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THE BOSTON CONSULTING GROUP

Total Societal Impact: A new lens on strategy

ANDI, Medellín, Colombia

AUGUST 15, 2019



The role of the corporation

The role of the investor

How to do this well





The Role of the Corporation



Investors are more focused on companies societal impact practices



Governments and communities expect more from companies for "rights" to operate



Companies require continuous innovation to drive growth and value



Millennials demand companies to raise their standards



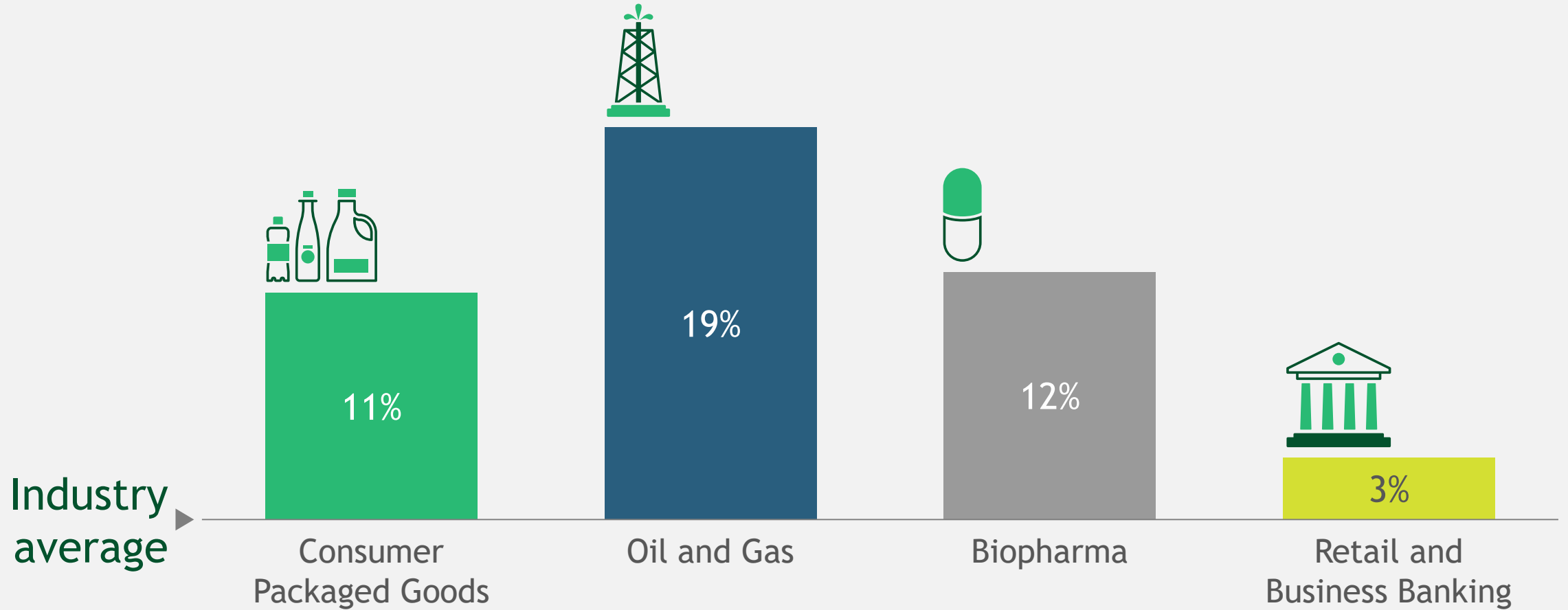
Executives are concerned about their legacies

Total Societal Impact

The economic, environmental and social impacts a company creates through its products, services, what it does as a business, and how it does it



