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The Impact of ESG performance on the Financial Performance of European Area Companies: An empirical examination

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The Impact of ESG performance on the Financial Performance of European Area Companies: An empirical examination †

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Abstract: Achieving climate neutrality dictated by international agreements such as the Paris Agreement, the United Nations Agenda 2030 and the European Green Deal, requires the conscription of all parts of society. The business world and especially large enterprises have a leading role in this effort. Businesses can contribute to this effort, by establishing a reporting and operating framework according to specific Environmental, Societal, Goovernance (ESG) criteria. The interest of companies in the ESG framework has become more intense in the recent years, as they recognize that appart from an improved reputation, ESG criteria can add value to them and help to become more effective in their functioning. However, especially large European companies, are legally obligated by the Non-Financial Reporting Directive (NFRD - Directive 2014/95/EU), to disclose non-financial information on how they deal with social and environmental issues. In the literature, there are discussions on what extent a good ESG-performance affects a company's profitability, valuation, capital efficiency and risk. The purpose of this paper is to examine empirically whether a relationship between good ESG performance and the good financial condition of companies can be documented. For a sample of the top-50 European companies in terms of ESG performance (STOXX Europe ESG Leaders 50 Index), covering a wide range of sectors, namely Automobile, Consumer Products, Energy, Financial Services, Manufacturing etc., first, we reviewed their reportings to see which ESG framework they use to monitor their performance. Next, we examined whether there is a pattern of better financial performance if compared to other large European corporations. Our results show that such a connection seem to exist at least for some specific parameters, while for others such a claim cannot be supported.

Keywords: ESG, STOXX Europe; Financial Performance; Capital Structure; Profitability; Valuation.

1. Introduction

Business leaders have started to realize that in addition to the effective management of their financial capital, it is necessary to adopt measures making them more transparent in terms of internal organization (governance) and more responsible and accountable to society. Moreover, the Non-Financial Reporting Directive (Directive 2014/95/EU)[1], modi-

[1] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

fied by the Corporate Sustainability Reporting Directive (CSRD),[2] puts additional requirements on non-financial data disclosures, according to ESG criteria.

ESG refers to a broad range of **Environmental**, **Social**, and corporate **Governance** factors that might influence a company's ability to generate value. It refers to the incorporation of non-financial elements into business strategy and decision-making in a corporate context. While ESG factors are referred to as non-financial, financial implications, as they are linked to corporate competitiveness and profitability.[3] According to Bloomberg Intelligence, it is estimated that global ESG assets are expected to reach $53 trillion by 2025, accounting for more than 30% of the $140.5 trillion total assets under management. Given the pandemic and the green recovery across the world, ESG criteria may help in analyzing a new set of financial risks and harnessing capital markets.[4]

This paper focuses on the relation between ESG performance and Business Valuation, Business Risk and Capital Structure efficiency. Using financial data of the companies of the STOXX Europe ESG Leaders 50 index we examine empirically whether the adoption of ESG criteria boosts companies' valuation, reduces the equity risk and makes them more efficient in the way they manage their funds. Our results are compared to respective literature findings.

2. Background

A positive correlation between ESG metric performance and financial performance of organizations has been suggested by many studies (Amel-Zadeh & Serafeim, 2018; Wong et. al. 2021). This means that ESG disclosures are valuable to investors as they provide them with financially material information.

(Verheyden et al. 2016) created two different investment universes. One for large and mid-cap stocks in 23 developed and 23 emerging countries ("Global All") and one for large and mid-cap stocks in 23 developed countries ("Global Developed Markets (DM)"). They then defined six portfolios by using the different ESG criteria for each universe and found that ESG improves risk-adjusted returns.

(Giese et al. 2019) have shown that the risk profile of a company, as a result of lower costs of capital and higher valuations is affected by ESG performance. ESG information affects Business valuation and performance, both through their systematic risk profile (lower costs of capital and higher valuations) and their idiosyncratic risk profile (higher profitability and lower exposures to tail risk). The research suggests that changes in a company's ESG characteristics may be a useful financial indicator. ESG ratings may also be suitable for integration into policy benchmarks and financial analyses.

(Khan, Serafeim, and Yoon 2016) for a sample of firm-specific performance data on a variety of sustainability investments, have labelled the sustainability topics as "material" or "immaterial", by using the Sustainability Accounting Standards Board (SASB) Standards. They found that firms with superior performance on material sustainability issues outperform firms with inferior performance on material sustainability issues in the future. Therefore, ESG disclosures are value-relevant and could potentially be predictive of companies' future financial performance.

