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Through Better Business

NYU | STERN

Center for
Sustainable Business

Quarterly Reporting on the Value of Sustainable Performance

Workshop Report

January 31, 2019

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1. Project Context:

In today's business world, we are witnessing an increasing interest in sustainability by corporations and investors. Companies are focusing on the material environmental, social and governance (ESG) issues that affect their ability to create value over the long term. At the same time, there is increasing concern about the damage to long-term value creation ("long-termism") for companies, investors, the environment, and society overall, that results from the predominantly short-term focus of the capital markets.

The quarterly conference call, which is designed for companies to report and discuss their performance to sell-side analysts and investors, remains almost solely focused on financial results with a distinct emphasis on short-term performance. The NYU Stern Center for Sustainable Business (Stern CSB), and its project partner, CECP (The CEO Force for Good), are examining how to integrate ESG and a long-term focus for businesses into the activity and discussions that surround the current, well-established system of quarterly conference calls and whether such a change would be useful to investors.

2. Project Background:

This project comes at a time when three trends are merging to push companies to better integrate content on both the company's long-term strategy and the financial impact of a company's ESG performance into the quarterly earnings discussion.

2a. ESG Integration: There is a clear trend toward sustainability in the corporate and investor communities. While companies have been on the path to "sustainability" for several decades, it is only in the last few years that we have seen a growing interest from those within the investment community.[1] The most recent analysis by US SIF: The Forum for Sustainable and Responsible Investment found the combined value of sustainable, responsible and impact investing assets to be $12 trillion, equivalent to 1 in 4 dollars of the total assets under professional management in the U.S.[2]

One of the challenges that companies and investors face in integrating ESG information is the lack of high quality information on nonfinancial performance that is comparable across companies and over time. Organizations like the Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB) are developing frameworks, measurement, and reporting standards to address this issue.[3] The practice of integrated reporting is also spreading, although still on a voluntary basis, except for in South Africa. Legislation, such as the "EU Directive as regards disclosure of non-financial and diversity information by certain large undertakings and groups," will further disperse the practice of sustainability and integrated reporting.[4]

1 MIT *Sloan Management Review* and The Boston Consulting Group, 2016, Investing For A Sustainable Future. https://sloanreview.mit.edu/projects/investing-for-a-sustainable-future/.

2 US SIF: The Forum for Sustainable and Responsible Investment, 2018, US SIF Trends Report. https://www.ussif.org/trends.

3 For further information on these organizations, please visit: https://www.cdsb.net/; https://www.globalreporting.org/Pages/default.aspx; http://integratedreporting.org/; https://www.sasb.org/.

4 For further information on the EU directive, please see: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

2b. Long-Termism: There is growing interest in the role of long-term planning in setting the context for quarterly reporting, as well as the role ESG can play in those plans. There are currently several major initiatives focused on what can be done to create a longer-term focus in resource allocation decisions by both companies and investors, including: (1) Focusing Capital on the Long Term, led by the Canada Pension Plan Investment Board and McKinsey; (2) the Coalition for Inclusive Capitalism, led by Lady Lynn Forester de Rothschild; and (3) CECP's Strategic Investor Initiative, led by Daryl Brewster, Mark Tulay, and Brian Tomlinson.[5]

2c. Quarterly Conference Calls: The basic narrative of quarterly conference calls compares the current quarter's earnings to the earnings of the same period in the previous year. They are met with anticipation by the sell-side since there is always excitement around whether the reported earnings will meet, exceed, or fall below "earnings expectations,"—themselves a social construct created in a delicate dance between the company giving "earnings guidance" and the sell-side community developing an earnings prediction. However, leading CEOs, including Jamie Dimon (CEO of J.P. Morgan Chase) and Warren Buffett (CEO of Berkshire Hathaway), have questioned the value of quarterly forecasts, citing concerns that the pressure to meet quarterly expectations may result in executive decision-making that conflicts with long-term business interests.[6]

3. Project Objective:

The Stern CSB and its project partners aim to develop strategic guidance on how best to incorporate long-term planning and material ESG risks and opportunities into quarterly reporting to determine if it will improve investor and manager decision-making (see Appendix I for a project summary description). We propose to work with companies and investors to develop and test guidelines for how quarterly calls can support a longer-term, ESG grounded view on the part of companies and investors.

This project will explore how the capital market conversation between companies and investors, starting with quarterly calls, might shift from a focus on financial performance alone to *materiality* or "integrated quarterly conference calls." "Materiality" means that the company reports and discusses the limited set of ESG issues in the context of financial performance that are important to investors and other significant audiences. This is integrated reporting about the company's sustainability strategy.

A 3-5 year forward-looking sustainability strategy needs to be articulated and publicly disclosed by corporations' CEOs or lead independent directors, using investor-facing long-term plans. These plans should include financially material ESG factors and the stakeholders significant to the value creation story. From these publicly disclosed, investor-facing long-term plans, arise the short-term building blocks that can play an important role in the next generation of quarterly calls.

4. Project Steps Completed:

Since the project kicked-off in October, 2017, the Stern CSB has recruited three companies to

[5] For additional information, please visit: https://www.fcltglobal.org/home; https://www.inc-cap.com/; http://cecp.co/home/our-coalition/strategic-investor-initiative/.

[6] Jamie Dimon and Warren E. Buffett. Short-termism is Harming the Economy. June 6, 2018: https://www.wsj.com/articles/short-termism-is-harming-the-economy-1528336801.

participate in the project: The Dow Chemical Company, Jones Lang LaSalle, Inc., and Voya Financial. For each of the three participating companies, the Stern CSB team has created an initial set of recommendations for how to better integrate ESG and long-term strategy content into the quarterly earnings call. The initial set of recommendations were based on the Stern CSB's Framework for Sustainable Business Quarterly Call Reporting, the company's own templates for quarterly earnings calls, and past presentations by the company on its ESG strategy, long-term strategy, and financial performance. Since the initial set of recommendations were provided, the Stern CSB team and each participating company have been working to refine the initial guidance and integrate the guidance into their regular earnings call presentations.

In addition to working with each company, the Stern CSB team conducted interviews with sell side analysts covering two of the three participating companies on questions related to their exposure and experience with ESG content, views of the financially-material issues for the companies and sector they follow, their use of ESG information in their stock valuations for the companies they follow, and their recommendations to companies for what information they would find valuable in an integrated quarterly call.

5. Project Lessons-To-Date:

Through the process we have undertaken, in working with CECP and our project-participating companies, we have gained these valuable lessons:

1) Embedding ESG content and the financial impact of ESG performance in the quarterly earnings calls is not easy. The quarterly earnings call is a tightly managed and controlled conversation between individual companies and some of their most valued stakeholders, so to do something that might be considered as different from standard practice can be challenging.
2) Sell-side analysts can find themselves in a bit of a conundrum. Most of the companies that analysts cover have not integrated ESG content into the earnings discussion. Given this, analysts can question how financially material ESG issues are to the financial performance of the companies they follow and their stock valuations. The customers of these analysts are also not commonly asking questions about ESG topics. As a result, analysts are seeing neither the supply of information from the companies, nor the demand for this information from their customers.
3) That said, where ESG issues present material risks (such as on employee health and safety issues in a manufacturing context, or data security of customer financial information) or opportunities (such as differentiating your products from those of competitors), the analysts want to hear how companies are positioning themselves and capturing financial value from their ESG strategy and execution.
4) Linking corporate ESG performance to financial performance is also not easy. Many companies do not track the return on ESG-related investments, and are not capturing the most relevant data for tying ESG performance to trends such as employee retention. As a result, telling the financial impact story can take some creativity and effort.
5) Nevertheless, to earn a seat at the C-suite table, this link to financial performance must be made. As Bill McNabb from Vanguard has noted at other events, such as the CECP's recent CEO investor forum, to be taken seriously on ESG issues, content on ESG and long-term strategy, along with the impact that ESG performance has on corporate financial performance must be a consistent part of the earnings discussion.

6. Workshop Overview and Objectives:

As a part of the on-going project, the Stern CSB and its project partners sought to engage a broader audience of companies on the topic of integrating quarterly conference calls. On December 5, 2018, the Stern CSB convened a workshop attended by sustainability, investor relations and communication professionals from its participating companies and other companies with an interest in integrated quarterly calls. Through a series of presentations by invited speakers, a panel discussion with representatives from project participating companies, and breakout sessions with workshop participants (See Appendix II for a complete workshop agenda), the aims of the workshop were to:

1) Help companies increase the inclusion of the financial impact of successful execution of long-term and ESG strategy, in quarterly earnings content
2) Increase collaboration between Investor Relations, Finance and Sustainability teams in crafting strategic communications on long-term and ESG strategy and the impact that successful execution of ESG strategy has on corporate financial performance
3) Create a coalition of companies working together to overcome barriers to the inclusion of information on corporate financial performance related to ESG in quarterly earnings content

7. Workshop Sessions:

7a. Presentations: To start the workshop, there were a series of presentations to set the context for the project and subsequent working sessions (See Appendices III and IV for presentation materials). These presentations included:

- ESG Revolution Rising: From Low Chatter to Loud Roar
  Presenter: Derek Bingham, Goldman Sachs Sustain
- The Value of Reporting on Your Long-term Strategy
  Presenter: Brian Tomlinson: CECP
- Creating the Long-term and ESG Story for Quarterly Earnings Calls
  Presenter: Kevin Eckerle, Stern CSB

7b. Panel Discussion: Following the introductory presentations, we conducted a panel discussion, moderated by Tensie Whelan (Stern CSB) that included representatives from each of the three participating companies.[7]

Question 1 (Addressed to all panelists): What have been the key drivers for you and your company to want to integrate ESG and long-term strategy content and the financial impact of your performance in these areas into the quarterly earnings call and what have you done to date?

Responses to Question 1:

- We have been talking about the key drivers for my company all morning. More investors, more share of their investment dollars. We want to be more transparent, providing a better, fuller picture of what we do. We are being more transparent in terms of our people, diversity and inclusion, pay, gender associated pay. In addition, we are trying to deliver

[7] The workshop was conducted under Chatham House Rules. As such, neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

information that others would look for from us, such as the number of green building certifications enabled and the number of accredited green building employees.

