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FREE Analysis shows SDI classified sectors benefit from revenue growth

Does contributing to delivering the UN Sustainable Development Goals (SDGs) provide an opportunity to grow revenues? We review performance over the last year using the SDI AOP dataset, which is backed by some of the world's largest asset owners.

by: James Leaton Jan 10th, 2022

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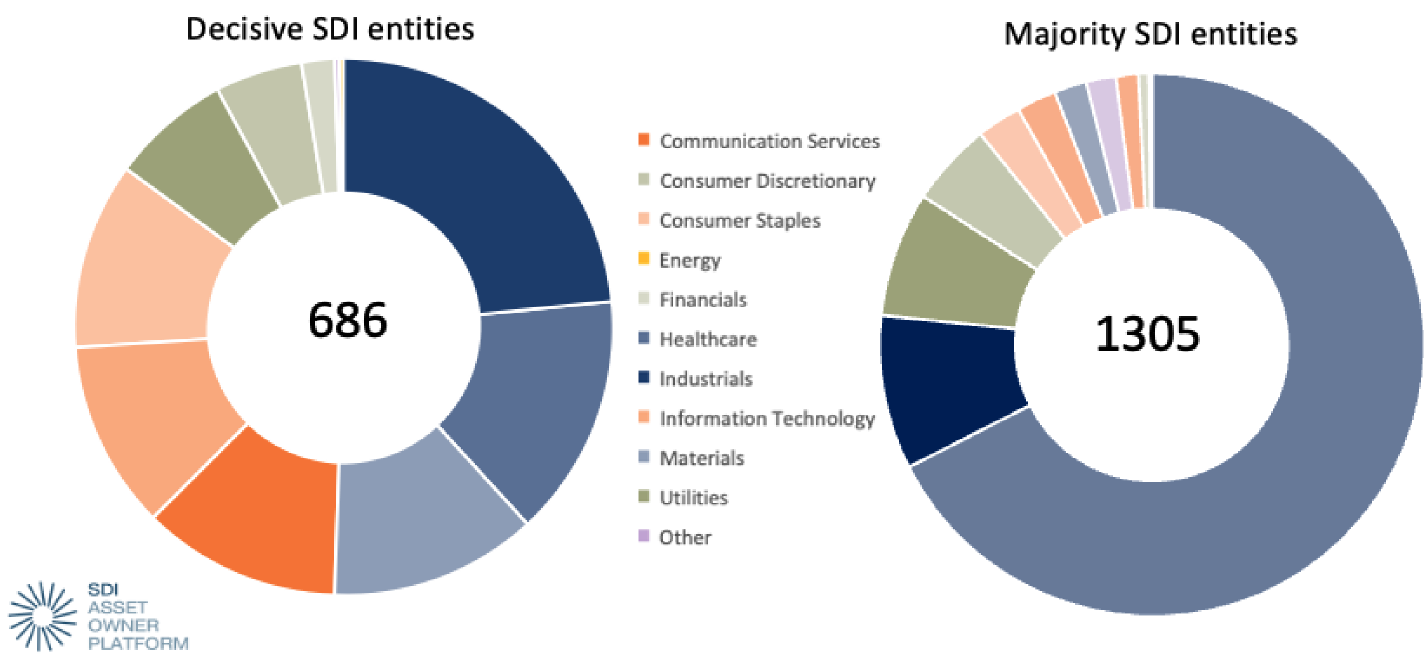
The update of the SDI AOP's classification of which companies have revenues linked to achieving the UN SDGs enables us to explore how links to the SDGs can provide opportunities to grow businesses. The latest analysis identifies nearly 2000 equity and bond issuers from a potential universe of over 8700 entities which derive material revenues from products and services aligned with the SDGs. Around two-thirds of these have the majority of revenues classified as consistent with the transparent SDI methodology, with the remaining third having a decisive level of 10-50% of revenues in this category.

Exhibit 1: Sector distribution of entities with decisive or majority levels of SDI classified revenues



Source: SDI AOP Classification as of 1 December 2021

This sector breakdown demonstrates how some sectors have higher proportions of companies whose products and services are already majority aligned with SDGs. Underlying this classification, the raw revenue data provides further insights into where growth is occurring. This summary includes new additions over the last year, which may be due to the expanded universe, changes in index constituents, or changes in revenue composition.

Revenue growth concentrated in a few sectors

Looking at the annual revenue data update, we can see that Healthcare has seen the highest rates of revenue growth, followed by Industrials, Materials, and IT. Performance has clearly been affected by events such as COVID, commodity cycles and secular trends such as the decarbonisation of energy.

Exhibit 2: Average percentage revenue increase over previous year by sector and SDI classification

	Number of entities		Average annual revenue increase	
Sector	SDI Decisive	SDI Majority	SDI Decisive	SDI Majority
Communication Services	75	14	2%	6%
Consumer Discretionary	32	47	7%	19%
Consumer Staples	61	26	7%	1%
Healthcare	84	591	75%	354%
Industrials	132	88	34%	2%
Information Technology	61	20	17%	25%
Materials	75	21	15%	68%

Source: SDI AOP Classification revenues data collected by Entis

(Notes: Based on revenue data for entities present in both of the last two end of year data releases - new additions not included. Sectors where a significant number of entities revenue data was collected for SDI classification included only.)

