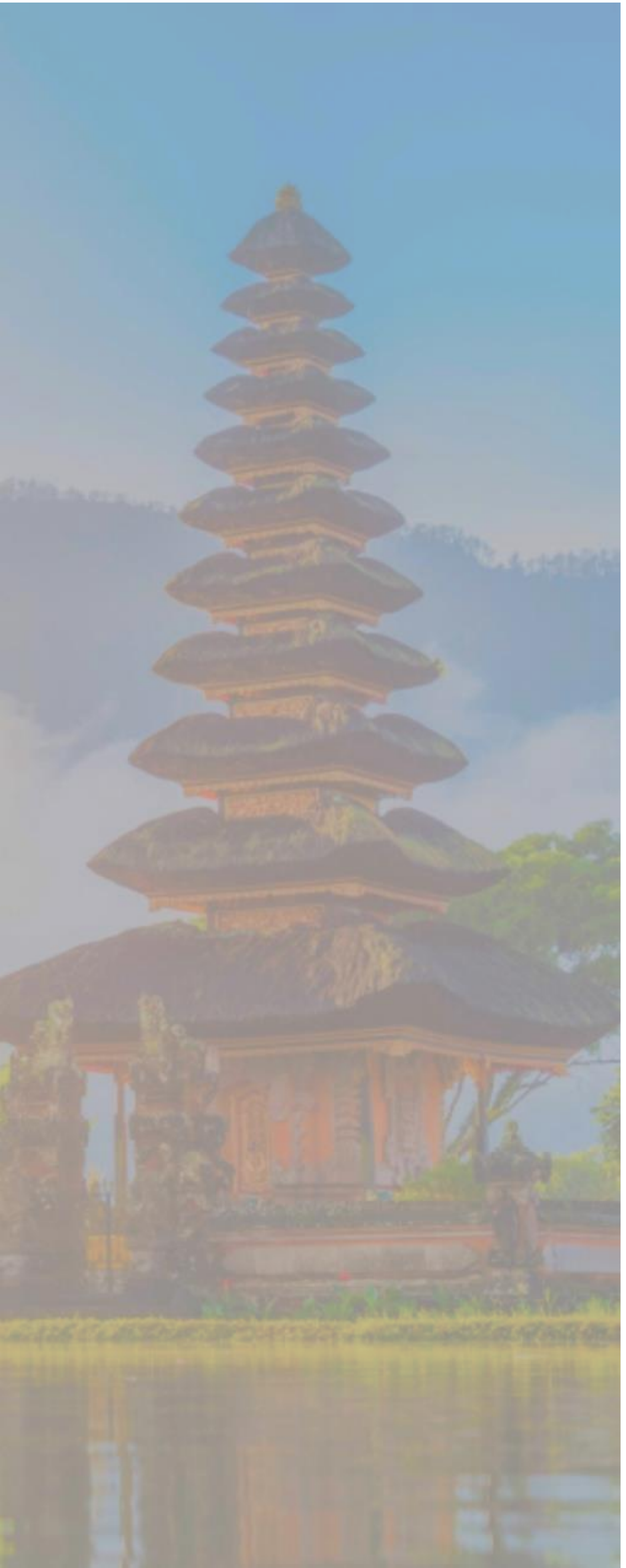
24TH AVA CONGRESS
BALI - INDONESIA
22-24 NOVEMBER 2022

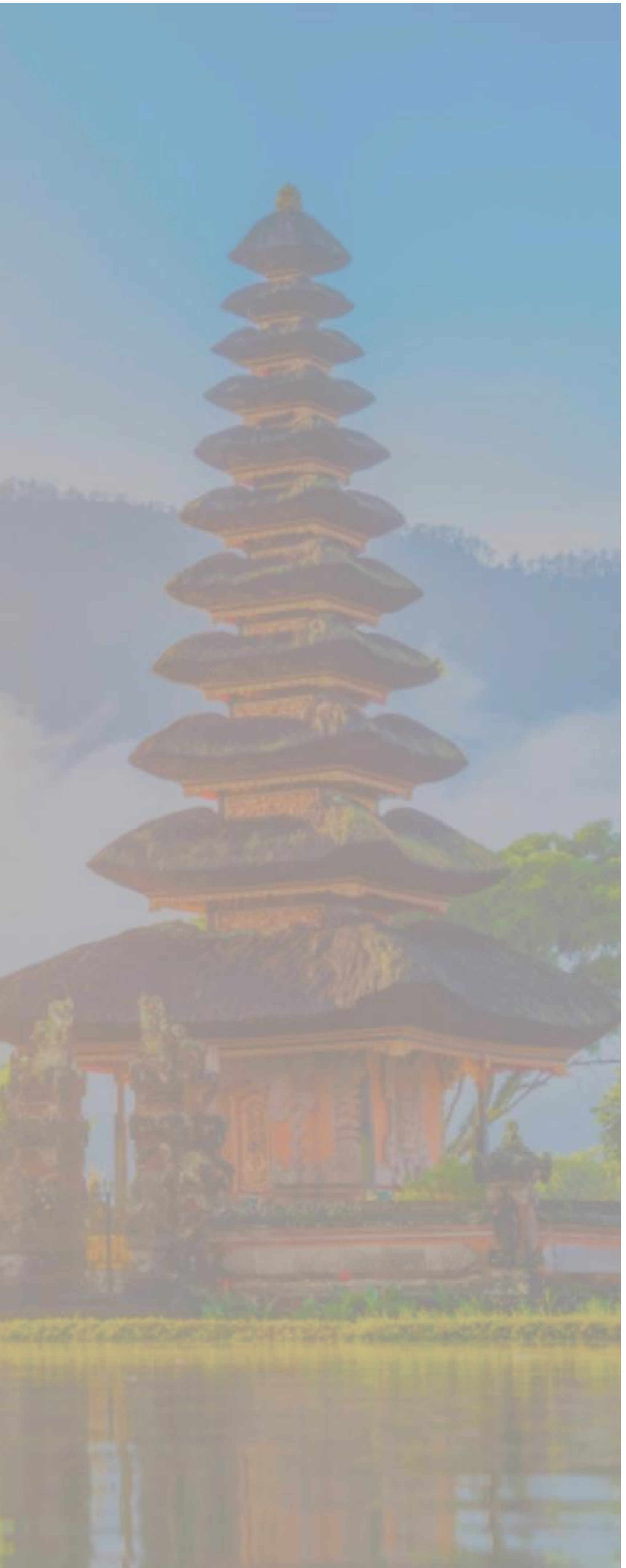
Assessing ESG Value Creation

23 November 2022



Institute of Valuers and Appraisers, Singapore (IVAS)

- In Singapore, the recognised Valuation Professional Organisation (VPO) is the **Institute of Valuers and Appraisers, Singapore (IVAS).**
- IVAS was set up in 2013 to:
  - Broaden the Business Valuation talent pool;
  - Deepen their expertise;
  - Uphold the public trust in the role they perform; and
  - Enhance their reputation in the region.
- IVAS is a member of the International Valuation Standards Council (IVSC), the global standard setter for valuation.
- IVAS, ASA, CBVI and RICS have formed the ESG & Intangible Assets Valuation Working Group.
- IVAS may potentially issue Guidance Notes on ESG valuation to require all CVA charter holders to consider and disclose how ESG factors have been considered in their valuation reports.



Content

1. IVSC Perspective Papers
2. How ESG factors can be measured as intangible assets, especially the S & G factors?
3. How to determine where ESG can create value?

1. IVSC Perspective Papers

Perspective Paper: *ESG and Business Valuation*

Key takeaways:

1. ESG **can be incorporated** into the current business valuation framework.
2. **Special consideration** for ESG is needed when using Market/Income Approach.

March 2021

Perspective Paper: *A framework to assess ESG Value Creation*

Key takeaways:

1. ESG value creation would lead to **formation and/or maintenance of intangible assets**.
2. ESG value creation opportunities can be assessed via **assessment of reliance** on intangible assets.

