

From ADversity to ADvantage

Questions for investors and lenders to ask management

Recommended Questions		Report Key Takeaways
Q.1	<p>Question: <i>Should management be mindful of clients which have high carbon and environmental footprints?</i></p> <p>Background: Ad agency Holding Companies often express concerns about their environmental image in annual and sustainability reports. But this does not seem to extend to their clients. Understanding whether they attach a risk to high polluters would be insightful.</p> <p>Target: Clear measurement of their clients' environmental metrics.</p>	<ul style="list-style-type: none"> Advertising agencies continue to support clients with damaging environmental footprints, despite claiming to be environmentally aware. Assessing the companies in six industry sectors for their environmental impact (across three metrics) shows no single company is able to claim a 'clean sheet'. This environmental footprint analysis is a financial issue. It could materially affect earnings and the balance sheets. Executive compensation is heavily geared towards prioritising financial performance over sustainability factors. Beware impressive ESG scores which only measure the footprint of the Holding Company, rather than those of its client base. <p>Click to view the report online</p>  <p>Disclaimer: click here</p>
Q.2	<p>Question: <i>Does management see any major financial risks in having clients with large environmental footprints?</i></p> <p>Background: Clearly, not working for major polluters (e.g. oil & gas companies) could affect revenues. But if employees are dissatisfied (60%+ of costs) or goodwill is impaired (c40% of their asset base) then earnings are at risk.</p> <p>Target: Understand financial materiality of environmental exposure.</p>	
Q.3	<p>Question: <i>Should there be a meaningful link between executive compensation and environmental deliverables?</i></p> <p>Background: Unsurprisingly, executive pay is heavily dependent on financial performance. Although sustainability measures are mentioned they are either unclear or insignificant. (Publicis is the highest at 7%; most have nothing or it is too vague.)</p> <p>Target: Understand what percentage of short-term and long-term pay is linked to environmental measures and what those metrics are.</p>	