

Financial implications of addressing water externalities in the apparel and meat industries

Research partnership with Ceres and Bluerisk

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- _ DWS has teamed up with the US based sustainability organization Ceres and the [Valuing Water Finance Initiative](#) to provide input to two briefing reports on the financial implications of water pollution and excess water use by major companies in the apparel and meat industries. These two sectors' significant contribution to water stress is not often in focus by investors and governments.
- _ Current approaches to water risk focus on asset class and sector exposure to water and physical climate risk. The financial value at risk from water pollution and water availability are often ignored.
- _ However, existing corporate disclosures demonstrate the potential for significant financial impacts due to companies affecting the quantity and quality of water resources around their facilities.
- _ The Ceres partnership follows-up on our report "[A Transformational Framework for Water](#)" which was awarded Environmental Impact Thought Leadership of the Year from Pensions for Purpose¹
- _ Our ESG expertise in combination with our proprietary equity valuation methodology CROCI®, was used in the research partnership with Ceres, the water strategy and data experts Bluerisk and the University of Saskatchewan's Global Institute for Water Security.
- _ Using data from S&P Sustainable1 and many other sources, the report authors provided estimates of the total cost of reducing water use and water pollution in the apparel and packaged meat sectors.
- _ The cost data was combined with our CROCI methodology (see more detail on the next page) which seeks to achieve a full understanding of companies' economic assets, value chain and cash profitability. CROCI analysis puts companies across countries and different sectors on a level playing field where their fundamental financial data can be directly compared without the imbalances that different accounting standards or business models might introduce. CROCI facilitated a true analysis of the financial implications of the cost of reducing water pollution and reducing water use.
- _ The innovative analysis finds that the cost of addressing harmful water impacts could range from nearly USD60m to USD1.8 billion annually for some large publicly-traded packaged meat and apparel companies. If companies were required through future regulations or internal policies and investor/societal expectations to clean up and reduce their water use, the additional spending could impact apparel company earnings by -21% to -47%. Net profit impacts on meat companies could range from -5% to -165%.

Links to the full reports: [Meat brief](#), [Apparel brief](#), [Press release](#), [Valuing Water Finance Initiative](#)

¹ Pensions for Purpose November 2021 www.pensionsforpurpose.com/knowledge-centre/events/2021/11/18/Pensions-for-Purpose-Content-Awards-2021
Articles were assessed for clarity, originality, educational insight, presentation and relevance for pensions funds. No fee was paid to be considered.

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The heart of CROCI® is a dedicated company analyst research team of approx. 50 members covering over 800 large cap companies around the world. Originating in research, CROCI® analysis continues to be used for bottom-up analysis of equity markets but has also been employed in dedicated investment products since 2004: these are primarily systematic, rules-based strategies seeking exposure to concentrated value (i.e., systematically investing in companies with attractive economic valuation based on CROCI® analysis). The CROCI® analysis model is standardized in the sense that there are clear guidelines for how to reconstruct corporate balance sheets including off-balance sheet liabilities; how to measure the key economic assets of a company and their useful life; and how to measure the cash profitability of a company.

However, the analysis model is flexible enough to provide the option of sensitivity analysis based on different hypothetical assumptions or parameters – and this is how CROCI® has contributed to this study: by modelling how the cash profitability, valuation and other fundamentals of specific companies would change under different assumptions regarding the increased expense to companies when bearing the cost of their water externalities in part or full. Although information for CROCI® metrics has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All CROCI® metrics reflect our judgment on a certain date and are subject to change without notice and involve a number of assumptions which may not prove valid.

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