



Studying the Correlation between Non-Financial Information and Corporate Value

KDDI's ESG Initiatives

- Striving to Enhance Corporate Value -

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KDDI utilized Digital ESG Analytics provided by ABeam Consulting to conduct a trial that analyzed the correlation between non-financial data and the price-to-book ratio (PBR), with an emphasis on expanding ESG disclosure. We held a dialogue regarding this initiative between Nanae Saishoji (executive officer and general manager of KDDI's Corporate Management Division) and Manami Konno (ABeam Consulting) on July 5, 2021.

Manami Konno

Senior Manager, Digital Process
Business Unit, FMC Sector,
ABeam Consulting Ltd.

History

Joined ABeam Consulting in 2006. Established the ESG sustainable management support service at the company and currently works as a manager for said service. Assigned to providing service to companies in Japan and abroad.

The COVID-19 Pandemic Has Brought Fundamental ESG Trends to the Fore

Saishoji KDDI formulated KDDI Sustainable Action in May 2020, publicly presenting its effort to enhance initiatives for social issues as a corporation. However, because the scope of the initiatives span a wide range, they have not progressed to the point where all the activities are visualized and quantified to publicly present the correlation with enhancing corporate value.

Although society has changed a lot due in part to the COVID-19 pandemic, the most significant change I felt was the sharp turn in the capital market from prioritizing shareholders to prioritizing stakeholders. I felt that it has become necessary to incorporate carbon neutrality and other ESG goals into management and rationally visualize those activities.

Konno ABeam Consulting's Digital ESG was conceived in 2017. ESG and sustainability have broken free of the framework of social contributions, we have worked in line with the idea that they should be incorporated into business management. The first company to introduce Digital ESG was Eisai Co., Ltd. in 2019.

I feel that rapidly increasing attention is being paid to what kind of impact ESG achievements and effects have on enhancing corporate value. Should profits be prioritized or shareholders, or should employees or the company's assets be protected, or should emphasis be placed on maintaining some economic activities? Amid the COVID-19 pandemic, a major change occurred in values, and we recognize the fundamental ESG trends received a huge boost.

I often hear that Japanese companies are behind on ESG goals. However, after studying the current situation of Japanese companies, I see that the public appeal of some various activities is insufficient and that the public do not know how management determines which ESG elements to incorporate into management issues. These two points have created an unfortunate situation. Japanese companies have the potential of rapidly growing investment and public opinion in ESG if they can overcome the situation.

Saishoji I also feel that Japanese companies haven't raised enough

awareness of the fact that they have imbued their strength of "coexisting with society" into their corporate value.

There is a strong correlation between enhancing corporate value and engraining the KDDI Philosophy, including eco-friendliness, R&D and promoting the advancement of female employees.

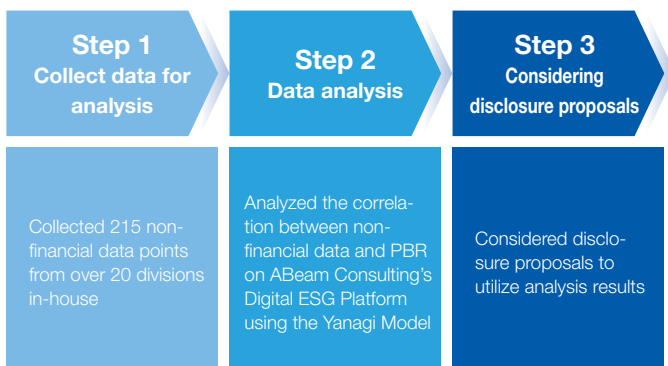
Saishoji Regarding co-existing with society, KDDI has the KDDI Group Philosophy, which outlines the policies, values, and code of conduct for employees. The Company aims to contribute to society and become a company that is beloved and trusted by all stakeholders, including customers and their cooperating partners. The philosophy is incorporated into the employees' daily corporate activities.

After receiving the suggestion from you, Ms. Konno, we worked to visualize the relationship between enhancing corporate value and promoting a wide range of non-financial initiatives, including activities related to the KDDI Group Philosophy, with an emphasis on enhancing IR disclosure as a trial.

