

Value & valuation

FIBS – CFO Network
21 March



World Business
Council
*for Sustainable
Development*





Who we are

WBCSD is a global community of leading businesses driving systems transformation for a better world in which 9+ billion people can live well, within planetary boundaries, by mid-century.

Together, we accelerate the required transformation of businesses, their value chains and the systems in which they operate, to limit the impact of the climate crisis, restore nature & tackle inequality.

Our community of business leaders is empowered to raise ambition for a better world, deliver action at speed and scale in their operations & value chains, and sharpen the accountability of their performance.

Our vision

*A world in which
more than 9 billion
people live well,
within planetary
boundaries*



WBCSD Value Proposition

Lead

What we stand for

We accelerate transformation of businesses, their value chains and the systems in which they operate.

Transform

What we offer

- Ideate and level-set best practices
- Guidance and tools to solidify business sustainability performance
- Bring together members and external partners to form coalitions to scale change
- Amplify voice of leading business and shape ambitious policy

Succeed

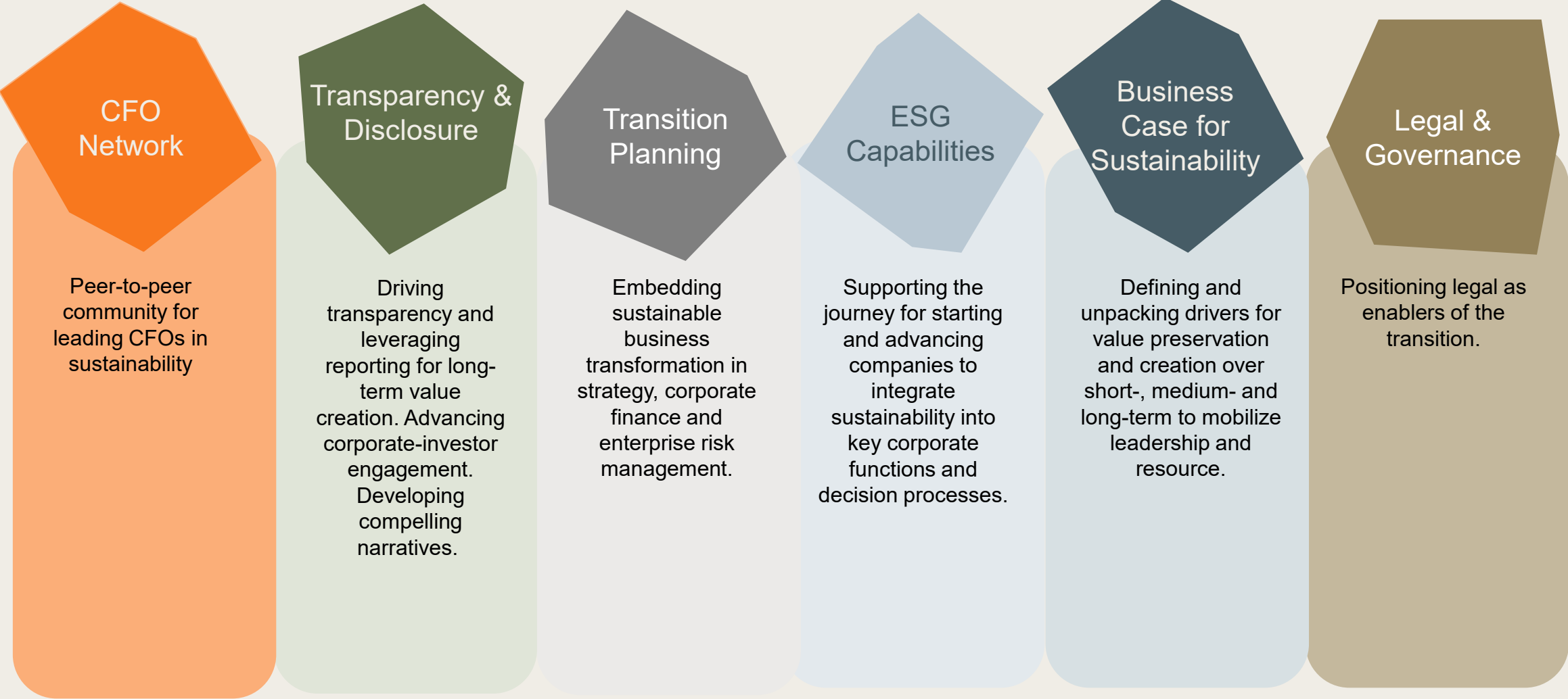
The value we add

Business leaders are empowered to raise ambition for a better world, deliver action at speed and scale in their operations and value chains, and sharpen the accountability of their performance

2024 CFO Network & Redefining Value Community



2024 CFO & RV Action Areas



CFO Network

Convening leading CFOs to redefine leadership in business and finance driven by WBCSD work

1.

