

ARMANINO

ESG: A True Healthcare Imperative

2023 HFMA Texas State Conference

May 23, 2023

Our Experts



SENIOR MANAGER,
CONSULTING

Kris Russell

Kris.Russell@armanino.com

Kris has over 25 years of experience in sustainability and leads the ESG Practice at Armanino.



PARTNER
HEALTHCARE INDUSTRY LEADERSHIP

Ron Present CALA, CNHA

Ron.Present@armanino.com

Ron has over 35 years of experience in the healthcare industry and helps lead the National Healthcare Practice.

ESG: A TRUE HEALTHCARE IMPERATIVE

Agenda

- ESG Issues Relevant in Healthcare
- ESG Trends and Regulatory Update (Global and National Landscape)
- ESG Risks and Opportunities (ROI)
- Key steps to ESG readiness

ESG: A TRUE HEALTHCARE IMPERATIVE

Learning Objectives

By the end of this session, you should be able to:

- Understand why this is a Healthcare Imperative
- Understand ESG trends and regulatory drivers at a global and national level
- Identify key risks that can be managed and understand the return on investment through implementing ESG
- Describe environmental, social and governance considerations within healthcare
- Recognize ESG alignment with the Centers for Medicare & Medicaid Services Strategic Plan
- Identify areas within an organization in which ESG reporting would be relevant and impactful
- Learn key steps to ESG readiness



ESG: A True Healthcare Imperative

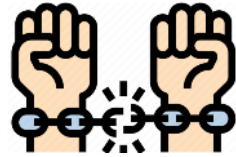
This session will explore sustainability risks and opportunities and the key issues relevant to healthcare providers. Additionally, you will learn questions to ask and steps to 'ESG readiness' including immediate actions to progress your journey.

Improve the Health and Well-Being of Individuals and Communities with *Less*



Need for Technology

- AI
- Robotics
- Machine Learning
- Data Analytics
- Telehealth



Compliance Challenges

- New Regulations
- Board Fiduciary/Liability
- CMS Strategy
- Cybersecurity
- Leadership Transitions

The integration of Social Strategies, Environmental Sustainability and Focused Governance (ESG) is the *Quality Operating Framework* needed to navigate the uncertainty of our industry.



Finance World Upside-Down

- Industry Consolidation
- Reimbursement
- Pricing Transparency
- New Reporting Requirements
- Higher Cost of Capital



People Strategies

- Recruitment/Retention
- Health Equity
- Remote Workers
- Employee Burnout/Turnover



KEY ISSUES

Healthcare

Health Equity

Social

- ✓ Employee Health & Safety
- ✓ Diversity, Equity, Inclusion
- ✓ Data Security & Privacy

Health Impacts of Climate Change

Environmental

- ✓ Climate & Emissions
- ✓ Energy Management
- ✓ Waste and Water Management



Essential Driver for Healthcare

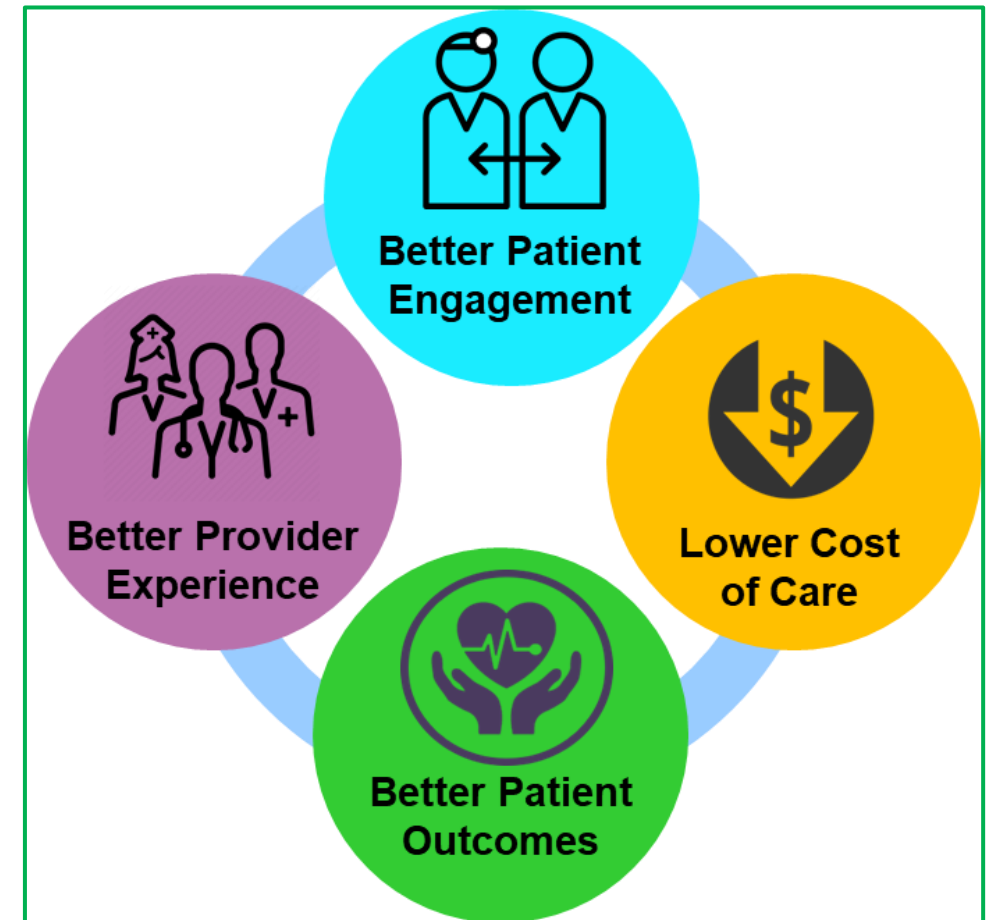
Governance

- ✓ Business Ethics & Regulatory Compliance
- ✓ Supply Chain Management
- ✓ Board Diversity
- ✓ Operations Matching Strategy

ESG: A HEALTHCARE IMPERATIVE

Why This Matters NOW

- S&P global ratings – ties into the cost of capital and cost of care
- Environmental – reduce costs by improving environmental impact (energy, waste management – lowers operating costs)
- Social – improve recruitment/retention, improves health equity, which ties to better patient engagement and outcomes
- Governance – better compliance helps achieve all four of these end goals



Sustainability

Is there a proven ROI?



