

# The Financial Value of Sustainability: Communication between companies and investors

*September 27, 2016*



**United Nations**  
Global Compact

# Agenda

- 1. Welcome and Introduction**
- 2. The Financial Value of Sustainability: Communication between companies and investors**
- 3. How investors are integrating ESG information**
- 4. How companies are facing communication on financial value of sustainability?**
- 5. Q&A Session**
- 6. Closing Remarks**

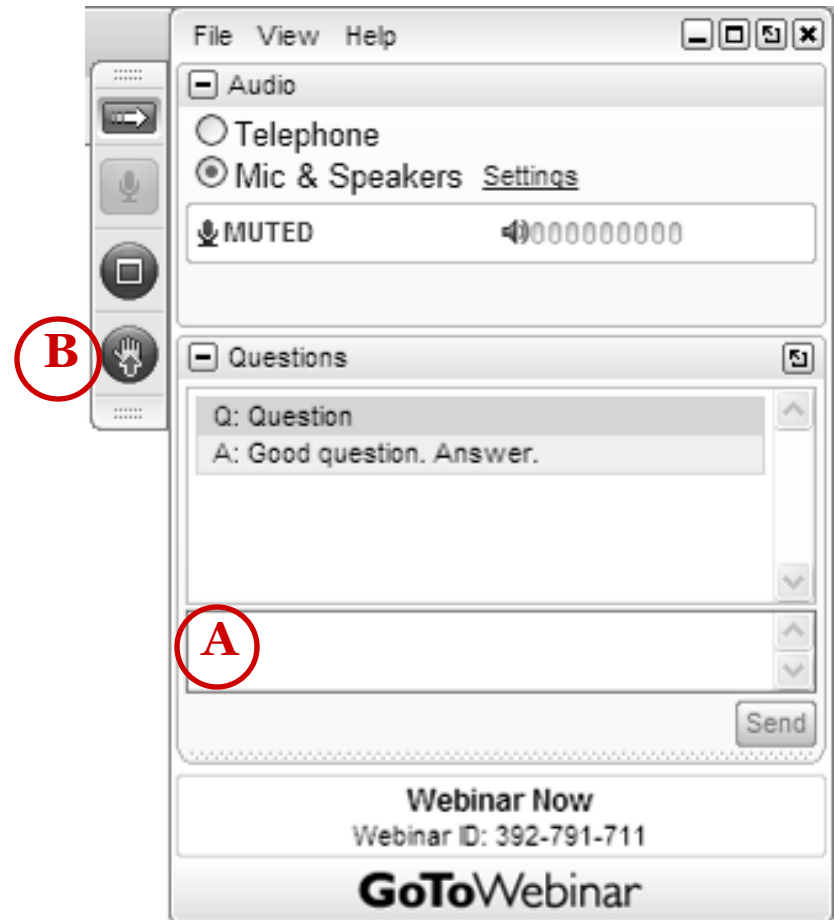


# Questions

**Technical Difficulties:** If you have technical issues, please let us know by typing a message in the Questions pane (A). You can raise your hand (B) if we do not respond.

**Q&A:** We will be taking questions on content at the end, but you can send them to us throughout the webinar by using the Questions pane (A). **Please specify to whom the question should be directed.**

**Example:** *Question for John Doe: What are land rights?*



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# Today's Presenters



***UN Global Compact/PRI***  
***Danielle Chesebrough***



***PRI***  
***Justin Sloggett***



***Novo Nordisk***  
***Susanne Stormer***



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8,000+

Business participants

4,000+

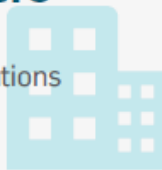
Non-business participants

28,000+

Disclosure reports submitted

## Stakeholders

Business  
Industry Associations  
Investors  
Civil Society  
Labour  
Academia  
Government



## Global Network

Europe  
Latin America  
North America  
Asia & Oceania  
Africa  
MENA

160+

Countries

85+

Local Networks



## Platforms & Programmes

- Human Rights & Labour
- Women's Empowerment Principles
- Children's Rights and Business Principles
- Child Labour Platform
- Caring for Climate
- CEO Water Mandate
- Food + Agriculture Business Principles
- Anti-Corruption
- Business for Peace
- Business for the Rule of Law
- Business and Education
- Supply Chain Sustainability
- Global Compact LEAD



## Business Partnership Hubs

- Water
- Climate and Energy
- Social Enterprise
- Anti-Corruption Collective Action
- UN-Business Partnership



## Sister Initiatives

- Global Compact Cities Programme
- Principles for Responsible Investment (PRI)
- Principles for Responsible Management Education (PRME)
- Sustainable Stock Exchanges (SSE)



# AT A GLANCE

Launched in April 2006 at the NYSE, the Principles for Responsible Investment has:

2

**UN PARTNERS:**

UNEP FINANCE INITIATIVE  
UN GLOBAL COMPACT



1559

**SIGNATORIES:**

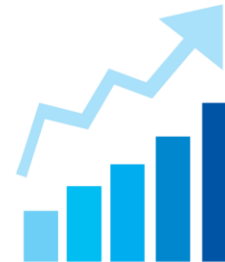
ASSET OWNERS,  
INVESTMENT  
MANAGERS  
AND SERVICE  
PROVIDERS



60

**US\$ TRILLION:**

ASSETS UNDER  
MANAGEMENT



6

**PRINCIPLES:**

RECOGNISING THE  
MATERIALITY OF  
ENVIRONMENTAL,  
SOCIAL AND  
CORPORATE  
GOVERNANCE ISSUES





# Spotlight Series

## Making Global Goals Local Business Through Core Corporate Functions

How to integrate the Sustainable Development Goals into core business functions across the organization

IN THIS SECTION ▼

### A Spotlight on Investor Relations

Visit at:

<https://www.unglobalcompact.org/take-action/leadership/integrate-sustainability/roadmap/investor-relations>



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# **A PRACTICAL GUIDE TO ESG INTEGRATION FOR EQUITY INVESTING**



# INTEGRATION PUBLICATIONS

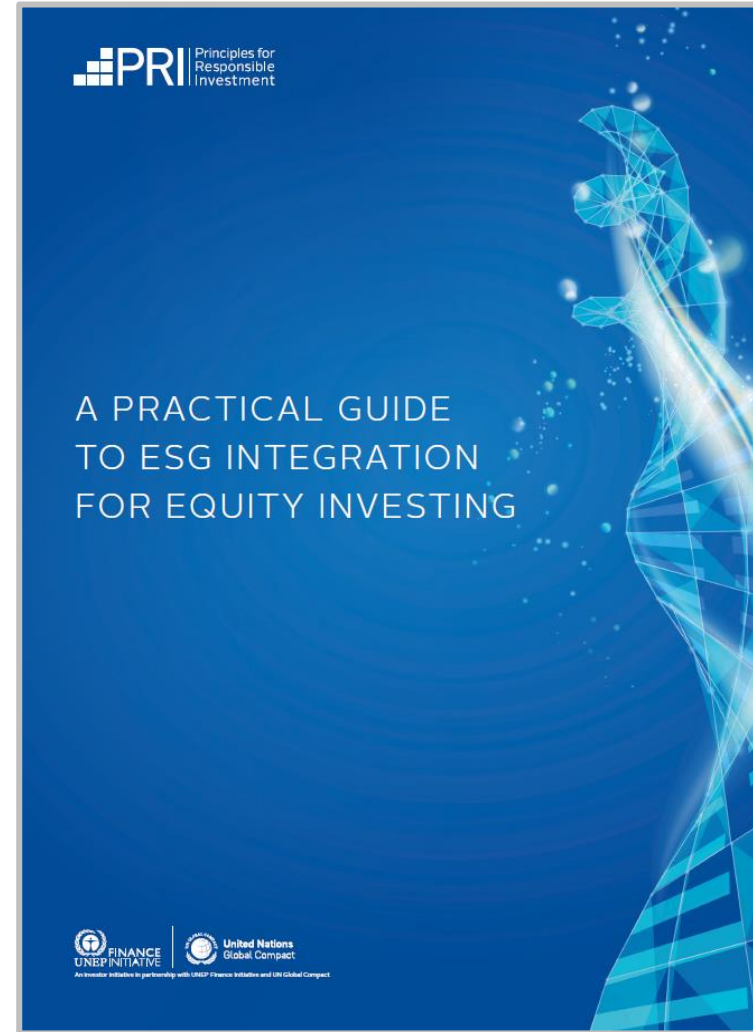
# PRI'S INTEGRATION PUBLICATIONS

## Integrated Analysis publication (2013)

- Case studies on integration in fundamental investment strategies.