- Making sure investors understand the significant financial results we have achieved through our efforts in sustainability. Our new CEO wants to roll out a new initiative that must integrate sustainability. This project has been helpful to put together a framework to assemble an appendix to tell our story in a more independent way.
- The demand from our stakeholders has increased. As more clients and investors have started to ask questions, we realized that we had a story to tell. Our approach to date has been about how ESG has impacted culture. We are now looking at how to include the culture perspective in quarterly calls. That includes how we address and how we have been recognized for our disability inclusion.

Question 2: What is the role of finance in this? Is your CFO seeing opportunity here?

Response to Question 2: We are lucky in that our CAO has responsibility for CFO tasks, including sustainability and Human Resources, and reports to the CEO. She understands the implications because we are seeing interest from clients. As an indicator, we had a client in Australia who asked for our help becoming net carbon neutral. In addition, all 50 of our top global clients have sustainability goals and report on their performance, and we provide advice on sustainability issues to 47 of those 50 top global clients.

Question 3: In thinking about the quarterly reporting framework laid out, the integration of ESG content should be easier to do because of existing reporting, correct?

Response to Question 3: Yes, since we provide advice to 47 of 50. However, of the revenue generated from those 47 clients, the revenue that is related to sustainability may be relatively small. If it is not required as reporting, there are a few hoops.

Question 4: At your company, what is the role of finance in this? Is your CFO seeing opportunity here?

Response to Question 4: It is a blessing and a curse of having senior management very interested. As an example, we kicked off with the CEO and CFO and their team. The cursed side of that is that it requires a yearlong gauntlet process of demonstrating financial value of everything we are doing. In that process, we had to demonstrate the value generated and eliminate things that do not provide value. We took things that appeared to be just social and environmental issues and translated them into financials whenever we possibly could.

Question 5: As you reflect upon our work together on earnings calls, what have been the biggest challenges you've encountered in trying to integrate this ESG and long-term strategy content into investor day presentations, earnings calls, etc.?

Response to Question 5: We struggle with finding out the financial impact of issues. Analysts and investors are paid to be critical and skeptical. If you are going to put out information on ESG issues, that information needs to be robust or else it will be picked apart. Even when the benefits are clear, there are questions about what to include in our presentation content. The presenters are risk averse because describing financials can be difficult, and not even as difficult as describing ESG. If we are unsure of the bottom line impact, it is hard to put that information out there. We are looking at cost-avoidance metrics. Figuring out who has data, what data they have, and how we cull it can present a number of data privacy issues, especially when the data is related to human capital. The challenge is pulling it together.

Question 6: How much have you looked at monetizing risk?

Response to Question 6: We are doing that right now. We are looking into our cyber security systems and how to avoid the related risks. At our recent investor day, someone stood up and said they were pleased to see a CEO speak so much about culture, and that it was such a thread throughout conversation. So, investors do consider it even though it may not always be tangible.

Question 7: As we saw earlier, you have made some progress in integrating ESG into your investor presentation, though not the earnings calls, as of yet. How else has engaging in this project enabled you to push the conversation on the financial impact of ESG forward with your IR and leadership teams? What do you see as the opportunities and challenges, and where do you plan to go?

Response to Question 7: There has been an increase in interest from investors, for instance in questions from audience members on investor day. We hosted an ESG-focused webinar, which was a breakthrough, and another one has been requested. So we are being more proactive. We are looking to issue a SASB report in the next 10K. There are some data points that we do not currently release but we are working through that. We will have another investor day in June and we are hopeful that we will be able to include ESG-related content in that. We are trying to move from just reporting and being backward-looking, to be more forward-looking, with a broader approach and strategy, and more significant goals.

Question 8: What have been some of your key takeaways from the comments of your analysts, and how are those takeaways shaping your thinking?

Responses to Question 8: There is an appetite from investors for this content, but not in quarterly calls, they seem to prefer receiving this content in separate hours-long conversation. Analysts started talking about plastics waste in oceans, and calling out as a losing strategy the approach of talking only about the benefits of plastics. So, maybe there is a business opportunity in all of this, and we should be communicating how ESG drives above-market growth. There is increasing interest in hearing what we are doing from an environmental perspective. It feels like we have the governance side set, though investors are not as interested in social. They are looking for the rationale for valuation multiple that would be better than rest of the sector. This was critical for us to be able to think in terms of this.

Question 9: We would welcome your thoughts here as well, how is the feedback you have received from your analysts shaping your thinking on content and metrics for earnings calls?

Response to Question 9: Our analysts were not so tapped into ESG, so we realized that we need to bring them along and make connections for them. That was eye opening.

Question 10 (Addressed to all panelists): What advice would you give to your colleagues regarding how to incorporate the financial impact of your ESG strategies in investor outreach and specifically quarterly calls?

Responses to Question 10:

- The buy-in of senior leaders is of utmost importance. Because the understanding of ESG can vary, you need to engage leaders early and bring them along as much as you do the investors.
- There needs to be more internal collaboration around ESG. Telling stories that are more cohesive provides investors with a more holistic view of the company for investors. Alternatively, through these internal collaborations, you at least recognize the existing gaps in the conversation.
- There is creativity required around taking things that appear to be just environmental and social issues and translating them, even imperfectly, into economics.
- Have patience despite the greater sense of urgency. For many people, they might not have exposure to ESG issues, or they may see ESG as fluffy. It is essential to show that it is not fluffy, but directly related to our business. Be covert about direct correlation to business or else people may make up their own answers.

Questions from the audience:

Question 1: When tracking impact, who does what?

Response to Question 1: Because it is part of our business, there is more E than either S or G. We are working with finance to go through our top 50 clients, identify where we are doing sustainability work, and, to take it one step further, identifying what kind of work we're doing for our top 50 clients. We are not yet at the point of being able to take all of these disparate, but related, ESG issues that we are working on, and pulling that together into one big nice number. That is still a work in progress.

Question 2: Is it better to do a deep dive in issues and impacts and put the narrative together at investor day? Or to start planting the seeds little by little every quarter?

Response to Question 2: What has worked for quarterly calls has been planting the seed. The story is always about the journey. There is an advantage of building up with community – it makes the story more organic and believable than having it coming out of nowhere. The element of surprise is something you want to avoid.

7c. Working Sessions: Following a break, the workshop resumed with a series of working sessions among participants. The objectives of the working sessions were to:

- Get direct feedback from workshop participants on the framework being developed by the Stern CSB for more integrated quarterly reporting,
- Discuss the most significant challenges that companies face when trying to integrate ESG strategy and performance into the quarterly earnings call, and
- Identify potential actions that could be taken at an individual company or through collaboration among like-minded companies, and accelerate the disclosure of ESG and long-term strategy and performance information, and the financial impact of ESG performance, in the quarterly earnings call.

Through the working sessions, we gained a number of valuable insights that will inform our approach moving forward and shape how we refine our recommendations, including:

- A key challenge noted by workshop participants was demonstrating the financial impact of their ESG performance. In continuing to develop the reporting framework, we will place a special emphasis on providing clear examples of the financial impact of ESG performance (the ROI of sustainability).
- There was great variability in the maturity of sustainability programs across the companies represented in the workshop (i.e., some are relatively new to the sustainability journey while others are globally recognized leaders). Likewise, the capability for integrating ESG strategy and performance data into the earnings call seemed quite varied across workshop participants. Through on-going engagement with project participants and other stakeholders, we will seek to assess and provide recommendations on the necessary conditions within a company to integrate successfully ESG strategy and performance data into the quarterly earnings discussion.
- Workshop participants noted the lack of direction on the best approach for disclosing ESG strategy and performance content in investor-facing presentations, once the content is developed (i.e., does all of the most relevant content go directly into the earnings call or should it be gradually introduced into the earnings call; is it better to withhold this content from the earnings call and present it at other meetings, like Investor Day). Through our on-going engagement with participating companies and project stakeholders, we will aim to develop specific recommendations on how to best embed ESG and long-term strategy and performance content in investor-facing presentations.

Working Session 1: The Stern CSB Framework (See Appendix IV for the Stern CSB Quarterly Call Reporting Framework)

Discussion Questions and Participant Comments:

1) What do you like and / or dislike about the proposed framework?

   Likes include:

   - The appendix idea, which allows for flexibility and relieves pressure
   - Including data on individual business unit performance
   - That the framework exists and can apply across sectors
   - The simplicity of the framework
   - Insistence of linking to long-term strategy
   - The flow of big picture to micro details

Dislikes include:

- The assumption that senior leadership buy-in is secured
- The business unit level performance is hard to quantify

2) What would you suggest to improve the proposed framework?
    - Include an explanation of how companies came to decisions
    - Include the identity of partners that can help them be leaders in their field
    - Provide more explanation on how difficult metrics are to be reported
    - Predict what analysts might hone in on
    - It would great to identify key metrics that we would track, even if we could not report on them in that way, and, as we talk about integrating key metrics into the story, to infuse those topics to tell a more complete story
    - Provide direction on how to create leadership and investor buy-in without disrupting the flow of relationships. E.g., Consider recommendations for reaching out to investors you are close to, in order to prompt questions on quarterly
    - Make comparisons to industry standards
    - Consider recommending an update on the general narrative on a quarterly basis, but provide metrics only annually
    - Map or align reporting guidance with SASB guidance or SDGs

3) How do you think you can better connect your ESG and corporate strategy in your quarterly call discussion?
    - Show gaps to corporate discourse council
    - If we cannot show content in quarterly calls, show it in year-end wrap up and reflect on ESG progress throughout the year.