Studies show 74% of consumers are willing to pay a premium for transparency regarding sustainable product materials

Source: Trivium Packaging



In **cost savings** by healthcare company Medtronic from 80+ energy efficiency projects completed in 2021 that reduce the company's energy usage and emissions

Source: Medtronic, 2021



Gunderson Health System implemented an energy plan producing 80% less carbon dioxide, particulate and mercury emissions saving **\$20.3 million** over a 13-year period

Source: Gunderson



Cleveland Clinic, which has 15 LEED certified buildings, has reduced its energy use intensity (energy per square foot) by **19%**, which has led to a **\$50 million** in savings

Source: Cleveland Clinic



UCSF discovered by eliminating unused items from surgery, its neurological department could save up to **\$2.9 million** per year in supplies

Source: UCSF

Social and Governance

Is there a proven ROI?

28%+

Companies who were leaders in diversity hiring, employment, and inclusion achieved, on average, **28% higher revenue**, higher net income, and **30% higher profit margins**

Source: BCG, 2020

50%

50% of employees would not work for companies whose policies don't match their beliefs on the environment, diversity, and inclusion

Source: BCG, 2022

3-6%

According to a Bank of America Merrill Lynch study, strong ESG performers **outperformed** the market by 3-6% per year

Source: Bank of America Merrill Lynch, 2018

60%+

Companies realized a 60% operating savings based upon implementing effective ESG strategies

Source: McKinsey

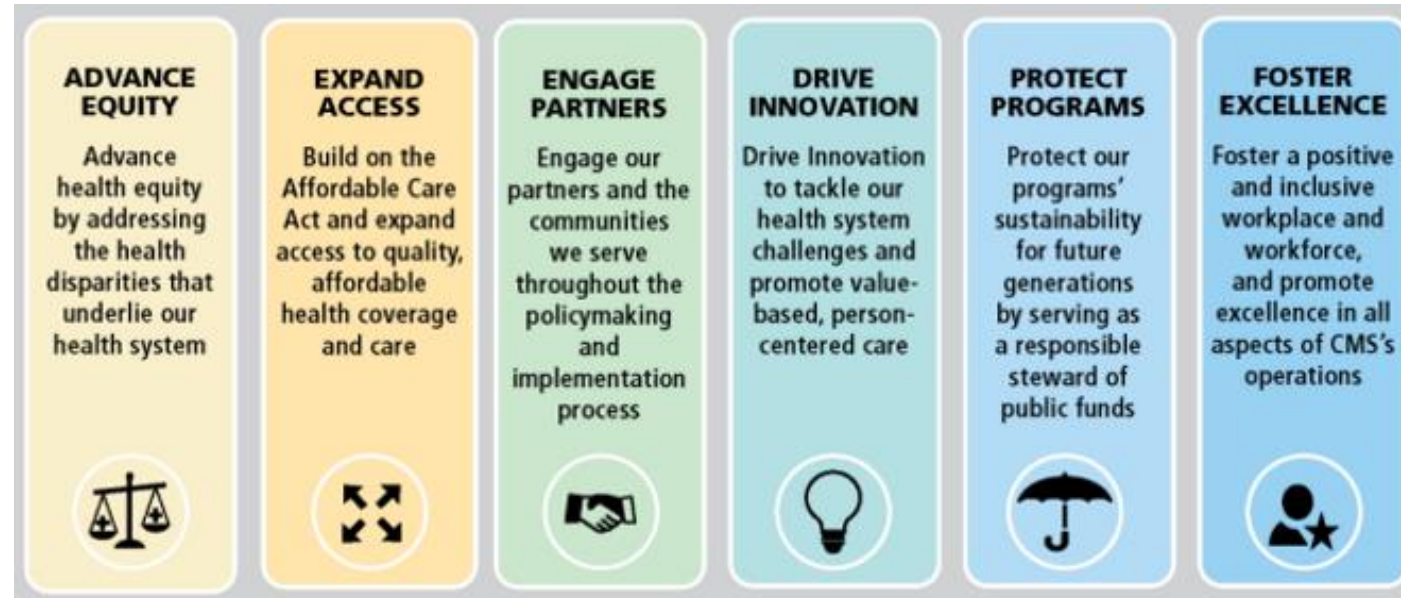
14%

Organizations with the highest employee satisfaction had ESG scores 14% higher than the global average, likely due to their strong environmental performance

Source: Marsh & McLennan

CMS Strategic Pillars

What is CMS' stance?



CMS National Quality Standards Goals Consists of 8 Focused and Interrelated Goals:

1. Embed Quality into the Care Journey – **E, S, G**
2. Advance Health Equity – **S**
3. Promote Safety to Achieve Zero Preventable Harm – **E**
4. Foster Engagement to Improve Quality and Build Trust – **S, G**
5. Strengthen Resiliency in the Health Care System – **E**
6. Embrace the Digital Age – **G**
7. Incentivize Innovation and Technology Adoption to Drive Care Improvements – **S,G**
8. Increase Quality Measurement Alignment to Promote Seamless and Coordinated Care – **S, G**

Hospitals & Clinics – Material ESG Issues

ENVIRONMENTAL

Energy & Climate

- ✓ Companies that improve energy efficiency can decrease costs and limit exposure to volatile energy and fuel pricing.

