

Fast Moving Consumers

Which Consumer Goods companies are ready for the low-carbon transition?
Executive Summary

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CDP's sector research for investors provides the most comprehensive climate and water-related data and analysis on the market. The Eitel IRRI survey ranked CDP the number one climate change research house for the third year running in 2017. Investment Week also awarded it best SRI research for 2016 and 2017.

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Linking climate metrics to earnings for Consumer Goods companies

This is CDP's first Investor Research report on the Consumer sector. It ranks 16 of the largest publicly listed Consumer Goods companies on business readiness for a low-carbon economy transition. The universe covers a diverse range of companies which have been categorized into two sub-sectors:

- ▼ Food & Beverage (9 companies)
- ▼ Household & Personal Care (7 companies)

We cover around 38% of listed global Consumer Goods companies by market capitalization. While the companies covered are listed in the UK, Europe or the US, the majority of companies have global activities with a large and growing presence in emerging markets.

The Consumer Goods sector is not an emissions intensive sector from a Scope 1 and 2 perspective but is indirectly responsible for significant Scope 3 emissions across the value chain. Food & Beverage companies have higher upstream exposure associated with the use of agricultural commodities in their products. Conversely Household & Personal Care companies have higher downstream exposure due to energy and water use in the consumption phase.

Companies also face risks associated with resource availability and water stress which threatens to disrupt business models both up and downstream. Leading companies are attempting to innovate their way past these risks; however, their core business models which are linear in nature remain exposed to future resource constraints.

As a consumer facing sector, companies are exposed to changing consumer trends. While consumers face limited direct regulation related to climate change, there is an emerging trend amongst millennials to adopt more environmentally conscious practices. This is evidenced in shifting preference for vegan diets, smaller eco-friendly brands and reduced packaging. Leading companies are responding to these trends through the acquisition of small brands but more transformative innovation and shifts in business models may be needed to align with targets set by the Paris Agreement.

There are four key areas assessed in the League Table, which are aligned with recommendations for company reporting from the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD):

Transition risks: We assess companies' disclosure and exposure to Scope 3 emissions, business resilience, brand performance and raw material risks.

Physical risk: We assess companies' exposure to water stress across their value chain and evaluate their water management processes and targets.

Transition opportunities: We assess companies' positioning to capitalize on the significant revenue potential resulting from changing consumer preferences. In addition, we assess companies' investments in renewable energy.

Climate governance and strategy: We analyze companies' governance frameworks including emission reduction targets and the alignment of remuneration with low-carbon objectives.

Key findings

- ▼ **The sector's key carbon exposures exist in the value chain** driving large Scope 3 emissions which make up **90% of lifecycle emissions**.
- ▼ **Scope 3 emissions disclosure is strong relative to sectors such as Capital Goods.** 88% of companies disclose both Purchased Good and Services and Use of Sold Products - the robustness of calculation methodologies varies.
- ▼ Despite acknowledging the significance of Scope 3 emissions, **56% of Food & Beverage companies have no Scope 3 emission reduction targets** with Household & Personal Care companies performing better at 29%.
- ▼ **Diversified food companies** which are reliant on a wide range of agricultural commodities including meat, dairy, nuts and soy have **amplified exposure to raw material risks** from water and emissions intensive supply chains.
- ▼ **Pureplay beverage companies are less exposed to these supply chain risks;** however, **the use of water as a key ingredient generates operational and reputational risks.** On average, beverage companies withdraw more than 4 times the water in their operations than their food counterparts.
- ▼ All Household and Personal Care companies are exposed to risks associated with palm oil use. On average, **less than 50% of palm oil is supplied from physically certified sources.**
- ▼ **A number of companies are embracing trends in consumer preferences** where there is a convergence of health and environmental benefits.
- ▼ Outside the brewers which are already plant based, **5 out of the remaining 7 Food & Beverage companies have innovated** existing dairy or meat-based products **to offer vegan options.**
- ▼ **6 out of the 7 Household & Personal Care companies are actively innovating to replace petrochemicals** in their formulations with natural, biodegradable ingredients.
- ▼ **Packaging is one area where companies can introduce circularity** to their business models. 63% of companies are investing to advance depolymerization and recycling infrastructure.
- ▼ **Almost 60% of the top 10 revenue generating brands for each company have failed to deliver low carbon innovations** to market in the last 5 years, representing 48% of top 10 revenues.
- ▼ **R&D is low for the sector while M&A activity is high.** 75% of companies have acquired smaller, environmentally conscious brands to create strategic optionality. Core brands remain unchanged.
- ▼ **Highly consolidated brand revenues result in exposure to losses** if key brands are not positioned to respond to changing consumer preferences. **88% of companies generate over 50% of group revenues from top 10 brands.**
- ▼ The **Food & Beverage** sub-sector is led by **Danone**, closely followed by **Nestlé** in second place.
- ▼ The **Household & Personal Care** sub-sector is led by **Unilever**, followed closely by **L'Oréal**.

The summary League Table below presents headline company performance and ranking. It is based on detailed analysis across a range of climate related indicators which could have a material impact on company performance. The League Table is designed to serve as a proxy for business readiness in an industry which will have significant opportunities as governments increase efforts to implement the Paris Agreement. Companies placed towards the bottom are deemed less prepared for a low-carbon transition.