Konno While it is positioned as a trial, we cooperated with various divisions with unlimited scope, gathering abundant data on 215 ESG indicators from over 20 departments and conducting an analysis. Looking at 45 indicators that showed promising correlations in line with KDDI's materiality, we realized that we were able to identify indicators that impact enhancing corporate value in fields that KDDI focuses its efforts on. We also saw that the more that the aforementioned the KDDI Group Philosophy becomes engrained in the frontline as an overarching purpose, the more that corporate value increases.

As the "correlation between greenhouse gas emission intensity and PBR" was highlighted in the full-year financial results presentation, the results showing that environmental initiatives help enhance corporate value are impressive. Among the many companies that incur costs responding to regulations, it is rare that a company actually conducts

▼ Digital ESG Trial



tests proving that environmental initiatives enhance corporate value.

Saishoji As a result of this analysis, I was impressed by the discovery of the correlation between R&D expenses and PBR. We have focused our efforts on basic research as well as commercial research and development with an emphasis on business.

Konno Even when verifying companies in the TOPIX 100 with a PBR over 1, we see a correlation between R&D expenses and PBR.

However, although a correlation emerges at these TOPIX 100 companies after six to 12 years, KDDI saw an impact on enhancing corporate value in a shorter time frame of just two to four years.

We recognize that the judgment criteria that management uses in its decision making or the development stance on the frontlines contribute to corporate value.

Saishoji Also, the results showed that raising the percentage of female employees leads to higher corporate value, and we reconfirmed the importance of incorporating the wide perspectives of diverse human resources.

**Analysis initiatives garner acclaim internally and externally
Aiming to evolve ESG management under the next
medium-term management plan**

Konno Although there had been an influx of different ESG-related guidelines, a trend toward unification has emerged. Accordingly, the trend is progressing in a visible way, such as whether to quantitatively assess the impact on corporate value and how to convert the impact into a financial amount and reflect it in accounting.

Through this trial, we realized ample data is readily available, and I imagine KDDI will move onto the stage of deciding how to utilize this data going forward.

Saishoji A major accomplishment of this Digital ESG initiative was centralizing the data that had been scattered about. I think it is import-

▼ Examples of analysis results

How much does PBR increase when the value of ESG indicators change (examples)
If we reduce greenhouse gas emission intensity by 10%, PBR six years later will increase 2.4%.
If we increase the number of KDDI Philosophy Workshops by 10%, PBR will increase 0.02% year on year.
If we increase the ratio of female employees by 10% (such as from 20% to 22%), PBR 13 years later will increase 3.4%.
If we increase R&D expenses by 10%, PBR two years later will increase 0.0009%.

Note: Analyzed by Abeam Consulting ESG Platform based on the model developed by Mr. Ryohei Yanagi under the "CFO Policy" (Chuokeizai-sha Holdings, Inc. 2020)* (January 2021)

ant that we continuously organize and analyze the data. However, I feel that one issue is that because we disclose financial data on a consolidated basis in line with IFRS, when conducting ESG initiatives Group-wide, how should we collect information on that. And considering the different industries they span, that is a cause for concern.

Konno The companies are located in different countries and regions and operate in different industries. I feel some very big issues are how much should be asked of companies using a universal ESG ruler and how should this standard be managed.

In addition, as for business management, what the data revealed is not all that is true. The key is to recognize how aligned and interconnected the data is with the KDDI Group Philosophy, strategies, policies, and initiatives, and to then leverage that. Regardless of the extent to which we quantified the value in ESG, it is important to figure out how we should utilize and analyze the data. Relying solely on the data and external index rankings would be moving in the wrong direction.

Saishoji At many of the recent meetings with institutional investors, much of the time spent on dialogue is dominated by ESG topics, and I really feel that the initiatives are being probed. Disclosure of the results of this analysis, as well as the content itself, received very high praise from the institutional investors. Internally too, the departments who participated in the analysis are saying that they too could feel the significance of their operations and the value they provide through Digital ESG.

And now that we are formulating a new medium-term management plan, we are discussing the setting of targets aimed at achieving true ESG management and establishing the mechanisms for that. We do not see these initiatives as temporary. We strive to continuously utilize and develop them. Thank you very much for speaking with me today.

Konno Thank you.