(De Lucia et al. 2020) employed Machine Learning techniques to explore whether ESG company's practices can lead to better financial performances of public enterprises. According to one of their key findings, the existence of a positive relationship between ESG practices and financial indicators can be suggested. This relationship appears more

[2] European Commission, Corporate sustainability reporting, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

[3] Athens Stock Exchange, 2019, ESG Reporting Guide 2019, https://www.athexgroup.gr/documents/10180/5665122/ENG-ESG+REPORTING+GUIDE/28a9a0e5-f72c-4084-9047-503717f2f3ff

[4] Bloomberg Intelligence February 23, 2021, ESG assets may hit $53 trillion by 2025, a third of global AUM, https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

clearly when companies invest in environmental innovation, employee productivity and diversity and equal opportunity policies.

3. Methodology

For our analysis, we used the STOXX Europe ESG Leaders 50 index.[5] This index includes companies that are global leaders in terms of ESG criteria, based on indicators measured by Sustainalytics[6] with presence in 17 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The EURO STOXX 50 Index, is a European leaders' index and provides a blue-chip representation of supersector leaders in the region. The index contains 50 stocks from 8 Eurozone countries: Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands and Spain. Most of the companies of the EURO STOXX 50 Index are also included in the STOXX Europe ESG Leaders 50 index. So, to avoid double counting we exclude them and we kept only the 19 that are solely included in the EURO STOXX 50 Index.

So, the list of Companies in our sample is as follows (**Table 1**):

Table 1 List of Companies in our sample

#	Name	Supersector2	Country	INDEX
1	ABB	Industrial Goods and Services	CH	STOXX Europe ESG Leaders 50
2	ADIDAS	Consumer Products and Services	DE	STOXX Europe ESG Leaders 50
3	ADYEN	Industrial Goods and Services	NL	EURO STOXX 50
4	AHOLD DELHAIZE	Personal Care, Drug and Grocery Stores	NL	STOXX Europe ESG Leaders 50
5	AIR LIQUIDE	Chemicals	FR	STOXX Europe ESG Leaders 50
6	AIRBUS	Industrial Goods and Services	FR	EURO STOXX 50
7	ALLIANZ	Financial Services	DE	STOXX Europe ESG Leaders 50
8	AMADEUS IT GROUP	Technology	ES	EURO STOXX 50
9	ANHEUSER-BUSCH INBEV	Food, Beverage and Tobacco	BE	EURO STOXX 50
10	ASML HLDG	Technology	NL	STOXX Europe ESG Leaders 50
11	AXA	Financial Services	FR	STOXX Europe ESG Leaders 50
12	BASF	Chemicals	DE	STOXX Europe ESG Leaders 50
13	BAYER	Health Care	DE	EURO STOXX 50
14	BCO SANTANDER	Financial Services	ES	EURO STOXX 50
15	BMW	Automobiles and Parts	DE	EURO STOXX 50
16	BNP PARIBAS	Financial Services	FR	STOXX Europe ESG Leaders 50
17	BP	Energy	GB	STOXX Europe ESG Leaders 50
18	CIE FINANCIERE RICHEMONT	Consumer Products and Services	CH	STOXX Europe ESG Leaders 50
19	CRH	Construction and Materials	IE	EURO STOXX 50
20	DAIMLER	Automobiles and Parts	DE	STOXX Europe ESG Leaders 50
21	DANONE	Food, Beverage and Tobacco	FR	STOXX Europe ESG Leaders 50
22	DEUTSCHE BOERSE	Financial Services	DE	STOXX Europe ESG Leaders 50
23	DEUTSCHE POST	Industrial Goods and Services	DE	STOXX Europe ESG Leaders 50
24	DEUTSCHE TELEKOM	Telecommunications	DE	STOXX Europe ESG Leaders 50

[5] https://www.boerse-frankfurt.de/sustainabilities/indices

[6] Sustainalytics is a company that provides high-quality, analytical environmental, social and governance (ESG) research, ratings and data to institutional investors and companies.

