

Customer Story

How a Leading Infrastructure and Facilities Conglomerate Successfully Linked its Sustainability Ambitions to its Financing





Achieving More Through Sustainability-Linked Finance

In pursuing a sustainability-linked loan (SLL) and obtaining a second-party opinion on the KPIs tied to it, Downer secured credibility for its sustainability commitments, while also achieving its financing objectives.



Industry
Industrial Conglomerates



Region
Asia Pacific



Sustainability Product
Sustainability-Linked Loan
Opinion Letter

"Of course we think our sustainability KPIs are ambitious, but it's essential to have an independent party like Sustainalytics, that specializes in this area and has a global perspective to say 'Yes, we believe these KPIs meet the Sustainability-Linked Loan Principles.'"

Ricky Bridge
Group General Manager for Environment, Sustainability and Reporting, Downer





The Opportunity

Demonstrate sustainability commitments and transparency to stakeholders by linking loan financing terms to corporate sustainability improvements.



The Solution

Obtained a second-party opinion on the KPIs tied to Downer's loan in order to meet its borrowing agreement with lenders and align with market best practice as outlined in the Sustainability-Linked Loan Principles.



The Results

Sustainalytics' second-party opinion letter enabled Downer to provide its lenders and other stakeholders with details on the materiality, relevance and ambitiousness of the targets and KPIs tied to its sustainability-linked loan.

About Downer

Downer designs, builds, and maintains assets, infrastructure and facilities and is the leading provider of integrated services in Australia and New Zealand. Downer's primary focus is on urban services including transport, utilities, facilities and asset services. It works closely with customers through the full life of their assets – from feasibility and design, production and operations, and eventually decommissioning. Downer is also one of the largest private sector employers in the region with more than 45,000 employees across Australia and New Zealand.





The Opportunity

Link Corporate Sustainability Ambitions to Financing

Over the past 15 years, Downer’s focus on sustainability has evolved. Initially directed at the environmental and some social aspects of its operations, the company’s consideration of ESG issues has expanded to become fully integrated into its overall business strategy, including its approach to corporate finance.

In late 2020, the company had a refinancing requirement following the completion of the acquisition of Spotless and took the opportunity to integrate its sustainability objectives by opting for a sustainability-linked loan (SLL). As a sustainable finance instrument designed to incentivize sustainability advancements at the borrowing company, an SLL fit perfectly with Downer’s broader sustainability strategy.

BENEFITS OF SLLs FOR COMPANIES



Access to discounted
loan rates



Improve overall sustainability
performance



Demonstrate sustainability
commitment to stakeholders



Flexibility to use funds
for general corporate
purposes



Drive internal alignment
across the business



Deepen relationship and
interactions with banks

Image Outlining Key Benefits of Sustainability-Linked Loans for Borrowing Companies

The Solution

Work with Trusted Partners to Structure a Credible SLL Agreement Aligned to Market Expectations

Once Downer and its coordinating banks discussed the feasibility of an SLL, they selected and agreed upon a set of key performance indicators (KPIs) they believed to be ambitious (going beyond “business as usual”) and relevant to the business and their sector. Greenhouse gas (GHG) emission reduction targets were a natural fit for Downer given its business model, but the emphasis on key social targets were also meaningful in the company’s view.

DOWNER SLL KPIs

KPIs	Performance Targets
GHG Emission Reductions Aligned With a Well Below 2°C Decarbonization Pathway	Year on Year ~3% reduction in GHG emission intensity.
Indigenous Cultural Awareness Training	Number of training hours delivered as part of the Māori leadership programs in New Zealand and Indigenous Cultural Awareness Training program in Australia.
Mental Health Training	Number of employees trained in the Mental Health First Aid Australia (MHFAA) and Mental Health First Aid New Zealand (MHFANZ) accredited training program.

Paul Macfarlane, Group Treasurer at Downer noted: “As one of the largest private sector employers in the region, social KPIs were also important for us. By linking these social KPIs to our loan terms, we wanted to demonstrate our commitment to employee well-being, mental health and Indigenous awareness training.”

As stipulated by the [Sustainability-Linked Loan Principles \(SLLP\)](#), borrowers should engage with an external sustainability expert to obtain a second-party opinion (SPO) of the key performance indicators and sustainability performance targets tied to the SLL. The SPO speaks to the relevance, materiality and ambitiousness of the selected performance targets and indicators.

Although the coordinating banks presented Downer with a few options for SPO providers, Downer ultimately chose Sustainalytics because of its market leadership and its reputation as a responsive, constructive, and easy to work with partner.

Through its SLL, Downer was able to demonstrate sustainability leadership and commitments while further aligning its sustainability objectives across the company.



