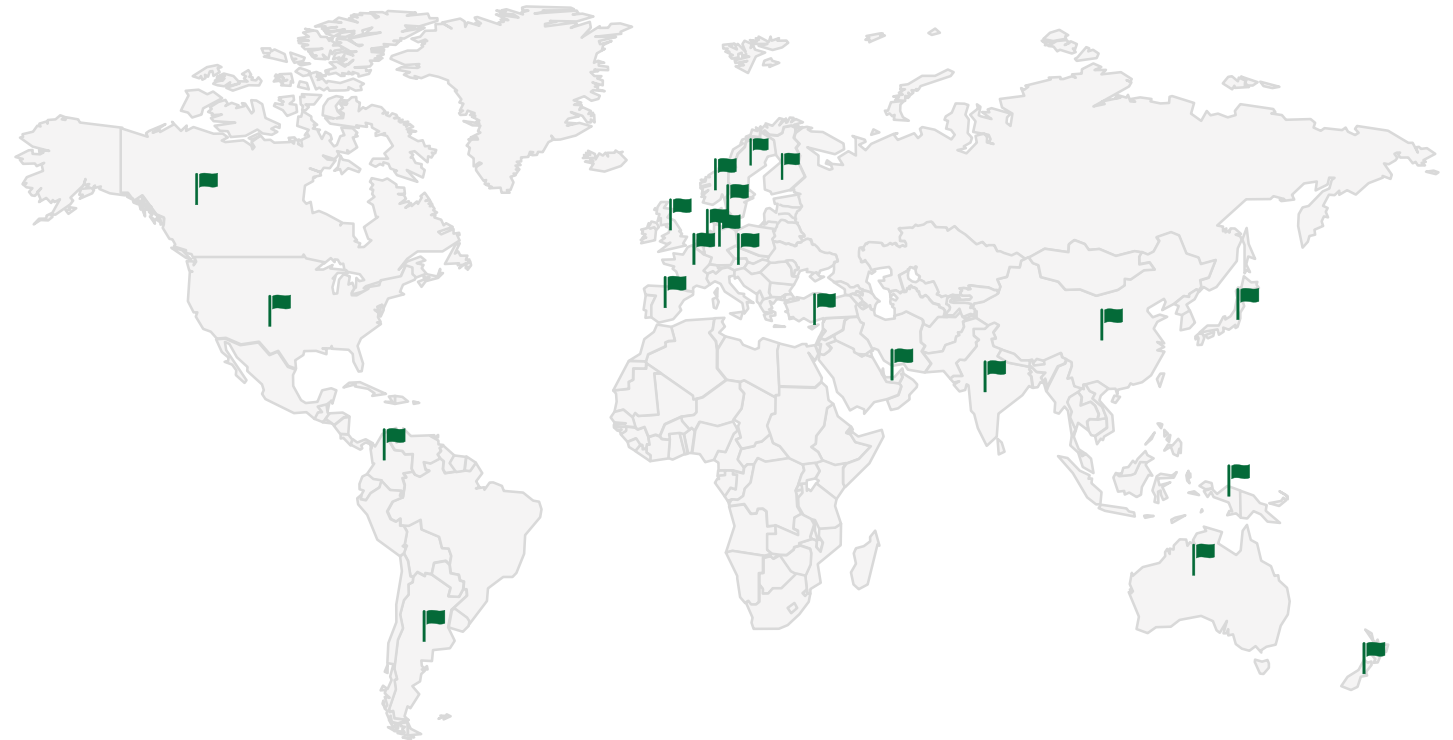


Majbritt Skov

Partner, Deloitte Economics and ESG M&A

30 93 54 71

maskov@deloitte.dk





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