Valuation premiums



Margin premiums

Industry
average

Up to
12.4pp
Gross margin



Up to
8.2pp
EBITDA



Up to
8.2pp
EBITDA



Up to
3.4pp
Net income
margin



TAKE AWAY
OPEN NOW



Standard Bank



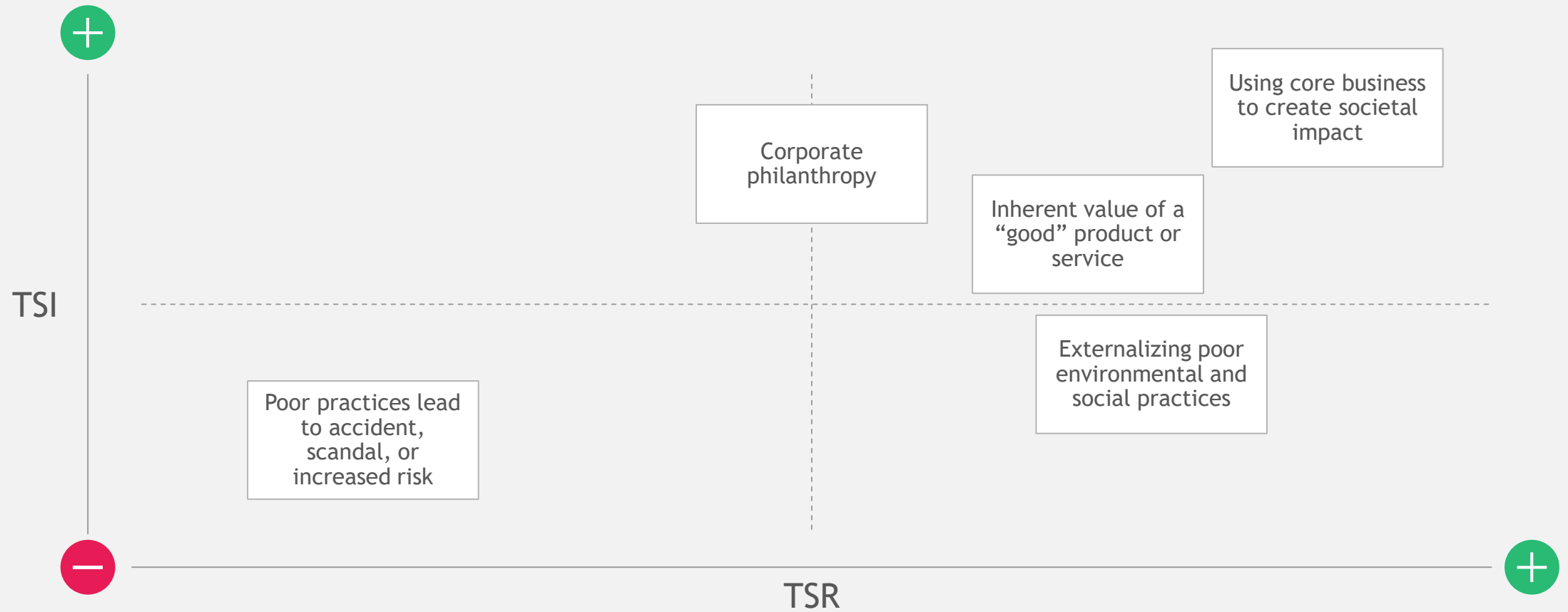
airbnb





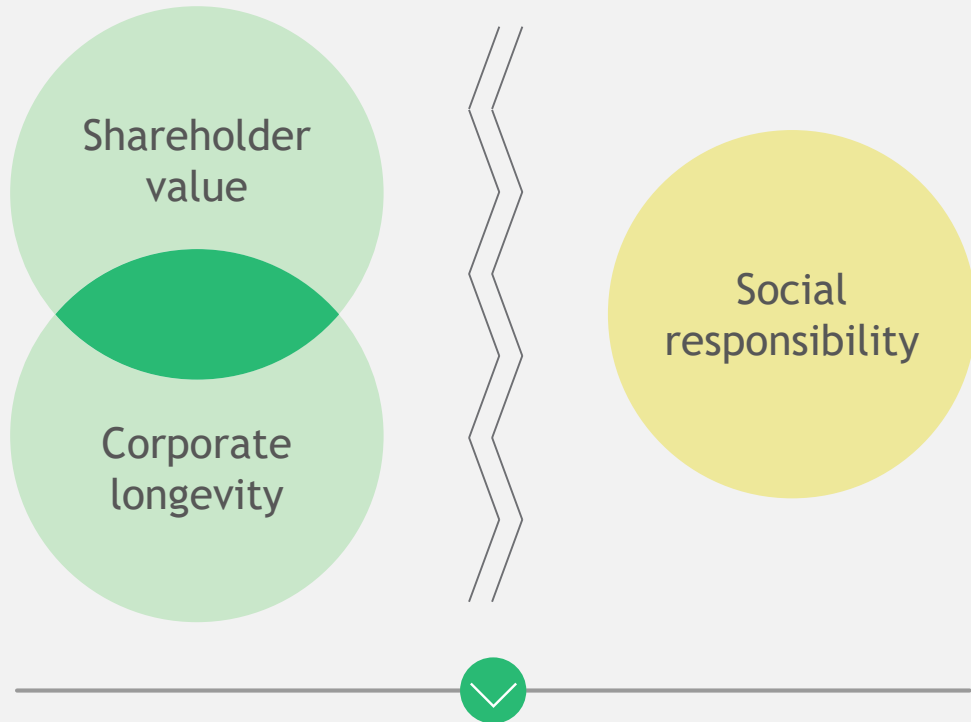
MARS

A brief history of corporate total societal impact



The key is to integrate societal impact into the core business

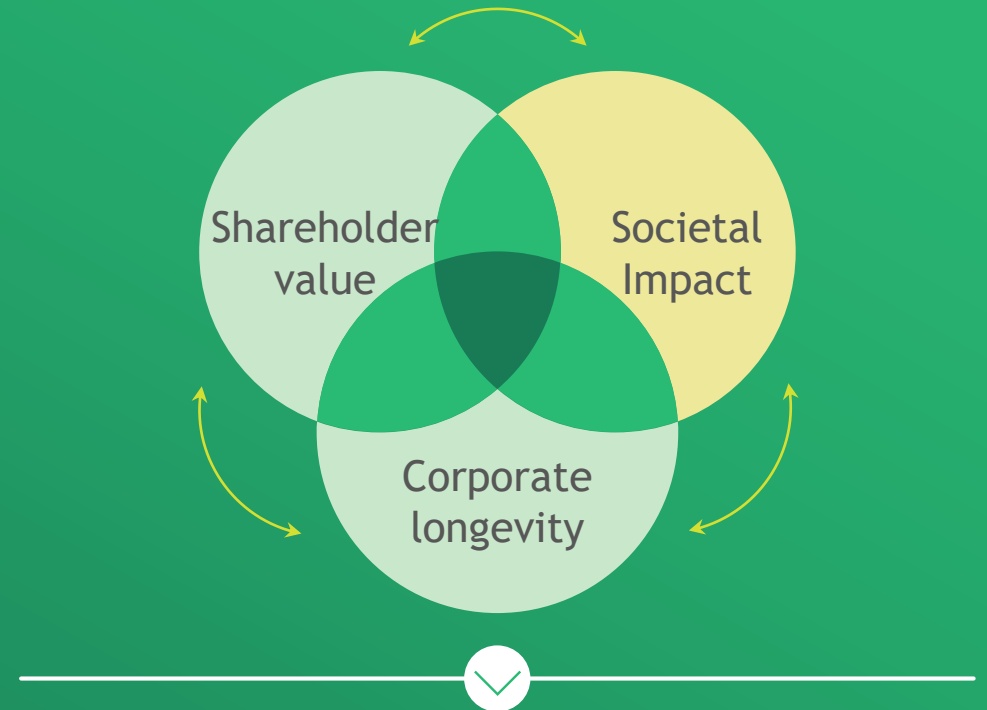
From Corporate Social Responsibility ...