Attend in-person roundtables for CFOs

2.

Join virtual thematic roundtables on key topics for CFOs

3.

Connect with investors, regulators, and other high-level stakeholders

4.

Gain insights from key action areas through quarterly updates

Value - balance sheet and beyond

Natura & CO IP&L results (in BRL million)	2022	Natural Capital	Social Capital	Human Capital	2022 SROI ¹
Beauty Consultants - higher levels	16,382	-	-	16,382	-
Taxes	14,039	-	14,039	-	-
Supply chain	5,959	-1,906	2,687	5,177	-
Direct operations	3,188	-146	587	2,747	-
Instituto Natura	2,301	-	488	1,814	45.1
Carbon credits	1,229	871	-	358	58.8
Agro-extractivist communities	415	40	321	54	9.4
Social support	12	-	-	12	2.6
Products: use and end of life phases	-2,433	-2,443	-	10	-
Beauty Consultants - lower levels	-6,908	-	-	-6,908	-
Total	34,185	-3,584	18,122	19,647	2.7

¹Social Return on Investment. The numbers in this column represent the intensity of impact (the return in societal well-being) for each BRL invested.
This figure represents the return in societal well-being for each BRL in Natura's net revenue.



Sensitivity Hybrid Shell Plan + IEA NZE50

	Carrying amount		Sensitivity			
	Dec 31, 2023	Dec 31, 2022	2023	2022		
	\$ billion					
Integrated Gas	72	75	(8)	(10)	(4)	(6)
Upstream	84	88	(1)	(3)	(1)	(2)
Total	156	163	(9)	(13)	(5)	(8)

Value Perspective

Societal Value

Purpose
Contribution to the SDGs
Reputation
License to operate

SUSTAINED

Future

Positive net contribution to society:
Economic value quantified & monetized

Business Value

Intangible assets & ESG factors that drive competitive advantage
Assets with continuing value, but written-off
Contingent liabilities

EXPECTED

Forecasted

Strategic value:
Earnings & future cash flows
Reduced risk

Balance Sheet Value

Net current assets
Tangible assets
Recorded intangible assets
Liabilities

BOOK

Current

Financial performance:
Profitability and returns

IR Capitals

Natural

Societal & relationship

Intellectual (Organizational)