May 2021

Perspective Paper: *ESG and Real Estate Valuation*

Key takeaways:

1. ESG requirements will accelerate the number of new and refurbished buildings.
2. **Green premium** expected for buildings that meet ESG criteria.
3. More transactions of buildings with transparent ESG disclosure will enable application of Market Approach.

Oct 2021

Perspective Paper: *Human Capital Introspective*

Key takeaways:

1. Current valuation method for human capital is based on cost to recreate the workforce, which fails to account for **synergies created** within the workforce and with other assets.
2. With-and-Without Method is better for transactions where Human Capital is the primary asset.
3. Replacement Cost Method can be used for transactions where Human Capital is not the primary value driver.

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May 2022

1. IVSC Perspective Papers

Perspective Paper: *A framework to assess ESG Value Creation (May 2021)*

01 Normal ROI Analysis is inadequate for properly evaluating ESG returns

i. **Externalities:** There are ESG benefits outside the Enterprise itself.

ii. ESG benefits are often long term or may even last into perpetuity.

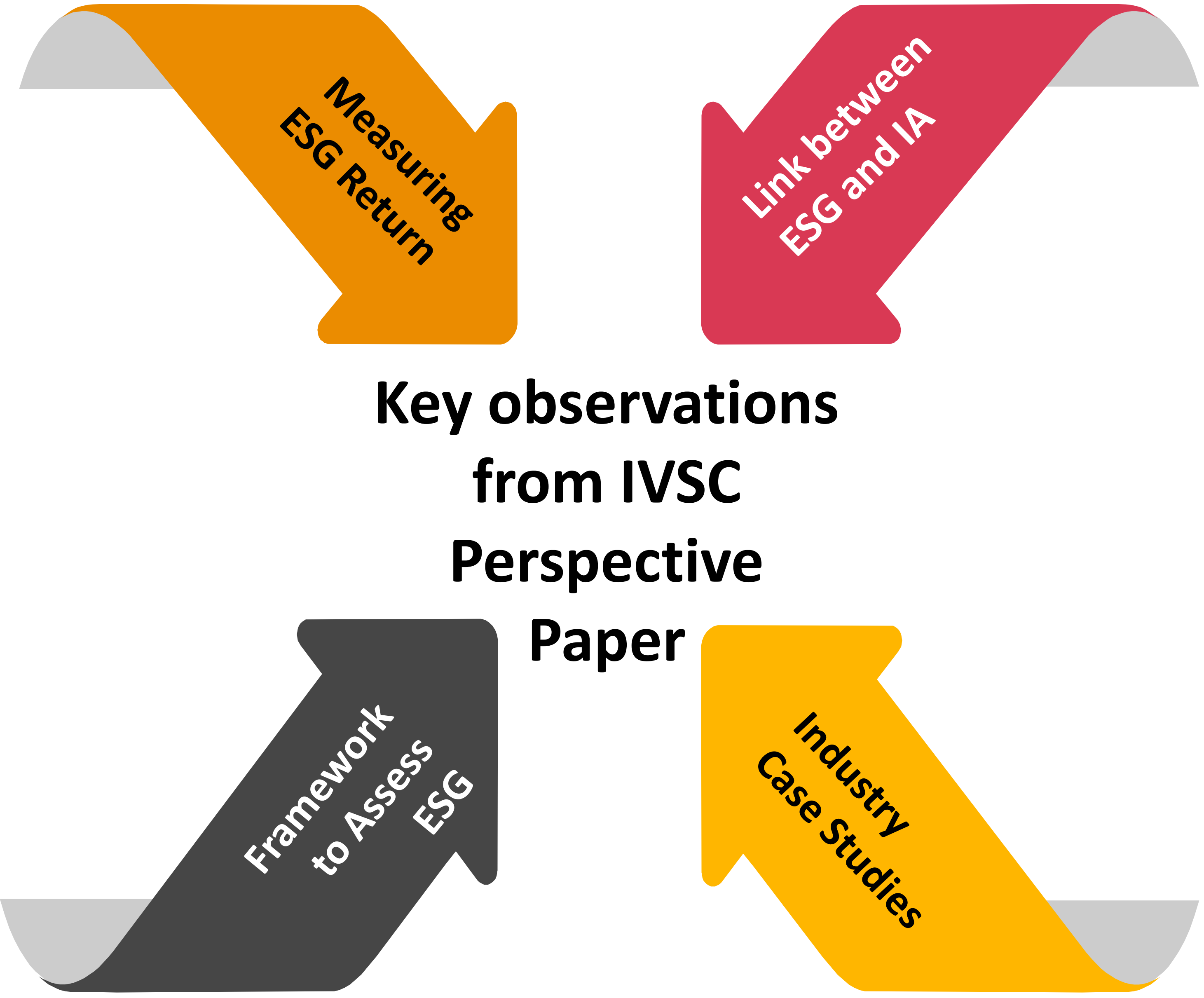
iii. Some ESG benefits serve to reduce risk rather than directly generate incremental cashflow.