Run the business first, “do good” in parallel

Source: BCG interviews and analysis

... to Total Societal Impact



Integrate social and environmental impact as a driver of strategy and value creation



The Role of the Investor

Investors are increasingly focusing on the societal impact of their portfolios



“ The explicit inclusion of ESG (environmental, social and governance) factors will be broad-based in the management of all the group’s funds within three years
- *Yves Perrier, CEO, Amundi* ”

Our clients - who are your company’s owners - are asking you to demonstrate the leadership and clarity that will drive not only their own investment returns, but also the prosperity and security of their fellow citizens



- *Larry Fink, Chairman and CEO, BlackRock*



“ We have made sustainability issues around ESG a central focus of our active stewardship practice”
- *Ronald O'Hanley, President and COO, State Street* ”

We have enhanced our analysis of portfolio carbon emissions, funded research projects, and we removed coal companies and electricity producers with high usage of coal from the fund



- *Yngve Slyngstad, CEO, Norges Bank Inv Mgmt*

A tipping point:
investing in
positive ESG
drives better
returns



Goldman
Sachs

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Firms that focus on
material ESG factors
have higher alpha

ESG laggards also trail
sector peers in financial
performance

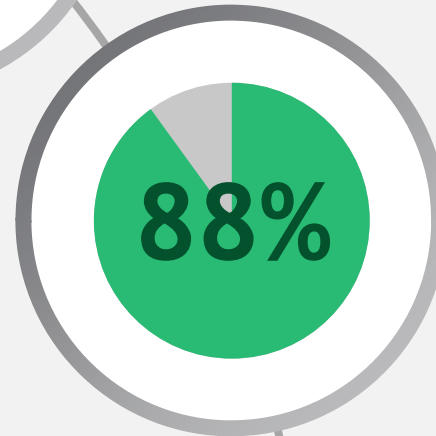
Top TSI performers
have higher valuation
and margins

In a review of 200+ studies, industry reports, articles, and books

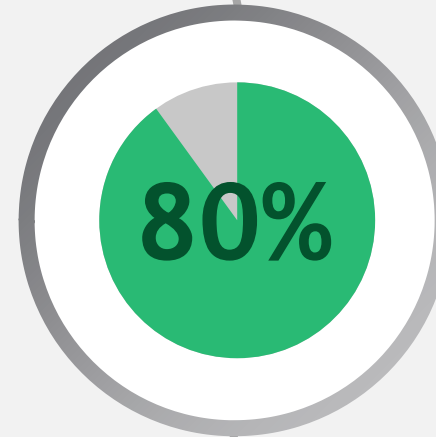
ESG can have positive impact on equity performance



(26 of 29) of studies on the cost of capital indicate ESG standards contribute to **lower cost of capital**

