Investor demand for financially material Environmental Social and Governance (ESG) information is growing rapidly.

Now, more than ever, investors understand the value of integrating ESG factors into their investment decisions to mitigate risks and uncover opportunities. But the lack of consistency, engagement, and a forward view of the majority of ESG information providers result in widespread difficulties for investors utilizing this critical information to analyze what it means for the future and gain a competitive edge.

In 2019, to help harmonize disparate ESG information and enable companies and their investors to better understand the ESG risks and opportunities on their horizons, S&P Global Ratings launched the ESG Evaluation: a forward looking, long-term opinion of an company’s ability to effectively manage future risks and opportunities. In 2020, we extended our product to include banks and insurance companies.
The ESG Evaluation is thoughtful, data-driven yet embedded in a strong and deep understanding of the credit. It’s very powerful to highlight this has been drafted from the standpoint of an analyst who has had access to management and knows the business. The consideration of Preparedness is key because it helps us understand how the bank is prepared to bridge a transition to 2030 to 2040 to 2050.

Michael Eberhardt, Director, BlackRock
ESG Evaluation

The ESG Evaluation is a forward-looking opinion of ability to manage future ESG risks and opportunities. With a company’s permission, the ESG Evaluation uses responses from the S&P Global Corporate Sustainability Assessment (CSA) and is further supported by deeper engagement between the Ratings’ Analysts, company/bank management and a board member. Each ESG Evaluation comprises two inputs: the ESG Profile and Preparedness opinion.

NextEra Energy Inc.

Summary

NextEra Energy Inc. (NEE) is a large diversified energy trading company headquartered in Juno Beach, Fla. It holds generation, transmission, distribution, and retail power to retail and wholesale customers in North America. In 2020, NEE generated revenue of $18 billion and S&P Global Ratings-adjusted EBITDA of around $10 billion. NEE operates as a regulated utility (about 70% EBITDA), engages in competitive generation (about 20%), proprietary trading (about 5%), and natural gas exploration and production (about 5%). Through its regulated utility subsidiary, Florida Power & Light (FPL, which is an owner of the January 2021 merger now subsidiaries Gulf Power Co.), it provides electric service to about 11 million people throughout most of Florida. NextEra Energy Resources, its competitive generation business, develops, constructs, and operates long-term contracted assets with an emphasis on renewables, electric transmission, and battery storage across North America.

NEE's ESG Evaluation score of 86 reflects its best-in-class preparedness for disruptive forces in the industry, which it is well equipped to capitalize on given its large scale and extensive clean energy expertise. It also reflects a long-term strategy that drives systemic environmental benefits across industries. While NEE is exposed to environmental risks, notably GHG emissions, it has been more proactive than peers in decarbonizing its fleet and vastly expanding its renewable capacity. But NEE, along with the industry, continues to face long-term challenges over nuclear waste. Despite rapid growth, NEE has been able to maintain affordability of rates and above-average reliability levels, which support leading customer engagement practices. The industry also faces other social risks, such as safety and an aging workforce. Though NEE has been more effective in mitigating these issues than peers, NEE’s governance benefits from its U.S. presence and an effective code and values framework premised on integrity and linked to sustainability goals. We believe the combined CEO-chairman role is not in line with international best practices but is somewhat offset by high board engagement and a track record of effective oversight.

ESG Profile Score

Preparedness Opinion (Scoring Impact)

Company-specific attainable and actual scores

A higher score indicates better sustainability practices.
Assessing ESG Profile

The ESG Profile score summarizes S&P Global Ratings opinion of the current-to-near-term effectiveness of the entity’s ability to manage its risk exposure and uncover opportunities relative to peers. The ESG Profile score combines S&P Global Ratings assessment of three Profiles: Environmental (30%), Social (30%), and Governance (40%).

More than 40% of the ESG Profile is driven by how we apply our macro sector and regional analysis to an entity. The ESG Risk Atlas consolidates our analytical sector knowledge and expertise and provides the foundation for our macro sector and regional analysis, which makes the ESG Evaluation comparable cross-industry and cross-region.

In order to obtain an ESG Evaluation, companies are invited to complete the S&P Global Corporate Sustainability Assessment (CSA). The responses provided by a company in the CSA questionnaire are used by S&P Global Ratings’ analysts as a starting point for their comparative ESG analysis of the company. This is bolstered by information gleaned from direct discussions between the company and S&P Global Ratings analysts.

Governance Risk Atlas

The Risk Atlas ranks countries and regions on a scale of 1-6 for corporate governance, with a score closer to 1 representing relatively stronger standards.

Sector Risk Atlas

Sector risk score | Increasing level of risk
ESG Factors:
Entity-specific scores assessed on a relative basis, against sector peers

Environmental
- Greenhouse Gas Emissions
- Waste & Pollution
- Water Use
- Land Use

Social
- Workforce & Diversity
- Safety Management
- Customer Engagement
- Communities

Governance
- Structure & Oversight
- Code & Values
- Transparency & Reporting
- Financial and operational risks

Ability to adjust: factor weights, factor scores, and profile scores. See page 13 for more information on the Key Sustainability Factors by sector.
Your reports bring in that sector and strategy aspect. The way you bucket stakeholder materiality under ESG really lines up with what stakeholders consider as material and important.

Rahki Kumar,  
Senior Vice President,  
Sustainability Solutions,  
Liberty Mutual Insurance
Assessing Preparedness

The Preparedness opinion is a qualitative view of a company’s capacity to anticipate and adapt to a variety of long-term disruptions. To develop the Preparedness opinion, S&P Global Ratings analysts meet with a company’s senior management and a board member to establish their awareness and assessment of emerging trends and potential business disruptors, as well as associated long-term planning. Incorporating the views of board and management of a company’s top risks and its future direction both adds further dimension to the Preparedness opinion, and highlights to investors how the company’s strategy is likely to deliver long-term value.