25	DIAGEO	Food, Beverage and Tobacco	GB	STOXX Europe ESG Leaders 50
26	ENEL	Utilities	IT	STOXX Europe ESG Leaders 50
27	ENGIE	Utilities	FR	EURO STOXX 50
28	ENI	Energy	IT	EURO STOXX 50
29	ERICSSON LM B	Telecommunications	SE	STOXX Europe ESG Leaders 50
30	ESSILORLUXOTTICA	Health Care	FR	EURO STOXX 50
31	FLUTTER ENTERTAINMENT	Travel and Leisure	IE	EURO STOXX 50
32	GIVAUDAN	Chemicals	CH	STOXX Europe ESG Leaders 50
33	GLAXOSMITHKLINE	Health Care	GB	STOXX Europe ESG Leaders 50
34	HSBC	Financial Services	GB	STOXX Europe ESG Leaders 50
35	IBERDROLA	Utilities	ES	STOXX Europe ESG Leaders 50
36	Industria de Diseno Textil SA	Retail	ES	STOXX Europe ESG Leaders 50
37	INFINEON TECHNOLOGIES	Technology	DE	STOXX Europe ESG Leaders 50
38	ING GRP	Financial Services	NL	STOXX Europe ESG Leaders 50
39	INTESA SANPAOLO	Financial Services	IT	STOXX Europe ESG Leaders 50
40	Kering	Retail	FR	STOXX Europe ESG Leaders 50
41	KONE B	Industrial Goods and Services	FI	STOXX Europe ESG Leaders 50
42	LINDE	Chemicals	DE	EURO STOXX 50
43	L'OREAL	Consumer Products and Services	FR	STOXX Europe ESG Leaders 50
44	LVMH MOET HENNESSY	Consumer Products and Services	FR	EURO STOXX 50
45	MUENCHENER RUECK	Financial Services	DE	STOXX Europe ESG Leaders 50
46	NESTLE	Food, Beverage and Tobacco	CH	STOXX Europe ESG Leaders 50
47	NOVARTIS	Health Care	CH	STOXX Europe ESG Leaders 50
48	NOVO NORDISK B	Health Care	DK	STOXX Europe ESG Leaders 50
49	PERNOD RICARD	Food, Beverage and Tobacco	FR	STOXX Europe ESG Leaders 50
50	PHILIPS	Health Care	NL	STOXX Europe ESG Leaders 50
51	Prosus	Technology	NL	EURO STOXX 50
52	RECKITT BENCKISER GRP	Personal Care, Drug and Grocery Stores	GB	STOXX Europe ESG Leaders 50
53	RELX PLC	Media	GB	STOXX Europe ESG Leaders 50
54	ROCHE HLDG P	Health Care	CH	STOXX Europe ESG Leaders 50
55	SAFRAN	Industrial Goods and Services	FR	EURO STOXX 50
56	SANOFI	Health Care	FR	STOXX Europe ESG Leaders 50
57	SAP	Technology	DE	STOXX Europe ESG Leaders 50
58	SCHNEIDER ELECTRIC	Industrial Goods and Services	FR	STOXX Europe ESG Leaders 50
59	SIEMENS	Industrial Goods and Services	DE	STOXX Europe ESG Leaders 50
60	SIKA	Construction and Materials	CH	STOXX Europe ESG Leaders 50
61	TOTALENERGIES	Energy	FR	STOXX Europe ESG Leaders 50
62	UBS GROUP	Financial Services	CH	STOXX Europe ESG Leaders 50
63	UNILEVER PLC	Personal Care, Drug and Grocery Stores	GB	STOXX Europe ESG Leaders 50
64	VINCI	Construction and Materials	FR	EURO STOXX 50
65	VIVENDI	Media	FR	EURO STOXX 50
66	VODAFONE GRP	Telecommunications	GB	STOXX Europe ESG Leaders 50

67	VOLKSWAGEN PREF	Automobiles and Parts	DE	EURO STOXX 50
68	Vonovia SE	Real Estate	DE	STOXX Europe ESG Leaders 50
69	ZURICH INSURANCE GROUP	Financial Services	CH	STOXX Europe ESG Leaders 50

As a first notice, by looking at the behaviour of the STOXX Europe ESG Leaders 50 during the last three years, we notice that COVID-19 brought a big blow to this index, as expected. The index price fell by almost 42% in just one month (from + 20.67% on 18/2/2020 to -21.89% on 16/3/2020). But, the fall in the EURO STOXX 50 Index's price was sharper, recording a fall of almost 45% (from + 16.08% to -29.09% in the same period). This fact may indicate a greater resilience of the companies in STOXX Europe ESG Leaders 50 in crises if compared to EURO STOXX 50 companies, especially if we take into account the overall behaviour of the index, which seems to recover faster (**Figure 1**),.



Figure 1 STOXX Europe ESG Leaders 50 (Blue) and EURO STOXX 50 (Orange) development the last 3 years. Source: Boerse Frankfurt.

Next, using the latest available financial data from Yahoo Finance[7] for each company in our sample, we calculate five indicators, namely the **Beta**, **Total Debt/Equity**, **Profit Margin**, **Return on Assets** and **Return on Equity** on average per sector.