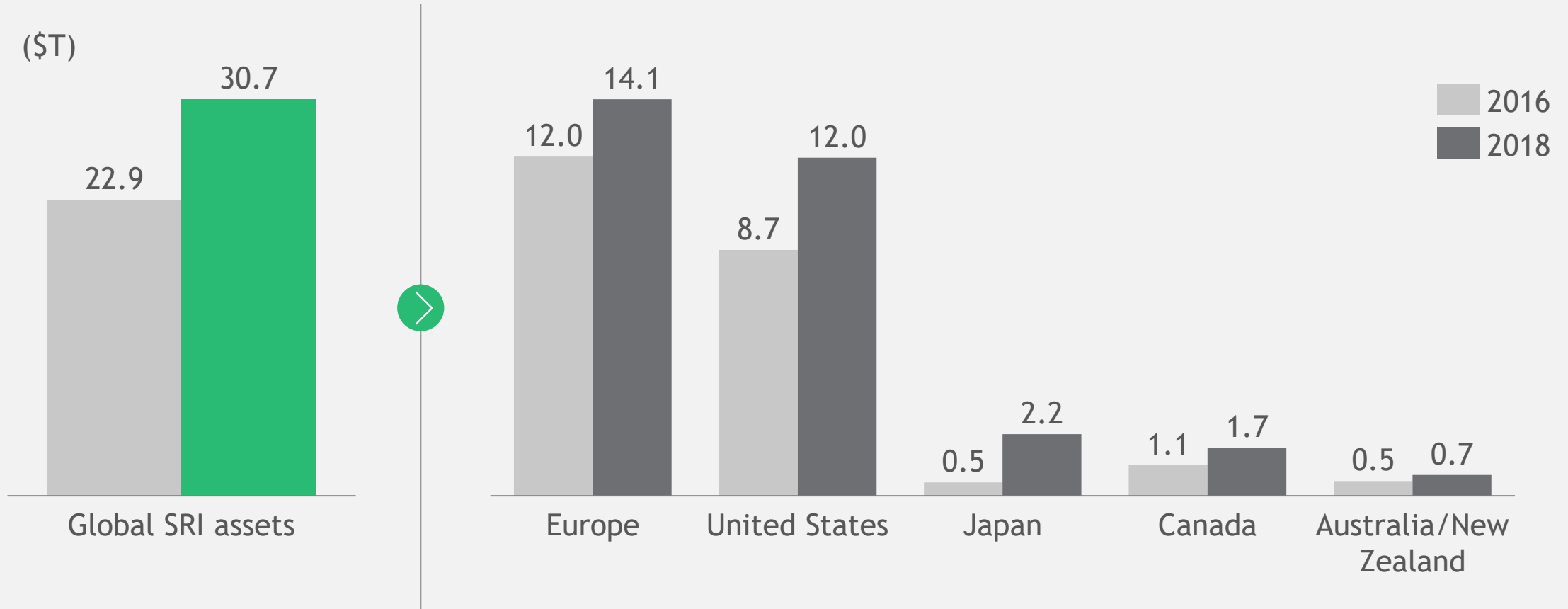


(45 of 51) of studies show ESG practices result in **better operational performance**



(33 of 41) of studies demonstrate that good ESG practices **positively influence stock price performance**

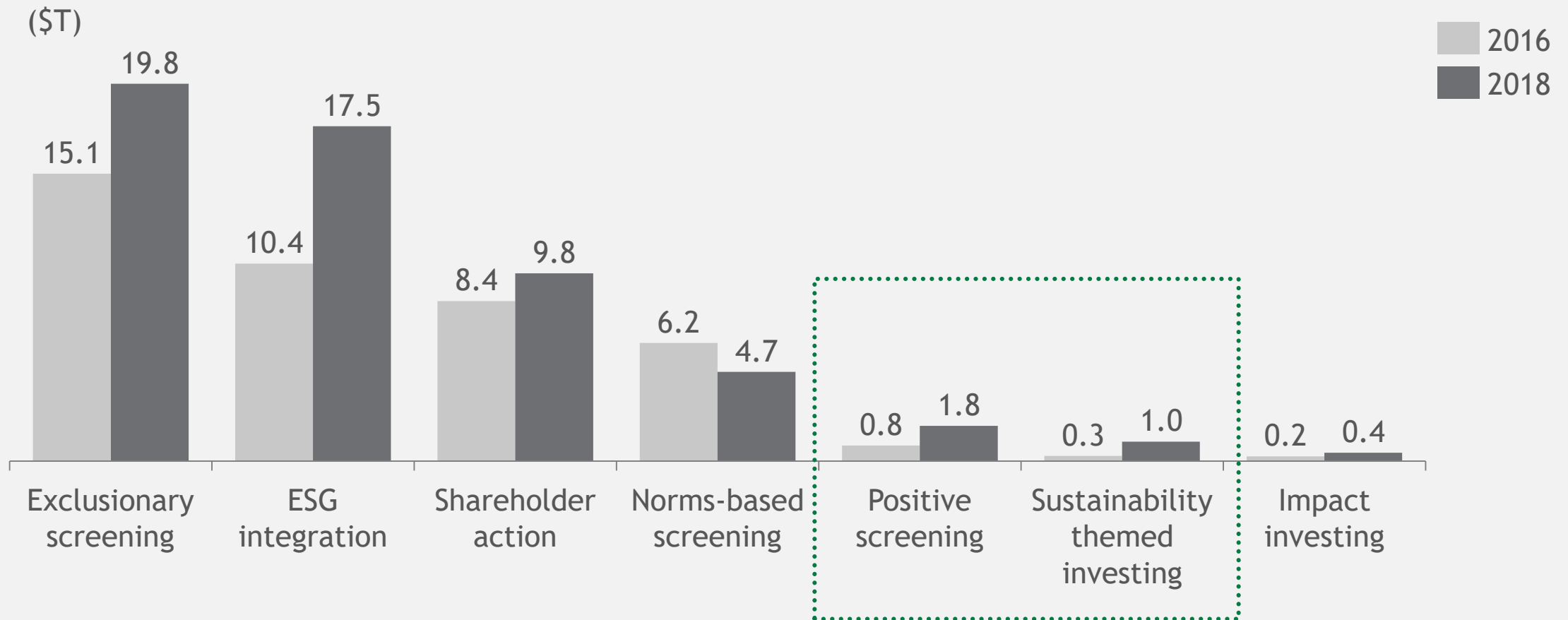
In 2018, global sustainable investment assets hit \$30T, up from ~\$23T in 2016