4) What do you think are the key elements for telling your story of the financial value that is created by your company's ESG strategy?
    - Figure out how to better include long-term initiatives in quarterly calls. Elements of the long-term strategy are not always investor-ready. Plant seeds and include where it makes sense until ready, as there are risks around being too transparent if the information is not yet ready to report (e.g. your hypothesis is proven wrong very soon, and the space is constantly changing)
    - Challenges around legal and other risks
    - Should include failures in reports while proposing solutions
    - Performance goals - explain how they are tied to executive compensation (especially for sustainability-related initiatives)
    - Think about what matters most to your company advancements, as well as the analysts who are following your company and what matters to them.
    - Reporting on a quarterly versus an annual cadence
    - The level of liability should be same as for financial statements, so have accountants and auditors on board
    - Disclose cost avoidance if you can't disclose financial results
    - How do you bring that ESG slide up front? Want to avoid scaring or causing apathy
    - Add ESG content to the appendix and bring it up into the main presentation, slowly
    - What scares companies is that we think about this long-term focus, but does that mean we are throwing away quarterly earnings?
    - Getting buy-in

- Philanthropic efforts - is it enough to report volunteer and dollars donated? Where does this come into play?

Working Session 2: What are the challenges?

Discussion Questions and Participant Comments:

1) At your table, what are the three biggest challenges to embedding ESG strategy and the financial impact of ESG in quarterly earnings calls?
    - Changing the investor base. We know there is interest, but we want those that care so that we can put ESG more in forefront. We have hidden ESG content previously. If investors see too much, they might see it as distraction. Changing investor mindset to be more welcoming
    - Calculating ROI around things that are not easily quantifiable (e.g., workplace culture)
    - Gaining management buy-in
    - Ensuring the proper forum and presentation for disclosing this content. Too much ESG can be perceived as smoke & mirrors
    - Having the proper resources to measure and manage ESG data and its financial impact
    - Gaining senior management buy-in and having the right internal partners; not just C-suite, but across departments
    - The legal requirements of reporting ESG information
    - Gaining C-suite buy-in and getting them comfortable with disclosing this information
    - CFOs are used to talking about quarterly numbers, but may not be comfortable with discussing drivers such as employee retention, carbon footprint, etc.
    - This is a lot to communicate in short time period
    - The lack of clarity on the vision and agreement on the 3-5 ESG metrics that drive value and will be reported

2) What is the top challenge?
    - Calculating ROI to help tell the story
    - Gaining management buy-in. If we had management buy-in, we probably would not be having this workshop, as we would already have the right tools and resources for reporting auditable information
    - Asking to process information when there is no immediate upside but there is cost
    - Collecting and managing the necessary data – These are not required disclosures. If reporting on these data were required, we would have better data and consistency of reporting
    - The legal requirements of reporting ESG information
    - This is a lot to communicate in short time period

Final summation of the top challenges:
- Calculating ROI on things that are not easily quantifiable
- Gaining and managing C-suite buy-in to include ESG content in quarterly calls
- Collecting and managing the necessary data to support reporting
- Incorporating this content into an earnings call, when time and space in these calls is precious

Working Session 3: How can we work collaboratively to overcome the challenges?

As a concluding exercise for the workshop, we conducted a broader group discussion on the question: How do we work collaboratively to overcome these challenges and make quarterly earnings calls about long-term value creation?

Participant Comments: Additional question, comments, and suggestions from across the participants include:

Top Challenge #2: Management Buy-In

- You have to do it outside of the quarterly call and from the beginning. The process was driven with leadership from the C-suite and subject matter experts. Now, how do we integrate it into the go-forward measurements?
- Executives may be driven to buy-in to the concept of integrating ESG content into the earnings call, if analysts are asking these questions on the call before the presentation is ready.
- Use questions that analysts are presenting to tell your story.
- Look at the company's history and the ESG data they are tracking, but may not be labeling as such. Frame conversation around those topics.
- If investor base is global, tie in what international industry is doing (likely in reaction to different regulations).
- Plant questions in analyst / investor community.
- Help CEO provide information to sustainability oversight committee.

Top Challenge #3: Data

- When working internally, try to agree on what is important. Focus on institutional learning and operational process. This will help you narrow down a list of metrics.
- Identify a formal group of representatives to agree on implementing, measuring, and reporting so that everyone has a voice.
- Is pulling out ESG metrics right for long term? Should it be more about pointing out the link instead of identifying ESG impact as separate? As an illustrious example, a company may invest in 'x', and show where the results of that investment show up in the financial data. More specifically, for an automotive company whose strategy is to develop electric vehicles; report earnings increases and sales from electric vehicles. Map ESG's financial impact back to the broader corporate strategy and objectives.
- Use existing disclosures.
- There are other non-GAAP metrics. This is about how ESG affects your company, not about how it is affecting the world. You might not want to include 'feel good' irrelevancies.
- There is little standardization on what data should be collected and how it is reported. Therefore, companies should look to existing frameworks (e.g. SASB) to help determine where your material ESG issues are. However, when you look at SASB, they are process-oriented and do not help you determine the financial return. It does not tell you information about risk mitigation, operational efficiencies, etc., so you cannot use it to determine financial indicators.
- There is a lack of clarity on which of the material SASB factors an individual company should focus?
- How do we design a way to track financial analysis as part of our corporate strategy?
- What does the investor or analyst community actually want to see?

- Reporting out on portfolio results, quantifying and making statements on overall performance, boxing it out, and citing relevant ESG factors and where they are for that quarter
- Consensus that we should be using a similar set of metrics, from that we should work with key cross-unit team to get buy-in and support to figure out what matches corporate strategy, devise a way to track financial impact of those key metrics. Then, as you become familiar, you can determine whether to report quarterly or make it known as part of strategy but report at last quarter of the year. As tools get more sophisticated, we will see more updates more often.

Top Challenge #4: Incorporating ESG content into the quarterly earnings presentation

- Adapt how you use each call over the course of the year. E.g. On every call, open with long-term strategy and appendix to remind people of last year's sustainability statistics. But on the end-of-year call, spend a lot more time doing that integrated discussion of how ESG is a part of strategy and precursor of financial performance.

8. Project Next Steps:

The workshop concluded with a set of tactical next steps for the project, including:

1) Write up feedback received from this workshop,
2) Continue working with current project partners,
3) Develop a perspective on the conditions for successfully integrating ESG content and the impact of ESG performance on corporate financial performance into the quarterly earnings call,
4) Keep in touch with workshop participants in terms of what we learn as a result of continuing the process, and
5) Engage additional project partners, if of interest to new companies.

9. Acknowledgements:

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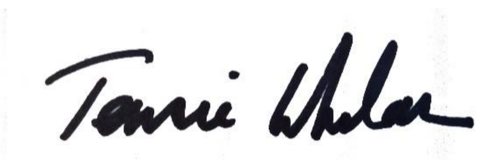

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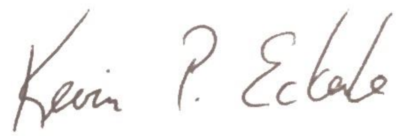

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Appendix I: Summary of the Quarterly Reporting on the Value of Sustainable Performance Project

Our Objective: *Test the hypothesis that providing data on corporate long-term strategy, ESG and financial performance, in quarterly earnings calls will enable better decision making by executives and investors*

The Issue	Project Plan	Project Outcomes
• ***Increased interest in ESG issues*** from corporate managers & investors • Several ***initiatives focused on improving the reporting of performance on material ESG issues*** have emerged • *But,* ***few companies are monetizing the impact of ESG performance*** • ***ESG performance and its impact on financials are rarely shared*** in quarterly calls	• Work with companies to ***synthesize ESG and long-term strategic plan*** • Identify metrics that ***enable monetizing performance on material ESG issues and tracking*** against strategic plan • Across two earnings calls, ***interview analysts*** to document expectations and ***understand impact of new content on investment guidance***	• ***Improved decision-making*** by executives and investors • Shift the focus of quarterly calls to ***long-term drivers of value creation*** and ***increase the frequency that corporate ESG performance is discussed*** • Reliable approaches to embed ***ESG in long-term strategy*** and tools to ***quantify and monetize ESG performance*** • Guidelines and tools to ***embed ESG content*** in quarterly earnings calls

Appendix II: Workshop Agenda

8:30 - 9:00:	Light breakfast and registration
9:00 - 9:10:	Welcome and opening comments Tensie Whelan, Stern CSB
9:10 - 9:30:	Keynote address: ESG Revolution Rising: From Low Chatter to Loud Roar Derek Bingham, Goldman Sachs Sustain
9:30 - 9:45:	The value of reporting on your long-term strategy Brian Tomlinson: CECP
9:45 - 10:00:	Creating the long-term and ESG story for quarterly earnings call Kevin Eckerle, Stern CSB
10:00 - 10:30:	Panel discussion - Corporate experiences to date (Dow, JLL, and Voya) Moderated by: Tensie Whelan • Mark Weick, The Dow Chemical Company • Cynthia Curtis, Jones Lang LaSalle, Inc. • Amy Springsteel & Mei Ni Chu, Voya Financial
10:30 - 10:45:	Break and networking
10:45 - 12:00:	Working Session 1: Deep Dive into the Stern CSB Methodology
12:00-12:15:	Break
12:15-1:00:	Working Session 2 - What are the challenges?
12:55 - 1:15:	Working Session 3: How do we work collaboratively to overcome these challenges and make Quarterly Earnings calls about long-term value creation? Large group discussion moderated by: Tensie Whelan (Stern CSB)
1:15 – 1:30:	Wrap up

Appendix III: Presentation of Brian Tomlinson, CECP

WHY CEOS SHOULD SHARE THEIR LONG-TERM PLANS WITH INVESTORS

BRIAN TOMLINSON
RESEARCH DIRECTOR
CECP

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Pushing back on Short Termism: investor / corporate dialogue

- Investor and CEO concerns re ST:
  - 86% of CEOs feel they are too short-term oriented (Board of Boards, 2016)
  - A majority of investors say that only 25% of the companies they hold successfully communicate long-term strategies (CEO Investor Forum, 2018)
- Demand-side for LT information:
  - Blackrock: "strategic frameworks for sustainable value creation"
  - Vanguard: "the long view"
  - Calls for enhanced disclosure: Reg S-K concept release (2016); Rule-making petition (2018).
- Decline of quarterly earnings guidance:
  - Increasingly unusual in the US (Buffett / Dimon)
  - Concerns re amplification of short-term pressures
- Financial performance and job creation: better under firms with a LT focus (McKinsey / FCLTGlobal)

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CEO INVESTOR FORUMS: CEOs so far

3M, Humana, Allstate, Johnson & Johnson, PG&E, Pirelli, aetna, AmerisourceBergen, Medtronic, ca technologies, gsk, IBM, Delphi Technologies, MERCK, BD, nrg, Unilever, ups, Prudential, Wells Fargo, Voya Financial, Equinix, nielsen, Telia, Nestlé, AmerisourceBergen, jetBlue Airways, welltower, AEP American Electric Power

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RESEARCH PROGRAM

Investor Letter to CEOs: outline of the "elements of a long term plan" and Seven Questions every CEO should be able to answer (Feb 2018)

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WHY DELIVER A LONG-TERM PLAN?