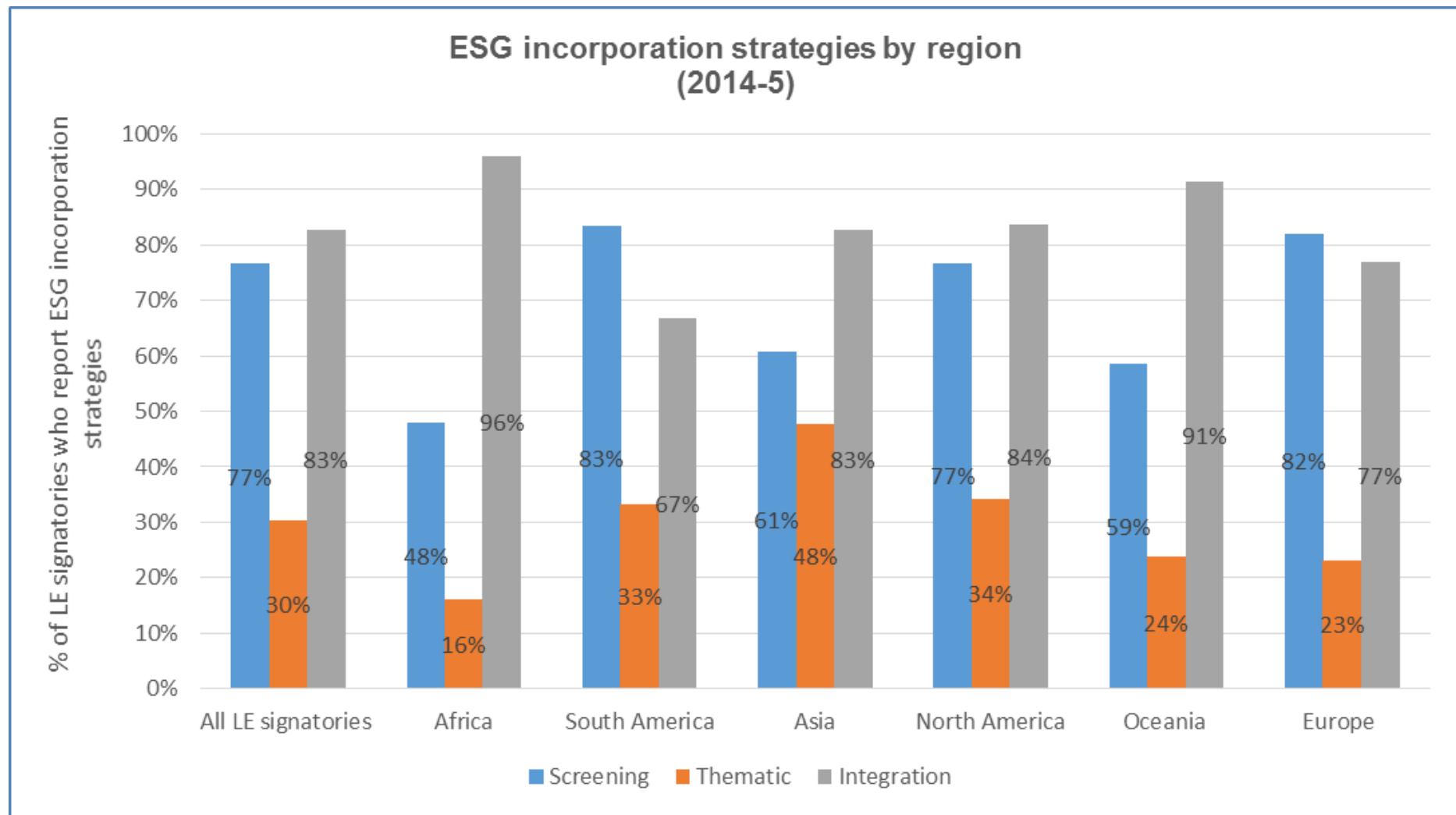
## A Practical Guide to ESG Integration for Equity Investing (2016)

- ESG integration across the active-to-passive investment spectrum.
- ESG integration across the investment value chain from asset owner to sell-side investment research provider.