02 ESG Value creation is linked to formation and/or maintenance of IA

i. Investment in ESG must be maintained to enable long-term growth in returns

ii. Potential for ESG value creation is **industry-specific**

iii. IAs generated from ESG investment may generate **scalable value**



03 Framework to Assess ESG Value Creation Opportunity (6 Key Criteria)

1. Reliance on Brand Strength
2. Reliance on Human Capital
3. Premium to Book Value
4. Nature of Customer Relationships
5. Tangible Asset Intensity
6. Market-dominant Technology

04 Applying the ESG Value Creation Framework to selected industries

E.g Professional Services firms:

i. **Strong opportunity** for ESG value creation

ii. Heavy reliance on brand strength and human capital

iii. Low tangible asset intensity

1. IVSC Perspective Papers

Perspective Paper: *A framework to assess ESG Value Creation (May 2021)*

Key observations from IVSC Perspective Paper

Measuring ESG Return

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Link between ESG and IA

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Framework to Assess ESG

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Industry Case Studies

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2. How ESG factors can be measured as intangible assets?

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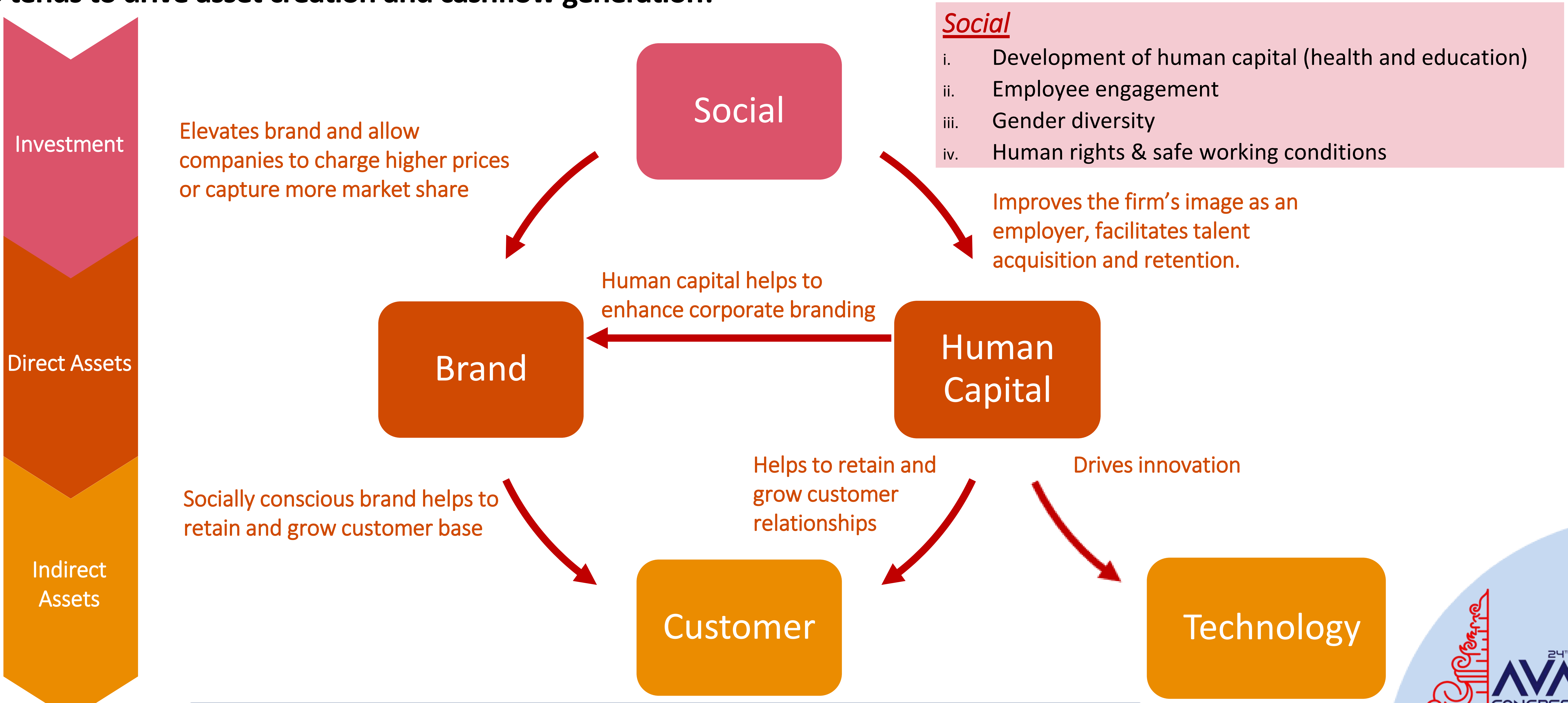
S tends to drive asset creation and cashflow generation!