Waste Management

- ✓ Enhanced waste segregation, strategies, recycling, and reuse can limit exposure to high cost of regulated medical and pharmaceutical waste.

SOCIAL

Employee Health & Safety

- ✓ Companies often mitigate risks by implementing proactive health and safety management protocols, developing training requirements for employees, and conducting regular audits of their own practices.

Employee Engagement

- ✓ The ongoing ability to recruit, develop, and retain health care practitioners is critical to success.

GOVERNANCE

Data Security

- ✓ Companies face increasing threats related to cybersecurity and regulatory risk of managing patient health information.

Business Ethics

- ✓ The ability to ensure compliance in this area has material implications for health delivery companies.

Hospitals & Clinics – Performance Metrics

ENVIRONMENTAL

Energy & Climate

- ✓ Total energy consumed (kWh) and percent renewable.
- ✓ Total greenhouse gas emissions from operations and value chain (metric tons).

Waste Management

- ✓ Total amount of medical waste, hazardous waste, and non-hazardous pharmaceutical waste.
- ✓ % incinerated, recycled, and landfilled.

SOCIAL

Employee Health & Safety

- ✓ Total recordable incident rate and days away.

Employee Engagement

- ✓ Voluntary and involuntary turnover rate.
- ✓ Talent recruitment and retention.

GOVERNANCE

Data Security

- ✓ Number of data breaches.
- ✓ Total amount of monetary losses due to legal proceedings from data and privacy issues.

Business Ethics

- ✓ Total amount of monetary losses due to legal proceedings from fraud.

ESG Trends and Regulatory Update

FINANCIAL DRIVERS

ESG is No Longer a Fringe Issue



REGULATORY LANDSCAPE

2023 Policy Updates



US SEC: Climate Disclosure Rule



SB 253: California Climate Corporate Data Accountability Act



Engaged with IFRS and SEC

EU: Corporate Sustainability Reporting Directive
European Sustainability Reporting Standards



European Commission



IFRS: International Sustainability Accounting Standards
S1 Disclosure of Sustainability-related Financial Information
S2 Climate-related Disclosures



US SEC

Climate Disclosure Rule

- **Applicability:** Domestic and foreign registrants *(subject to the registration and reporting requirements of the Securities and Exchange Commission of the United States)*
- **Requirements:**
 - Measure, report, verify annual greenhouse gas emissions
 - Describe governance of climate-related risks, and impacts on the business, strategy, and outlook
 - Provide disclosure in annual reports (Form 10-K) and registration statements

Registrant Type	Disclosure Compliance Date	
	All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric, but excluding Scope 3	GHG emissions metrics: Scope 3 and associated intensity metric
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)
Accelerated Filer and Non-Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
SRC	Fiscal year 2025 (filed in 2026)	Exempted

Filer Type	Scopes 1 and 2 GHG Disclosure Compliance Date	Limited Assurance	Reasonable Assurance
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)
Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)

Requirements will indirectly impact suppliers and contractors of public companies

EVOLVING GAAP

ESG is a strategic goal of the Financial Accounting Foundation

- Continue to assess sustainability reporting and engage with stakeholders (SEC, Congress, federal, state, local agencies)
- Maintain dialogue with FASB and GASB about intersection of ESG and financial accounting
- Ensure Board oversight about evolving GAAP and sustainability information needs of investors and other users
- Engage with IFRS and SEC on sustainability reporting

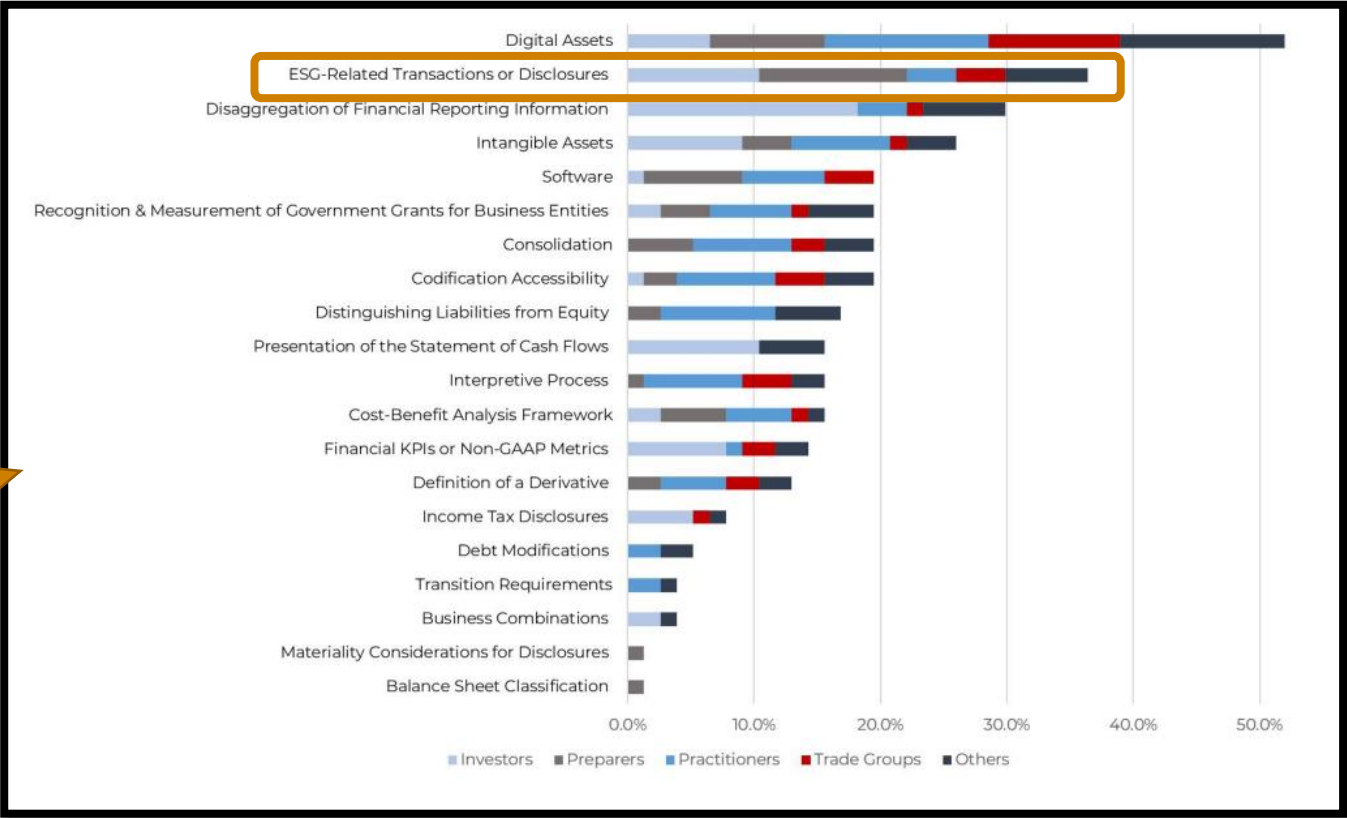
New FAF Strategic Plan released in Nov 2022