Human

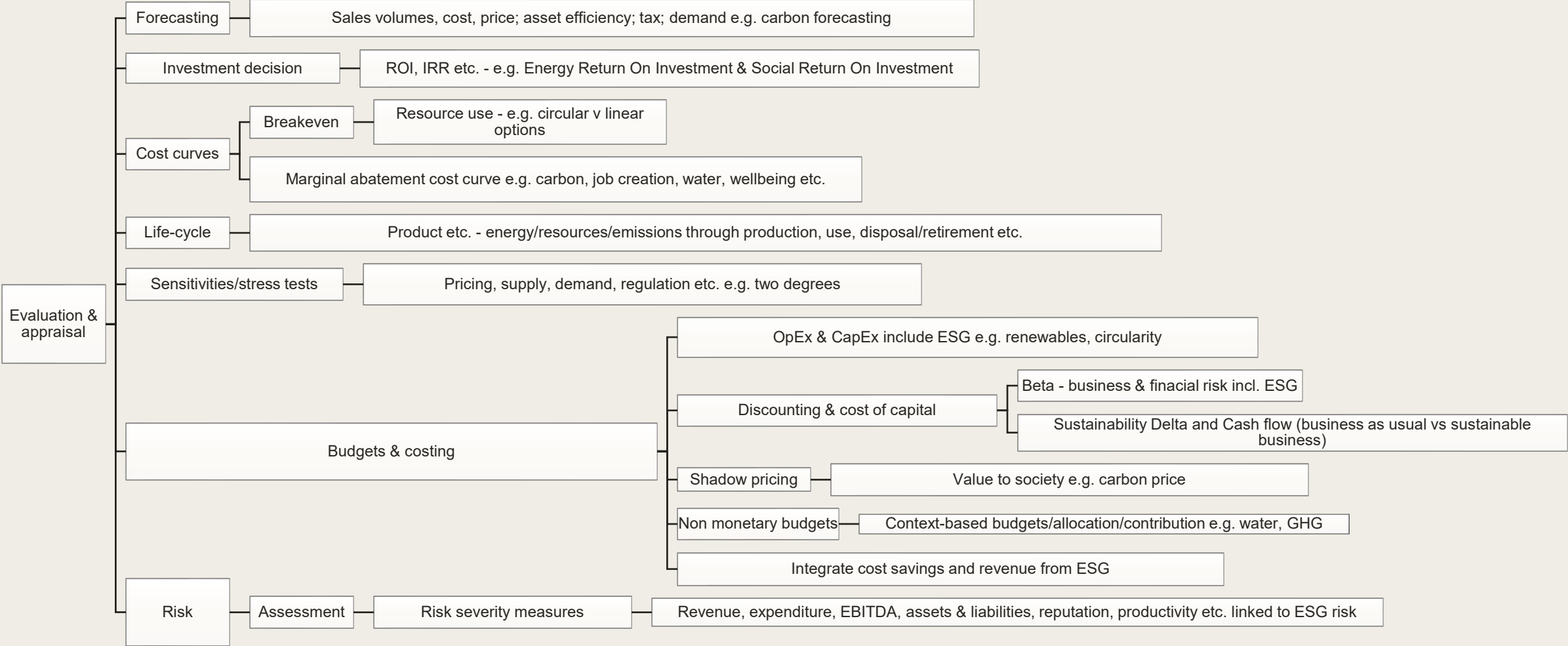
Manufactured

Financial

Key Value Drivers

- Environmental resources & processes
- Brand
- Customers
- Suppliers & partners
- Communities
- Data, technology, systems, & network effects
- Intellectual property
- Governance & leadership
- Workforce & people
- Know-how
- Operational & infrastructure
- Financial & physical capital employed & provided based on IFRS/GAAP and non-IFRS/GAAP information