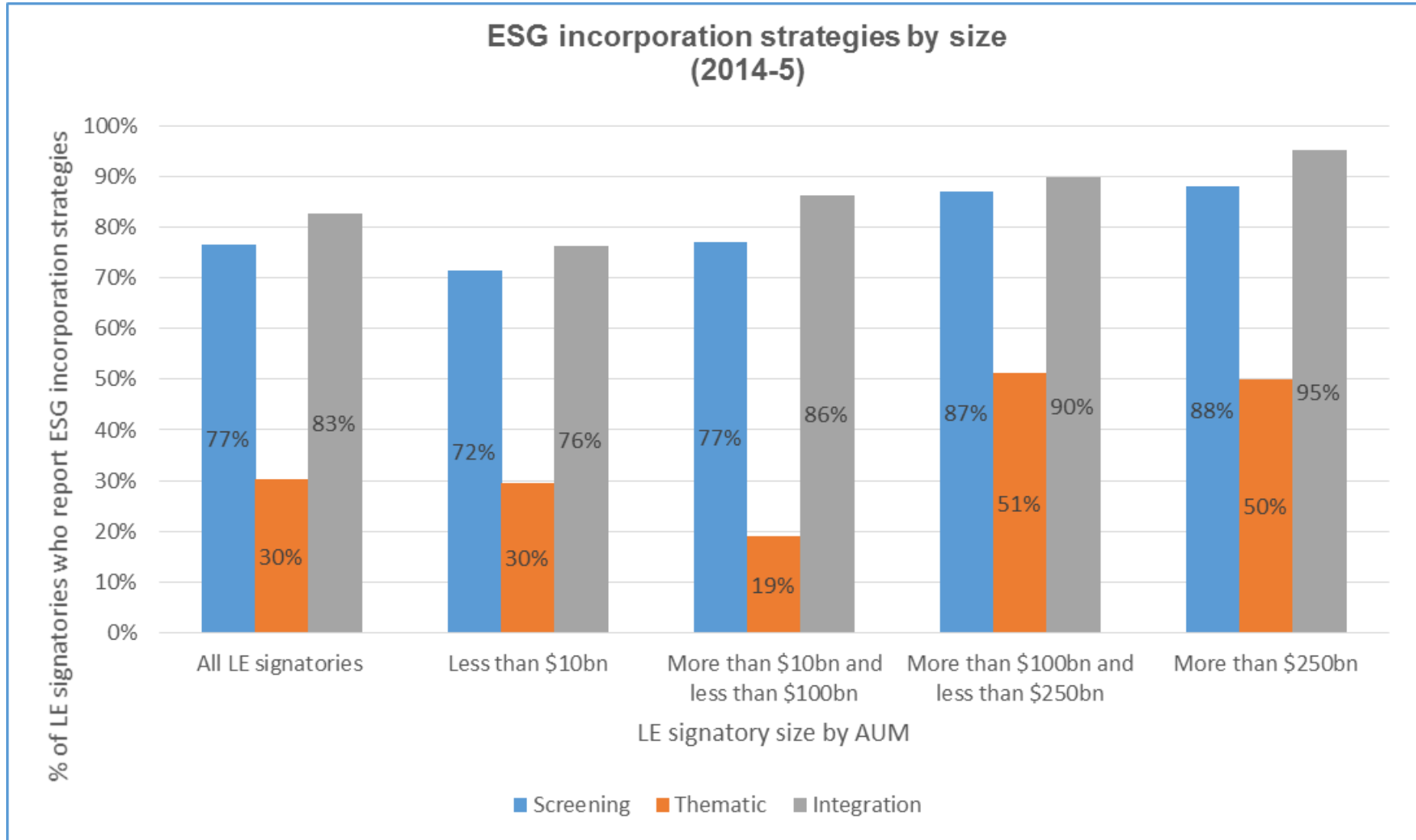


# TRENDS IN ESG INTEGRATION

# HOW ARE SIGNATORIES INCORPORATING ESG FACTORS?

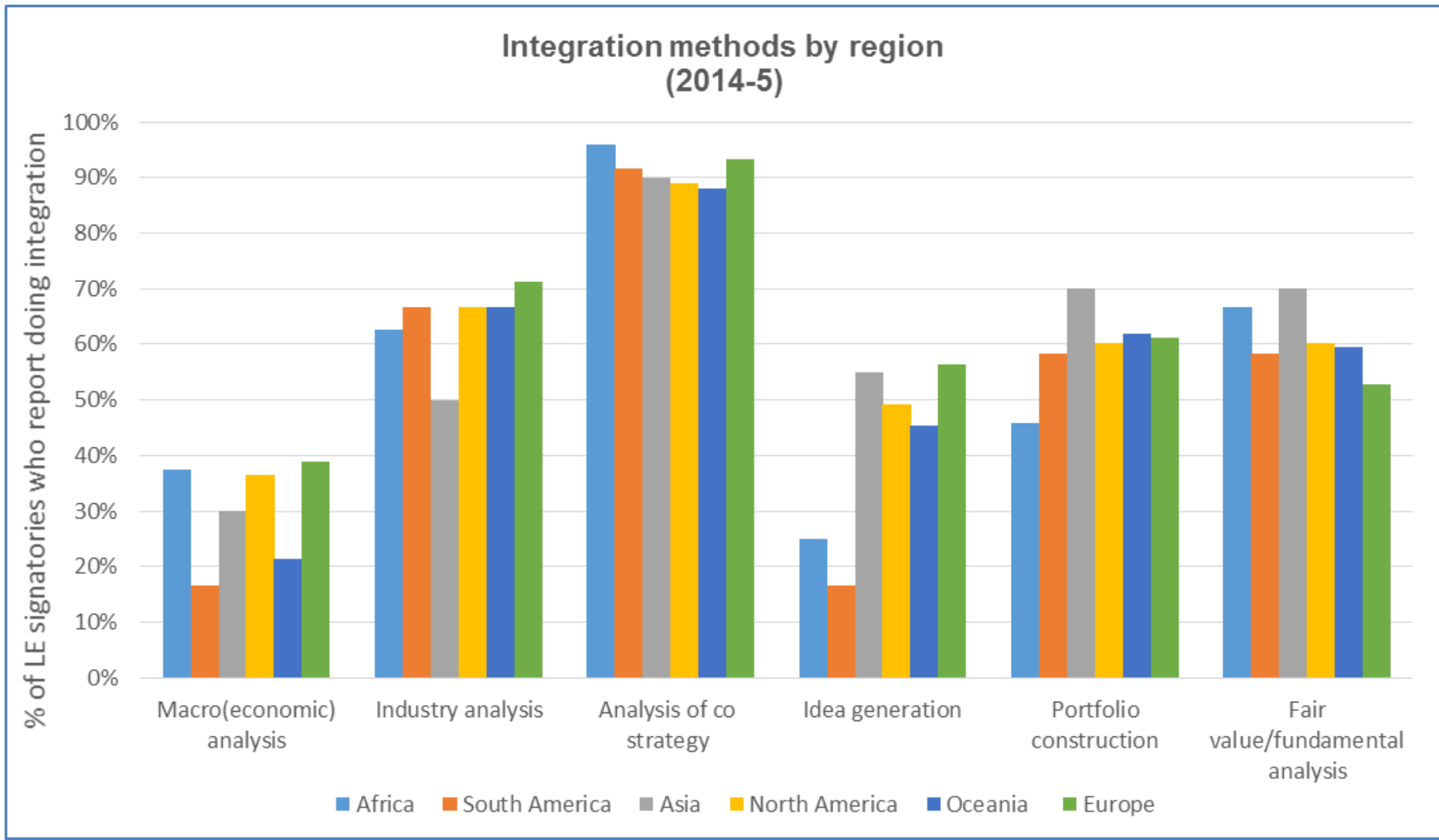


# HOW ARE SIGNATORIES INCORPORATING ESG FACTORS?

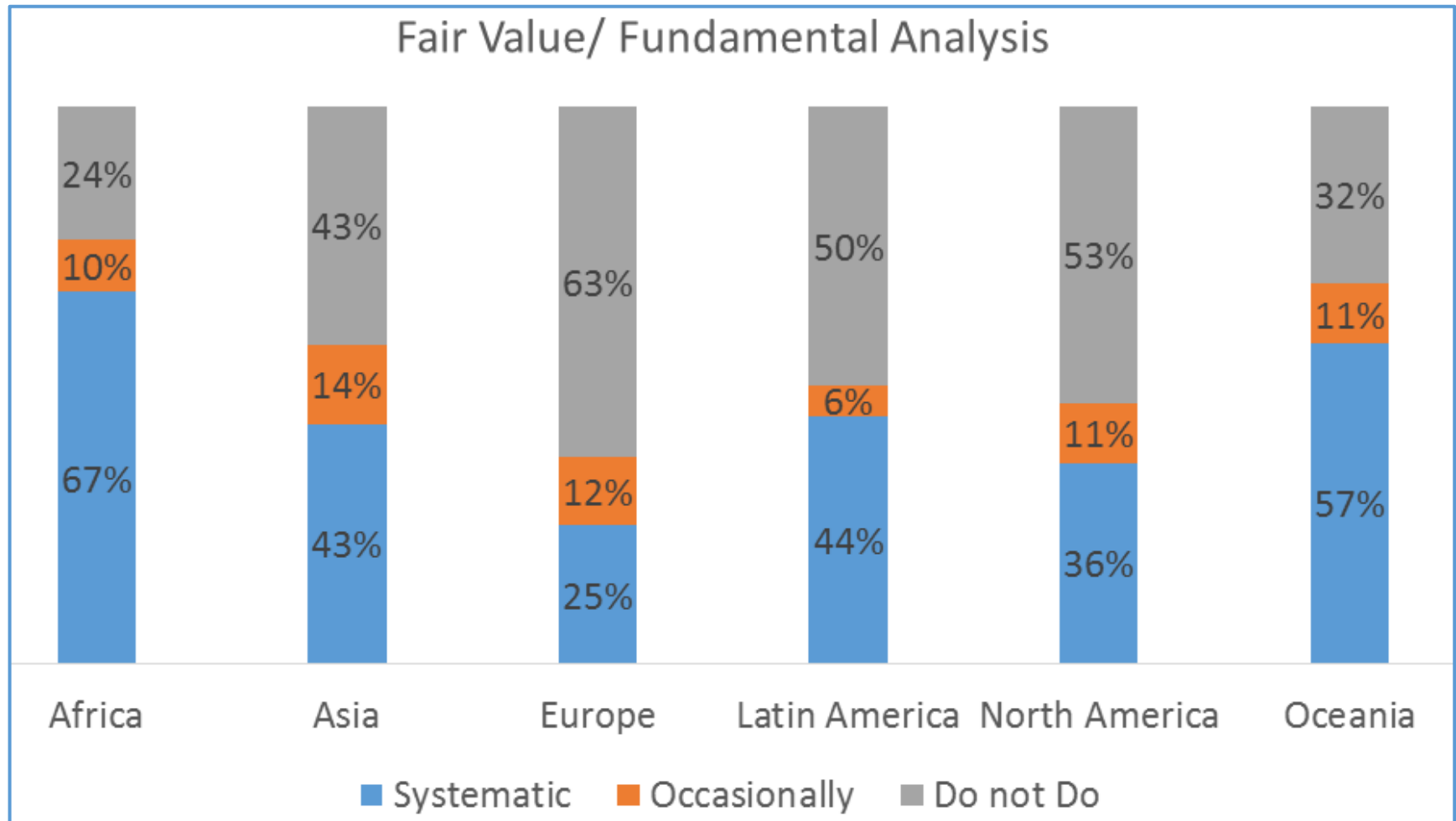




# TRENDS IN FUNDAMENTAL INTEGRATION TECHNIQUES



# TRENDS IN FUNDAMENTAL INTEGRATION TECHNIQUES

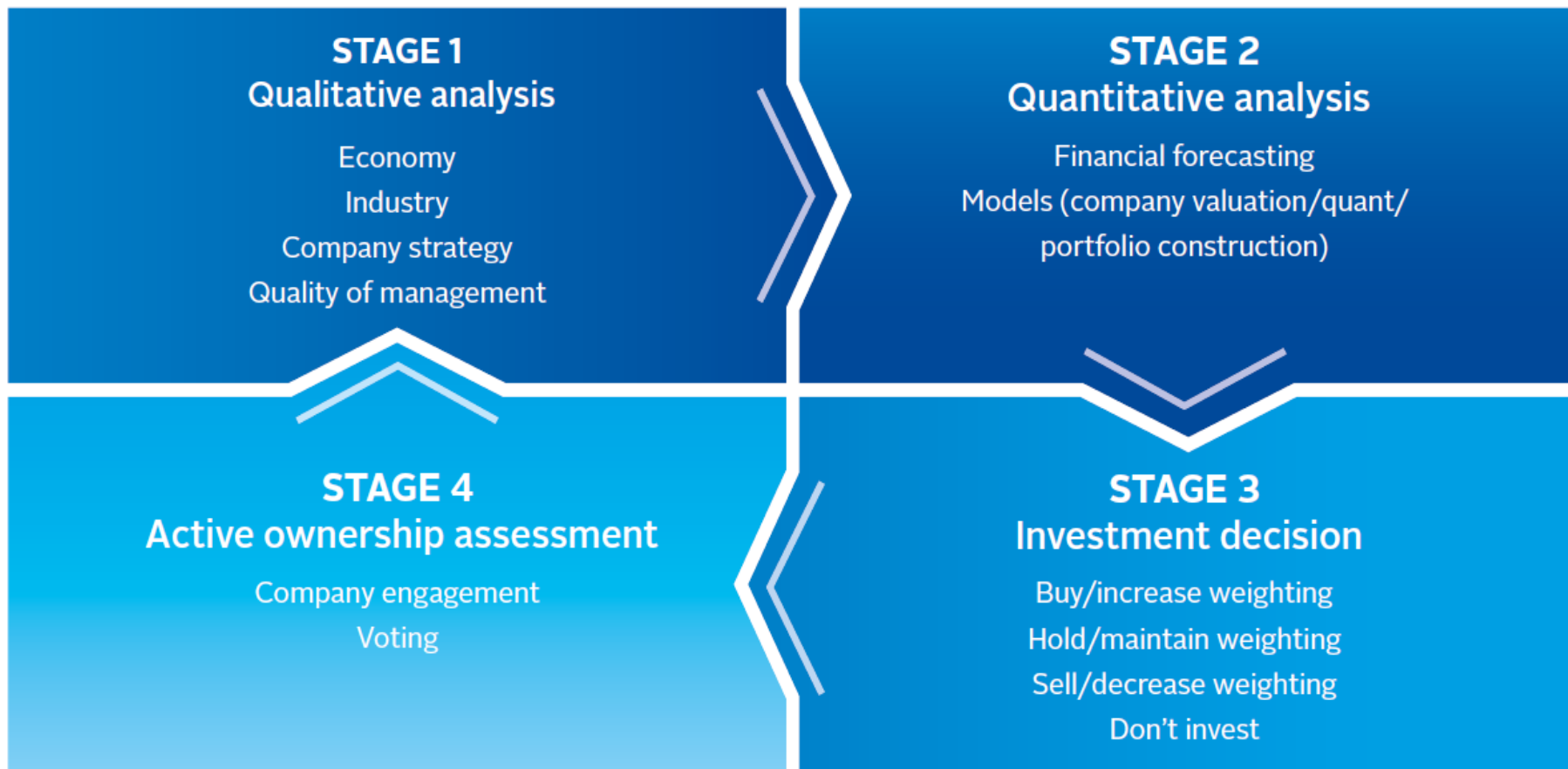


# WHAT IS ESG INTEGRATION?

# WHAT IS ESG INTEGRATION?

- ESG incorporation is the inclusion of ESG information into investment decisions.
- There are three types of ESG incorporation practices:
  - Screening;
  - Thematic investing; and
  - ESG integration.
- PRI's new integration publication defines ESG integration as, “The systematic and explicit inclusion of ESG factors into investment analysis and investment decisions”.

# FOUR STAGE INTEGRATION MODEL






# **ESG INTEGRATION BY ASSET OWNERS**

# HOW DO ASSET OWNERS INTEGRATE ESG FACTORS?

- Internally-managed assets:
  - Portfolio construction
  - Investment analysis and decisions
  - Active ownership practices and investment analysis & decisions
- Externally-managed assets:
  - Manager selection, appointment, and monitoring process

# INTEGRATING ESG FACTORS INTO SAM PROCESS

SELECTION 	
Assessment topics	Investment policy and firm structure Investment process Active ownership practices Reporting
