Aligning sustainability with key value drivers in capital market presentations

Working paper abstracts

This briefing is one of a series developed by WBCSD's Redefining Value programme as part of the Building Bridges project, focused on strengthening the ability of corporate finance teams and investor relations (IR) managers to lead their firms' sustainable investor relations activity and drive sustainable capital market engagement.

It provides a precis of the contents of a full working paper, produced for WBCSD by Independent Research in Responsible Investment (IRRI), Capital... naturally - Alignment of sustainability and investment value drivers, and also reflects content in a companion paper focused upon nature and biodiversity Capital... naturally - Nature & biodiversity in investor presentations.

Context – sustainability at the investor interface

As a growing strategic priority for business and investors, sustainability has traditionally been communicated by companies to investors through the primary vehicle of a dedicated sustainability report and the integration of key sustainability information within a company's annual report and accounts.

These documents are used in varying ways by investors as a source of information that will determine risk / return and inform their investment decisions (buy, sell, or hold for equity investors), and as an input to determine the viability and cost of corporate lending or debt by fixed income investors.

In addition, there is another significant source of communication and information that is increasingly being used to assess how companies are exposed to, manage and perform with regard to sustainability issues – capital market presentations.

These consist of information supplied to a company's existing and prospective investors and analysts via investor roadshows, one-on-one investor calls and face-to-face / virtual markets days.

Capital market presentations represent perhaps the most important vehicle for communicating sustainability information if it is to allow investors to assess a company's strategic analysis and choices; risk analysis, management, and responses (downside); and opportunities (upside).

Put simply, if sustainability (often termed "environmental, social and governance (ESG) information" by investors) is not featured strategically, explicitly, and consistently within capital market presentations, then investors are unlikely to recognize and reward the sustainability performance and prospects of companies as an aspect of overall company valuation.

Direct presentations and meetings, as opposed to published reports, tend to:

- Be timelier and more forward-looking
- Give broader context than published reports
- Focus on investors' specific interests as they are written primarily for an investor audience
- Give rise to two-way discussions around investors' and analysts' specific needs.

Sustainability in capital market presentations

Capital market presentations have not historically been a major area of focus from a sustainability perspective.

Therefore, to assesses how strategically and effectively sustainability/ESG is integrated and communicated in presentations, WBCSD's Building Bridges project commissioned SRI-Connect/ IRRI (Independent Research in Responsible Investment) to undertake analysis of company capital market communications.

The research focused on 69 companies with exposure to the food & fibre value chains and on their presentations to both 'mainstream' and specialist sustainability investors.

Findings – the headlines

Overall, the research found that only a low percentage of assessed companies present their sustainability exposures and management practices to investors effectively – either embedded within their 'mainstream' investor presentations or in specialist sustainability presentations.

- Only 20% of the companies assessed have published presentations dedicated to sustainability issues.

- Few companies either align information on sustainability with 'mainstream' investment messages or contextualize their sustainability performance with details of their core business and its drivers.
- Only 15 out of 69 companies publish presentations to 'mainstream' investors that include sustainability content that is either 'partially-aligned' or 'moderately-aligned' with their investment case.
- Only 10 companies disclose information that explicitly identifies how sustainability factors affect the value drivers of their business.

With specific regard to nature and biodiversity issues:

- Only two of the companies in the sample had significant coverage of nature & biodiversity issues within both their mainstream and sustainability presentations.
- Five of the companies assessed included significant coverage of nature & biodiversity issues solely within their mainstream presentation, compared to six companies that had significant coverage of nature & biodiversity issues within their sustainability presentation only.

For a full overview of the research approach and findings, as well as case studies of good/notable practice, please see the full working papers Capital... naturally - Alignment of sustainability and investment value drivers and Capital... naturally - Nature & biodiversity in investor presentations.

Guidance - developing your approach

Relating sustainability to value drivers

Ideally, sustainability issues should be directly linked to value drivers, which are the inputs that analysts use in their valuation models. Good examples of value drivers and questions that are addressed are:

- **Sales growth:** Do specific sustainability issues help Business Unit A or Product B grow faster than other business units or products? And by how much approximately? This allows analysts to model mix effects and understand the company's changing business profile.
- **Margins:** Are margins affected by sustainability issues? For example, do they cause changes to cost structures or stronger/weaker pricing? Are costs temporarily higher? How does this differ across business units or products? This information, in combination with assumptions on size and sales growth, help analysts assess the development of the company's profitability, taking mix effects into account.
- **Risk and cost of capital:** Do exposures to sustainability issues raise the business risk of the company or of specific projects, products, or business units? To what extent are those exposures mitigated (or enhanced if they are positive) by management? What impact are they likely to have on lenders' or investors' appetite for backing the company?
- **Investments:** What additional investments are needed to reach strategic sustainability targets? What do they imply for the other value drivers mentioned above? Do they result in new products with strong market positions, high growth, and high margins? Do they provide natural hedges that drive down the company's cost of capital?