These indicators are widely used for the assessment of shareholder's **risk**, **capital structure efficiency**, **profitability** and **Assets'** and the **Equity's efficiency** and we consider that they provide us with a good overview of the company's performance profile.

Four sectors, namely **Personal Care, Drug and Grocery Stores**, **Real Estate**, **Retail** and **Telecommunications**, have no representatives in the EURO STOXX 50 Index, whereas the **Travel and Leisure** sector has no representative in the STOXX Europe ESG Leaders 50 index. So, for our results to be comparable, we those sectors from our analysis. We consider that this intervention does not harm our conclusions, as they concern only 10 firms out of a sample of 69.

Also, for simplification purposes, we grouped Banking, Insurance and Financial Services organizations under the title "**Financial Services**".

[7] https://finance.yahoo.com/

4. Results-Discussion

Certain major firms are required by EU legislation to publish information about how they deal with matters like social, environmental, anti-corruption bribery and human rights.[8] This type of information helps investors, civil society organizations, customers, policymakers, and other stakeholders in evaluating major firms' non-financial performance and encourages companies to establish a responsible business approach. Currently, non-financial reporting regulations in the EU, concern big public-interest firms with more than 500 workers, namely about 11 700 major firms and organisations across the EU, including listed companies, banks, insurance companies, and other companies recognized as public-interest institutions by national authorities.

In April 2021, the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which broadens the scope of the existing reporting obligations under the NFRD, to include all major corporations and corporations listed on regulated exchanges. It imposes more extensive reporting requirements, as well as an obligation to report audited information under EU sustainability reporting standards.

Before analyzing the data and drawing our conclusions, we considered it appropriate to assess whether the ESG reporting frameworks used by the ESG Leaders, are compatible with the 17 Sustainable Development Goals (SDGs) of the UN Agenda 2030 or not.

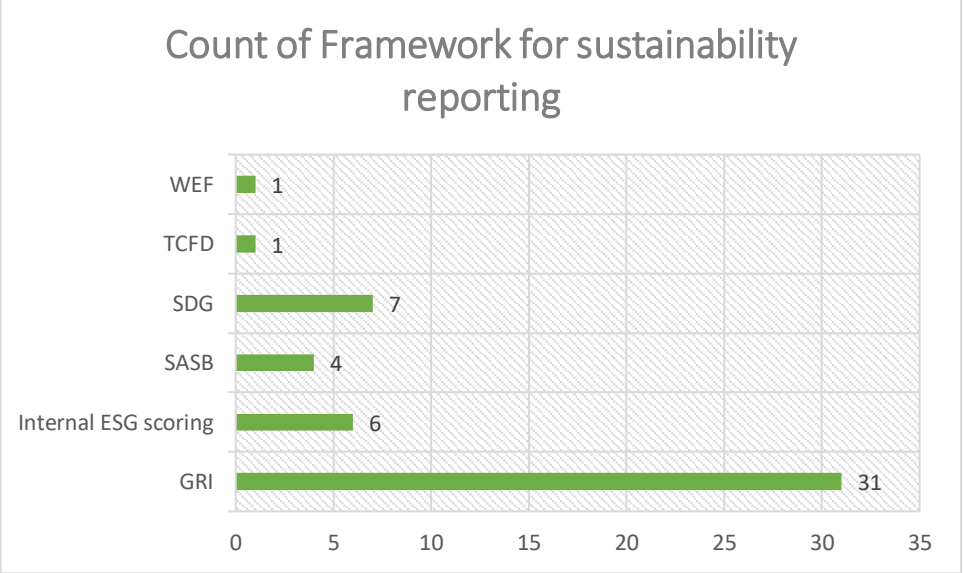

Figure 2 ESG framework used by the ESG Leaders. Source: Corporate websites

Most corporations use well established and known ESG monitoring and reporting frameworks, such as the Global Reporting Initiative (GRI)[9], the Sustainability Accounting Standards Board (SASB)[10], the Task Force on Climate-related Financial Disclosures (TCFD)[11] and the World Economic Forum's (WEF) indicators (**Figure 2**)[12] and all of these

[8] Directive 2014/95/EU, commonly known as the Non-Financial Reporting Directive (NFRD), establishes the standards for certain big corporations to disclose non-financial and diversity information.