Sophisticated investors apply a mix of ESG methodologies by asset class



Fastest growth in positive screening and sustainable themed investing

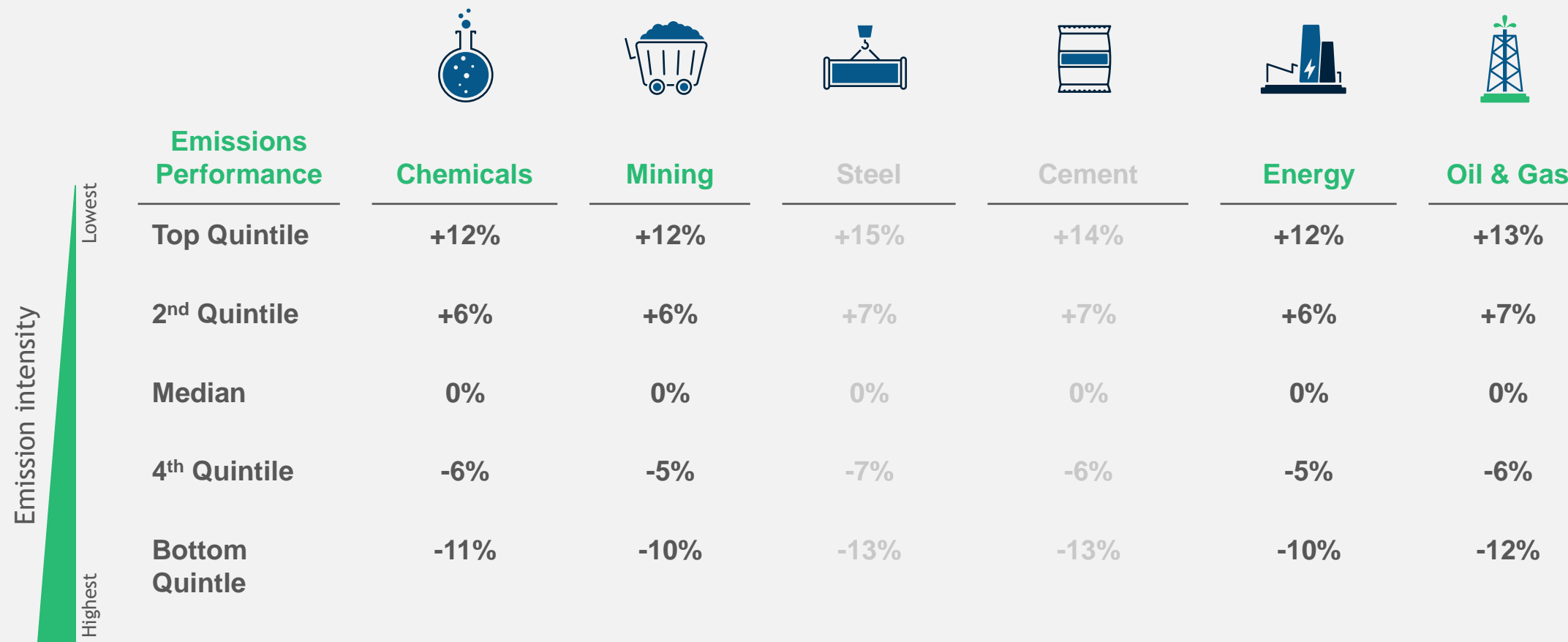


Many ways to get excluded from a portfolio depending on sustainable investing methodology

Sustainable investing strategies	Example	Why you might be excluded
 ESG integration	PM actively adjusts forward-looking financial projections based on ESG performance	If ESG performance and TSI strategy make your forward-looking financials less attractive
 Best-in-class ESG overlays	Portfolio constructed to track index (e.g., S&P500) with low-carbon tilt	If your performance on carbon emissions is in the bottom third of companies in your industry
 Thematic funds	Fund created to invest in theme (e.g., clean energy or diversity)	If you don't have a large enough portion of your business focused on the theme
 Impact investing	Fund created to generate positive social outcomes alongside financial returns	If you don't have an explicit mission to deliver impact and approach to measure it
 Active ownership / engagement	Stewardship team tests company's ESG strategy during engagement process	If you don't have a clear communication strategy and strategic plan on ESG issues
 Norms screens/ exclusions	PM excludes all companies which fail to comply with international standards from portfolio	If you have had serious controversies (e.g., on human rights issues) in recent years
 Negative screens/ exclusions	PM excludes companies with negative ESG impact from portfolio (e.g., tobacco, coal mining)	If majority of business delivering negative ESG impact (e.g., tobacco production & distribution)