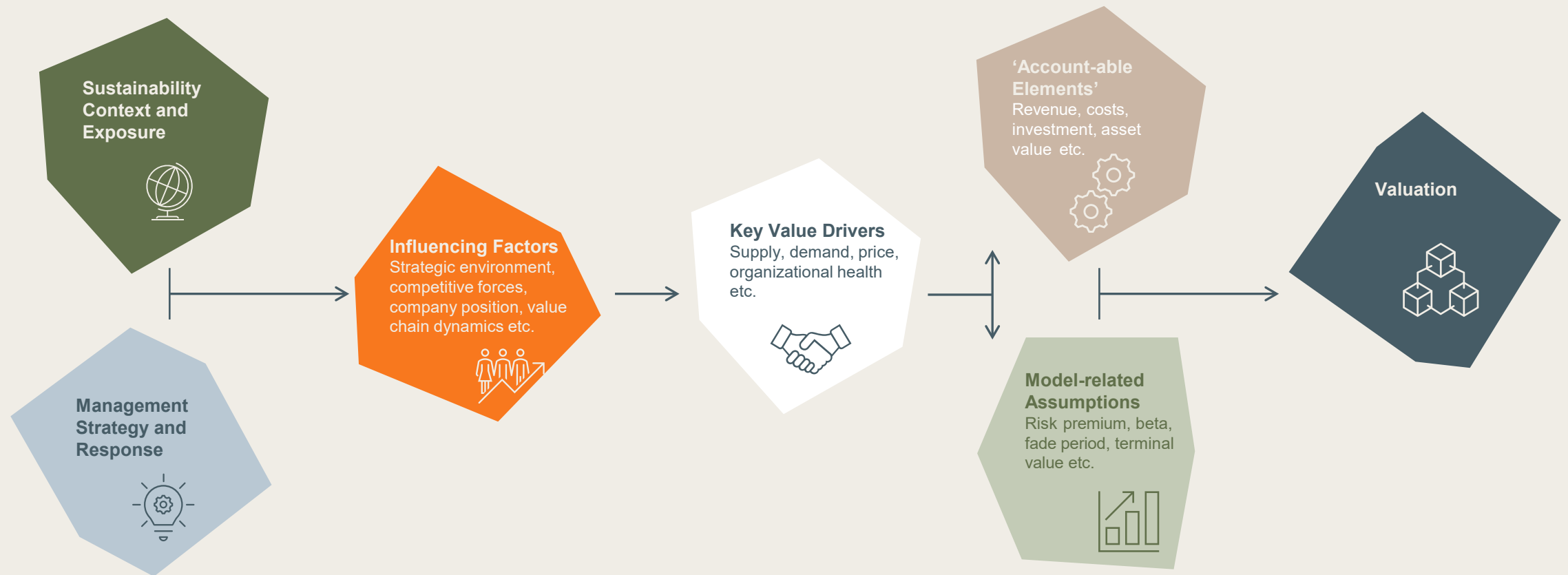
Financial planning integration



Sustainability in Intrinsic Valuation

Sustainability factors can be integrated into intrinsic valuation (and hence capital allocation) at different points in the process.

This framework - derived from a review of current investment practice maps these different points.



‘Account-able Elements’

An ‘account-able’ element relates to the financial accounts of a company.

‘Accountable’ elements appear in a company’s financial accounts - so can also be entered directly into a model of a company’s future financial performance.

*Key accountable elements
(Relevant to valuation that
sustainability may influence)*

- Revenues
- Margins
- Cost of sales
- Operating costs
- CapEx
- Asset value
- Depreciation
- Taxes

Examples

The following are ‘accountable’ elements that have explicit and direct impact on ‘line items’ within a company’s financial accounts:

- Increasing or decreasing sales forecast in response to changing sustainability-orientated consumer preferences.
- Changing margins associated with a particular technology or product that supports/delivers decarbonization.
- Increased operating costs associated with regulatory requirement supporting safety.
- Increased CapEx to develop capabilities and solutions that support circularity.
- Climate-related transition affects estimates of useful life, residual value, impairment etc.
- Climate-related physical effects on costs and asset values.

Analysts will ask:

- (How) do ‘sustainability’ factors affect direct ‘account-able’ inputs?
- (How) might sustainability factors affect how fast different revenue streams within the business grow?
- Will sustainability factors influence the magnitude or duration of this growth?

Robeco: Sector Decarbonization Pathway for the Oil & Gas sector

Analysts evaluate how decarbonization towards 1.5°C of warming will affect the revenues and long-term ‘growth’ rate of oil and gas companies – incorporating these factors into forecast liabilities and revenue expectations.

Sustainability Context and Exposure

"O&G sector constituents which are also more likely to experience significant declines in future revenue. ... To counteract this expected revenue decline, many energy companies are investing in renewable sources of energy. However, in most cases, the new business lines may not be able to fully offset the expected revenue losses, as competition for investing in renewables is high and returns tend to be lower.

Management Strategy and Response

Key Value Drivers

Thus, we expect many O&G companies to enter a phase of terminal revenue, profits, and cash-flow decline. The idea of terminal decline stands in stark contrast to the ‘going concern’ principle used in valuing financial instruments ... Valuation models for O&G companies must thus assume a terminal rate of decline to accurately grasp the impact of Scope 3 carbon emission reduction trends.

‘Account-able Elements’

Model-related assumptions

“In valuing Company A’s equity, two adjustments were made: (1) we subtracted an estimate for decommissioning (adding it to the company’s liabilities), and (2) we based the terminal decline on a roughly 50-50 split of cash flows coming from O&G (absolute reduction in companies’ fossil fuel). The latter results in a real (excluding inflation impacts) decline rate of free cash flow by 2.0% per annum”

→ Robeco’s scenarios constitute the ‘sustainability context’ that explores the impact on future revenue and shape analysis.

→ The analysts adjust liabilities (an ‘accountable element’ and the terminal growth rate (‘a model-related assumption’) in their valuation of these companies.

→ In respect of credit securities, the analysts treat “long-term asset retirement obligation” as part of “total adjusted debt” to highlight the potential liability related to a company’s obligation to remove such impaired assets.

Equity net present value (NPV) and cumulative impact of decommissioning and terminal decline				
Stage	Equity NPV (USD bln)	Change	Upside	Cumulative impact (vs pre-adj.)
Pre-adjustments	100		35%	
Incl. operational, policy, and decommissioning costs of decarbonization	79	-31	7%	-21%
Incl. terminal decline (absolute reduction)	64	-23	-13%	-36%

Source: Robeco

Redefining Value resources