[9] The Global Reporting Initiative (GRI) is a non-profit worldwide standards group that assists corporations, governments, and other organizations in understanding and communicating their impacts on topics such as climate change, human rights, and corruption. (website: https://www.globalreporting.org/)

[10] The SASB is a non-profit organization dedicated to the creation of sustainable accounting standards. Investors, lenders, insurers, and other financial capital providers are becoming more aware of the influence of environmental, social, and governance (ESG) issues on company financial performance, prompting the demand for standardized reporting of ESG data. (website: https://www.sasb.org/)

[11] The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board to enhance and expand reporting of climate-related financial information. (website: https://www.fsb-tcfd.org/)

frameworks are consistent with the 17 SDG. Six out of the 50 organizations under consideration use internal resources to develop a customized framework for ESG reporting, whereas seven of them monitor their non-financial performance by using the SDGs as a benchmark.

Following, we proceed with the calculation of the five performance indicators mentioned in the previous section (**Table 2)**:

Table 2 Calculation of performance indicators

	Average of Beta (5Y Monthly)	Average of Total Debt/Equity (mrq)	Average of Profit Margin	Average of Return on Assets (ttm)	Average of Return on Equity (ttm)
Automobiles and Parts					
EURO STOXX 50	1,37	158,74	5%	2%	9%
STOXX Europe ESG Leaders 50	1,64	216,08	5%	2%	13%
Chemicals					
EURO STOXX 50	0,79	33,06	10%	3%	6%
STOXX Europe ESG Leaders 50	0,77	83,50	8%	5%	11%
Construction and Materials					
EURO STOXX 50	0,99	106,28	3%	3%	5%
STOXX Europe ESG Leaders 50	0,64	127,05	10%	7%	26%
Consumer Products and Services					
EURO STOXX 50	0,96	96,71	11%	5%	13%
STOXX Europe ESG Leaders 50	0,89	54,01	9%	5%	11%
Energy					
EURO STOXX 50	1,26	80,82	-11%	0%	-11%
STOXX Europe ESG Leaders 50	1,00	74,29	-5%	-1%	-8%
Financial Services					
EURO STOXX 50	1,75	2,63	-23%	0%	-6%
STOXX Europe ESG Leaders 50	1,28	26,59	14%	1%	8%
Food, Beverage and Tobacco					
EURO STOXX 50	1,40	125,80	9%	1%	4%
STOXX Europe ESG Leaders 50	0,48	110,70	9%	6%	13%
Health Care					
EURO STOXX 50	1,12	79,77	-12%	2%	-18%
STOXX Europe ESG Leaders 50	0,42	58,43	21%	11%	32%
Industrial Goods and Services					
EURO STOXX 50	1,44	102,09	3%	3%	7%
STOXX Europe ESG Leaders 50	0,91	70,89	11%	5%	18%
Media					
EURO STOXX 50	0,68	46,81	9%	3%	10%

[12] 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.' (Available at: http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf)

STOXX Europe ESG Leaders 50	0,51	339,17	17%	8%	56%
Technology					
EURO STOXX 50	1,52	90,12	47%	-3%	-1%
STOXX Europe ESG Leaders 50	1,14	50,30	17%	7%	19%
Utilities					
EURO STOXX 50	1,25	113,10	-3%	2%	-2%
STOXX Europe ESG Leaders 50	0,64	104,44	7%	3%	8%

Beta indicator expresses the volatility, hence the risk, of a stock in the market. A stock with a beta greater than 1.0 shows that the stock has a greater fluctuation than the market over time, while a stock with a beta less than 1.0, means that the volatility of the stock is less than the market. Stocks with high-beta tend to have a larger potential return, but are considered to be riskier; On the opposite, low-beta stocks are less risky but have lower returns. From our analysis, we notice that in general, companies with a good ESG performance tend to have lower beta and therefore lower risk (**Figure 2**). But this is not the case for companies in the automotive sector.