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2. How ESG factors can be measured as intangible assets?

ESG Value creation is linked to formation and/or maintenance of IA.
G largely reduces risk and maintains asset value!

Investment

Direct Assets

Governance

i. Board diversity and structure
ii. Corporate governance
iii. Executive remuneration
iv. Data protection & privacy

Governance

Shelters brand from accounting, executive and corporate scandals

Brand

Ensures equal opportunities regardless of demographic

Human Capital

Protects client data

Customer

Ensures that IP is protected and stay inside the enterprise

Technology

G largely reduces risk and maintains asset value!

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3. How to determine where ESG can create value?

IVSC proposes a six-criteria framework to assess ESG value creation.

	Criteria	Description	Impact
1	**Reliance on Brand Strength**	Brand enhancement is a central component to the ESG value proposition. Firms that depend on the strength of their brand to generate sales may realise greater value from ESG investments.	**Greater reliance** on brand strength results in greater potential ESG value creation
2	**Reliance on Human Capital**	Human capital is central to intangible asset value creation. The greater the reliance on human capital, the greater the ability to create or maintain value through ESG investments.	**Greater reliance** on human capital results in greater potential ESG value creation
3	**Premium to Book Value and Value-added business model**	ESG investment value creation results in the formation and/or maintenance of intangible assets. The magnitude of ESG value creation is therefore dependent on an enterprise's ability to drive excess economic returns within its industry i.e its value-added business model and valuation premium over book value.	**Higher Premium to Book Value** results in greater potential ESG value creation

3. How to determine where ESG can create value?

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	Criteria	Description	Impact
4	**Nature of Customer Relationships**	ESG expectations/requirements differ with customer base. **B2C** firms may have greater potential to realise value through brand recognition and human capital investment. However, ESG investments for **B2B** firms might be a requirement imposed by customers as ESG mandates are pushed through their supply chains.	**Greater connection** to end-customer results in greater potential ESG value creation
5	**Tangible Asset Intensity**	Tangible assets have relatively capped rates of return, and incur significant ESG risks (Environmental risks in particular) which could degrade value for the firm.	**Lower tangible asset intensity** results in greater potential ESG value creation
6	**Market Dominant Technology**	Proprietary technology can create consumer demand that is less elastic to the value of other intangible assets e.g those generated by ESG initiatives.	**Lower reliance** on proprietary technology results in greater potential ESG value creation