Key motivations:

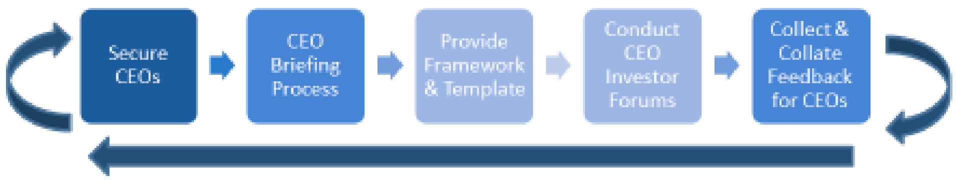
> Frustration at the earnings call
> Consolidating disclosures
> Be a first-mover and leader in a key space
> Six Reasons: (MIT Sloan Management Review)
> Investor Segmentation: "you get the shareholders you deserve"

What delivering a long-term plan requires:

> Cross-team collaboration
> Developing a shared understanding of materiality
> Un-siloing ESG
> Building beyond the Investor Day or Conference Presentation IR deck

What the Strategic Investor Initiative does to help:

> Developed a 5-step feedback loop to drive continuous improvement:



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LONG-TERM DISCLOSURE: COMPLEMENTS AND CONSOLIDATION

> Take back the narrative: if you don't tell the story, others will do it for you
> Disclosure is not a zero sum game:
– Wrapping a narrative around disclosures
– Supplement / align with existing disclosure efforts (earnings call / investor day etc)
> "Mock Long-Term Plan" (building on Eccles / Krzus)
– Can you build a LTP from existing disclosures? Yes (sometimes)
– Re Exxon Mobile
> Key elements for effective communication – in a Long-Term plan:
– Focused by materiality
– Direct connection to operational performance and financial prospects
– Contextualized disclosures: more than marketing

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New Research Findings:
The Economic Significance of Long-Term Plans
Brian Tomlinson, Research Director, Strategic Investor Initiative at CECP
Professor George Serafeim
Harvard Business School, Co-Founder KKS Advisors
Christina Rehnberg, Sakis Kotsantonis and Bronagh Ward from KKS Advisors
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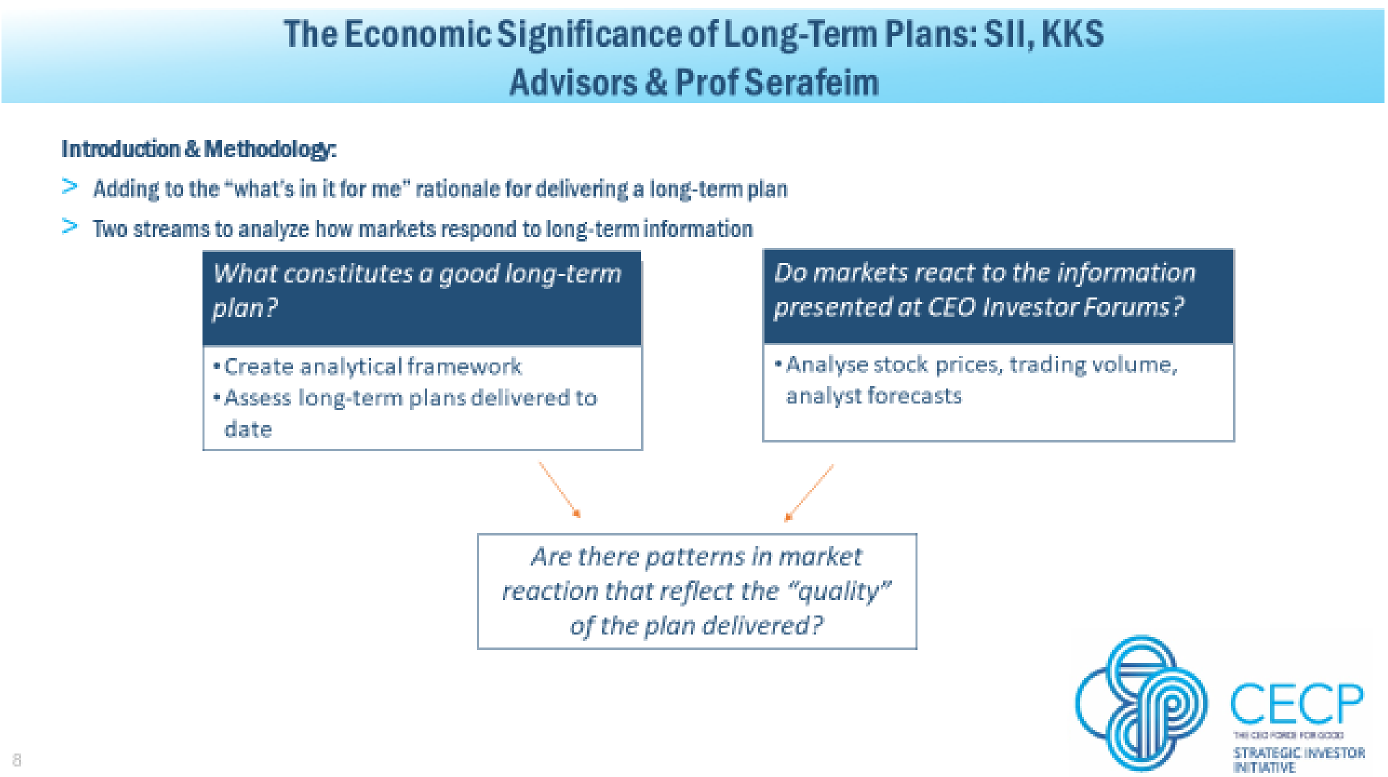
The Economic Significance of Long-Term Plans: SII, KKS Advisors & Prof Serafeim
Introduction & Methodology:
> Adding to the "what's in it for me" rationale for delivering a long-term plan
> Two streams to analyze how markets respond to long-term information
What constitutes a good long-term plan?
• Create analytical framework
• Assess long-term plans delivered to date
Do markets react to the information presented at CEO Investor Forums?
• Analyse stock prices, trading volume, analyst forecasts
Are there patterns in market reaction that reflect the "quality" of the plan delivered?
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Long-Term Plan: Content Framework

22 specific issues guide the disclosure

Financial Performance
- Capital efficiency and profitability
- Leverage
- Revenue growth

Capital Allocation
- Capital allocation plan
- M&A discipline
- R&D investment
- Excess cash

Trends
- Market trends
- Mega-trends

Competitive Positioning
- Long-term value drivers
- Medium-term value drivers
- Short-term value drivers

Risks & Opportunities
- Assessment of financially material ESG issues
- Risk management
- Opportunities

Corporate Governance
- Executive compensation
- Board composition
- Role of board
- Shareholder engagement

Corporate Purpose
- What is the purpose and is it aligned with long-term strategy

Human Capital
- How is human capital managed over the long-term

Long-Term Value Creation
- Value of strategic partnerships / improving the operational ecosystem

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Long-Term Plan: Content Framework

Scoring methodology

- **4 events; 19 companies**
- CEO long-term plan content is evaluated on a **4-point scale**, inspired by the Sustainability Accounting Standards Board's (SASB) way of scoring materiality disclosure:

No Disclosure	Boilerplate	Metrics - Backward	Metrics - Forward
✓No mention of issue at all	✓Mention of issue and narrative provided	✓Mention of issue and narrative provided ✓Metrics on performance, processes or frameworks provided ✓Metrics are about past/current and do not mention the future	✓Mention of issue and narrative provided ✓Metrics on performance, processes or frameworks provided ✓Metrics are forward-looking

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Results: Summary

Basic narrative

01 Associated with abnormal market reactions. Communicate value relevant information to the market
- For stock returns
- For trading volumes

02 But not with revisions in analyst forecasts

03
- Frequent forward looking metrics: Competitive Positioning, Trends, Financial Performance
- Least disclosure and metrics on issues under the Corporate Governance theme

04 Comprehensive presentations: BD, Medtronic and PG&E

11

Results: Disclosure Distribution

How does company disclosure vary across themes and issues?