Assessment methods	Market screening Requests for proposals (RfP) Questionnaires Meetings
APPOINTMENT 	
Contract topics	Investment approach Monitoring Active ownership Reporting
MONITORING 	
Assessment topics	Security analysis and selection Active ownership examples
Assessment methods	Reporting Peer analysis Questionnaires Meetings



# **ESG INTEGRATION BY INVESTMENT MANAGERS**

# HOW DO INVESTMENT MANAGERS INTEGRATE ESG FACTORS?

- Portfolio construction
- Investment analysis and decisions
- Active ownership practices and investment decisions

# ESG INCORPORATION IN PASSIVE STRATEGIES

## Incorporation and integration techniques

- Passive strategies can incorporate ESG factors. Two approaches:
  - Passive investment vehicles that replicate RI indices; and /or
  - Passive investment vehicles that replicate custom benchmarks.
- Enhanced passive strategies can integrate ESG factors.

## Case study example

- Due to a low ESG score, the component weight of an oil & gas company in a RI index was reduced by 25% in comparison to the parent index.

# ESG INTEGRATION IN SMART BETA STRATEGIES

## Integration techniques

- Adjust the weights of securities in accordance with a relationship between an ESG factor(s) and another material factor.

## Case study example

- Two companies with a diversification weight of 0.3% were adjusted to 0.8% and 1.2% due to ESG scores of 4 and 8 respectively.