FASB INVESTOR OUTREACH

ESG is top priority of FASB Stakeholders

Results of 2021 FASB Invitation to Comment (ITC) on the Board's future priorities



FASB EDUCATIONAL PAPER

Intersection of ESG with Financial Accounting Standards

- ESG risks and opportunities may have effect on financial statements
- Examples:
 - “shifting consumer preferences”
 - “technological or regulatory changes”

NOTE: FASB research agenda includes ESG-Related Disclosures

Environmental	
<ul style="list-style-type: none"> • Climate change • Ecological impacts, such as pollution, deforestation, and loss of biodiversity • Energy management, such as energy-efficient buildings and production processes • Greenhouse gas emissions • Litigation risk, for example, related to environmental contamination • Policies and regulations • Raw material sourcing • Renewable energy • Sustainable products and packaging • Water and waste management 	
Social	Governance
<ul style="list-style-type: none"> • Community relations • Diversity, equity, and inclusion • Employee health and safety • Human capital development • Labor management • Privacy and data security • Product quality and safety • Supply-chain standards 	<ul style="list-style-type: none"> • Antibribery and anticorruption • Business ethics • Corporate resiliency • Diversity of leadership • Executive compensation • Lobbying and political contributions • Ownership structure • Tax transparency

SOURCE: FASB Staff Educational Paper—Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards (March 19, 2021)

ESG Risks and Opportunities

WHAT ARE THE RISKS?

Policy and Legal

- New regulations, compliance costs, and litigation

Technology

- Costs to adopt new processes

Market

- Demand for clean products and services

Reputation

- Brand value and Employee engagement

Physical Risk

- Extreme weather events, heat stress, water stress

WHAT ARE THE OPPORTUNITIES?

