

# Bridging low-carbon technologies

Which Capital Goods companies are driving the low-carbon transition?

## Executive Summary

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We are pleased to support this report. This builds on Jupiter's longstanding engagement with CDP but also reflects our view that their focus on the Capital Goods sector is particularly timely. We recognize the challenges highlighted by the FSB's Task Force on Climate-related Financial Disclosures (TCFD), including the variability of climate-related impacts across and within different sectors and markets.

As long-term active investors, helping to develop thought-leadership that advances the understanding of risks and opportunities related to climate change aligns with the commitment to investor stewardship we have made to our clients.

**Stephen Pearson,**  
**Chief Investment Officer,**  
**Jupiter Asset Management**

This report as part of our investor research series has been produced independently and solely by the CDP Investor Research Team. CDP's sector research for investors provides the most comprehensive climate and water-related data and analysis on the market. The Eitel IIRI survey ranked CDP the number one climate change research house for the third year running in 2017. Investment Week also awarded it best SRI research for 2016 and 2017.

CDP's sector research series takes an in-depth look at high impact industries one-by-one. Reports are now available on the automotive industry, electric utilities, diversified chemicals, diversified mining, cement, steel, and oil and gas.

Full sector reports are exclusively available to CDP investor signatories and members through the online investor dashboard and include detailed analysis, company insights and methodology. Members have enhanced access to analysts within the Investor Research team and the full GHG emissions dataset. To become a CDP signatory or member and gain access to the full reports and other tools, including CDP company disclosure data, please contact [investor@cdp.net](mailto:investor@cdp.net).

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## Accessing the full report

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# Linking climate-related metrics to earnings for Capital Goods companies

This is CDP's initiation report on the Capital Goods sector. It ranks 22 of the largest publicly listed Capital Goods companies on business readiness for a low-carbon economy transition. The companies fall into three sub-categories within the sector:

- ▼ Electrical Equipment
- ▼ Industrial Conglomerates
- ▼ Heavy Machinery

We cover around 22% of the listed global Capital Goods companies in these sub-sectors by market cap. These companies have global activities covering all regions including the growing end markets in emerging markets.

The Capital Goods sector is not an emissions intensive sector from direct emissions (Scope 1) and indirect emissions from energy use (Scope 2). However, like Autos, this is a sector where Scope 3 emissions really matter, particularly in the Use of Sold Products and it is this intensity that needs to be measured and targeted for reduction for the sector to play a key decarbonization role.

The Capital Goods sector provides the products, processes and technologies to key high emitting sectors: power generation, building products, transportation, industry and consumer appliances.

All the end markets supplied to by the sector face increasing regulation and decarbonization targets, from building and appliance standards, to mandated technologies for power generation.

This offers significant scope for the sector to use technology trends in electrification, digitalization and autonomy to change the emissions profile of end markets. Companies with business models aligned particularly to electrification, should continue to benefit from a move to meet targets set by the Paris Agreement.

There are three key areas assessed in the League Table, which are aligned with recommendations for company reporting from the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD):

**Transition risks:** We assess companies' disclosure and exposure to Scope 3 emissions intensity, manufacturing emissions and their business resilience.

**Transition opportunities:** We assess companies' positioning to capitalise on the significant revenue potential for decarbonization themes, differentiating models aligned to incremental vs. transformative change.

**Climate governance and strategy:** We analyse companies' governance frameworks including emissions reduction targets and the alignment of governance and remuneration structures with low-carbon objectives.