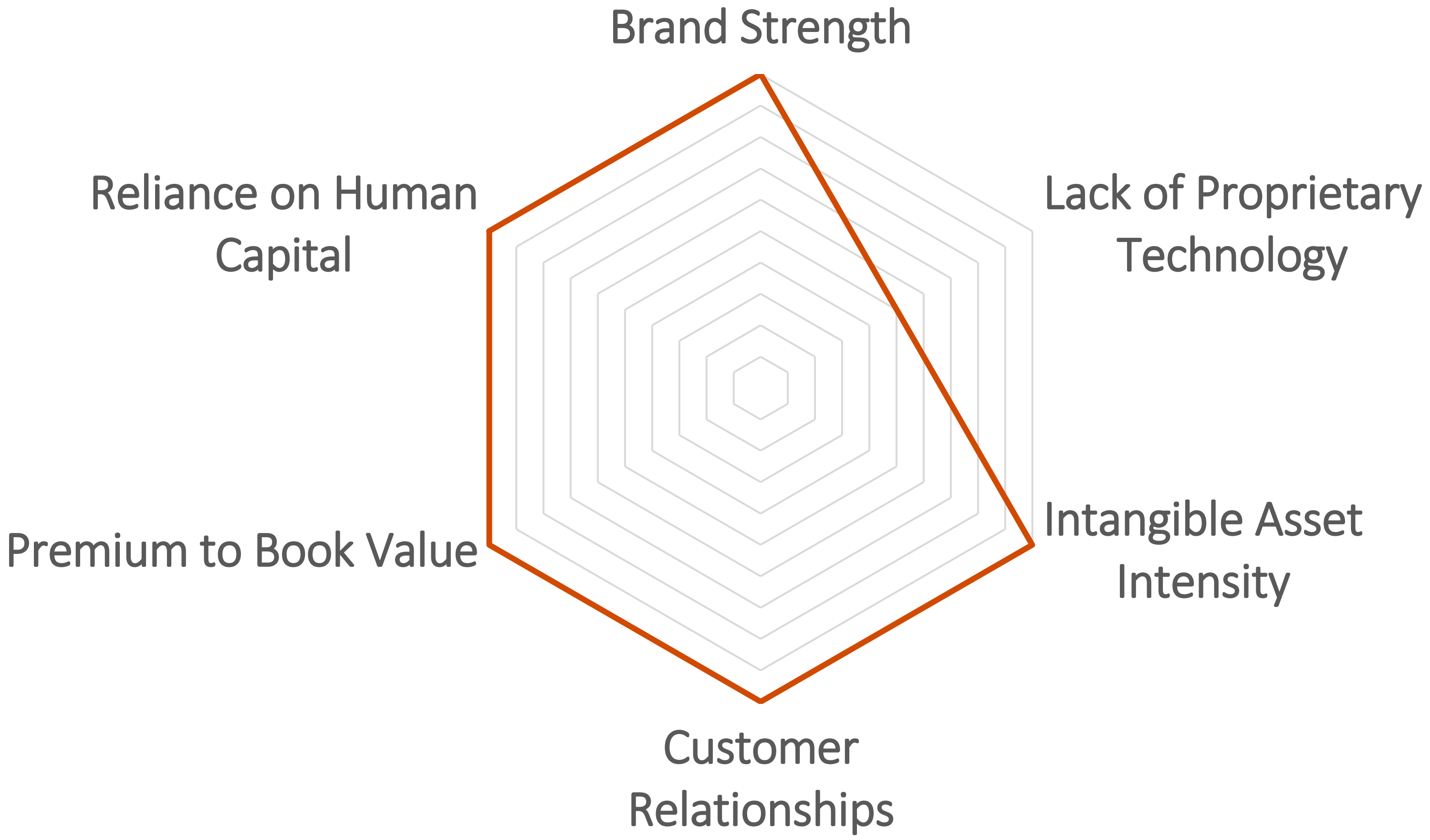
Industry Case Studies

- Heavy reliance on **human capital, branding**
- Heavy reliance on **customer relationship**
- Low reliance on **tangible assets**
- High **premium to book value**
- Certain level of proprietary technology required