Resource Efficiency

- Reduce operating costs

Access to Capital

- Attract investors

Products and Services

- New revenue streams

Markets

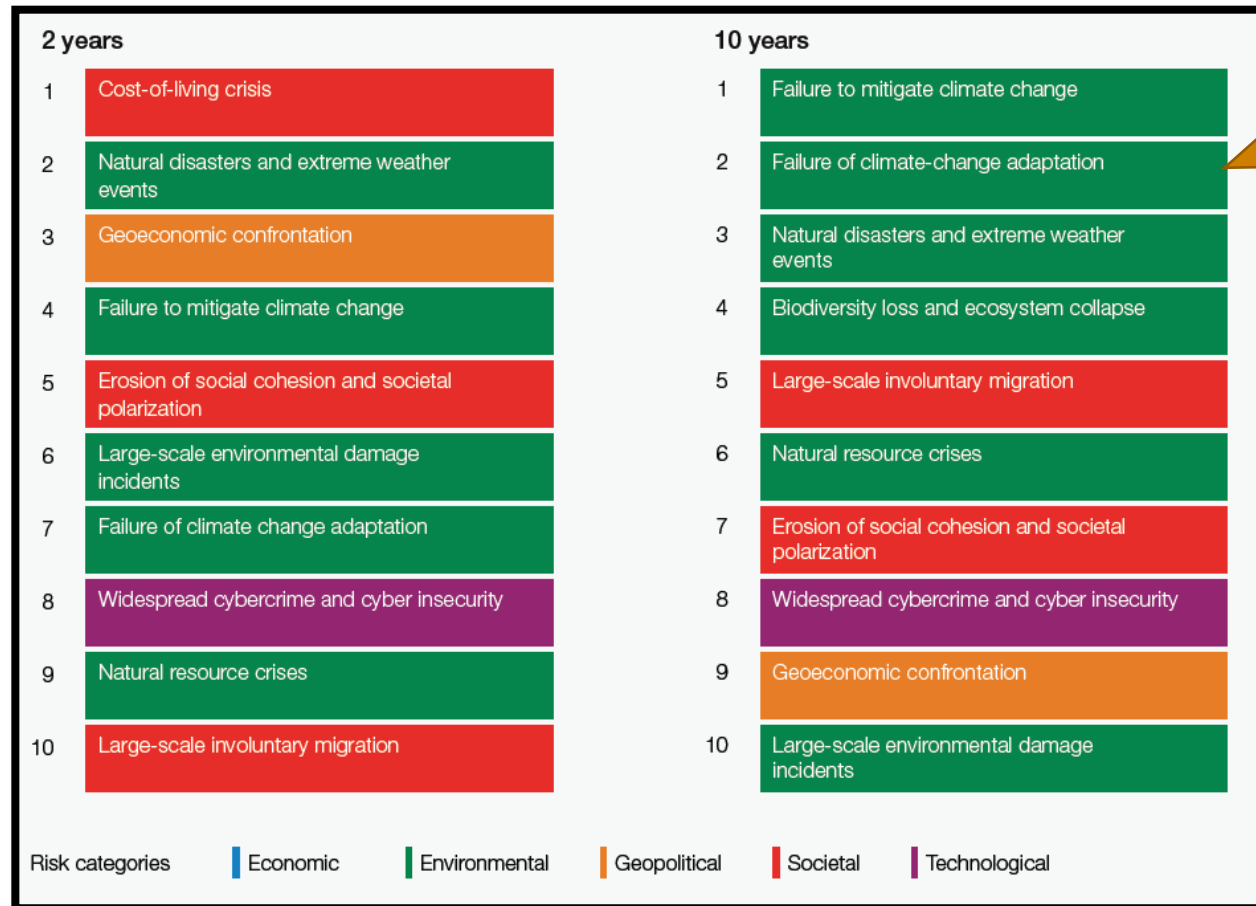
- Access to new markets

Resilience

- Operations and supply chain

GLOBAL ISSUES

Top Global Risks in 2023



- ESG issues represent 8 of the top 10 near-term and long-term global risks
- Climate action failure will have the most severe impact over the next decade

NATIONAL ISSUES

Top 10 Business Risks in the U.S.

- ESG issues represent 6 of the top 10 business risks in the United States
- Supply Chain Disruption and Cyber Incidents are the primary concerns

Top 10 risks in The USA
 Source: Allianz Global Corporate & Specialty
 Figures represent how often a risk was selected as a percentage of all responses for that country
 Respondents: 292. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2022 rank	Trend
1	Business interruption (incl. supply chain disruption)	45%	1 (50%)	→
2	Cyber incidents (e.g. cyber crime, malware/ransomware causing system downtime, data breaches, fines and penalties) ¹	30%	2 (37%)	→
3	Macroeconomic developments (e.g. inflation, deflation, monetary policies, austerity programs)	30%	NEW	↑
4	Shortage of skilled workforce	27%	4 (25%)	→
5	Natural catastrophes (e.g. storm, flood, earthquake, wildfire, extreme weather events)	26%	3 (35%)	↓
6	Fire, explosion	18%	6 (17%)	→
7	Energy crisis (e.g. supply shortage/outage, price fluctuations)	14%	NEW	↑
8	Climate change (e.g. physical, operational and financial risks as a result of global warming)	12%	8 (14%)	→
9	Changes in legislation and regulation (e.g. trade wars and tariffs, economic sanctions, protectionism, Euro-zone disintegration)	10%	9 (13%)	→
10	Market developments (e.g. intensified competition/new entrants, M&A, market stagnation, market fluctuation)	9%	7 (15%)	↓

¹ Cyber incidents ranks higher than macroeconomic developments based on the actual number of responses

NATIONAL ISSUES

Top Business Risks in the U.S.

- ESG issues represent 6 of the top 10 business risks in the United States
- Supply Chain Disruption and Cyber Incidents are the primary concerns

Top 10 risks in The USA

Source: Allianz Global Corporate & Specialty

Figures represent how often a risk was selected as a percentage of all responses for that country
Respondents: 292. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2022 rank	Trend
1	Business interruption (incl. supply chain disruption)	45%	1 (50%)	→
2	Cyber incidents (e.g. cyber crime, malware/ransomware causing system downtime, data breaches, fines and penalties) ¹	30%	2 (37%)	→
3	Macroeconomic developments (e.g. inflation, deflation, monetary policies, austerity programs)	30%	NEW	↑
4	Shortage of skilled workforce	27%	4 (25%)	→
5	Natural catastrophes (e.g. storm, flood, earthquake, wildfire, extreme weather events)	26%	3 (35%)	↓
6	Fire, explosion	18%	6 (17%)	→
7	Energy crisis (e.g. supply shortage/outage, price fluctuations)	14%	NEW	↑
8	Climate change (e.g. physical, operational and financial risks as a result of global warming)	12%	8 (14%)	→
9	Changes in legislation and regulation (e.g. trade wars and tariffs, economic sanctions, protectionism, Euro-zone disintegration)	10%	9 (13%)	→
10	Market developments (e.g. intensified competition/new entrants, M&A, market stagnation, market fluctuation)	9%	7 (15%)	↓

