ESG Insights

Piper Sandler Top 10 ESG Ideas For 4Q

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ESG is garnering increased interest and focus among investors around the world. The amount of global assets under management (AUM) tied to sustainable investments reached $30.7 trillion in 2018, an increase of 131% from 2012. AUM tied to ESG strategies accounted for ~26% of all U.S.-domiciled AUM in 2018*. To address the more qualitative aspects of ESG, Piper Sandler has partnered with CSRHub to provide data across our coverage universe. In the first of our series of quarterly reports, we highlight 10 stocks that fuse strong fundamentals with a high ESG score.

Source: Global Sustainable Investment Alliance.
## Top Overweight-Rated + ESG

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<tr>
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<th>Market Cap ($B)</th>
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Sources: Piper Sandler, company reports, CSRHub
02.

Company Profiles
ESG Insights: AFL

Investment Thesis – 1) AFL is a beat & raise story principally focusing new sales on benefits products, which are showing strong claims tailwinds in 2020. 2) The company is among the most active & consistent repurchasers of its own stock in the life insurance universe. 3) With ¾ of its business in Japan, AFL is likely to emerge from the COVID induced impacts on the economy & subsequent spending reduction impacting sales sooner than its counterparts in the U.S.

ESG Profile – 1) AFL is in the process of implementing a paperless initiative in Japan that should serve to reduce paper by 80 million pieces annually. 2) Since 2007, the company has reduced electricity consumption in the U.S. by over 50% KWH per square foot. 3) In the U.S., 66% of AFL’s workforce are women with this being 51% in Japan. 4) For 14 consecutive years, the company has been recognized by Ethisphere as one of the world’s most ethical companies.

Upcoming Catalysts – 1) We are above consensus in 3Q20, which we chalk up to continued favorable claims trends & better-than-expected net investment income performance; 2) an investor day in mid-November at which it will lay out new targets; & 3) a refreshed cancer product in 4Q20 & a new medical product in early 2021 that should drive sales in Japan.

Rating: Overweight
Price: $36.33
Price Target: $45.00
Market Cap: $25.5B
Analyst: Barnidge

Percentile Ranks

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Category Percentile Ranks

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Sources: Piper Sandler, FactSet, CSRHub and company reports

*Piper Sandler served as financial advisor to Aflac Incorporated in connection with its agreement to acquire Zurich North America’s U.S. Corporate Life and Pensions business.*
ESG Insights: BAX

Investment Thesis – In our view, Baxter is a consistent execution story within Medtech, and one that trades at a discount to large-cap peers. In the near term, we like the company as a safe-haven asset in a COVID-19 environment given its emergent product offering. In the intermediate to longer term, Baxter should benefit from a number of tailwinds including the shift toward peritoneal dialysis in its renal business, a number of new molecule and pump launches in its pharmaceuticals and med delivery businesses, and capacity for M&A as a catalyst for shares.

ESG Profile – In 2015, Baxter laid out 20 corporate responsibility goals addressing various issues including product innovation, workplace culture, ethics & compliance, employee health & safety, operations, procurement, healthcare access, and community involvement. The company has already achieved its targets on over half of these ESG initiatives and has provided detailed plans in its annual Corporate Responsibility Report to further execute on these targets.


Rating: Overweight  
Price: $79.54  
Price Target: $100.00  
Market Cap: $41.1B  
Analyst: O’Brien

Percentile Ranks

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Sources: Piper Sandler, FactSet, CSRHub and company reports
ESG Insights: BBY

**Investment Thesis** – Best Buy has built perhaps the best omni-channel customer experience in all of retail, which allows it to compete effectively against e-com competitors and maintain its dominant industry share as consumer electronics (CE) products become increasingly integrated into consumers’ lives. It has also developed compelling services offerings to deepen and strengthen its relationship with customers. The shift in 2020 to working from home, learning at home, and entertaining at home is driving substantial demand for CE products. Additionally, there are several product cycles set to launch in 4Q20.