High potential for ESG Value creation

Industry Case Studies

PROFESSIONAL SERVICES



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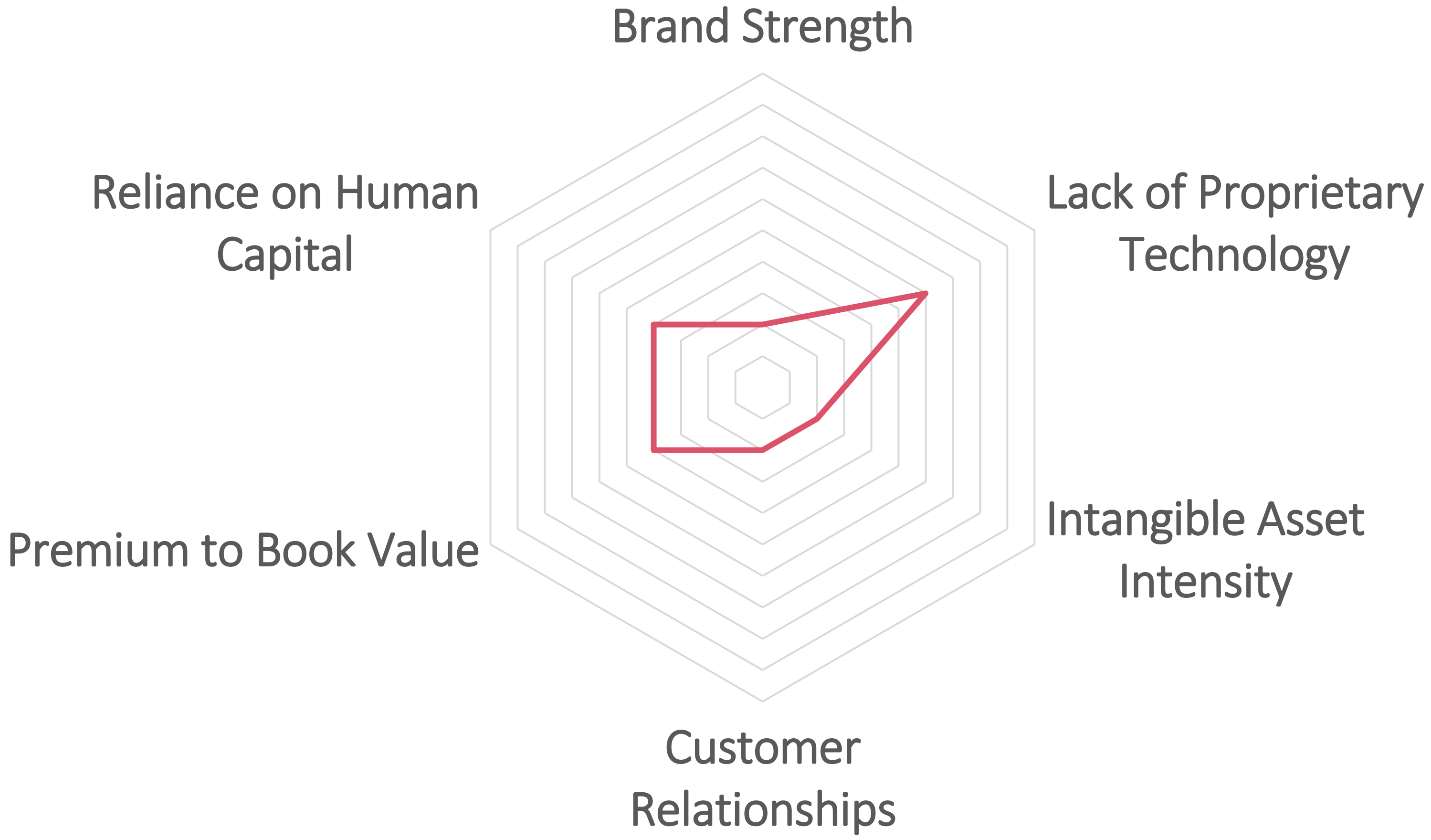
CONTRACT MANUFACTURER



- Low reliance on **human capital, branding**
- B2B customers. ESG likely to be a requirement/compliance.
- Low reliance on **intangible assets**
- Low **premium to book value**
- Certain level of proprietary technology might be required

Low potential for ESG Value creation

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Thank you!