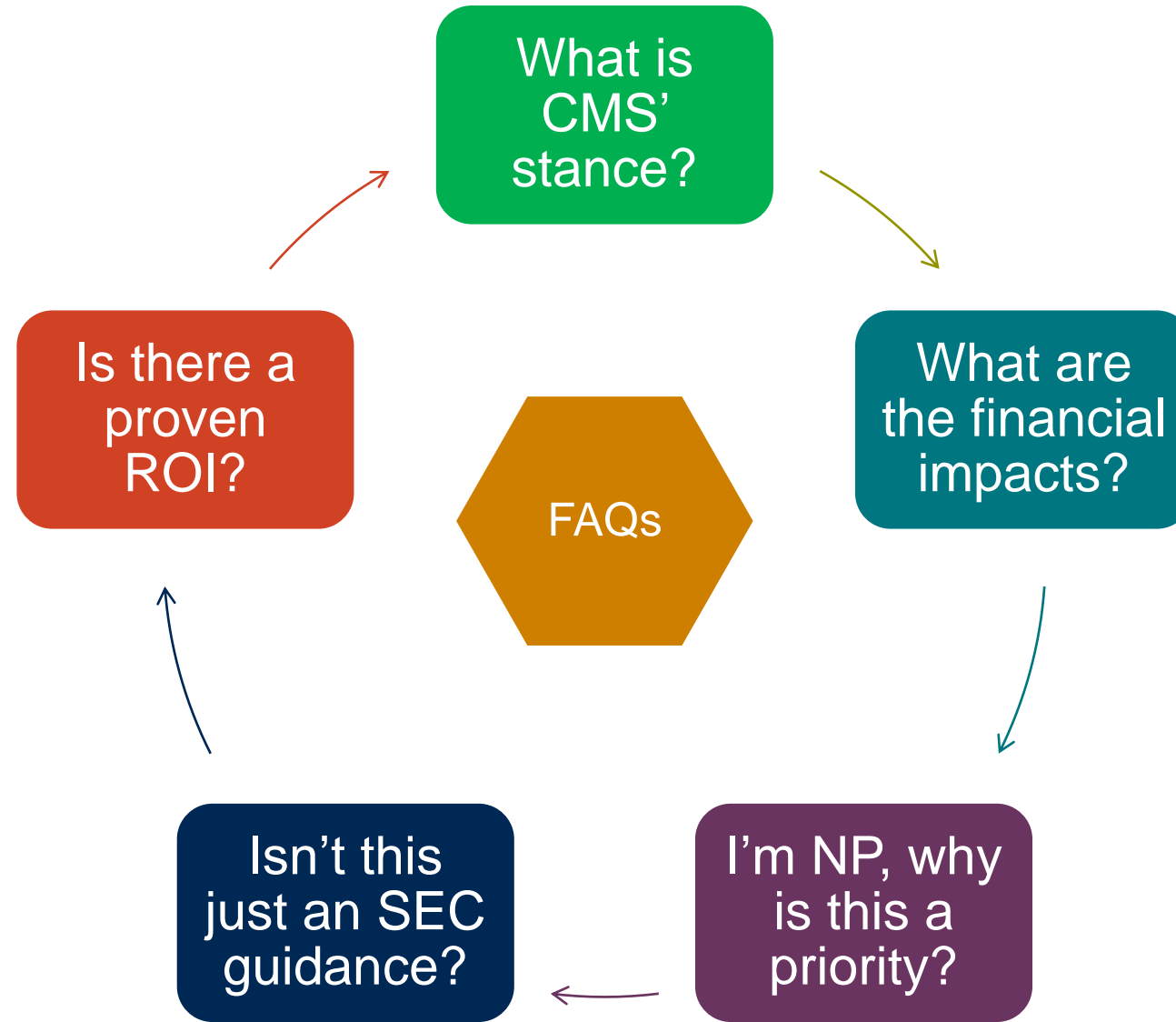
¹ Cyber Incidents ranks higher than macroeconomic developments based on the actual number of responses

NATIONAL ISSUES

Top Business Risks in Healthcare

ESG issues represent 4 of the top 5 business risks in Healthcare

Rank		Percent	2022 rank	Trend
1	Pandemic outbreak (e.g. health and workforce issues, restrictions on movement)	30%	2 (43%)	↑
2	Climate change (e.g. physical, operational and financial risks as a result of global warming)	27%	NEW	↑
2	Cyber incidents (e.g. cyber crime, malware/ ransomware causing system downtime, data breaches, fines and penalties)	27%	1 (57%)	↓
4	Macroeconomic developments (e.g. inflation, deflation, monetary policies, austerity programs)	23%	NEW	↑
5	Energy crisis (e.g. supply shortage/outage, price fluctuations)	20%	NEW	↑



Investment and Financing

What are the financial impacts?

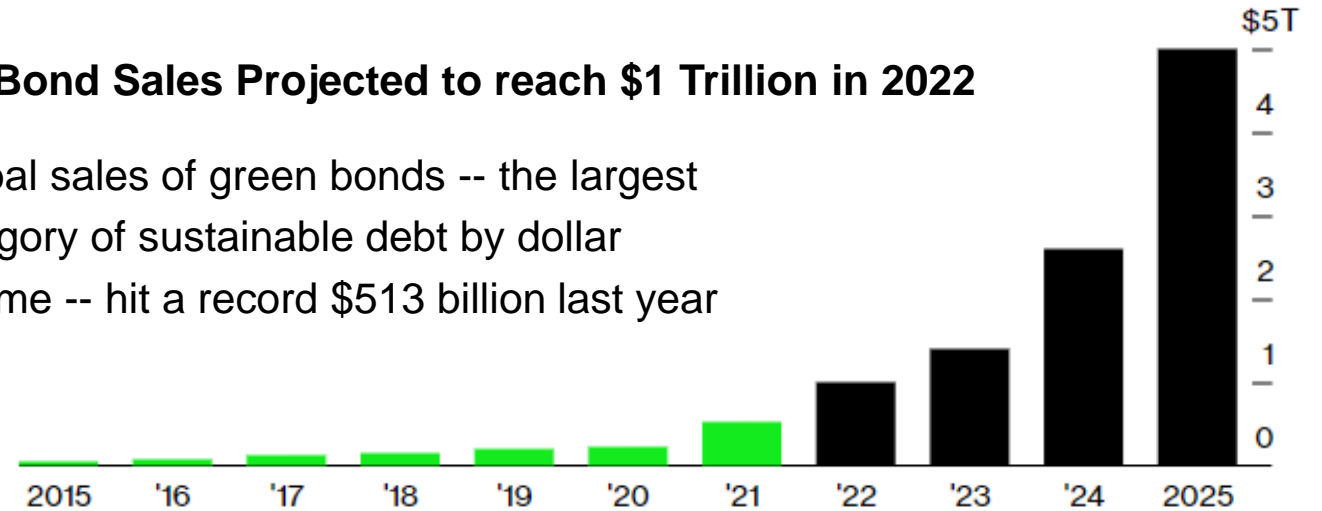
85%
Of institutional investors consider ESG factors in their investment decisions
Source: Gartner, 2020

61%
Of investors see strong ESG and corporate social responsibility (CSR) performance as a sign of "ethical corporate behavior, which reduces investment risk" and an "indicator of a corporate culture less likely to produce expensive missteps like financial fraud."
Source: Aflac, 2021

■ Global green bond sales

Green Bond Sales Projected to reach \$1 Trillion in 2022

- Global sales of green bonds -- the largest category of sustainable debt by dollar volume -- hit a record \$513 billion last year



Source: Bloomberg
Note: 2015-2021 data is full-year global issuance of green bonds from corporations and governments. 2022-2025 is supply estimates by Climate Bonds Market Intelligence

Nonprofit Providers Have Risk

I'm a NFP, why is this a priority?