SDI focused companies saw stronger revenue growth in most sectors

Looking at companies which already get the majority of their revenues from SDI-related products and services, on average revenue growth was stronger here than for those with 10-50% of SDI-eligible revenues. The exceptions here are the Industrials and Consumer Staples sectors, where exposure to other strong performing activities boosted performance. Underlying the average sector statistics there is significant variation amongst subsectors in most industries, as discussed in the following table.

Exhibit 3: Insights into the types of activities contributing to underlying revenue growth

Sector	SDGs	Commentary
Communication Services	5	Telecommunications services companies are the main area of activity in this sector contributing to revenue growth.
Consumer Discretionary	4, 7	The biggest uplift in SDI revenues in Consumer Goods was experienced by the Auto sector, with the roll-out of electric vehicles starting to show in sales revenues. Manufacturers which are already majoring on electrified vehicles went from strength to strength. Education services also had a strong year.
Consumer Staples	2	Packaged Foods is the predominant sub-sector and these companies experienced a slight increase in revenues.
Healthcare	3	Biotechnology companies classified as majority SDI have seen revenues multiplying ten times the previous year. SDI Pharmaceuticals companies also saw a tripling in revenues. Healthcare generally has unsurprisingly seen a really strong year, with basic equipment, services and supplies all seeing higher revenues.
Industrials	6, 7, 9, 11, 12, 13, 14	Environmental Services saw a major jump in revenues, as did Construction & Engineering. SDI classified Manufacturing saw a very positive trend in revenues compared to last year, with Electrical Equipment leading the product groups. This was offset by revenue declines for Railroads.
Information Technology	3, 7, 9, 11, 14	The IT sector constituents are diverse making it difficult to draw conclusions around small numbers in each sub-sector, but there has been strong revenue performance across most SDI-classified IT companies.
Materials	2, 3, 7, 11, 12, 14, 15	The Materials sector has a varied composition, meaning that it is not valid to produce statistics around subsectors. For the companies identified as eligible for SDI, Metals has performed poorly, whilst Paper Packaging and Chemicals are the best performers in terms of revenues growth.

Source: SDI AOP Classification of SDG links and revenues data collected by Entis

The initial SDI classification is based on the share of a company' revenues which can be classified according to SDI's taxonomy of products and services, which had already resulted in a high proportion of Healthcare entities having the majority of revenues from SDI products and services in the previous year. The other sectors have more potential for the proportion of SDI classified revenues to grow.

SDI segments outperforming overall revenues

For companies which have a mix of SDI and non-SDI revenues, there is a consistent trend that SDI revenues outperform in terms of revenue growth. Obviously where companies already have 100% of their revenues as SDI – which is most prevalent in the healthcare sector – it is not possible to outperform non-SDI segments or increase the proportion of revenues.

Mixed-generation utilities increase renewables by 5% on average

Utilities are not classified by revenues – capacity mix is used instead. Looking at the power utilities which do not specialise in only operating renewables, there is an overall trend to increase the proportion of renewables capacity by 5% compared to the previous year. This is a significant uplift in a year, but masks notable variation in capacity changes. Restructuring of utilities into "green" and "brown" entities causes significant volatility for those affected. Utilities which specialise in renewable generation are designated as majority SDI. Revenues in the sector have been affected by COVID dampening power demand, however renewables have been more resilient, especially in markets where they have priority dispatch, or do not incur the rising carbon costs of fossil generators.

Decarbonisation overlap

The strong revenues in electric vehicles, environmental services & engineering, and certain types of electrical equipment demonstrate how the SDI classification can provide exposure to climate-related opportunities. The positive trend in revenues captured here does not even reflect the further policy drivers introduced in 2021 by the new US President and other governments in the run up to COP26.

COVID effects visible in raw revenues data but limited impact on SDI classification

The stellar revenue growth of some pharma and biotech companies can be attributed to their role in tackling the COVID pandemic. Education services also saw increased uptake of online offerings. Some of this change in consumer demand will be temporary, however it is unlikely that all habits will return to pre-COVID levels. Indications so far is that this has created little volatility in the SDI classification of entities, as this is based on the proportions of revenues, which have not changed so much, especially where a company already has the majority of its revenues from SDI-eligible activities. The unusual market conditions of the last two years provide a complex backdrop, however there is an encouraging resilience and growth story for entities aligned with the SDGs.

The Sustainable Development Investments Asset Owner Platform (SDI AOP) is responsible for the development and maintenance of the SDI taxonomy and guidance, SDI definitions and SDI classification methodology (www.sdi-aop.org). The SDI AOP consists of asset owners who invest in solutions which contribute to the UN Sustainable Development Goals. The SDI AOP uses revenues associated with a company's products and services as starting points to classify which companies qualify as SDI.

tagged with: SDGs