Other, underlying drivers of business value that are relevant include:

- **Innovation:** What are the company's capabilities to keep on developing new products that create both financial, social, and ecological value?
- **Employee satisfaction:** Does the company provide its employees with sufficient motivation, pay and benefits to keep them happy and productive? Are they able to quantify the impact of this through staff churn rates or key person retention?
- **Governance:** Does the company have the right incentive structures in place to motivate all relevant staff to deliver its targets?

Six tips for driving sustainable capital market communications

1. Identify your investor and analyst audience and their 'integration' needs

In order to strengthen your communication strategy, it's important to target the right audience and to know more about the focus and approach of your largest investors.

Identify which of your investors (and the analysts that cover your stock) are genuinely interested in integrating sustainability factors into fundamental bottom-up valuation and investigate how they factor relevant information into their decision-making processes.

A pro-active engagement strategy will provide you with more information on investor approaches, focus and needs and enhance your ability to address their specific concerns and interests.

2. Provide a clear line-of-sight between sustainability-related information and key value drivers

Devise a clear narrative around how sustainability factors influence your business directly or indirectly and consistently communicate potential fluctuations in business performance related to changes in your management of material sustainability issues and/or sustainability/ESG-related KPIs.

Leading companies provide information, data, and case studies to:

- Integrate sustainability issues into their capital budgeting process, by setting clear sustainability targets and applying internal carbon prices – effectively setting a true price on externalities.
- Analyze the link between sustainability issues and the value drivers: how fast do more sustainable products grow? What is the margin differential with legacy products?
- Issue sustainability-linked loans. These are powerful tools, as they set performance incentives and raise internal awareness.

3. Use a materiality matrix to add sustainability information to your 'mainstream' investor presentations

The use of a materiality matrix in presentations with 'mainstream' analysts and investors can open up discussion about your company's sustainability exposures and management practices. Materiality matrices can also help investors understand which sustainability issues are most relevant to the business and are useful 'jumping-off points' for deeper discussion of individual issues.

For insight into approaches and challenges of corporate materiality assessment in practice, see the WBCSD/ Erasmus School of Economics report [The reality of materiality – insights into current ESG materiality practice](#).

4. Educate investors on catalysts and underlying trends

Sustainability factors often require catalysts to become financially-material. Such catalysts may take the form of regulatory change, fiscal policies or changing patterns in consumer demand. Companies can support investor understanding by including details on such trends and anticipated developments within their presentations.

5. Disclose concrete numbers and time series

In order to forecast business performance, analysts need real, absolute numbers - whether they are dealing with sustainability performance or with 'mainstream' business performance. Ideally, sustainability information (past and future) should be presented alongside financial figures.

6. Compare CO_2 emissions across business units

As the path to net zero is set to become a ubiquitous requirement, investors may start to look for more granularity on the linkages between carbon exposure and individual business units (BU). A table that gives CO_2 intensities per business unit can help in this regard.

In the example below, BU1 has a lower CO_2 intensity than BU2. Since BU1 is also the unit with higher growth, higher margins, higher ROCE, and significant CO_2 savings at clients, it becomes clear that the growing weight of this unit will make the company much less CO_2 intensive over time, even in the absence of portfolio decisions such as spinning off BU2.

	Sales growth	Margins	ROCE	CO_2 emissions	CO_2 saved at clients
BU1	7%	18%	22%	1.2	2.1
BU2	2%	12%	8%	3.2	0
Overall	4%	15%	12%	4.4	2.1

Additional resources

WBCSD's Building Bridges project has developed a range of guidance, insight and tools to support IROs to put sustainability at the heart of investor engagement.

Central to the project is a dedicated website, www.sustainable-ir.com, a free to access resource developed to support, inform and equip Investor Relations and sustainability professionals to communicate their sustainability exposures and activities more effectively to investors and analysts.

Sustainable IR provides overviews, case studies, FAQs, research & resources, perspectives and support & services covering all important areas of investor relations practice.
In addition to Sustainable-IR, we have also developed a series of working papers providing insight and guidance in the following areas:

- Are companies using their IR webpages to communicate sustainability effectively to investors?
- All change in sustainable investor relations – an overview of shifting trends and focus of investors on sustainability/ESG, and implications on Investor Relations.
- Who's writing what for investors about sustainability and your company – an overview of the types and purposes of sustainable investment research (including data, ratings and analysis).
- Show me the (sustainable) money – assessing and listing asset managers that are allocating capital towards sustainability solutions or transitions.
- Capital… naturally – Alignment of sustainability and investment value drivers
- Capital… naturally – Nature & biodiversity in investor presentations

Contact

For further insight and information on our tools and resources, contact redefiningvalue@wbcsd.org

About WBCSD

WBCSD is the premier global, CEO-led community of over 200 of the world's leading sustainable businesses working collectively to accelerate the system transformations needed for a net zero, nature positive, and more equitable future.

Project development and support

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