Top 5 issues with most forward-looking metrics

Theme	Issues	MF	MB	B	ND
Financial Performance	Capital efficiency and profitability	8	6	3	2
Trends	Market: Future market place / sources of competitive advantage ("traditional" trends)	10	6	2	1
Competitive Positioning	Long-term value drivers (>7 years): strategic health	7	0	12	0
Competitive Positioning	Medium-term value drivers (2-7 years): commercial / cost structure / asset health	9	0	5	5
Competitive Positioning	Short-term value drivers (<=2 years): sales / operating cost / capital productivity	8	7	2	1

>50% of companies do not disclose on these issues

Theme	Issues	MF	MB	B	ND
Financial Performance	How leveraged will the company be in the future?	1	0	0	18
Financial Performance	Revenue growth	2	3	4	10
Capital Allocation	Investments in R&D	1	2	2	13
Risks & Opportunities	Assessment of financially material ESG issues (e.g. relevant to business)	0	4	0	15
Corporate Governance	Executive compensation: alignment with long-term strategy	0	6	2	11
Corporate Governance	How will composition of board guide long-term strategic goals	0	6	2	10

MF – Forward-looking metrics MB – Backward-looking metrics B – Boilerplate description ND – No disclosure

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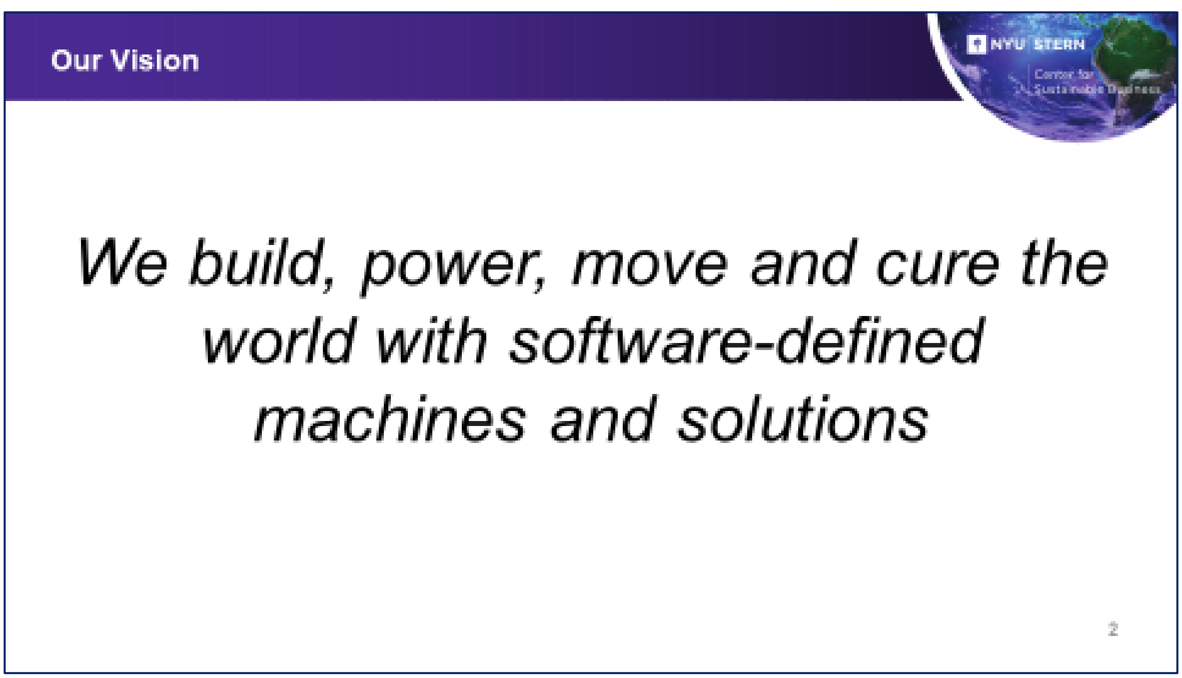
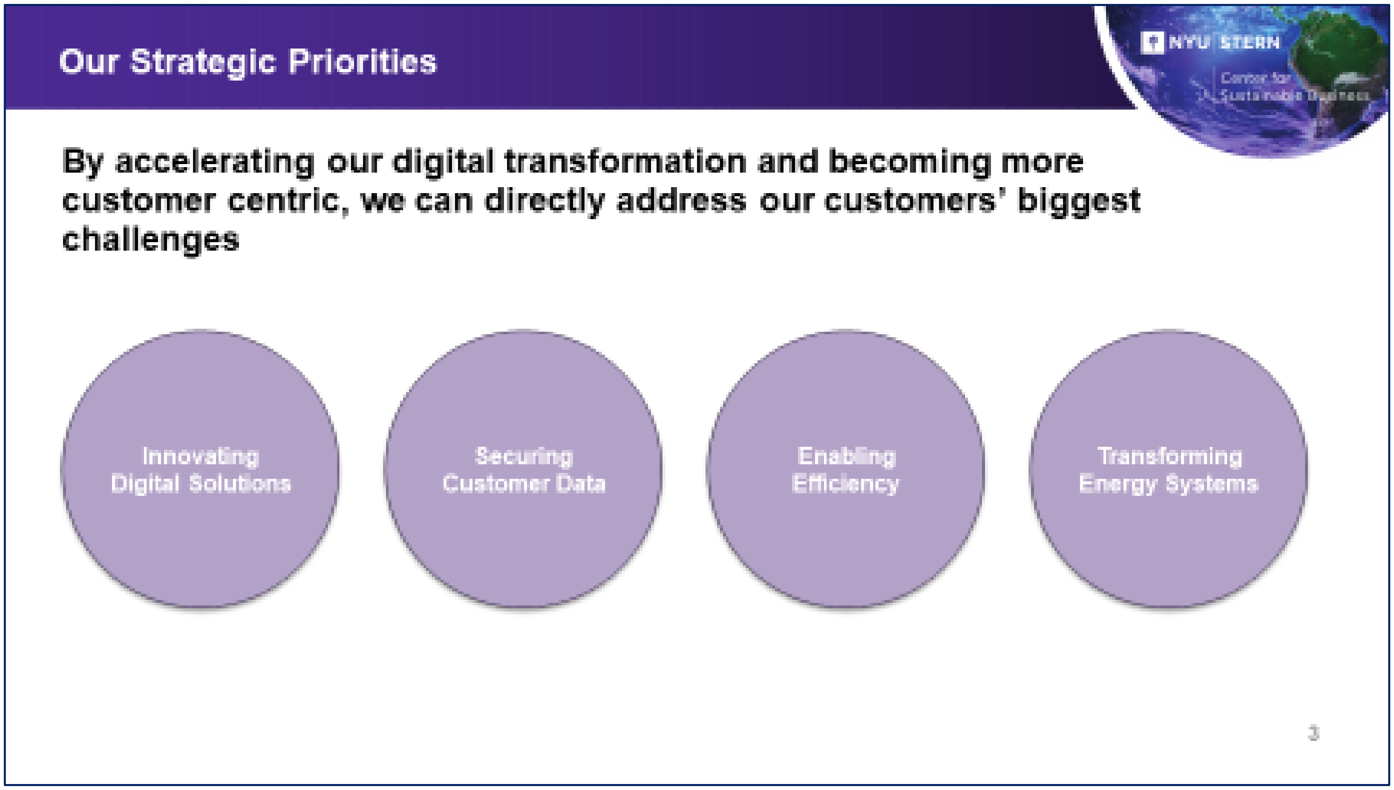
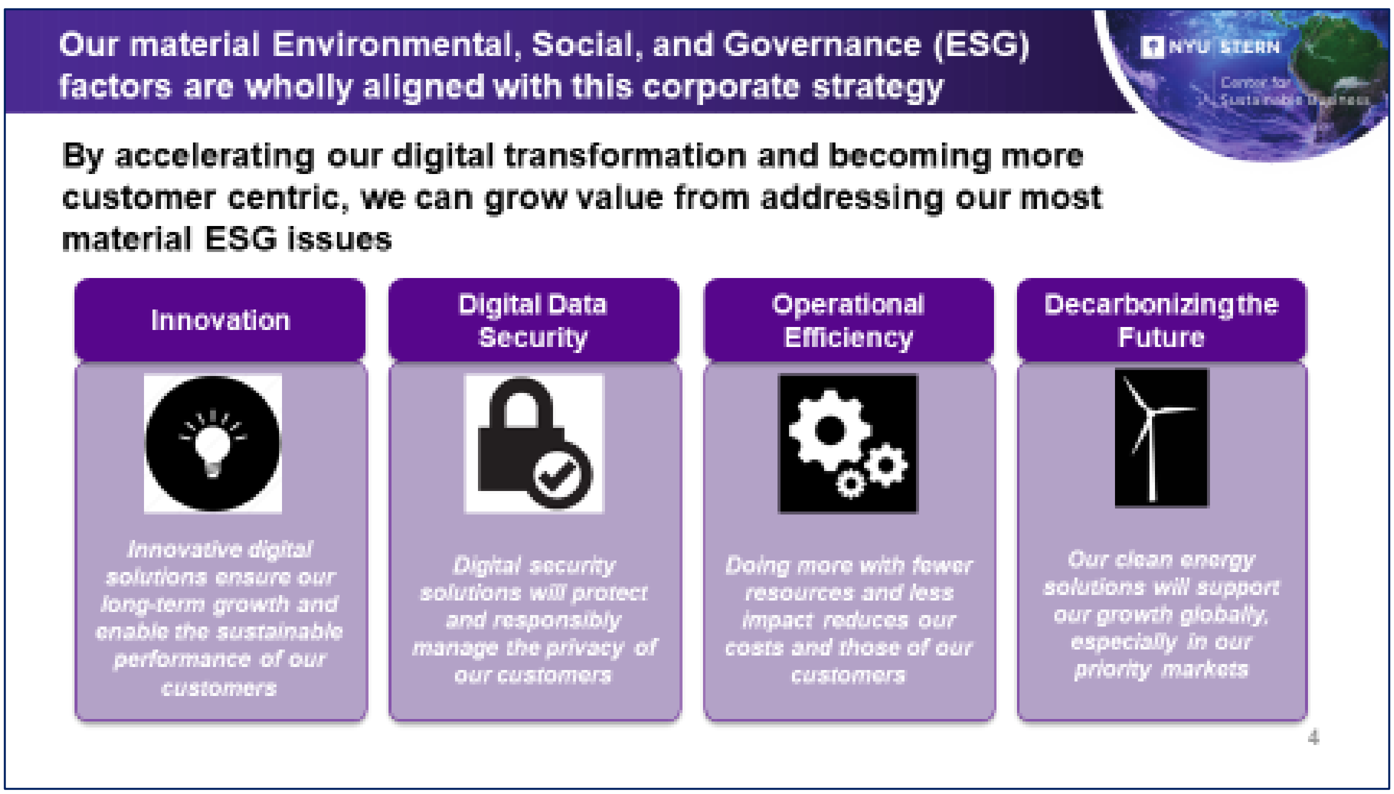
Appendix IV: The Stern Center for Sustainable Business Quarterly Call Reporting Framework

The Stern CSB Framework for quarterly reporting was developed as a guide to companies working to integrate ESG performance, and the financial impact of ESG performance in the venue of the quarterly earnings call. The company referenced in the framework is fictitious, though based on a number of companies leading in the effort to integrate ESG and financial disclosures.

