The Relationship Between Corporate Value and ESG (Non-Financial Value) Initiatives Based on Enduring Values

By bringing visibility to and analyzing the qualitative and quantitative ESG (non-financial) initiatives based on the spirit of Enduring Values, the NISSIN FOODS Group has clarified the relationship between ESG and improving corporate value by solving environmental and social issues. We interviewed NISSIN FOODS Group CSO Yukio Yokoyama about the background behind this analysis initiative and the detailed results of this analysis.

Q What was the background behind this initiative?

A ESG investments have been gaining more attention and growing rapidly to the extent that nearly 40% of the world's investments are said to be ESG-related. Since our founding, we have grown our businesses while focusing primarily on being of service to people and society. In this sense, one can say that we have been engaged in ESG through the concepts of CSV management.

At the same time, it has been a challenge to bring visibility to the relationship between corporate value and ESG. ESG initiatives tend to be viewed as a cost rather than an investment. According to one survey*1, over 80% of institutional investors feel that corporate ESG disclosure is inadequate. We believe this opinion stems from the fact that, while companies do disclose ESG data, they do not establish a clear relationship between corporate value and ESG.

In this situation, we decided to clarify the relationship between corporate value and ESG (non-financial information), leveraging an approach that bridges ESG based on our founding spirit of Enduring Values with corporate value.

Q Please provide an overview of your efforts. What did you learn?

A We analyzed the relationship between ESG based on Enduring Values and corporate value from two directions: qualitative and quantitative.

Our approach to qualitative analysis began with the materiality map of the Sustainability Accounting Standards Board (SASB) and items from multiple external evaluation organizations. We confirmed the close relationship between NISSIN FOODS Group materialities, identified from ESG factors expected to have high financial impact in the future, as well as the spirit of Enduring Values defined by our founder.

Our quantitative analysis used an analytical model (Yanagi model*2) that indicates the relationship between non-financial capital and corporate value (PBR). Here, we discovered a clear positive correlation between Enduring Values-based ESG and corporate value*3. Of the approximately 270 items of non-financial data used in this analysis, we found numerous items that correlated to corporate value. For example, a 1% increase in R&D costs was associated with +1.4% increase in PBR after 7 years, while a 1% decrease in CO_2 emissions was associated with a 1.0% increase in PBR after 8 years.

While our analyses clarified correlations, they do not prove causality. However, we believe certain relationships exist, as many of our results were consistent with the qualitative results for the materialities we identified. We intend to continue our analysis to further clarify the relationships between the qualitative and quantitative.

Q What is the relationship between the elements of your Mid- to Long-Term Growth Strategy and corporate value?

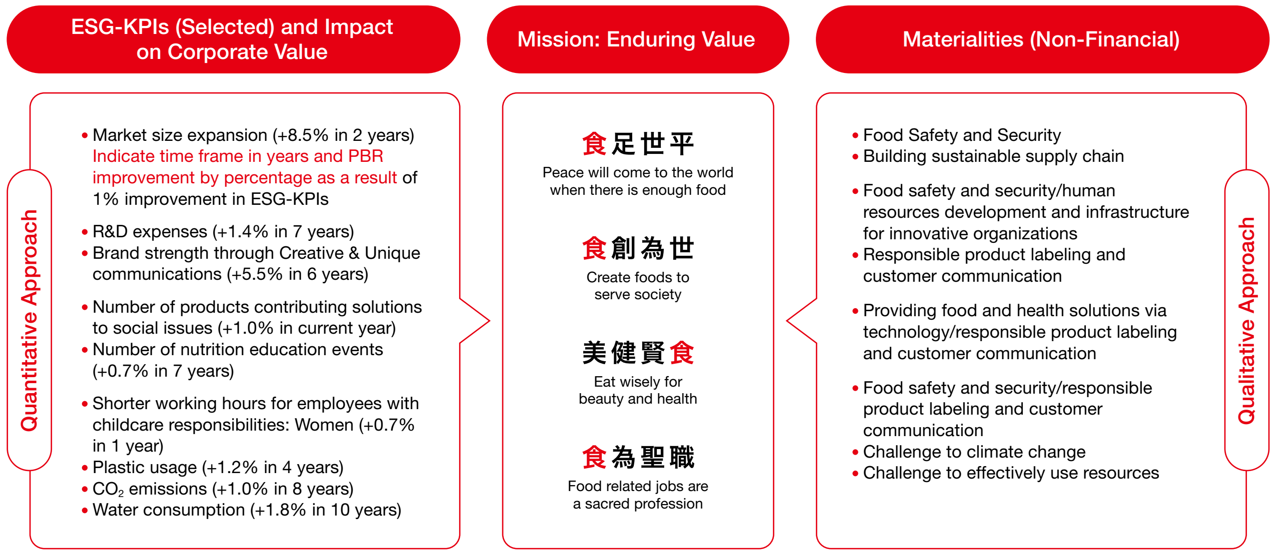
A Based on this analysis, I am convinced that EARTH FOOD CHALLENGE 2030, one of the main elements of the Mid- to Long-Term Growth Strategy, is an initiative that will enhance corporate value.

At the same time, we believe the strategy to pursue new businesses will enhance corporate value, as the results of our analysis indicated that investment in R&D and the number of products we create that contribute solutions to social issues also contributes to improved corporate value of the medium to long term.

We have just begun to analyze the relationship between corporate value and ESG, but we will continue our work to raise CSV management to new levels.

*1 Source: *Survey of Fund Management Organizations on ESG Investment* (2019/12), Ministry of Economy, Trade and Industry
*2 Source: *Synchronization Model of Non-Financial Capital and Equity Spread: CFO Policy* (Yanagi, 2020), Chuokeizai-Sha Holdings, Inc.
*3 Analysis performed by ABeam Consulting Ltd.

The NISSIN FOODS Group clarified through qualitative assessments and quantitative analysis that activities reflecting our founding spirit of Enduring Values results in increased corporate value. Our approach is to give a quantitative expression of the relationship between ESG (non-financial) initiatives and return (corporate value).



In our original analysis targeting EPS and PER (our key management indicators), we conducted an analysis of the correlation between ESG actions and corporate value, as well as the correlation between ESG actions themselves, to clarify the story of which path leads to improved corporate value.