## Key findings

- ▼ **Emissions in the value chain are key for the sector**, with over 90% of emissions in Scope 3 and the majority of these related to Use of Sold Products.
- ▼ **Disclosure and management of Scope 3 emissions is low and lagging the Autos sector** where Scope 3 emissions (fleet emissions) are directly regulated.
- ▼ **32% of companies have a Scope 3 emissions reduction target** compared to 81% for Autos.
- ▼ **Scope 1 + 2 emission intensities remained flat over 2012-17** but are relatively small.
- ▼ **Significant revenue opportunities are available to the sector based on low-carbon technologies** aligned with mega-trends in transitioning to a low-carbon economy.
- ▼ **The biggest opportunity set available to the sector relates to electrification**, with products linked to micro-grids, energy storage, distributed renewable generation and connectivity expected to see fast growing end markets.
- ▼ **A number of companies in the sector have products and solutions (hardware and software) with the potential to be radical and transformative, enhanced by digitalization platforms** – these include smart technologies, behind the meter solutions and precision agriculture.
- ▼ **Automation is another big opportunity for the sector to drive industrial efficiency including energy efficiency**, however, this does not offer a step change for industry to decarbonize.
- ▼ **R&D expenditure as a proportion of sales is high at 3.5% on average compared to other industrial sectors and closer to autos** – another sector being driven by technology opportunities.
- ▼ **For a sector that is set to benefit from low-carbon revenues, board level climate expertise is low.**
- ▼ **The sector is not directly regulated for Scope 3 emissions. Regulatory pressure will come through its end markets** – power, transport, buildings and major industry sectors – all high carbon emitters.
- ▼ **Products with short cycles combined with high margins offer the most business resilience** – the electrical goods sub-sector is positioned well for this trend.
- ▼ Highest ranked companies in **Electrical Equipment** are **Schneider Electric, Mitsubishi Electric and ABB**.
- ▼ Highest ranked in **Industrial Conglomerates** are **Vestas, Siemens and Honeywell**.
- ▼ Highest ranked companies in **Heavy Machinery** are **CNH, Kubota, and Hitachi Construction**.



The summary League Table below presents headline company performance and ranking. It is based on detailed analysis across a range of climate related indicators which could have a material impact on company performance. The League Table is designed to serve as a proxy for business readiness in an industry which will have significant opportunities as governments increase efforts to implement the Paris Agreement. Companies placed towards the bottom are deemed less prepared for a low-carbon transition.

**Figure 1: League Tables summaries**

### Electrical Equipment

League Table rank	Company	Ticker	Country	Average market cap 06/17-05/18 (US\$bn)	League Table weighted rank	Transition risks rank	Transition opportunities rank	Climate governance & strategy rank
1	Schneider Electric	SU FP	France	50.3	2.49	1	2	1
2	Mitsubishi Electric	6503 JP	Japan	34.3	2.63	2	1	2
3	ABB	ABBN VX	Switzerland	54.0	3.90	8	3	5
4	Eaton	ETN US	USA	34.5	4.50	4	5	4
5	Johnson Controls International	JCI US	USA / Ireland	36.0	4.82	3	8	3
6	Nidec	6594 JP	Japan	40.3	4.92	5	4	6
7	Rockwell Automation	ROK US	USA	22.9	5.47	6	7	7
8	Emerson Electric	EMR US	USA	42.0	5.86	7	6	8

#### Weighting

30%

45%

25%

Source: CDP

### Industrial Conglomerates

League Table rank	Company	Ticker	Country	Average market cap 06/17-05/18 (US\$bn)	League Table weighted rank	Transition risks rank	Transition opportunities rank	Climate governance & strategy rank
1	Vestas	VWS DC	Denmark	16.8	2.35	1	2	1
2	Siemens	SIE GR	Germany	116.2	3.01	3	1	2
3	Honeywell	HON US	USA	110.1	3.49	4	3	3
4	Kawasaki Heavy Industries	7012 JP	Japan	5.5	4.54	2	6	5
5	Mitsubishi Heavy Industries	7011 JP	Japan	13.1	4.63	7	4	6
6	General Electric	GE US	USA	172.0	4.69	6	5	7
7	Wärtsilä	WRT1V FH	Finland	13.1	5.17	5	7	4