**ESG Profile** – Best Buy has received numerous awards for its ESG efforts including being named #1 on Barron’s list of the 100 Most Sustainable Companies for 2019. Specific initiatives at Best Buy include: 1) An e-waste recycling program that has collected 2 billion pounds of appliances and electronics; 2) Reducing carbon emissions by 51% since 2009; and 3) Building 60 Teen Tech Centers to prepare teens from underserved communities for tech-oriented jobs in the future.

**Upcoming Catalysts** – 3Q earnings (in November); Launch of 5G iPhone (during 4Q); Launch of Playstation 5 and XBOX Series X (during 4Q)
ESG Insights: CI

**Investment Thesis** – CI has executed strongly on integration efforts; we believe we could see 2021 tailwinds to guidance expectations as indicated in our survey data, driven by strong traction in middle market offerings, continued strength in cost trends (700+ VBC arrangements), and new Evernorth offerings. The name is cheap, in our view, primarily due to ongoing legislative risk over the next 1-2Y. However, PBM performance has been strong with first time retention guidance of 96-98% a/o 2Q20, its Prime partnerships, and specialty PBM Accredo. We believe CI’s core business should hold steady through the balance of the pandemic.

**ESG Profile** – Cigna has a long-standing commitment to corporate responsibility, with a dedication to positively impact the health of people, communities and the environment, all while employing responsible and inclusive business practices. CI’s framework approach, “Cigna Connects,” balances the connection between human and planetary health, improves healthcare access for all, and fosters an employee culture built on mutual respect and sustainable business practices (i.e., supplier code of ethics, drug waste elimination, etc.).

**Upcoming Catalysts** – Rutledge Hearing (10/6), Rutledge Ruling (2H20E), Medicare Rate Update (Fall 2020, 02/21, 04/21), U.S. Presidential Election (11/3/20)

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<td>78%</td>
<td>80%</td>
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Sources: Piper Sandler, FactSet, CSRHub and company reports
ESG Insights: COP

Investment Thesis – COP is the fully-formed realization of what all E&P companies are currently trying to become, with a leading track record on sustained growth, returns and prioritized cash return to shareholders. COP has one of the lowest breakeven oil prices and highest FCF yields amongst E&Ps. It has a deep resource base of low cost-of-supply assets that should sustain combined growth and FCF generation, and above average leverage to a crude oil recovery, with a demonstrated track record and clear strategy for returning that excess cash to shareholders.

ESG Profile – An industry leader on matters of governance, particularly executive compensation, where COP was early to focus on returns-based metrics. On environmental and social performance metrics, COP provides amongst the most comprehensive disclosure of sustainability-related data and metrics in the industry. The company has reduced GHG emission intensity by 11% since 2016, and has a target to reduce its greenhouse gas emissions intensity from 5%-15% by 2030 vs. a 2017 baseline, one of the few in the industry to have an explicit GHG reduction target.

Upcoming Catalysts – Annual strategy update in Q4 should reduce concerns on post-COVID impacts to long-term strategy.

Rating: Overweight
Price: $33.71
Price Target: $50.00
Market Cap: $37.1B
Analyst: Todd

Percentile Ranks

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<th>Overall</th>
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<td>81%</td>
<td>83%</td>
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Sources: Piper Sandler, FactSet, CSRHub and company reports
ESG Insights: CPB

**Investment Thesis** – We expect Campbell’s elevated top-line growth momentum to continue, as we expect elevated food at home consumption to last through C20 and potentially well into C21. We believe Campbell’s portfolio and its strategy are aligned well with consumer and retailer trends that look likely to last, even as COVID-19 disruptions subside.