Not-for-profit hospitals are consistently questioned by government entities about the imperative for healthcare leaders and boards to understand and adopt the ESG framework and principles as an immediate action. Since the COVID-19 pandemic, pressure by consumers, communities, employees and the federal government has been mounting for healthcare organizations to adopt and invest in socially responsible principles and values.

Source: Modern Healthcare

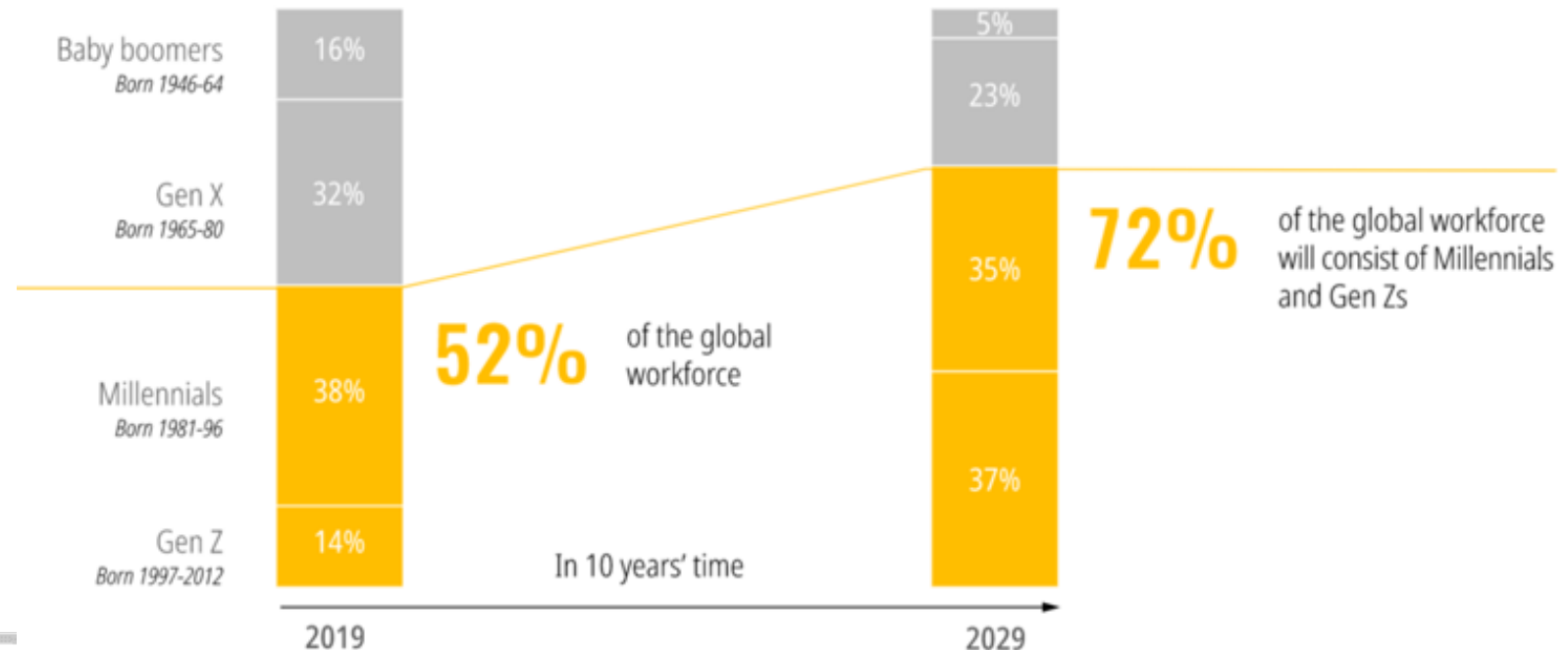
ESG OUTPERFORMERS

Top employers by employee satisfaction have average ESG scores **14%** higher than the global average, likely due to their strong environmental scores.

Satisfied employees work harder, stay longer with their employer, and seek to produce better results for the organization.

Source: Marsh and McLennan

ESG performance will become increasingly important to attracting and retaining talent as Millennials and Gen Z come to make up most of the global workforce



OPPORTUNITIES

ESG Matters More than ever to Healthcare!



VALUE CREATION

Examples of Opportunities



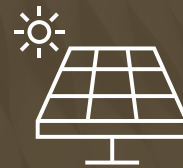
Green Energy Credits

(2022 Inflation Reduction Act)



Health Sector Climate Pledge

(U.S. Health and Human Services)



Renewable Microgrid as hospital emergency backup power

(Centers for Medicare & Medicaid Services)



Sustainable Procurement

(Healthcare without Harm)