# ESG INTEGRATION IN QUANTITATIVE STRATEGIES

## Integration techniques

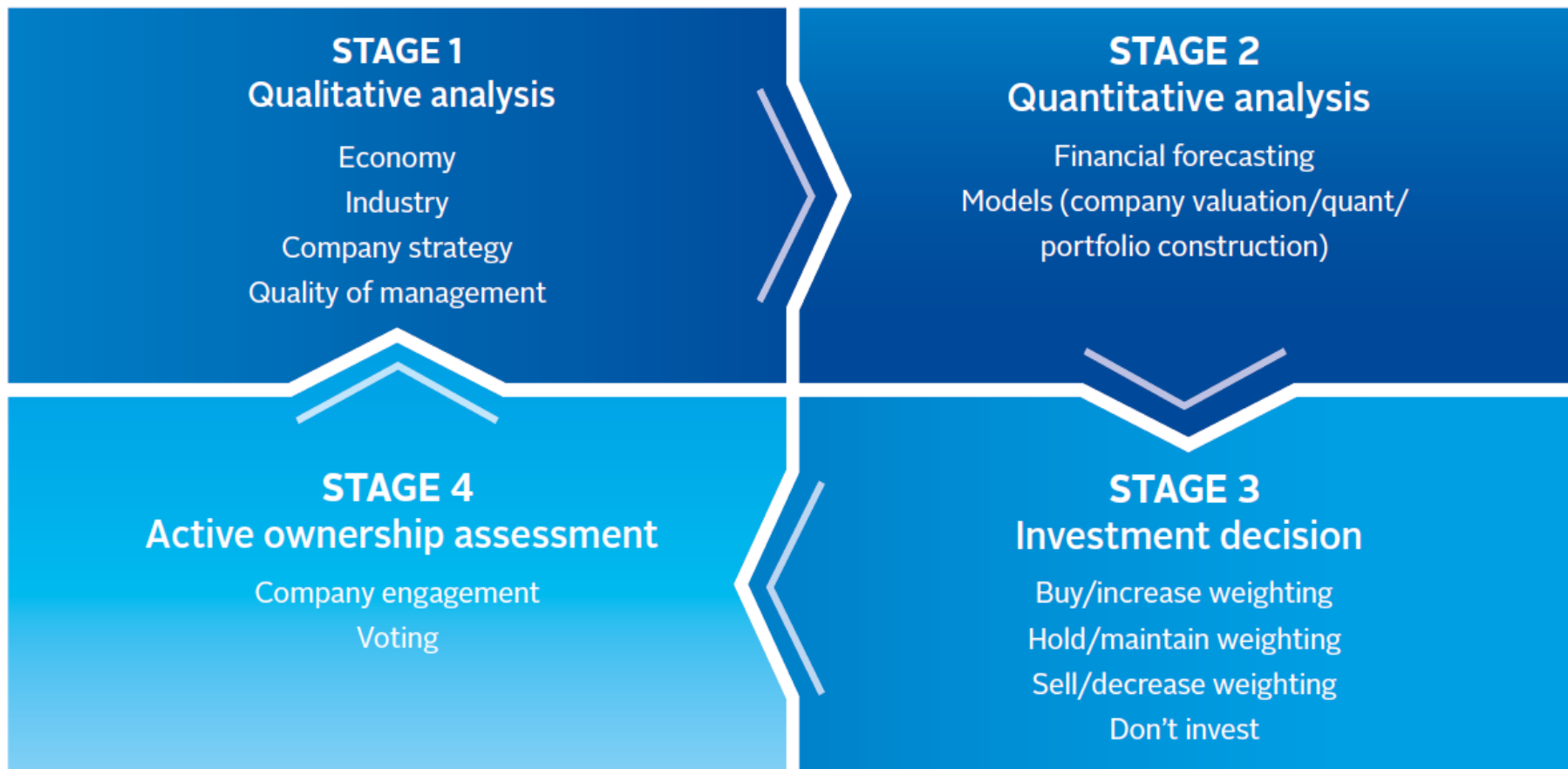
- The quant model adjusts the weights of securities with poor ESG rankings to zero.
- The quant model adjusts the weights of each security in accordance with a statistical relationship between an ESG dataset and asset price movements / company fundamentals.

## Case study example

- The portfolio weight of a healthcare company was reduced from 3% to 1.9% due to product safety issues.

# **ESG INTEGRATION IN FUNDAMENTAL STRATEGIES**

# FOUR STAGE INTEGRATION MODEL



# FINANCIAL FORECASTING

## INCOME STATEMENT ADJUSTMENTS

Integration techniques	Case study examples
<b>Adjust revenue or revenue growth rate</b>	Due to recent improvements in supply chain standards of an apparel company, the market estimate on revenue growth was adjusted upwards by 100 basis points per annum.
<b>Adjust operating costs or operating margin</b>	An investor applied an operating margin above the historic five-year average operating margin of a semi-conductor company due to operational efficiency gains from environmental initiatives.



# FINANCIAL FORECASTING

## BALANCE SHEET ADJUSTMENTS

Integration technique	Case study example
<b>Adjust asset impairment charges</b>	Increase the impairment charges to reduce (“write down”) the book value of a mine to reflect reduced earnings caused by higher operating costs.

## CASH FLOW ADJUSTMENTS

Integration technique	Case study example
<b>Adjust capital expenditure</b>	The construction and operation of a desalination plant due to water disruption causes EPS estimates of a mining company to fall by 5%-18%.

# COMPANY VALUATION MODELS

## MODEL ADJUSTMENTS

Integration techniques	Case study examples
<b>Adjust the discount rate</b>	To reflect the improvement of board gender diversity of an online market company, an investor reduced the discount rate by 25bps.
<b>Decrease / increase the terminal value</b>	If an investor believes that the coal mines of a company are “stranded”, they may reduce the terminal value to zero.

# REVENUE ADJUSTMENT FOR WATER RISK

- Water scarcity risk has the biggest effect on companies that manufacture semiconductor wafers.
- A shut down of a fabrication plant can have a negative material impact on the financials of a semi-conductor company due to the loss of revenue.
- An investor estimated that a plant shutdown could reduce the revenue of one semi-conductor company by \$600M annually, which reduces group sales by 1.6%.
- The EPS impact from a revenue disruption at a single fabrication plant could mean a reduction of around 12% in earnings annually.

# REVENUE GROWTH AND DISCOUNT RATE ADJUSTMENTS FOR SUPPLY CHAIN RISK

- Investor had concerns about labour conditions in the supply chain of an European manufacturer of sport shoes and sport equipment.
- After active dialogue with the company, there was a gradual improvement in the social standards at the company and its suppliers.
- **Sales growth adjustment:** To take into account the positive trend in social standards, the market estimates on sales growth was adjusted upward by +100 basis points per annum.
- **Discount rate adjustment:** Due to improved risk management and enhanced systematic monitoring of social standards, the discount rate was reduced by 50 basis points.
- The combined impact was that the fair value increased by 20% compared to the fair value without “sustainability integration”.

# **ESG INTEGRATION BY SELL-SIDE BROKERS**

# HOW DO SELL-SIDE BROKERS INTEGRATE ESG FACTORS?

- Fundamental analysis and investment recommendations
- Two degrees of ESG integration:
  - sell-side analysts can generate ideas and investment themes for investment managers to integrate;
  - They can directly integrate ESG factors into fair values and investment recommendations (e.g. buy/hold/sell).

# TYPES OF ESG-INTEGRATED SELL-SIDE RESEARCH

- Integrating ESG factors into financial forecasting phase:
  - 1) Economic analysis
  - 2) Two types of industry and company analysis:
    - a) Value driver adjustment
    - b) Theme exposure
  - 3) Integrated performance benchmarking
  - 4) Subject-specific benchmarking
- Integrating ESG factors into company valuation model phase

# VALUE DRIVER ADJUSTMENT APPROACH

## Two steps to value driver adjustment approach

- 1) Identify material ESG factors for each sector;
- 2) Integrate material ESG factor(s) into company valuations of each company in the sector.

## Case study example

- 1) Analysts identify megatrends affecting the sector and flag which specific ESG issues affect the sector; and finally
- 2) Analyse how those issues impact individual company valuations.