**ESG Profile** – The Campbell Soup Foundation gives financial support to local champions that inspire positive change in US communities where Campbell Soup operates, including increased access to food, nutrition education, and better school food. Campbell has reduced GHG emissions by 26% per ton and reduced water use by 25% since 2012 and is targeting a further 25% and 20% reduction (respectively) by F25. It aims to source half of its key plant-based ingredients from suppliers with approved sustainable agriculture programs by F25 and 100% certified sustainable palm oil by F21. It plans to reduce food waste by 50% vs. F17 by F30 (already down by 36%) and cut landfill waste by 25% vs. F17 by F25. It aims to get its employees to volunteer 75,000 hours in their communities.

**Upcoming Catalysts** – Strong continued top-line growth should drive elevated earnings and cash flow, which can help debt pay-down.

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**Sources:** Piper Sandler, FactSet, CSRHub and company reports

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**Rating:** Overweight
**Price:** $47.98
**Price Target:** $57.00
**Market Cap:** $14.5B
**Analyst:** Lavery

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**Percentile Ranks**

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ESG Insights: CRM

Investment Thesis – Salesforce has become the largest customer-centric cloud application platform with 49K employees and a revenue run-rate of $20B+ with aspirations to reach $35B by F2024. The great digital awakening in 2020 spurred by a global shift to remote work could accelerate cloud penetration to 50%+ by 2030 from 10% in 2020 and sustain durable double-digit annual growth in revenue and profits for Salesforce over the next decade.

ESG Profile – Salesforce has a long-standing commitment to philanthropy with Marc Benioff setting aside 1% of the equity in 1999 for the Salesforce.com Foundation that has funded $330M in grants. Benioff also founded Pledge 1% in 2015 that encourages companies to dedicate 1% time, 1% product, and 1% equity to improve the world and is now adopted by 10K+ companies in 100+ countries. ESG attributes include a commitment to conserve 100 million trees, path to 100% renewable energy by F2022, 50% target mix of underrepresented groups within the workforce by F2024, free online learning for everyone (Trailhead) that has attracted 1.8 million participants, and a carbon neutral cloud since 2017.

Upcoming Catalysts – Tableau Conf (10/5-8) and Dreamforce (11/9-12)

Rating: Overweight
Price: $246.67
Price Target: $285.00
Market Cap: $223.8B
Analyst: Bracelin

Percentile Ranks

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<td>85%</td>
<td>79%</td>
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Sources: Piper Sandler, FactSet, CSRHub and company reports
ESG Insights: GILD

Investment Thesis – Gilead’s world-leading antivirals business generates >$21B in annual revenue, which should grow to >$24B by 2023, and should provide >$10B in free cash flow. Current valuation looks attractive based on the antivirals business alone, and the company currently has a >4% dividend yield. In recent years, Gilead has enhanced its pipeline in the areas of anti-inflammatory and oncology medicines, and we believe these products could add durable, high margin sales upwards of $10B. This aspect of the business is underappreciated, GILD is receiving little-to-no value for it, and we believe it will eventually accrue to shareholders.

ESG Profile – The company supports organizations around the world that are working to improve the lives of people with life-threatening diseases. Consistent with this philanthropic philosophy, the company donated the first 1.5 million doses of its potent SARS-CoV-2 antiviral, remdesivir, for the treatment of more than 250,000 COVID-19 patients. Gilead also has a philanthropic fund (CARES) to support non-profit organizations impacted by the COVID-19 crisis and provided almost $400 million in cash donations to non-profits globally last year. In 2019, Gilead also donated up to 2.4M bottles of Truvada to uninsured Americans at risk for HIV.


Sources: Piper Sandler, FactSet, CSRHub and company reports

Rating: Overweight
Price: $62.85
Price Target: $95.00
Market Cap: $78.1B
Analyst: Van Buren
ESG Insights: HIG

Investment Thesis – An attractive mix of inexpensive stock (trading below book value) and unappreciated potential pricing upside due to its expansion into the specialty insurance business where industry price increases are greatest. A new cost-cutting effort is expected to increase earnings by about 20% on top of normal improvements by 2022.