The framework includes two section. In the first section (slides 1-7), the Stern CSB Framework provides guidance for how to better integrate ESG content and the impact of ESG performance on corporate financial performance in the CEO comments and content on the quarterly earnings call. In the second section, the Stern CSB Framework provides guidance on the inclusion of long-term strategy and ESG content in Appendix material that will supplement each quarterly call.




Our Strategic Priorities
NYU STERN
Center for Sustainable Business
By accelerating our digital transformation and becoming more customer centric, we can directly address our customers' biggest challenges
Innovating Digital Solutions
Securing Customer Data
Enabling Efficiency
Transforming Energy Systems
3


Our material Environmental, Social, and Governance (ESG) factors are wholly aligned with this corporate strategy
NYU STERN
Center for Sustainable Business
By accelerating our digital transformation and becoming more customer centric, we can grow value from addressing our most material ESG issues
Innovation
Innovative digital solutions ensure our long-term growth and enable the sustainable performance of our customers
Digital Data Security
Digital security solutions will protect and responsibly manage the privacy of our customers
Operational Efficiency
Doing more with fewer resources and less impact reduces our costs and those of our customers
Decarbonizing the Future
Our clean energy solutions will support our growth globally, especially in our priority markets
4

Our 3-year Path Forward

NYU STERN Center for Sustainable Business

By increasing our customer centricity and addressing our biggest challenges, we will grow revenues and earnings ahead of peers, reduce our impact and that of our customers, and return capital to our shareholders

FY 2017 – FY 2019

Revenue **+10%** and Earnings **+12%**

Our Impact* **-15%** and Our Customer's Impact* **-50%**

Shareholder Returns* **$50B**

Notes:
1) For additional detail on our 3-year strategy, please see the Appendix
2) Our impact will be measured by our annual absolute emissions of greenhouse gases (Scopes 1, 2, and 3). Our customer's impact will be estimated as the annual absolute emissions of greenhouse gases from the use of our products by our customers.
3) Shareholder returns will be a combination of annual dividends and stock repurchases.

5

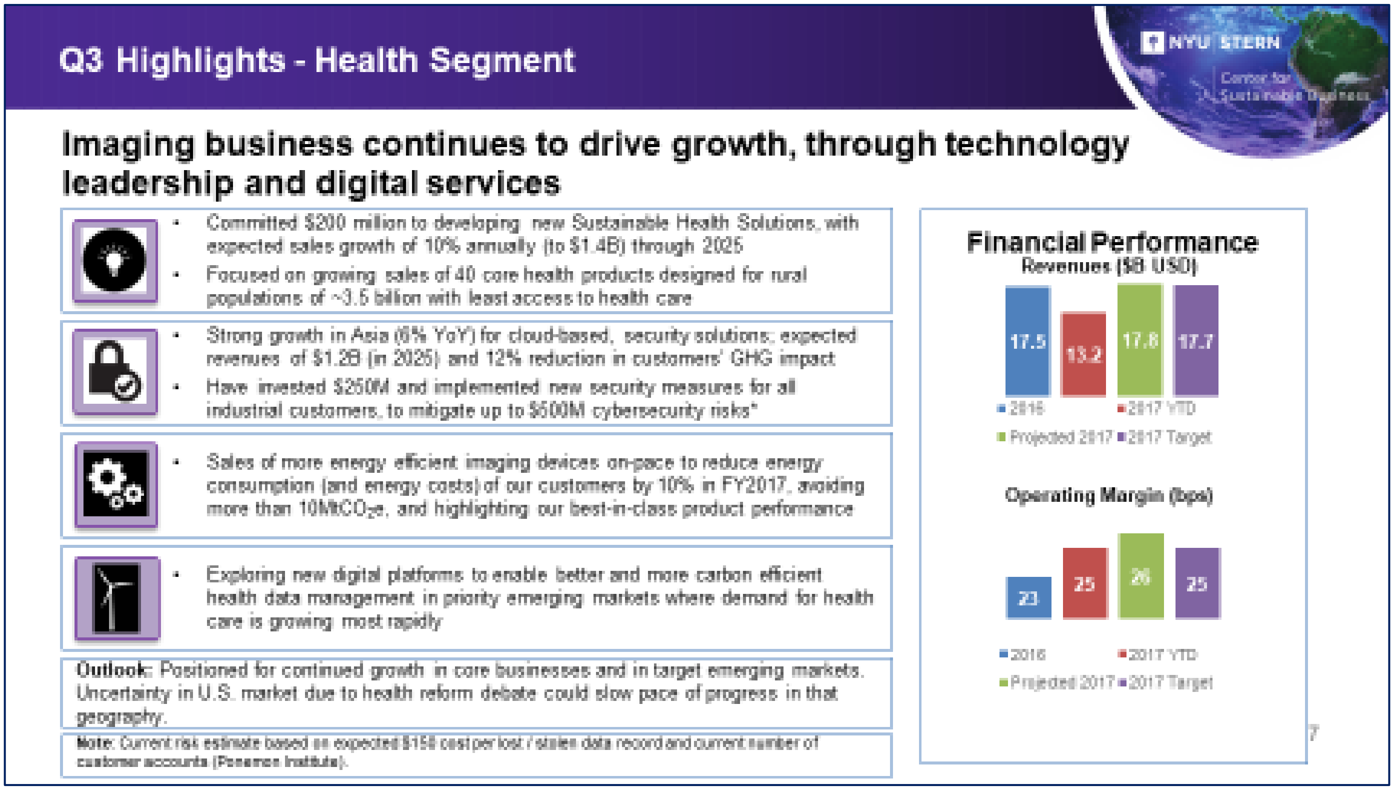
Our Performance – Q3 Highlights

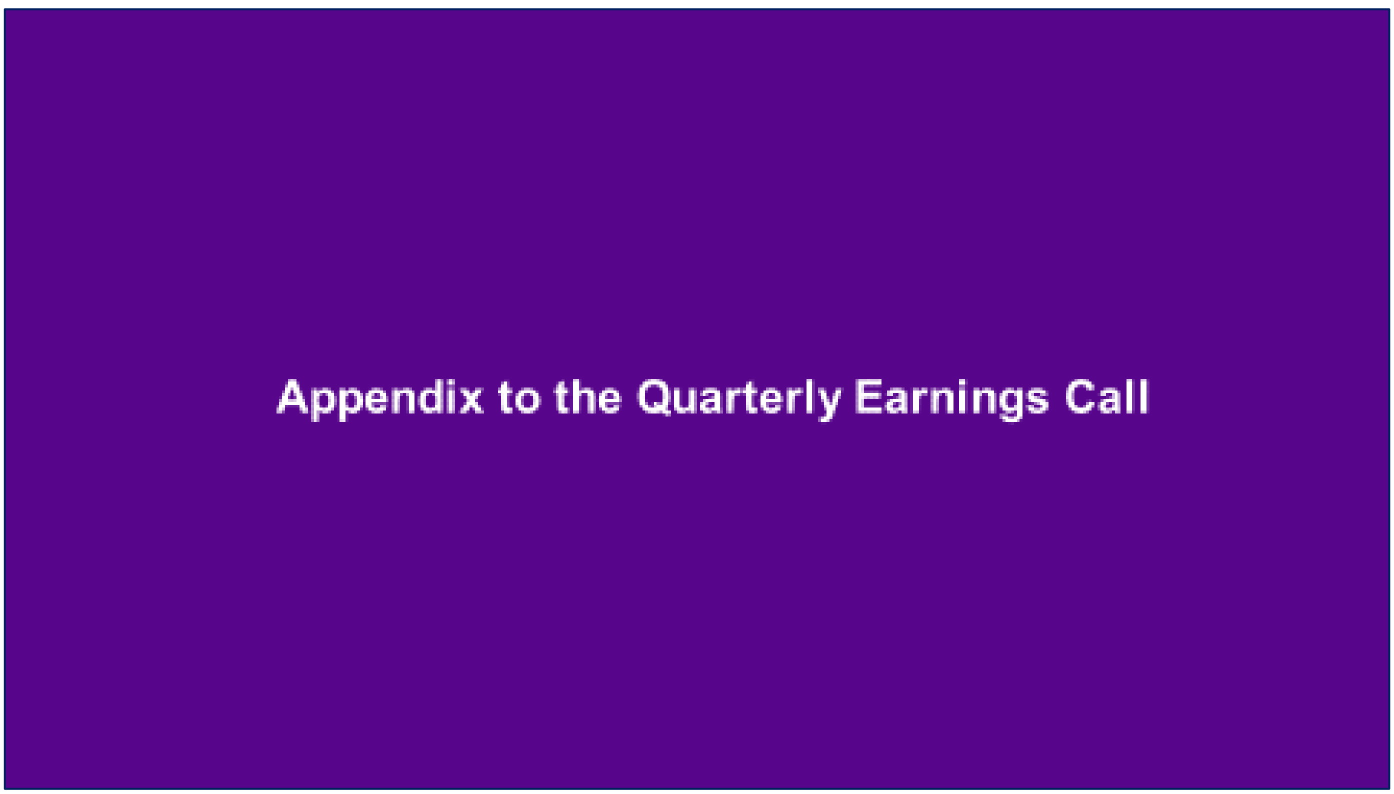
NYU STERN Center for Sustainable Business