Key steps to ESG readiness

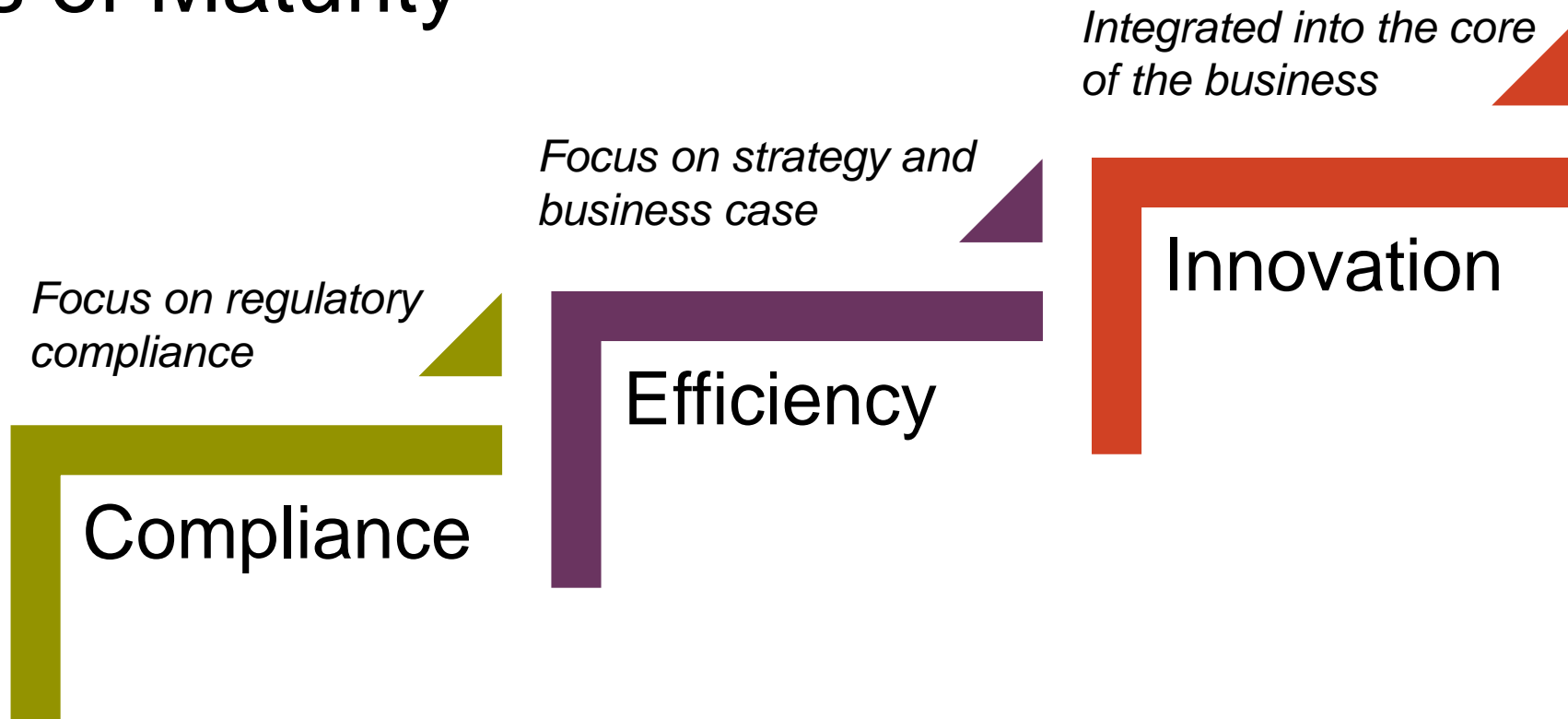
ESG Strategic Process

- ✓ Identify material issues to business and stakeholders
- ✓ Develop ESG strategic roadmap
- ✓ Communicate performance against targets
- ✓ Verify metrics and alignment with global standards
- ✓ Integrate data and technology solutions
- ✓ Leverage green finance and incentives



ESG PROGRAM

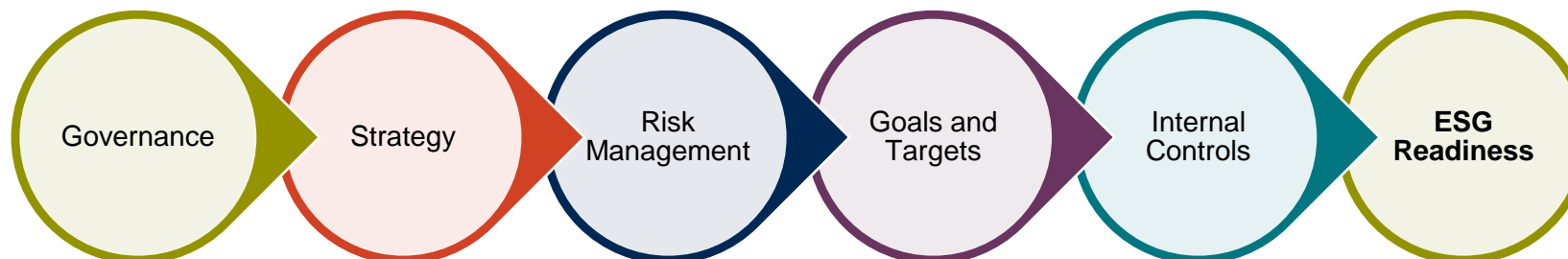
Stages of Maturity



5 KEY STEPS

“ESG Readiness”

1. Establish **Governance** over ESG and develop Board oversight capabilities
2. Execute ESG **Strategy** to address material issues (*important to business success and stakeholders*)
3. Integrate ESG into enterprise **risk management** process
4. Measure baseline ESG metrics and set **goals/targets**
5. Develop **internal controls** for non-financial data

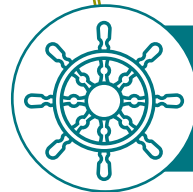


ESG READINESS

Immediate Next Steps



Educate Board and Management on relevant ESG issues



Appoint an ESG leader and form a cross-functional team



Identify key stakeholders (learn their expectations) and establish communication objectives



Questions?

Our Experts



SENIOR MANAGER,
CONSULTING

Kris Russell

Kris.Russell@armanino.com

Kris has over 25 years of experience in sustainability and leads the ESG Practice at Armanino.



PARTNER
HEALTHCARE INDUSTRY LEADERSHIP

Ron Present CALA, CNHA

Ron.Present@armanino.com

Ron has over 35 years of experience in the healthcare industry and helps lead the National Healthcare Practice.

Possible *(Re)*Defined™

Delivering impactful, bold solutions that increase clarity
and spark success for today and tomorrow.