# THEME EXPOSURE APPROACH

## Five steps to theme exposure approach

- 1) Identify trends;
- 2) Identify investable entry points;
- 3) Identify stocks;
- 4) Analyse stock exposure;
- 5) Stock valuation and investment recommendation.

### Case study example

- 1) Identifies climate change as a trend;
- 2) Sell-side research connects new battery technology with climate change;
- 3) Identifies stocks exposed to the battery market;
- 4) Analyse the positioning of the stocks; and
- 5) Adjusts the valuation of those companies.

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**OBEESITY** How do you market a treatment for a disease that many doctors don't even acknowledge?

**GLP-1** Small protein, big potential

**GLOBAL DEMAND** for diabetes products triggers major production investments



## novo nordisk

ANNUAL REPORT 2015

**WHY DO SO MANY PEOPLE IN CITIES GET DIABETES?**

## Communication on Progress

Novo Nordisk 2015



This is our Communication on Progress in implementing the principles of the United Nations Global Compact and supporting broader UN goals. We welcome feedback on its content.

Shanghai, China

# Communicating value to investors

Susanne Stormer, Vice President of Corporate Sustainability  
Novo Nordisk

**novo nordisk**  
– a focused  
healthcare  
company

Investor presentation  
First half of 2016



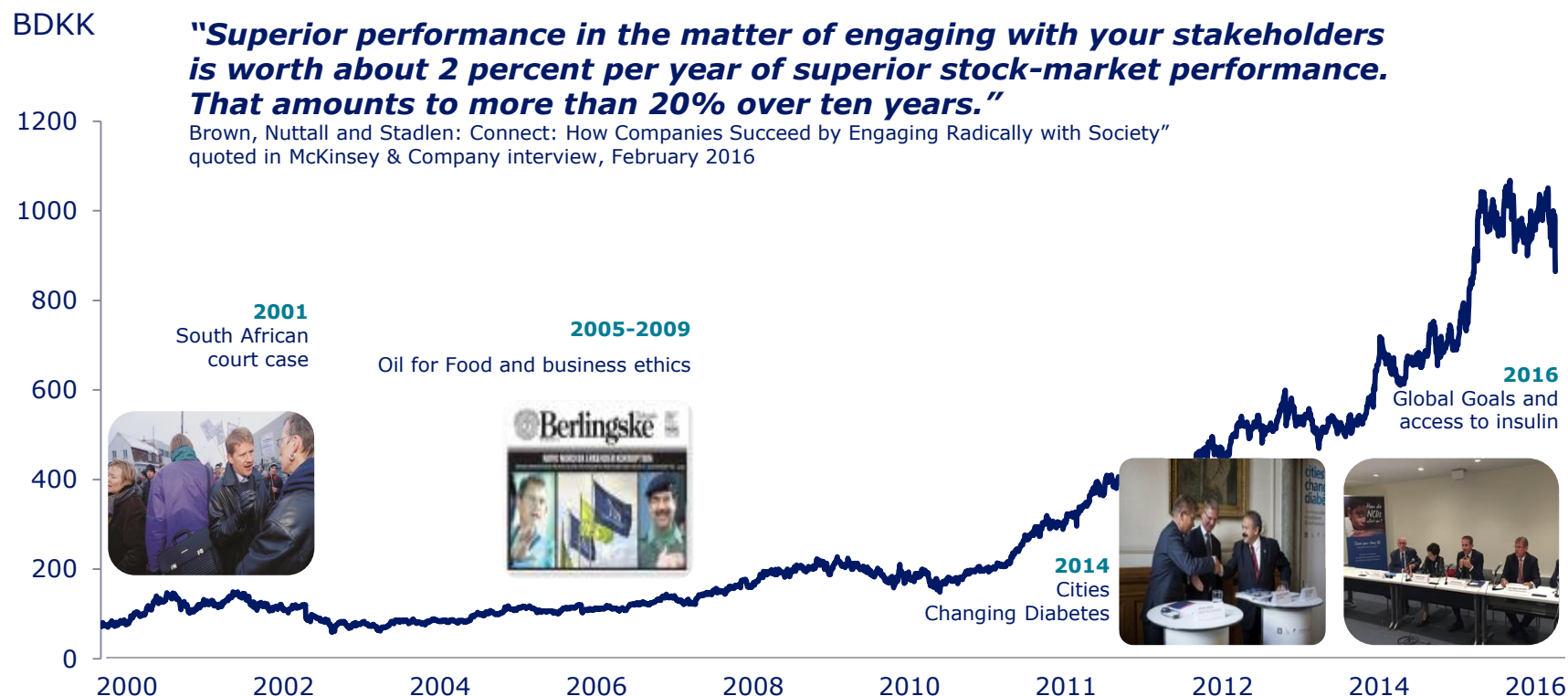
**novo nordisk**  
– a focused  
healthcare  
company

Sustainability investor call  
18 May 2016



# Is there a correlation between Novo Nordisk's market value and the way we do business?

## Stakeholder engagement as the new frontier of competitive advantage?



Note: Novo Nordisk market cap for A+B stocks. Data supplied by Investor Relations (Last date 04-02-2016)

# We believe that a healthy environment, society and economy are fundamental to long-term business success

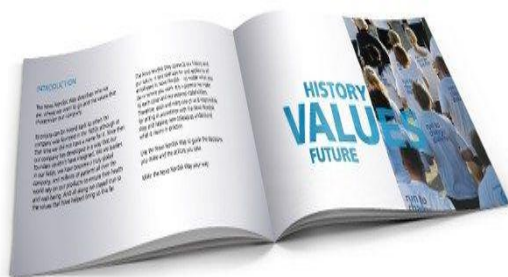
“Our philosophy is that corporate social responsibility is nothing but maximizing the value of your company over a long period of time, because in the long term, social and environmental issues become financial issues.

**Lars Rebien Sørensen, CEO**

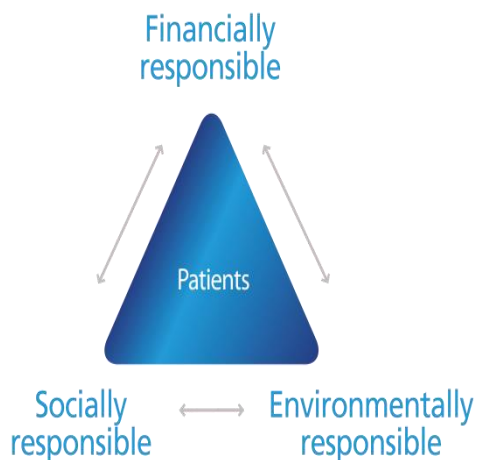


# The Triple Bottom Line principle guides our business decisions to become a sustainable business

## Novo Nordisk Way



## The Triple Bottom Line



## Articles of Association

### 2. Objects

*The Company's objects are to carry out research and development and to manufacture and commercialise pharmaceutical, medical and technical products and services as well as any other activity related thereto as determined by the Board of Directors.*

***The Company strives to conduct its activities in a financially, environmentally, and socially responsible way.***

# Our strategic approach to maximise value creation: We always use TBL as our lens for decision-making to...

## Protect

Protect our business and account for performance

### Business benefits

#### Reduce risk:

- Be on top of stakeholder expectations
- Be ahead of legislative demands

#### Reduce costs:

- Optimise processes

## Differentiate

Leverage TBL approach as a differentiator

### Improve reputation:

- Earn stakeholder trust and support

### Increase revenues:

- Grow market share/ win new customers

## Lead

Lead the way in shaping a sustainable future

### Prepare for future growth:

- Pursue potential
- Seize and defend leadership position







# Long-term business strategy is operationalised through policies and annual balanced scorecard targets

## OUR STRATEGY

The ingredients that make up Novo Nordisk's corporate strategy are a sharp focus on four therapeutic areas, five core capabilities and a clear purpose, all anchored in a values-based management system.