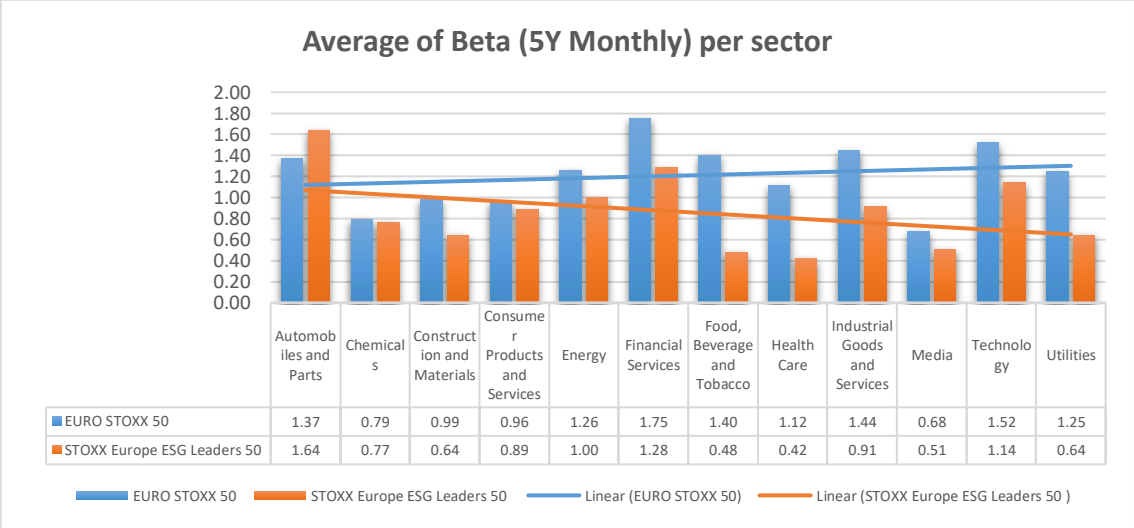

Figure 3 Average of Beta (5Y Monthly) per sector

(D/E) ratio is a gearing ratio and is calculated by dividing a company's total liabilities by its shareholder equity. It is used to assess financial leverage and comprise a very useful statistic in corporate finance, as it measures how much of a company's activities are relied upon external debt, and expresses the ability of shareholder equity to fulfil all existing obligations in the case of a business downturn. Although, the comparison of the D/E ratio across different industrial sectors is sometimes problematic, since optimal levels of debt differ across the various sectors, in general, higher leverage ratios often imply that a firm or stock carries a greater risk for the shareholders.

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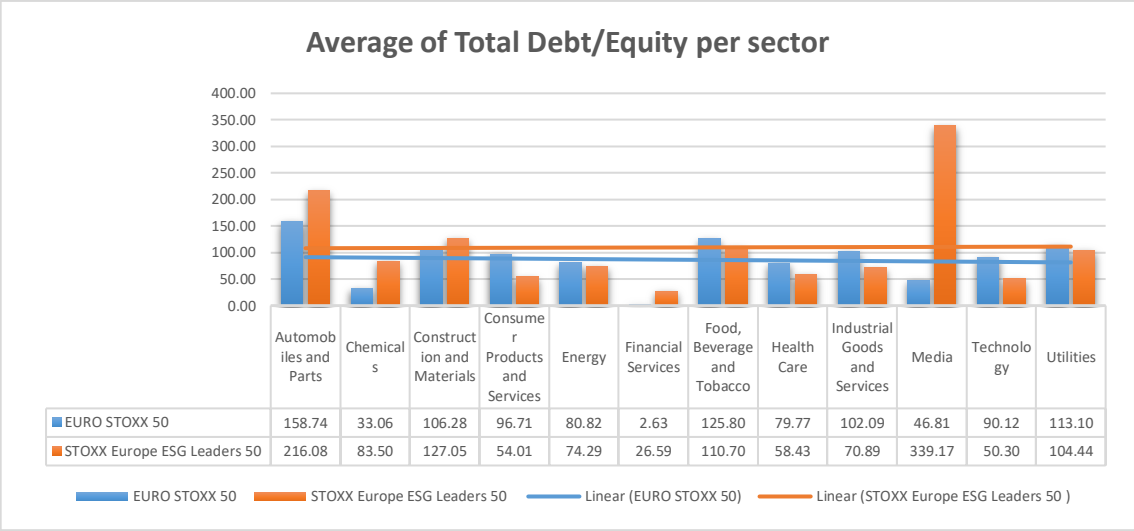

Figure 4 Average of Total Debt/Equity per sector

that the D / E ratio is at similar levels, regardless of if companies have good ESG performance (**Figure 3**) within the same sector, with the exemption of Media companies where ESG demonstrate more leverage than the rest. This result agrees with (Lindkvist, L., & Saric, O., 2020) who suggest that when it comes to a company's ability to raise cash or its capital structure, ESG performance is not critical. According to them, there is still a long way before sustainability is regarded as an important and well-integrated component in investment decisions. At least, they do not see an obvious association between the ESG performance and fund-raising ability, leading to the conclusion that sustainability measures have no impact on the optimal capital structure. However, they found that sustainability ratings can be used by a corporation to change its optimal debt levels, run more efficiently with cheaper capital, and assist the manager in maximizing firm value. Having a better knowledge of how the ESG rating influences the capital structure could aid a business in its decision-making processes as regards the funding of its organization. This knowledge would enable management to better understand how the investments required to obtain the ESG grade affect the firm's value as well as the financing dynamics (Lindkvist, L., & Saric, O., 2020).