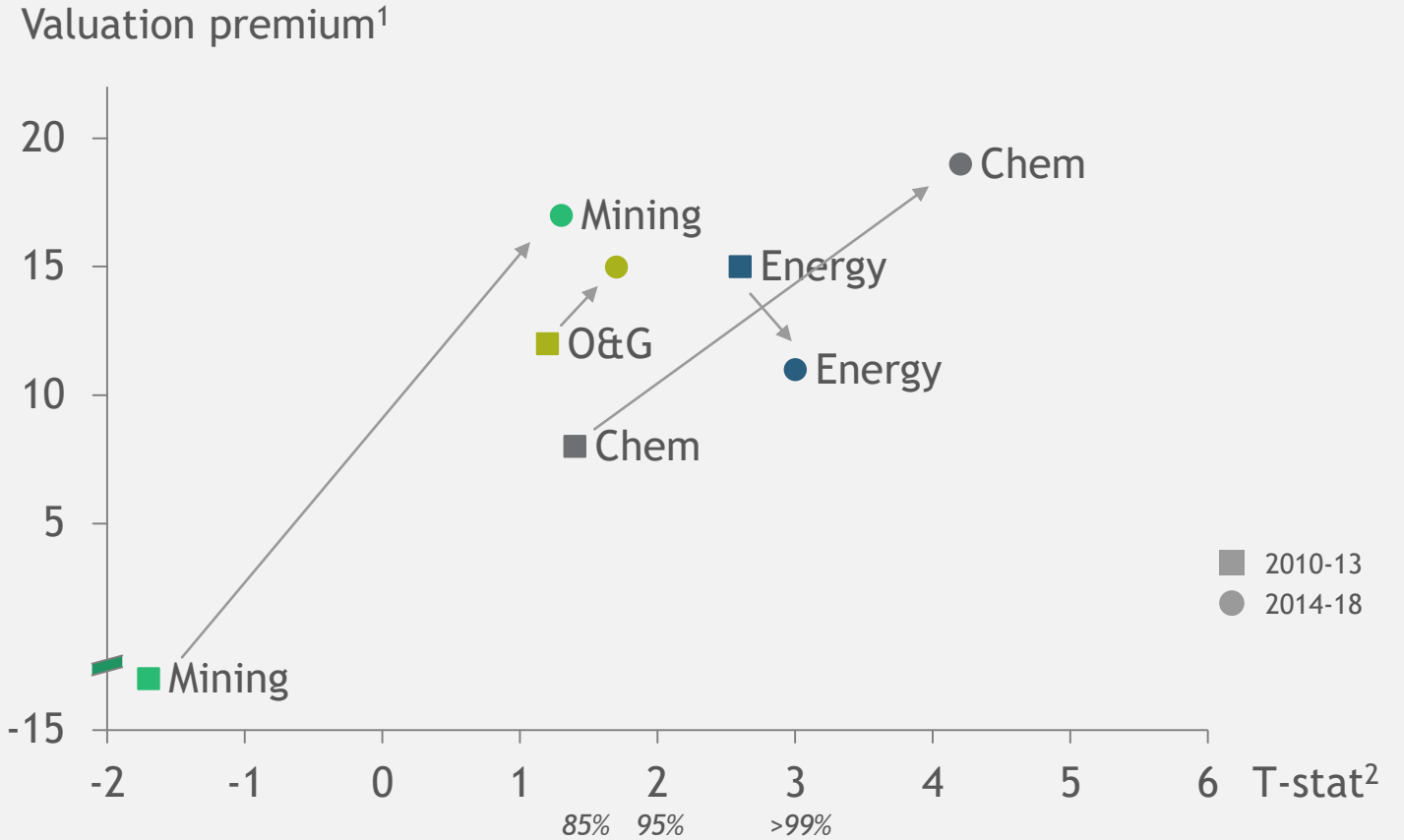
For example, carbon intensity impacts valuation multiple in many industries

Difference in valuation (Price:Sales) from median, all else equal



Notes: Oil, E&P category uses category1+2+3 emissions variable, all others use category 1+2; data from 2014-2018

Statistical significance and valuation differences increasing over time



1. Calculated as difference in EV:EBITDA ratios between top quintile and bottom quintile performers on carbon intensity
 2. T-stat measures the likelihood that the variable has explanatory power and is generally considered significant at 1,96 where there is only a 5% chance that emissions intensity has no explanatory power. A T-stat at 1,3 is interpreted as only a 20% chance that emissions intensity has no explanatory power. We have treated T-Stats > 1,96 as statistically significant, T-Stats between 1,3 and 1,96 as moderate significance and T-Stats < 1,3 as low significance
 Notes: To account for differences in nature of the industry's emissions problem (scope 1 and 2 vs. scope 3), scope 1+2+3 emissions variable used in O&G, all others use category 1+2 Source: BCG analysis



How to do this well

How TSI supports TSR

Business drivers



Access to new markets or customers



Spur innovation



Reduced cost and risk in supply chains

Strategic benefits



Strengthen the brand and support premium pricing



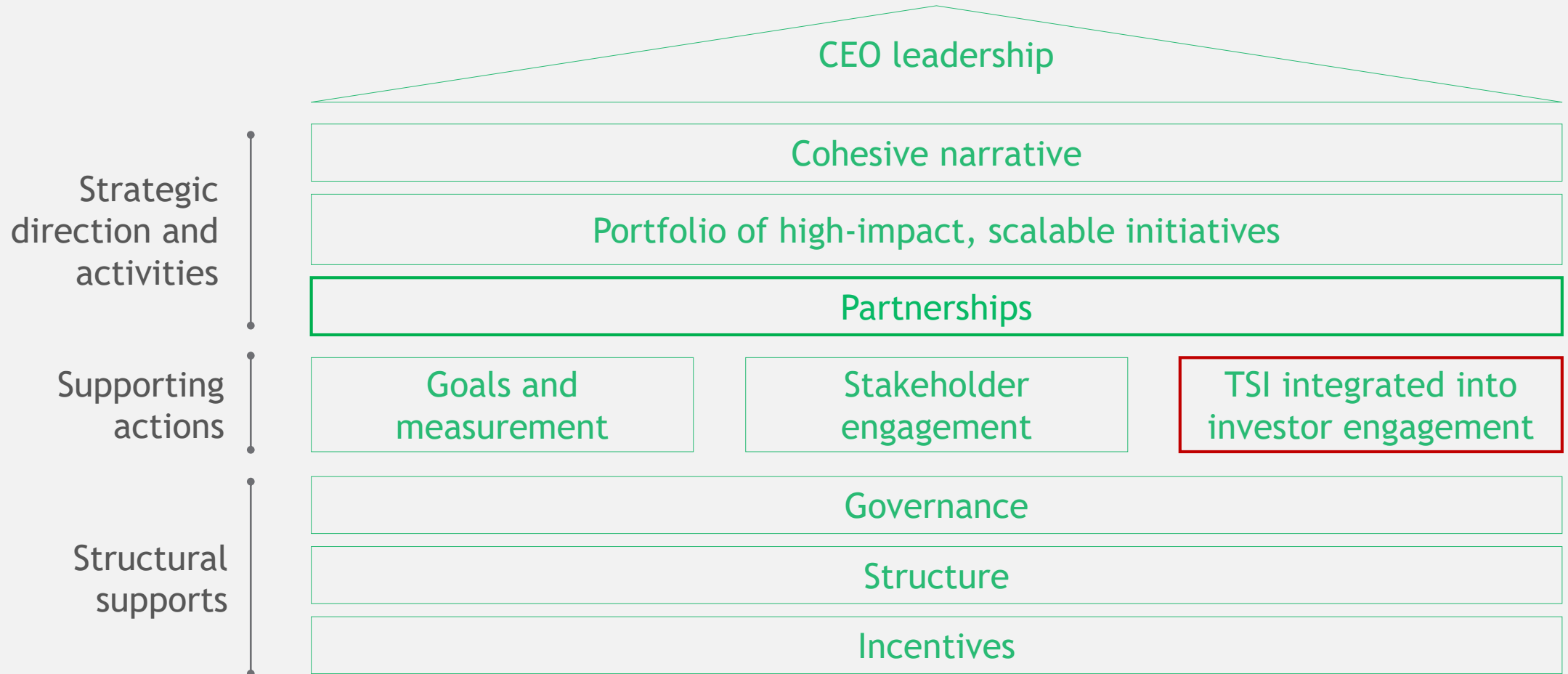
Create an edge in attracting and retaining talent