### NOVO NORDISK'S STRATEGY

#### STRATEGIC FOCUS AREAS

 Expand leadership in <b>DIABETES</b>
 Establish presence in <b>OBESITY</b>
 Pursue leadership in <b>HAEMOPHILIA</b>
 Expand leadership in <b>GROWTH DISORDERS</b>

#### CORE CAPABILITIES

Engineering, formulating, developing and delivering protein-based treatments	Deep disease understanding	Efficient large-scale production of proteins	Planning and executing global launches of new products	Building and maintaining a leading position in emerging markets
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#### PURPOSE

<b>Driving change to defeat diabetes and other serious chronic conditions</b>
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#### Novo Nordisk Way

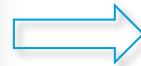
### Introduction to Novo Nordisk Policies

The Novo Nordisk policies provide guidance on basic principles on how we conduct business in Novo Nordisk. 14 areas are covered by policies: *bioethics, business ethics, communication, environment, finance, global health, information security, information technology, legal, occupational health and safety, people, procurement, quality, and risk management.*

The Novo Nordisk policies provide a link from the Novo Nordisk Way to how we operate in Novo Nordisk.

The Novo Nordisk policies serve as internal guidance and as information to external stakeholders.

Introduction	2
Bioethics Policy	3
Business Ethics Policy	4
Communication Policy	5
Environment Policy	6
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Customers & society

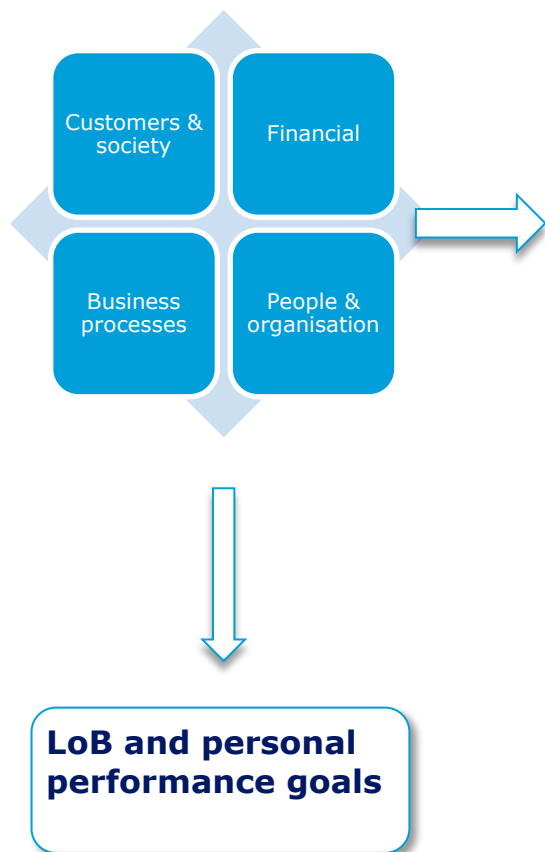
Financial

Business processes

People & organisation



# Balanced scorecard targets are linked to remuneration and cascaded – material information in Annual Report



	2011	2012	2013	2014	2015	2014-2015
<b>SOCIAL PERFORMANCE</b>						
Least developed countries where Novo Nordisk sells insulin according to the differential pricing policy	36	35	35	32	23	Change (28%)
Donations (DKK million) <sup>5</sup>	81	84	83	84	97	15%
New patent families (first filings)	80	65	77	93	77	(17%)
Employees (total) <sup>6</sup>	32,632	34,731	38,436	41,450	41,122	(1%)
Employee turnover	9.8%	9.1%	8.1%	9.0%	9.2%	
Gender in Management (men/women)	63%/37%	61%/39%	61%/39%	60%/40%	59%/41%	
Relevant employees trained in business ethics	99%	99%	97%	98%	98%	
Product recalls	5	6	6	2	2	-
Failed inspections	0	1	0	0	0	-
Company reputation (scale 0-100)	N/A	N/A	82.9 <sup>7</sup>	80.8	82.4	
<b>LONG-TERM SOCIAL TARGETS</b>						
Patients reached with Novo Nordisk diabetes care products (estimate in million)	20.9	22.8	24.3	24.4	26.8	2015 targets 40 by 2020
Working the Novo Nordisk Way (scale 1-5)	4.3	4.3	4.4	4.3	4.3	4.0
<b>ENVIRONMENTAL PERFORMANCE</b>						
Energy consumption (1,000 GJ)	2,187	2,433	2,572	2,556	2,778	Change 9%
Water consumption (1,000 m <sup>3</sup> )	2,136	2,475	2,685	2,959	3,131	6%
CO <sub>2</sub> emissions from energy consumption (1,000 tons)	94	122	125	120	107	(11%)
Organic residues (tons)	71,685	99,209	110,228	110,095	124,049	13%
Waste (tons)	18,695	19,213	20,387	30,720	34,715	13%
<b>LONG-TERM ENVIRONMENTAL TARGETS</b>						
Energy consumption (vs prior year)	(2%)	11%	6%	(1%)	9%	2015 targets Not to exceed 4% <sup>8</sup>
Water consumption (vs prior year)	4%	16%	8%	10%	6%	Not to exceed 4% <sup>8</sup>

# Benchmarks are recognitions of performance and a source for gaining insights on stakeholder expectations

## Pharma specific

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

**83** ▲  
81 in 2015

access to  
medicine  
index  
**#2** ▲  
8 in 2012

## Climate



**100** ▲  
97 in 2014

## Sustainability & reputation



**#1** ▲  
among pharma



## Leadership



**#1** ▲  
world's top  
performing CEO










Shortlisted for  
'communicating  
integrated  
thinking'

## Reporting



**#1** ▲  
(2 x best  
integrated report,  
best annual  
report)

# Investor inquiries are a proxy for stakeholder expectations and point out areas to improve

Organisation	Areas of concern	Response	Status
 NORGES BANK	<ul style="list-style-type: none"> <li>• Respect for children's rights and human rights</li> <li>• Water management</li> <li>• Climate change</li> </ul>	Procedures in place and reported	0
 ASN BANK	<ul style="list-style-type: none"> <li>• Payment to HCPs</li> <li>• Breaches to ethical standards</li> <li>• Ethical sales remuneration</li> </ul>	Business Ethics Code of Conduct in development; disclosure of breaches to company standards under review	0
 KBC Asset Management	<ul style="list-style-type: none"> <li>• Sales at cost/small mark-up</li> <li>• Traineeships for diabetes doctors in developing countries</li> </ul>	Pricing policy and access to care strategy; no data for # of HCPs trained	0
Morgan Stanley	<ul style="list-style-type: none"> <li>• Access to medicines: product mix, pricing and distribution strategies in BRIC markets</li> </ul>	Strategy in place; revision of pricing policy scheme; communicate market approaches	0
 SEB	<ul style="list-style-type: none"> <li>• Full participation in ATMI data collection process</li> </ul>	Full participation since beginning	0
 TRILLIUM ASSET MANAGEMENT	<ul style="list-style-type: none"> <li>• Victoza® marketing in Norway</li> </ul>	Compliance with regulatory requirement	0
 WHEB	<ul style="list-style-type: none"> <li>• Quantified data on the positive impact of Novo Nordisk products – to make the case for impact investing</li> </ul>	New metrics for Changing Diabetes®; country case studies	0
 BEST WOMEN	<ul style="list-style-type: none"> <li>• Women in management</li> </ul>	Breakdown by management levels provided	0

# Blueprint for Change cases effectively communicate the value story



# Sustainability update is included in quarterly announcements and investor roadshows

Financial report for the period 1 January 2016 to 30 June 2016

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## SUSTAINABILITY UPDATE

### *The number of employees in Novo Nordisk increased by 6.6%*

The number of full-time equivalent employees at the end of the first six months of 2016 increased by 6.6%, compared with 12 months ago. The total number of employees was 42,763, corresponding to 42,265 full-time positions. The growth is primarily driven by expansions within International Operations and in Denmark, primarily within Research & Development and Product Supply.