Emerging & Strategic Risks

- Climate Change
- Fuel & Energy
- Water Scarcity
- Ecosystem Decline
- Deforestation
- Food Security
- Wealth Distribution
- Urbanization
- Material Resource Scarcity
- Cyber Security
- Childhood Obesity
- Ageing & Wellbeing

Please note: the analysts may raise or lower the final ESG Evaluation score to reflect a risk or opportunity not fully captured under the individual Profile or Preparedness factors, or to ensure comparability with the ESG Evaluation scores of other entities.
The Preparedness Opinion is particularly relevant to my risk lens. It builds on understanding the nexus between the organizational awareness journey of a company, its impact on culture and how it translates into what I call coherent, repeatable and verifiable processes.

Alessia Falsarone, Managing Director, Head of Sustainable Investing, Pinebridge Investments
Final ESG Score and Analysis

Once S&P Global Ratings has determined the company’s ESG Profile score and Preparedness opinion, they are combined to produce a relative overall ESG Evaluation score on a 100-point scale. Evaluated companies receive a report which details the analysis and delves into the rationale behind the scores. This report can be kept confidential to use as an internal strategy tool or shared with investors and stakeholders as companies see fit. If requested, S&P Global Ratings may assess a company against TCFD disclosure standards.

How Investors Can Use the ESG Evaluation

- Enhances ESG analysis to understand future risks and opportunities as well as how prepared a company is to effectively manage them
- Acts as an aid to understand how management and the Board of Directors will use ESG to support long term business strategy
- Can help inform stewardship engagement
- Score can be utilized as KPI for sustainability-linked financing or to build thematic portfolios.

How Companies Can Use the ESG Evaluation

- Supports access to markets by demonstrating awareness of future risks & opportunities and effectiveness of management’s long-term sustainability strategy
- Acts as an aid for company and/or their investors to benchmark
- Utilized as a tool to elevate communication and build confidence by providing second opinion
- Score can be utilized as KPI for sustainability-linked financing
ESG Evaluation: The Solution to Differentiate Your Company

Communicate the long-term strategic plans of your company through direct and in-depth engagement between Ratings’ Analysts, your management and Board.

Go beyond ratings based on public disclosure to enhance transparency and tell your holistic ESG story to investors with a report that incorporates both public and private information.

Utilize the Preparedness assessment to offer a forward-looking opinion of your company’s awareness and readiness for disruptive ESG risks and opportunities.

Bring credibility to your strategy with an opinion powered by the knowledge and expertise of both our Credit and Sustainable Finance Analysts.

Cut through the noise by giving your investors exactly what they are looking for with an Evaluation score and analysis grounded in financially material ESG factors.

Use the detailed rationale provided in your ESG Evaluation to frame your company’s sustainability messaging and build out your IR toolkit.
Company Perspectives – ESG Evaluation

“We found S&P Global Ratings ESG Evaluation process to be well thought out, thorough and complete.”
Executive VP & CFO NextEra Energy, Inc

“Our current financing is completely linked to the ESG Evaluation.”
CFO, Masmovil Ibercom S.A.

“You have helped us to establish a benchmark that helps us to have more meaningful discussions with our supply chain and customers.”
EVP & General Counsel, Southwire

“It was a blessing when S&P launched their ESG Evaluation.”
CFO, EP Infrastructure

“We now have a document that helps us frame our message internally and externally to investors.”
Treasurer, Tideway

“Our bankers advised us that they saw much value in being able to assess ESG investors with a recent ESG Evaluation”
VP, Investor Relations, American Water Works, Inc

“You spent a lot of time with our team and Board members. You did a great job in using all the information available which made the quality of the assessment a lot deeper.”
Head of Sustainability, ING
Key Sustainability Factors

The Key Sustainability Factors identify the most material environmental and social risks assessed in the ESG Evaluation. Our analysts assess the materiality of those risks across the industry’s value chain and reflect them in the weighting of the environmental and social factors. The analysts also provide the quantitative indicators used to assess an entity’s performance relative to its industry peers on each of those factors.

View our Key Sustainability Factors by sector >
Meet the Sustainable Finance Analytical Team

S&P Global Ratings Sustainable Finance team is comprised of analysts who specialize in ESG as well as those with a more traditional financial and economic background. The Analysts’ mission is twofold: On the one hand, to provide analytical expertise to S&P Global Ratings suite of Sustainable Finance Services, drawing on the relevant credit rating analysts for their company and sector expertise to strengthen the output. On the other hand, they are a center of excellence supporting credit rating analysts when ESG risks and opportunities are identified, understood and when material, embedded within credit ratings. The team is also actively involved in research, market engagement and sustainability-related industry working groups.

Download the Brochure >
S&P Global Corporate Sustainability Assessment (CSA)

The CSA is an annual evaluation of a company’s sustainability practices.

In June 2020, S&P Global Ratings integrated the CSA into the ESG Evaluation. Globally recognized as one of the most advanced ESG scoring methodologies available, the CSA has been identified as one of the “highest quality” and most “useful” ESG assessments by sustainability professionals and investors*. All ESG Evaluations now benefit from the CSA, in order to allow users to better understand and prepare for the ever-evolving ESG risk landscape. The responses provided by a company in the CSA questionnaire are used by S&P Global Ratings’ analysts as a starting point for their comparative ESG analysis of the company. This is bolstered by information gleaned from direct discussions between the entity and S&P Global Ratings analysts.

Read more about the CSA, its uses and benefits here.

Download the Sustainability Yearbook >

*Source: 2019 SustainAbility Rate the Raters Report