#### Weighting

30%

45%

25%

Source: CDP

### Heavy Machinery

League Table rank	Company	Ticker	Country	Average market cap 06/17-05/18 (US\$bn)	League Table weighted rank	Transition risks rank	Transition opportunities rank	Climate governance & strategy rank
1	CNH Industrial	CNHI US	USA	17.1	2.80	2	3	2
2	Kubota	6326 JP	Japan	22.3	2.87	1	1	5
3	Hitachi Construction Machinery	6305 JP	Japan	7.2	3.42	7	2	6
4	Deere & Company	DE US	USA	45.5	3.72	6	4	3
5	Hino Motors	7205 JP	Japan	7.0	3.96	4	5	4
6	Komatsu	6301 JP	Japan	30.8	4.25	3	6	1
7	PACCAR	PCAR US	USA	24.1	5.43	5	7	7

#### Weighting

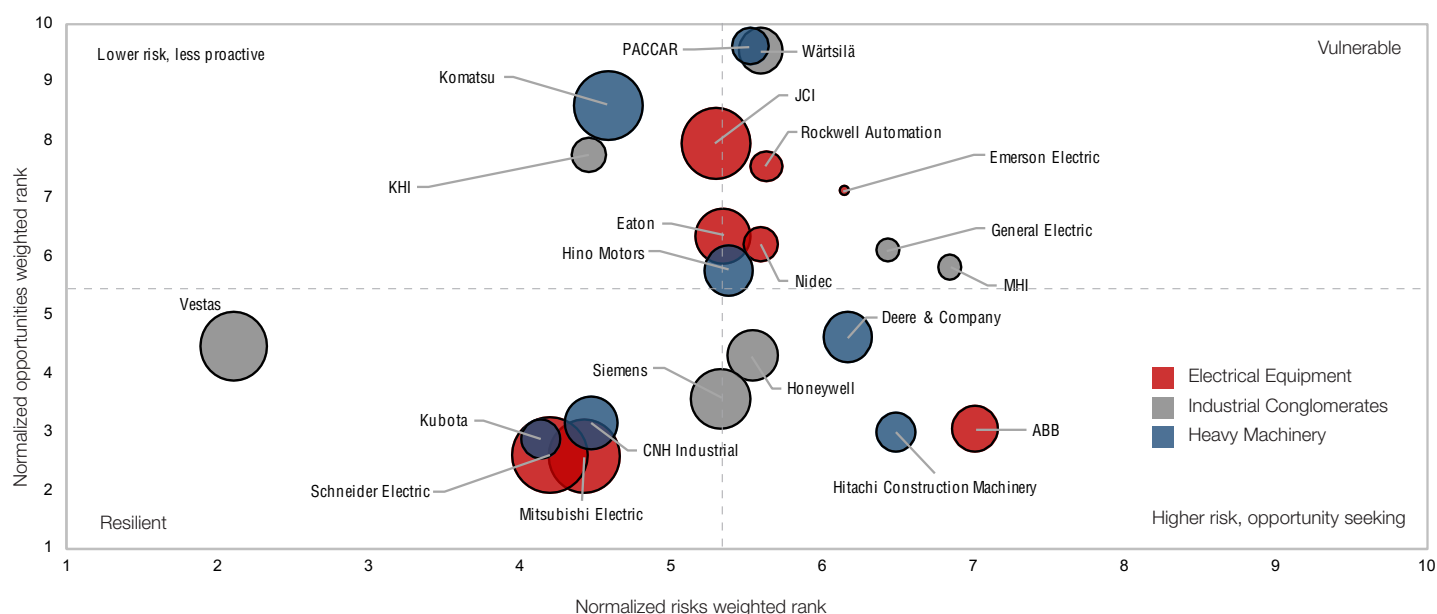
30%

45%

25%

Source: CDP

**Figure 2: Opportunity vs risk for low-carbon transition**



Note: Weighted rank normalized to 10

Bubble size: Larger bubble size = stronger performance on climate governance & strategy

List of abbreviation used: JCI = Johnson Controls Int.; MHI = Mitsubishi Heavy Industries; KHI = Kawasaki Heavy Industries

Source: CDP

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