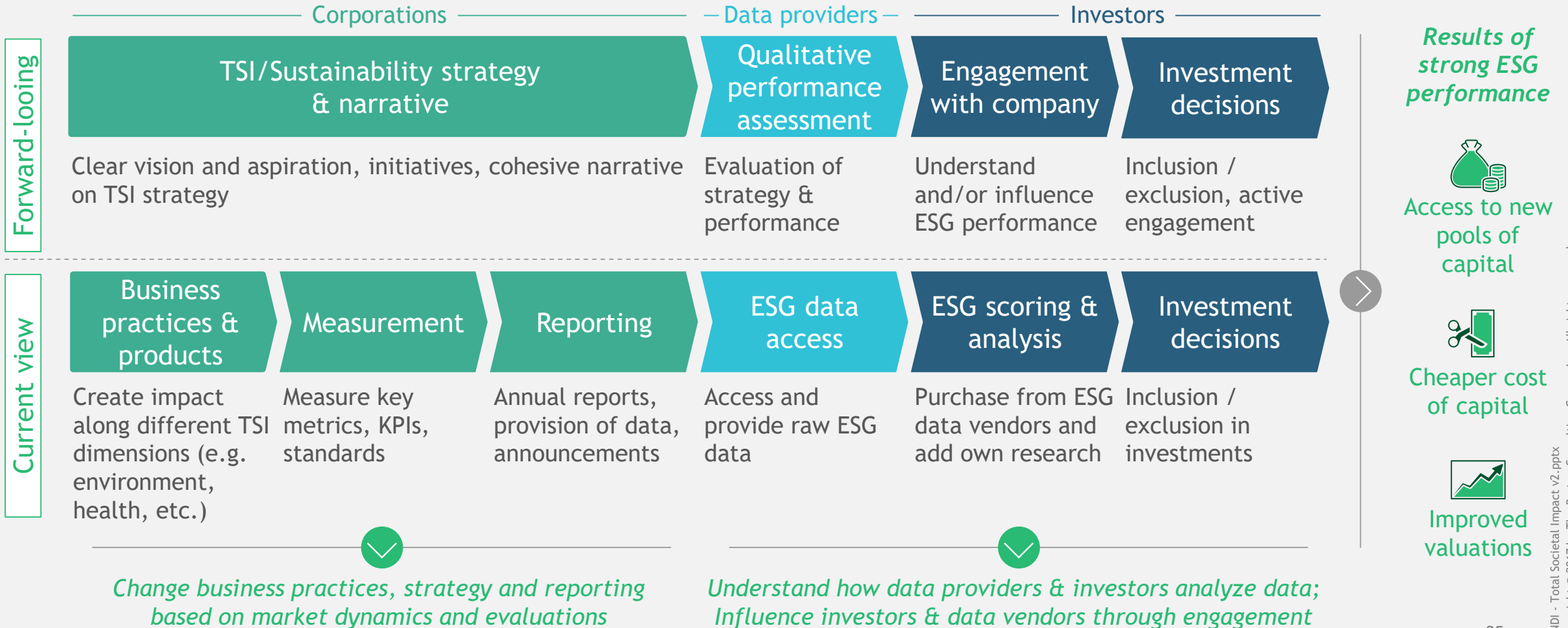
Become an integral part of the Economic and Social Fabric