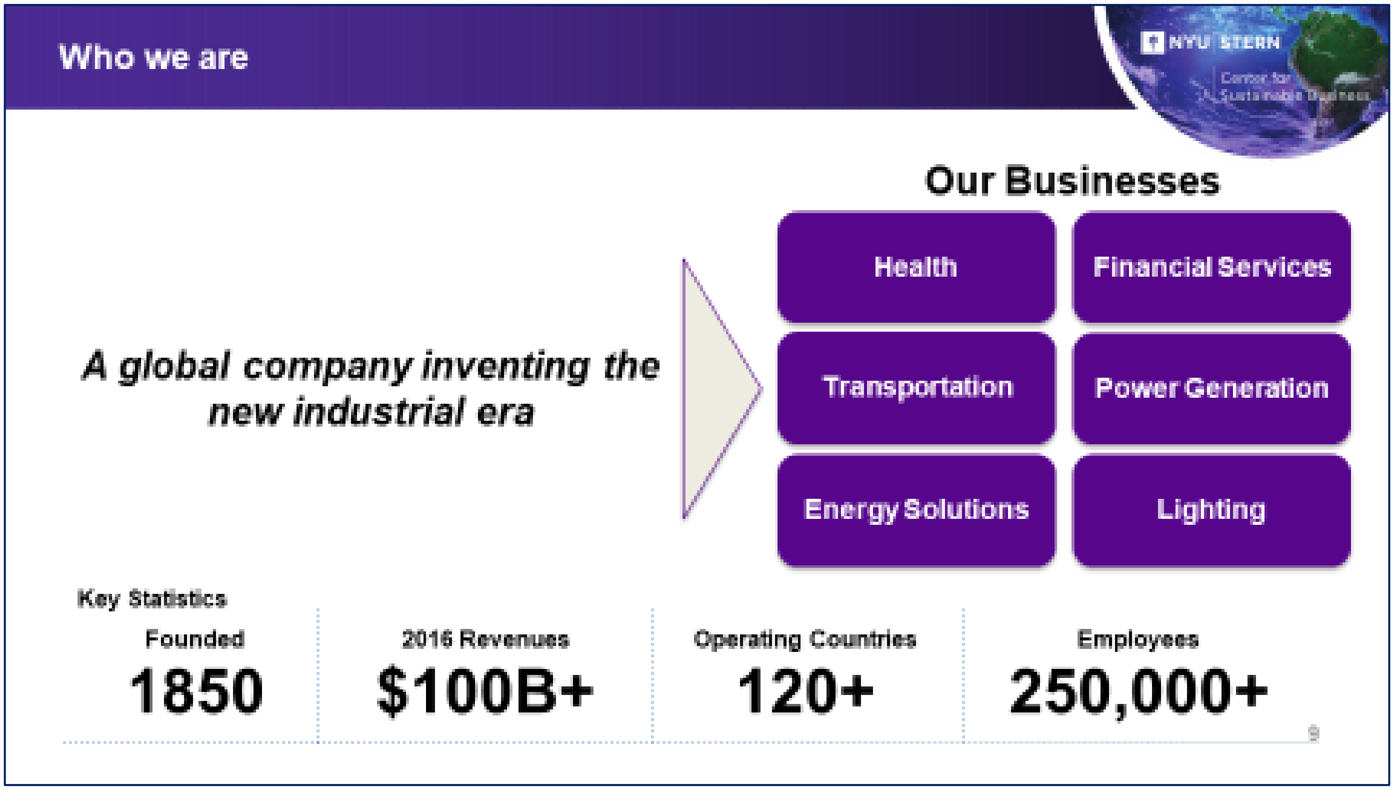
Three quarters into our first year, we are on target!

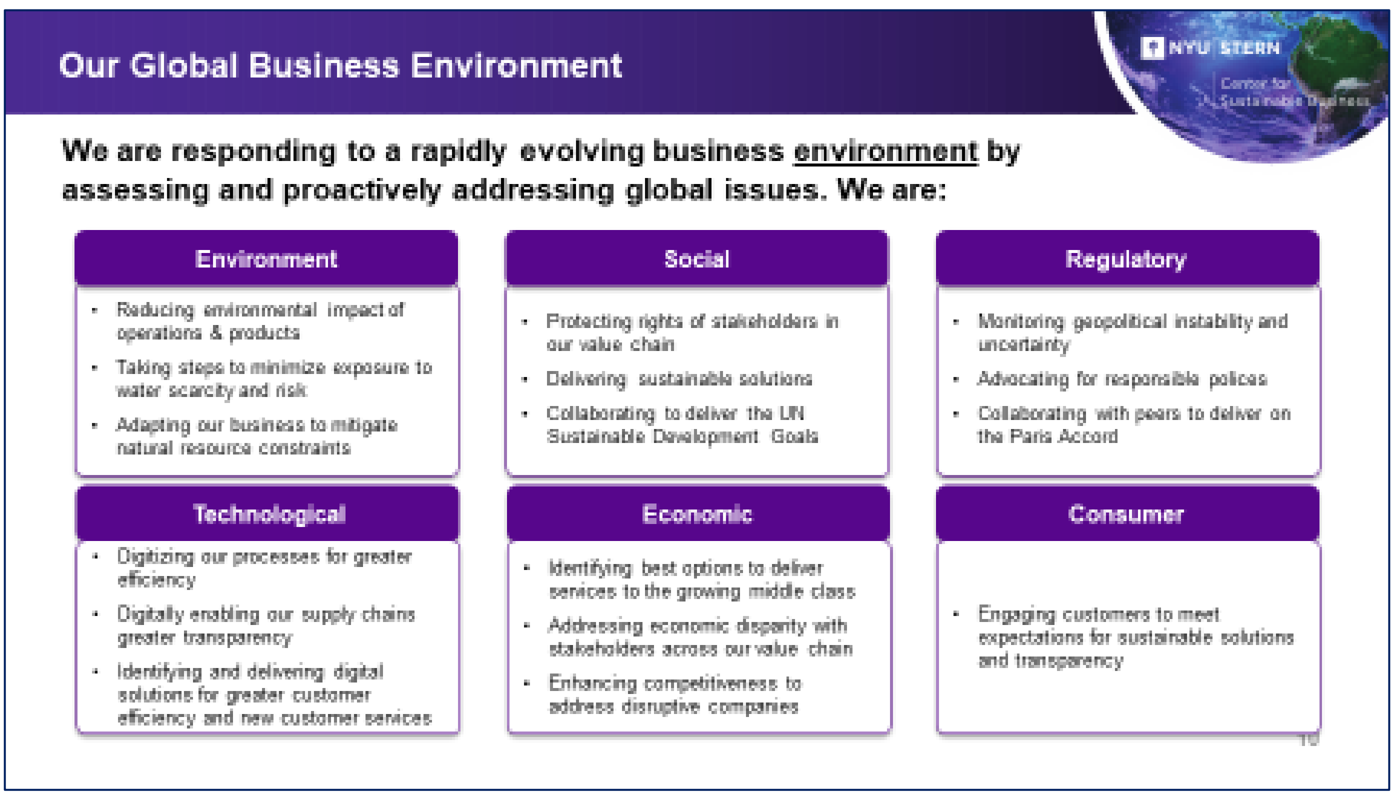
- YTD **Operating Earnings per Share (EPS) in-line with forecast**, and on-pace for FY2017
- **~2% Revenue growth** projected through year-end
- **Operating margin in-line with FY2016** performance and FY 2017 forecast
- On-pace to **reduce our carbon and water footprint by 5% and 8% YoY**, respectively….with savings of more than $15M
- **10% increase in sales of renewable energy systems YTD** is reducing our customer's carbon footprint by 15%
- On-pace to **return more than $13.5B** to shareholders in FY2017 through buyback