ESG Profile – HIG has specific ESG goals such as reducing greenhouse emissions 2.1% per year, positively helping 10 million people by 2022 with its investments in communities where its employees live and work, building employee resource groups to encourage people to share their ideas and experiences, and committing the firm to placing ethics and integrity above all other goals.

Upcoming Catalysts – Investors should be watching for underwriting margin expansion in late 2021, accelerated reported price increases, favorable resolution of business interruption insurance lawsuits and a material resumption of stock repurchases.

Sources: Piper Sandler, FactSet, CSRHub and company reports
ESG Insights: VMW

Investment Thesis – We believe VMware offers a best-of-breed true hybrid cloud strategy that benefits from hybrid cloud workload growth. While we believe fears around containers is overblown, VMware does have an adequate strategy to integrate containers into its business (i.e. management and security). With +60% of the business in high growth verticals like Cloud Services, NSX & Security, we continue to view current levels as attractive as a software incumbent.

ESG Profile – In 2015, VMware established its 2020 vision that outlined its ongoing commitment to good across Products, the Planet, and People. VMware ranks in the top 92 percentile for its impact on the environment given its solutions help customers utilize less hardware and thus less power (1.5B MWh saved from 2013-2019) and less CO2 output (664M metric tons avoided). 94% of VMware is powered by renewable energy, giving it carbon neutral certified status. VMware has a social commitment to employing women and minorities, including board appointments of Ms. Brown and Ms. Dykstra, resulting in a 60 ENP score. Through the VMware Foundation Program, 84% of employees are active in their communities.

Upcoming Catalysts – Dell transaction, 5G cycle, Tanzu, & further M&A
03.

Methodology
About Our Partner: CSRHub

About CSRHub – CSRHub generates consensus Environment, Social & Governance (ESG) based on a proprietary algorithm. Using over 700 data inputs, the company produces an ESG score on approximately 20,000 companies. Its big data algorithm combines millions of data points on ESG performance from hundreds of sources, including leading ESG analyst raters (e.g., MSCI, ISS and TruCost), to produce consensus scores on all aspects of corporate social responsibility and sustainability.

CSR Ratings give the perceived performance on an absolute 0-100 scale. CSR Rankings (%) provide perspective by rank ordering a company’s ratings against all other ratings. Category scores show the next level of detail.
About Our Partner: CSRHub

Category scores show the next level of detail. Each category rating is based on three subcategories.

**Community** – Reflects a company’s citizenship, charitable giving and volunteerism. This category also covers the company’s human rights record and treatment of its supply chain. It also covers the environmental and social impacts of the company’s products and services.

**Employees** – Disclosure of policies, programs and performance in diversity, labor relations, compensation, benefits, employee training and health and safety.

**Environment** – Covers the company’s interactions with the environment at large, including use of natural resources and the company’s impact on the Earth’s ecosystems.

**Governance** – Covers disclosure of policies and procedures, board independence and diversity, executive compensation, attention to stakeholder concerns and evaluation of a company’s culture of ethical leadership.
Important Research Disclosures *

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Analyst Certification — Piper Sandler Research

— John Barnidge, Managing Director
— Brent A. Bracelin, Sr. Research Analyst
— James E. Fish, Sr. Research Analyst
— Sarah E. James, Sr. Research Analyst
— Peter J. Keith, Sr Research Analyst
— Michael S. Lavery, Sr. Research Analyst
— Paul Newsome, CFA, CPCU, Managing Director
— Matt O'Brien, Sr. Research Analyst
— Ryan M. Todd, Sr. Research Analyst
— Tyler M. Van Buren, Sr. Research Analyst

The analysts Piper Sandler Research, John Barnidge, Brent A. Bracelin, James E. Fish, Sarah E. James, Peter J. Keith, Michael S. Lavery, Paul Newsome, CFA, CPCU, Matt O'Brien, Ryan M. Todd and Tyler M. Van Buren, primarily responsible for the preparation of this research report, attest to the following:

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