Source: BCG interviews and analysis

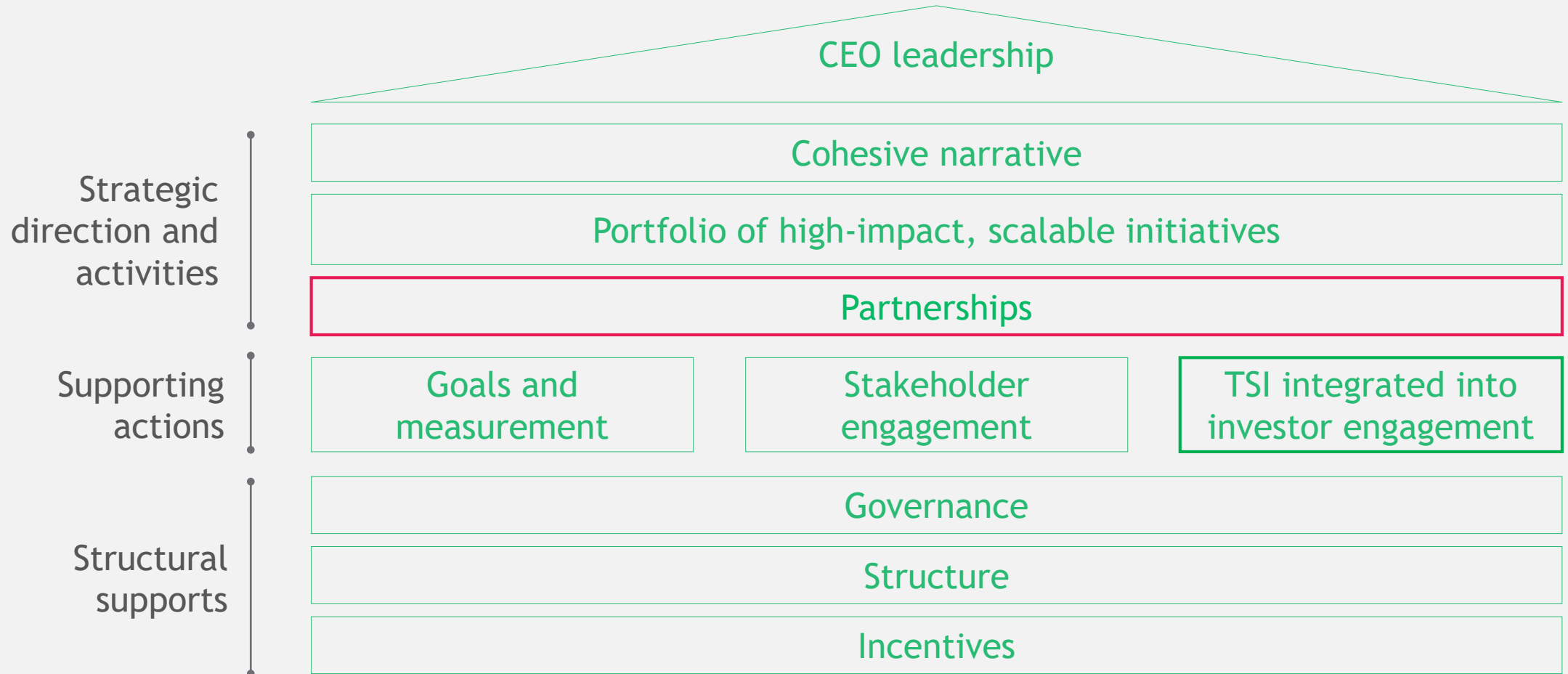
Eight key success factors

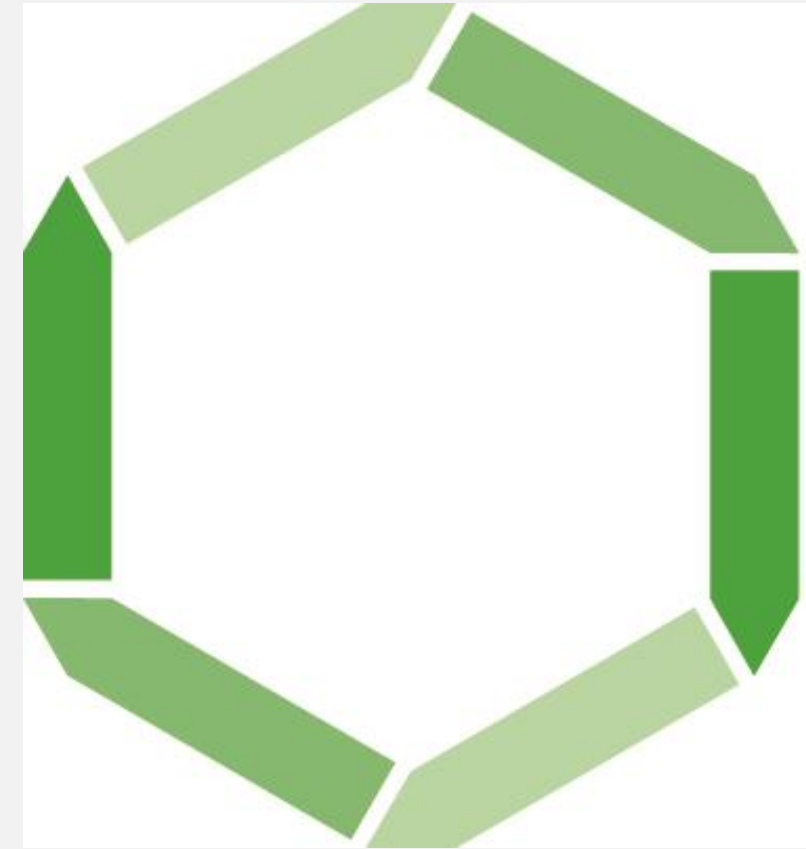


Companies need to understand, act on, and influence the value chain in order to drive an advantage



The importance of partnerships





TOGETHER FOR
SUSTAINABILITY



A glass globe is the central focus, resting on a thick bed of vibrant green moss. The globe reflects the surrounding forest, showing a mix of green foliage and a blue sky. The background is a soft-focus forest scene with sunlight filtering through the trees, creating a warm, natural atmosphere. A semi-transparent green rectangular box is overlaid on the left side of the image, containing the company's logo and name.

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