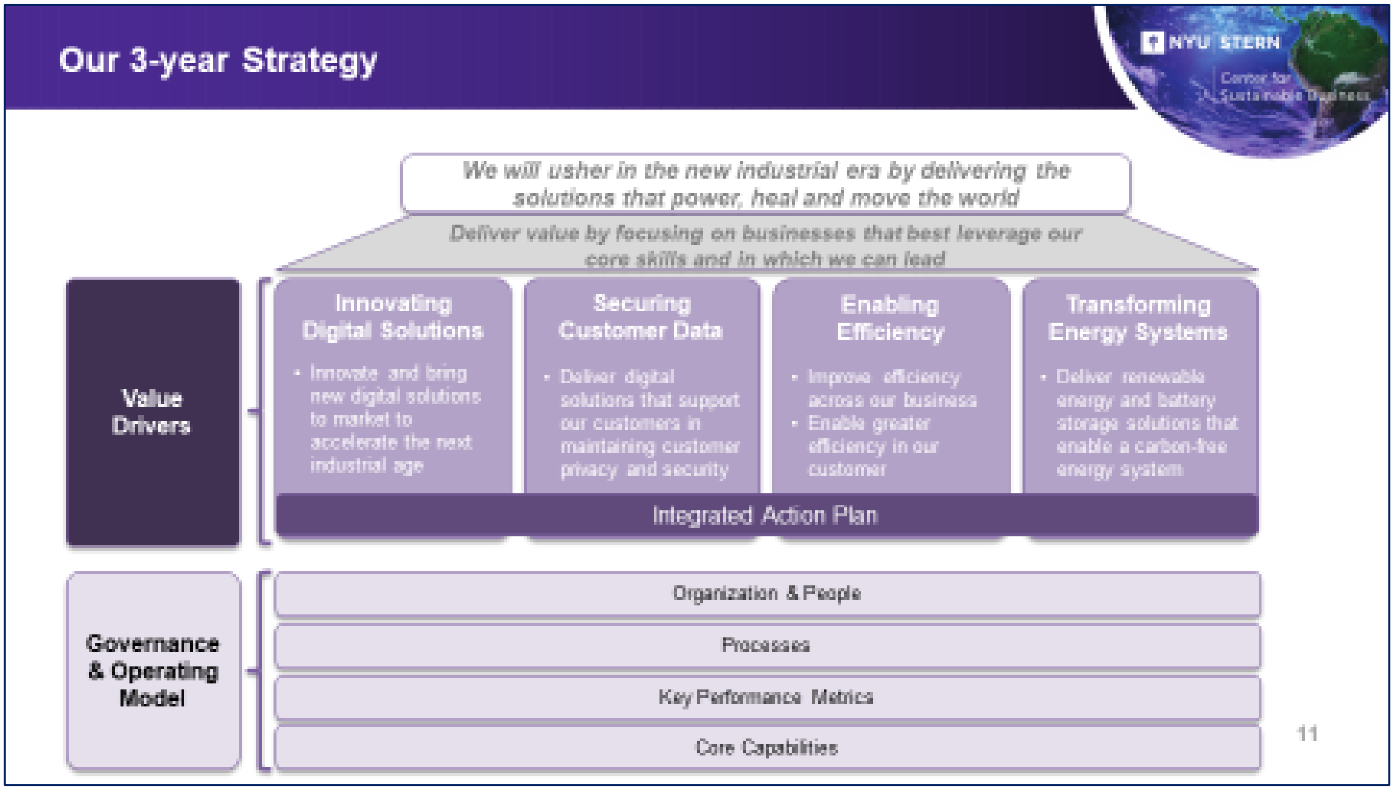
6

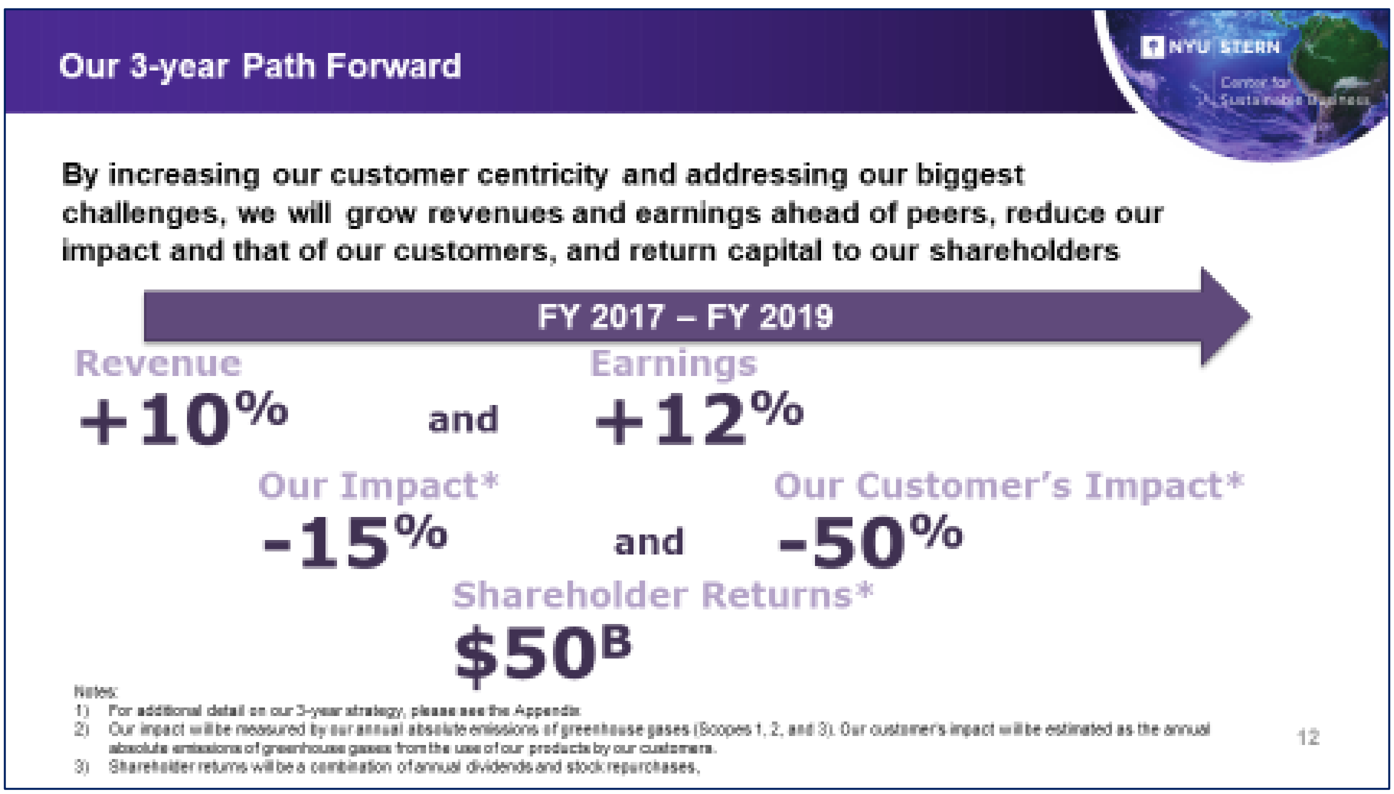

Q3 Highlights - Health Segment
NYU STERN
Center for Sustainable Business
Imaging business continues to drive growth, through technology leadership and digital services
• Committed $200 million to developing new Sustainable Health Solutions, with expected sales growth of 10% annually (to $1.4B) through 2025
• Focused on growing sales of 40 core health products designed for rural populations of ~3.5 billion with least access to health care
• Strong growth in Asia (6% YoY) for cloud-based, security solutions; expected revenues of $1.2B (in 2025) and 12% reduction in customers' GHG impact
• Have invested $250M and implemented new security measures for all industrial customers, to mitigate up to $500M cybersecurity risks*
• Sales of more energy efficient imaging devices on-pace to reduce energy consumption (and energy costs) of our customers by 10% in FY2017, avoiding more than 10MtCO2e, and highlighting our best-in-class product performance
• Exploring new digital platforms to enable better and more carbon efficient health data management in priority emerging markets where demand for health care is growing most rapidly
Outlook: Positioned for continued growth in core businesses and in target emerging markets. Uncertainty in U.S. market due to health reform debate could slow pace of progress in that geography.
Note: Current risk estimate based on expected $158 cost per lost / stolen data record and current number of customer accounts (Ponemon Institute).
Financial Performance
Revenues ($B USD)
17.5
13.2
17.8
17.7
2016
2017 YTD
Projected 2017
2017 Target
Operating Margin (bps)
23
25
26
25
2016
2017 YTD
Projected 2017
2017 Target
7


Appendix to the Quarterly Earnings Call


Who we are
NYU STERN
Center for Sustainable Business
Our Businesses
Health
Financial Services
Transportation
Power Generation
Energy Solutions
Lighting
A global company inventing the new industrial era
Key Statistics
Founded
1850
2016 Revenues
$100B+
Operating Countries
120+
Employees
250,000+
9


Our Global Business Environment
NYU STERN
Center for Sustainable Business
We are responding to a rapidly evolving business environment by assessing and proactively addressing global issues. We are:
Environment
Reducing environmental impact of operations & products
Taking steps to minimize exposure to water scarcity and risk
Adapting our business to mitigate natural resource constraints
Social
Protecting rights of stakeholders in our value chain
Delivering sustainable solutions
Collaborating to deliver the UN Sustainable Development Goals
Regulatory
Monitoring geopolitical instability and uncertainty
Advocating for responsible polices
Collaborating with peers to deliver on the Paris Accord
Technological
Digitizing our processes for greater efficiency
Digitally enabling our supply chains greater transparency
Identifying and delivering digital solutions for greater customer efficiency and new customer services
Economic
Identifying best options to deliver services to the growing middle class
Addressing economic disparity with stakeholders across our value chain
Enhancing competitiveness to address disruptive companies
Consumer
Engaging customers to meet expectations for sustainable solutions and transparency
10


Our 3-year Strategy
NYU STERN
Center for Sustainable Business
We will usher in the new industrial era by delivering the solutions that power, heal and move the world
Deliver value by focusing on businesses that best leverage our core skills and in which we can lead
Value Drivers
Innovating Digital Solutions
• Innovate and bring new digital solutions to market to accelerate the next industrial age
Securing Customer Data
• Deliver digital solutions that support our customers in maintaining customer privacy and security
Enabling Efficiency
• Improve efficiency across our business
• Enable greater efficiency in our customer
Transforming Energy Systems
• Deliver renewable energy and battery storage solutions that enable a carbon-free energy system
Integrated Action Plan
Governance & Operating Model
Organization & People
Processes
Key Performance Metrics
Core Capabilities
11


Our 3-year Path Forward
NYU STERN
Center for Sustainable Business
By increasing our customer centricity and addressing our biggest challenges, we will grow revenues and earnings ahead of peers, reduce our impact and that of our customers, and return capital to our shareholders
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Shareholder Returns*
$50B
Notes:
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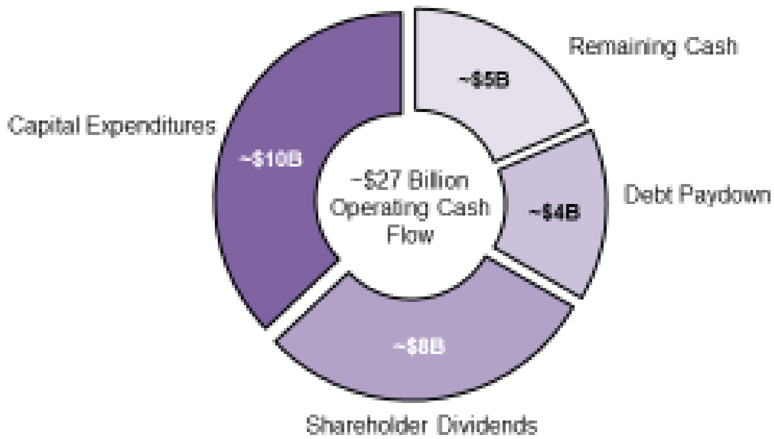
3) Shareholder returns will be a combination of annual dividends and stock repurchases.
12

Investing in Growth and Innovation

We are increasing our investments in the business and returning more to our investors

FY 2017-19



Capital Allocation Framework

- Invest in innovative product development for earnings growth, with ~$4 billion targeted specifically to innovative renewable energy solutions and battery storage
- Reduce operating costs to expand margin
- Return capital to shareholders

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Our Board of Directors

Our diverse and independent Board will monitor our 3-year performance trough

- Regular review of short-term performance and long-term expectations
- Maintaining its rigorous focus on risk management
- Through the activities of our other committees, including:
  - A dedicated Sustainability Committee, and
  - Innovation and Technology Committee

Our Board Includes

- Individual 1
- Individual 2
- Individual 3
- Individual 4
- Individual 5
- Individual 6
- Individual 7
- Individual 8
- Individual 9
- Individual 10

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Aligning Compensation and Objectives

We firmly believe that the right incentives will drive the right outcomes; therefore, we align our compensation model with our targets

Pay considerations include:

- **Performance:** emphasizing corporate results and consistent, sustainable performance
- **Balance:** between formulaic calculation of rewards and committee judgement, and a mix of performance measures
- **Risk:** metrics for risk management and sustainability

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