Figure 1: Food & Beverage - League Table summary ⁽ⁱ⁾

League Table rank	Company ⁽ⁱⁱ⁾	Ticker	Country	Average market cap 2018 (US\$bn)	Weighted rank	Transition risks rank	Physical risks rank	Transition opportunities rank	Climate governance & strategy rank	2017 Revenue split by business area (%)
										<div> <div></div> Beverages <div></div> Food <div></div> Pet Care </div>
1	Danone	BN FP	France	53	3.28	3	3	1	1	
2	Nestlé	NESN SW	Switzerland	250	3.59	1	6	2	2	
3	AB InBev	ABI BB	Belgium	194	4.43	5	2	3	5	
4	PepsiCo	PEP US	USA	156	4.59	2	5	7	4	
5	Diageo	DGE LN	UK	87	4.65	6	1	5	3	
6	Heineken	HEIA NA	Netherlands	58	5.16	4	4	6	7	
7	The Coca-Cola Company	KO US	USA	193	5.55	7	9	4	6	
8	Mondelez	MDLZ US	USA	62	6.44	8	8	8	8	
9	Kraft Heinz	KHC US	USA	74	7.52	9	7	9	9	
Weighting						30%	20%	30%	20%	
Source: CDP										

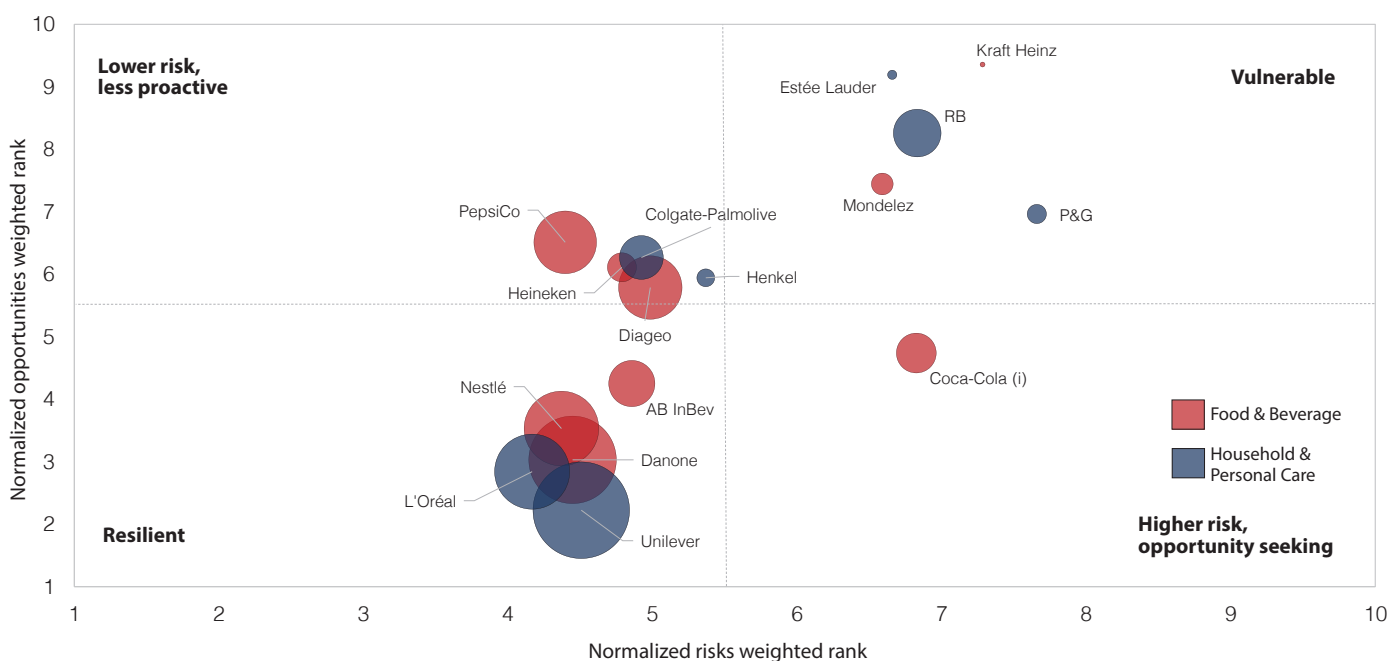
Figure 2: Household & Personal Care - League Table summary ⁽ⁱ⁾

League Table rank	Company	Ticker	Country	Average market cap 2018 (US\$bn)	Weighted rank	Transition risks rank	Physical risks rank	Transition opportunities rank	Climate governance & strategy rank	2017 Revenue split by business area (%)
										<div> <div></div> Food <div></div> Personal Care <div></div> Non-consumer goods <div></div> Pet Care <div></div> Home Care </div>
1	Unilever	ULVR LN / UNA NA	UK / Netherlands	161	2.31	4	2	1	1	
2	L'Oréal	OR FP	France	130	2.57	1	1	2	2	
3	Colgate-Palmolive	CL US	USA	58	3.93	2	3	4	4	
4	Henkel	HEN GY	Germany	51	4.32	3	4	3	6	
5	RB	RB / LN	UK	60	4.97	6	6	6	3	
6	P&G	PG US	USA	207	5.32	7	7	5	5	
7	Estée Lauder	EL US	USA	51	5.55	5	5	7	7	
Weighting						30%	20%	30%	20%	

(i) Weighted ranks are calculated for each area. We display non-weighted ranks in this summary for simplicity only.

(ii) Kweichow Moutai did not respond to CDP's 2018 climate change questionnaire. We encourage investors to raise this lack of transparency in discussions with the company.
Source: CDP

Figure 3: Opportunity vs. risk for low-carbon transition



Note: Weighted ranks normalized to 10.

Bubble size: Larger bubble size = stronger performance on climate governance & strategy

(i) The Coca-Cola Company has been abbreviated to Coca-Cola for the remainder of the report.

Source: CDP

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