Return on assets (ROA) measures a company's profitability to its total assets. ROA provides information about how effective a company's management is in generating earnings from its assets. It is expressed as a percentage and in general, the greater the ROA, the better. From our analysis, there is a clear superiority in the profitability of companies that have good ESG performance, in all sectors (**Figure 4**). This result agrees with the finding of (Velte, 2017) who suggest that ESG performance has a positive impact on ROA.

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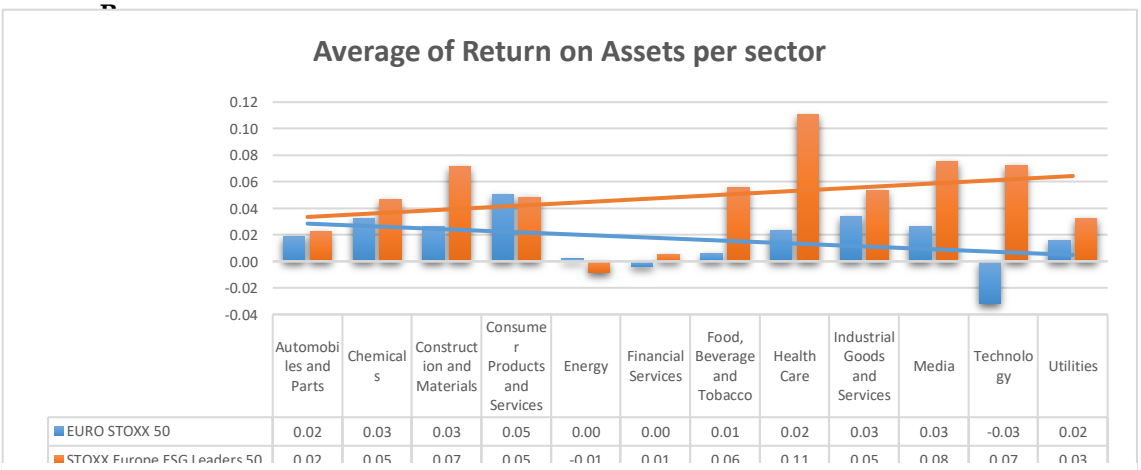

Figure 5 Average of Return on Assets per sector

quity (ROE), likewise ROA, is a financial performance metric that is derived by dividing net income by shareholders' equity. ROE is defined as the return on net assets since shareholders' equity equals a company's assets minus its debt. Therefore, the ROE is a measure of a company's profitability to its stockholders' equity.

Our analysis shows, as with ROA, that companies with good ESG performance have a better return on equity than the others (**Figure 5**). Even in the sectors with negative returns like energy, ESG leaders demonstrate less negative return on equity than the others.

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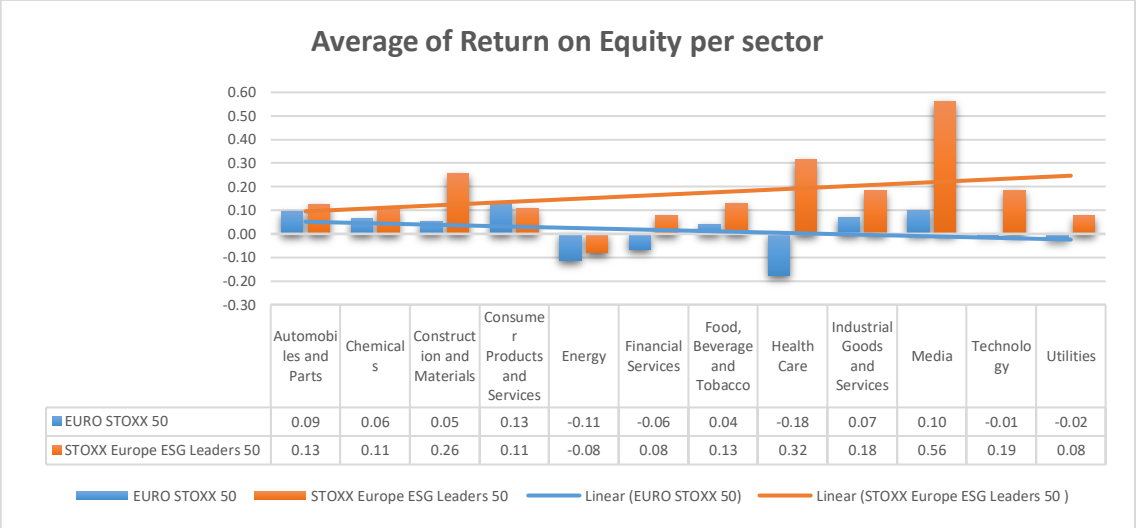

Figure 6 Average of Return on Equity per sector

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relationship between both ROA and ROE, are in line with (De Lucia 2020) work, which concludes using machine learning techniques that Firms' financial performance improves as a result of good ESG.