### *Product carbon footprints available for Novo Nordisk diabetes care products*

Novo Nordisk makes carbon footprint data for all of its diabetes care products available to customers. This initiative is part of the company's efforts to reduce its total carbon footprint and is intended to support the healthcare sector in making environmentally sound choices and provide information in response to increasing interest amongst health care professionals and patients. The environmental impact of these products is comparable to other daily consumables. The footprint data are based on emissions generated during a product's life cycle - from the raw materials to the production and use of the product to the final disposal. Calculations follow the international life cycle assessment standards and are third-party reviewed according to the Greenhouse Gas Accounting Sector Guidance for Pharmaceutical Products and Medical Devices, developed by the Coalition for Sustainable Pharmaceuticals and Medical Devices, led by National Health Service in the United Kingdom.

## SUSTAINABILITY UPDATE

*Number of employees in Novo Nordisk increased 5.0% adjusted for the NNIT divestment*  
The number of full-time equivalent employees at the end of the third quarter of 2015 had decreased by 1.1% to 40,261 compared with 12 months ago reflecting the divestment of NNIT. Adjusted for the impact of the divestment, the number of employees in Novo Nordisk grew by 5.0% compared with the third quarter of 2014. The growth is driven by expansions in Denmark, primarily in Product Supply, as well as in India and China.

### *United Nations' global goals present opportunities for Novo Nordisk*

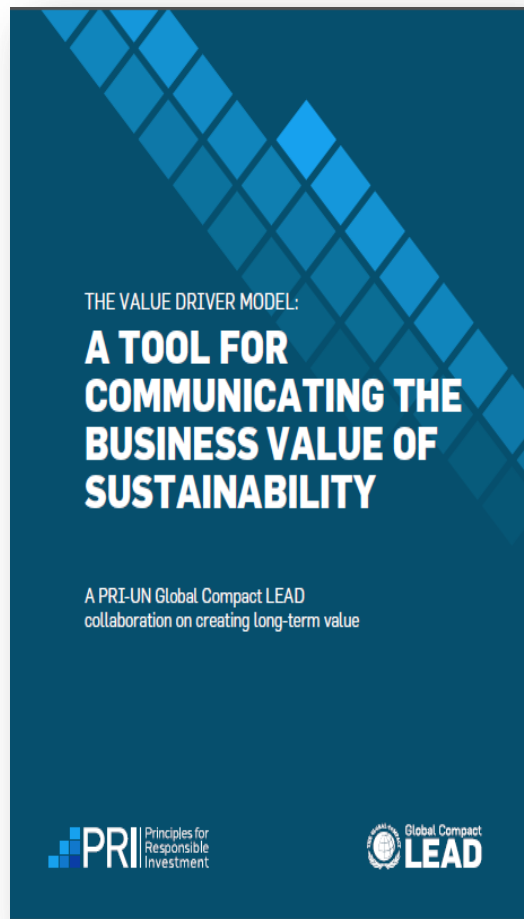
In September, the United Nations launched a new agenda for sustainable global development towards 2030 with a set of goals intended to eradicate poverty and improve lives. Governments must develop national plans choosing goals and targets that are most relevant for them including local indicators. Novo Nordisk has been active in the process leading up to their adoption, and will take its part in delivering on the goals which are well aligned with current priorities including urban health, access to diabetes care, climate action and good governance. Novo Nordisk sees the goals as an opportunity to engage with governments to ensure that diabetes is given priority and that people with diabetes receive proper care in efforts to meet the goal to 'ensure healthy lives and promote well-being for all at all ages'.

## EQUITY

Total equity was DKK 43,109 million at the end of the first nine months of 2015, equivalent to 50.6% of total assets, compared with 53.3% at the end of the first nine months of 2014. The decrease in equity as a percentage of total assets reflects the sustained policy of returning excess capital to the company's shareholders while the underlying operating activities have continued to expand and in addition been impacted by currencies related to the appreciation of the US dollar versus the Danish krone.



# What are the value drivers in your business and how do you include sustainability in your equity story?



The Value Driver Model does not represent an exhaustive or comprehensive taxonomy of all sustainability-related impacts, but rather a descriptive model intended to show how companies are implementing sustainable business strategies as an evolving business imperative. By focusing on sustainable business strategies as a source of financial upside and protection from downside risks, it is expected that investors will be better able to assess the value of sustainability.



Figure 1: The Value Driver Model

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1. Welcome and Introduction
2. The Financial Value of Sustainability: Communication between companies and investors
3. How investors are integrating ESG information
4. How companies are facing communication on financial value of sustainability?
5. Q&A Session
6. Closing Remarks

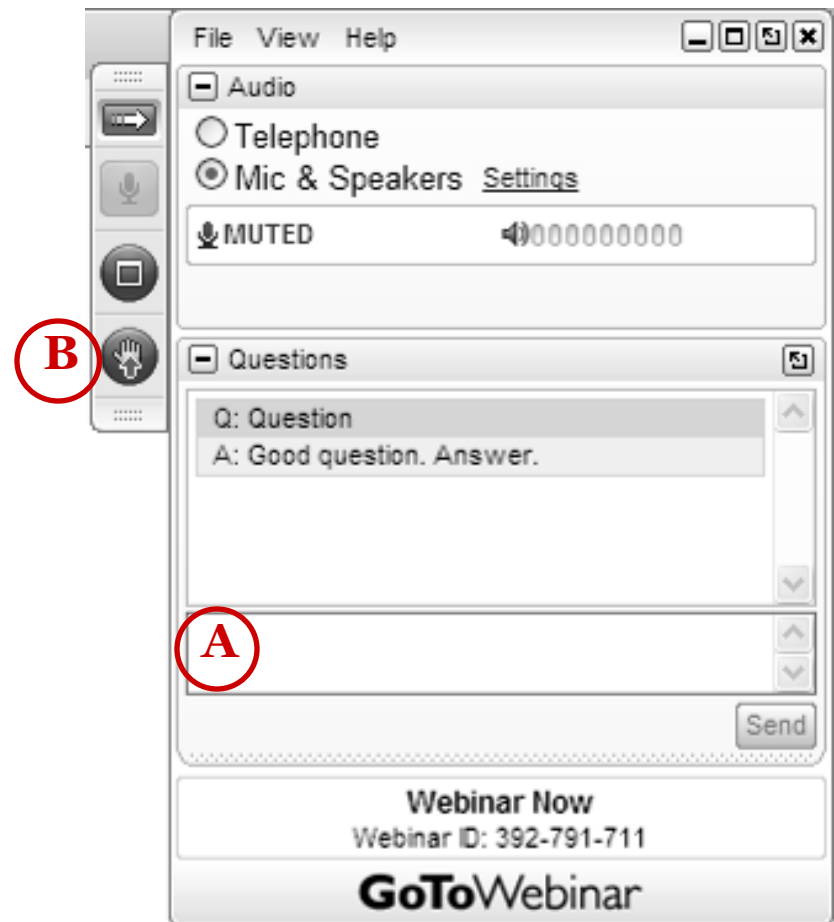


# Questions

**Technical Difficulties:** If you have technical issues, please let us know by typing a message in the Questions pane (A). You can raise your hand (B) if we do not respond.

**Q&A:** We will be taking questions on content at the end, but you can send them to us throughout the webinar by using the Questions pane (A). **Please specify to whom the question should be directed.**

**Example:** *Question for John Doe: What are land rights?*



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# Thank you for joining us today

**Presentation slides and a recording of the webinar will be available  
on the UN Global Compact website.  
([www.unglobalcompact.org](http://www.unglobalcompact.org))**

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