Profit margins are one of the most basic and commonly utilized financial metrics in the business world. A company's profitability is usually measured at three levels, gross profit, operating profit, and net profit. The simplest indicator of profitability is gross profit, which is calculated as the difference between Sales Revenue and the Cost of Sales and the Profit Margin is derived by dividing this difference by the Revenue.

Our examination does not show a clear relationship between profit margin and ESG performance. In some sectors, ESG leaders seem to have a higher profit margin, while in others the opposite is true (**Figure 6**). This may be due to the specific characteristics of either the sector or the business and the way it operates, to be profitable. Further, both factors that determine a company's profit margin, namely the turnover and the sales costs, are influenced by several factors, such as area of activity, competition, international financial conditions and other parameters that seem to not be directly affected, neither positively nor negatively, by ESG performance.

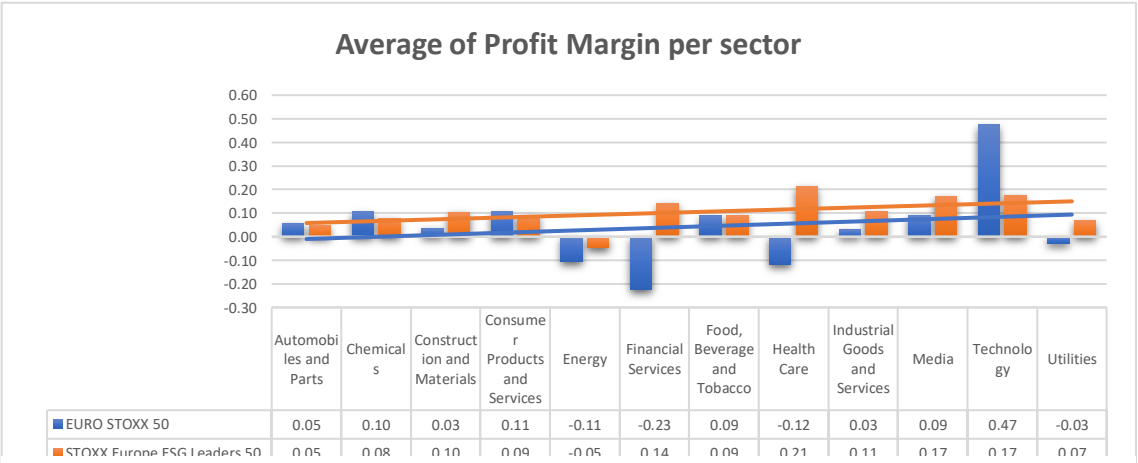

Figure 7 Average of Profit Margin per sector

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We examined the connection between good ESG performance and sound financial results. With our sample of companies we have covered a wide range of industry sectors, and assuming that the tone is given from the top, we believe that our conclusions are representative of the whole sector.

Business operations that comply with the established ESG principles, is beneficial not only for the society and the environment but also for the business itself in a variety of ways. We have found that 44 companies out of the 50 included in the STOXX Europe ESG Leaders 50 index, already use well-known ESG reporting frameworks that are compliant with the 17 UN SDGs. The remaining 6 devote resources for developing internal systems to monitor their performance according to ESG criteria.

As far as the results on the correlation between ESG performance and financial results, our study showed that the beta coefficient, a very widely used measure for shareholders' risk, tends to be lower in companies with strong ESG performance, hence implying a comparatively lower equity risk. At least, this seems to happen except for firms in the automotive sector.

With regards to the D / E ratio, our study revealed that, except for media firms whose ESG leaders demonstrate a relatively better D/E, otherwise it does not seem to be explicitly affected by ESG performance. This result is in line with studies that suggest that ESG performance is not a critical factor for a company's capital structure efficiency or its ability to raise funds. Further, our study showed that in some sectors, firms with strong ESG performance demonstrate in general, a greater profit margin, but this is not the case for all sectors.

Last, our analysis revealed a clear dominance in the profitability of companies that have good ESG performance compared to the rest, in all sectors. This is the case for both the ROA and the ROE and agrees also with results from the literature.

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