The Outcome

A Second-Party Opinion Lending Credibility to Downer's SPTs and KPIs

Following an initial kick-off call, Sustainalytics conducted an analysis of Downer's sustainability performance targets (SPTs) and the KPIs for each, assessing the alignment of the agreement to the SLLP, the SPTs and their link to the company's overall sustainability strategy, and the materiality of the SPTs to the company.¹

Sustainalytics provided a KPI opinion letter, lending credibility to the KPIs in the loan. For Downer, the letter was helpful in explaining the KPIs to the syndicate of banks involved in the loan, some of which were less knowledgeable about key ESG issues facing Downer and similar companies. The SPO from Sustainalytics provided details about the KPIs and how meaningful they were to Downer's business and sustainability strategies. In addition to its banking partners, Downer made the SPO publicly available to its investors, as a sign of openness, transparency, and accountability. (Please click on the following link: <https://www.downergroup.com//sll-second-party-opinion>).

Through its SLL, and with support from its lending banks and Sustainalytics, Downer was able to demonstrate sustainability leadership and commitments while further aligning its sustainability objectives across the company.

The SLL Process*

Loan Agreement

- Company and bank discuss feasibility and terms of the sustainability-linked loan

Kick Off

- Sustainalytics reviews sustainability details of loan transaction
- Sustainalytics drafts opinion report

Feedback

- Company provides feedback on draft opinion report
- Sustainalytics integrates feedback

Finalization

- Final opinion report goes through Sustainalytics internal review committee for sign off
- Opinion report goes to client for sign off
- Final opinion report published

**Depending on the complexity and nature of the KPIs selected, the SPO process takes approximately six weeks*

¹ An issue is material within the Sustainalytics ESG Risk Rating if its presence or absence in financial reporting is likely to influence the decisions made by an investor. To be selected as a material ESG issue (MEI) an issue must have a potentially substantial impact on the economic value of a company and, hence, the financial risk and return profile of an investor investing in the company. It is important to distinguish the ESG Risk Rating's use of materiality as a concept from narrower legal or accounting-focused definitions. Not every issue we consider as material in the rating is legally required to be disclosed in company reporting.



Sustainalytics' Opinion Downer Group Sustainability Linked Loan¹

Date: November 14, 2020
Location of Borrower: Australia
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Introduction

Downer Group (Downer, the "company", or the "borrower") is an integrated service company active primarily in Australia and New Zealand, but also in the Asia-Pacific region, South America and Southern Africa. With more than 52,000 people employed across more than 300 sites, Downer designs, builds, and sustains assets, infrastructure and facilities.

Downer is negotiating a Sustainability Linked Loan (SLL) where the interest rate of the loan is tied to Sustainability Performance Targets (SPTs) that include four Key Performance Indicators (KPIs) associated with the company's material sustainability-related issues.

The company has engaged Sustainalytics to review the SLL and provide an opinion on the alignment of the loan with the Sustainability Linked Loan Principles (SLLP).²

As part of this engagement, Sustainalytics held conversations with various members of the company's management team to understand the SPTs and associated KPIs, the company's sustainability strategy, as well as the processes that it has in place to verify its performance in relation to the SPTs. Sustainalytics also reviewed relevant public documents.

This document contains Sustainalytics' opinion of Downer's SLL, reviewed against the SLLP.

Sustainalytics' Opinion

Alignment with the Sustainability Linked Loan Principles 2019

The four core components of the Sustainability Linked Loan Principles are:

1. Relationship to Borrower's Overall Corporate Social Responsibility (CSR) Strategy
2. Target Setting – Measuring the Sustainability of the Borrower
3. Reporting
4. Review

Sustainalytics is of the opinion that the Downer SLL aligns to the four core components of the Sustainability Linked Loan Principles 2019.

Section 1: Relationship to Downer's overall sustainability strategy

Downer has demonstrated its commitment to its sustainability strategy through the following efforts, as reported in its Sustainability Report 2020³:

- Downer identified 11 material issue and 7 important issues during its materiality assessment undertaking. The issues identified are those that are most material to their business and stakeholders

¹ This letter is the public version of the SLL Opinion drafted by Sustainalytics. Another version for lenders only was also drafted. The lenders version includes some minor sensitive information that is not public. This information does not impact the main findings and conclusions included in this version.
² The Sustainability Linked Loan Principles (SLLP) were launched by the Loan Markets Association in March 2019. They are administered by the LMA and are available at: https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf
³ Sustainability Report 2020: <https://sustainability.downergroup.com/2020/>

Image of Downer's
Sustainability-Linked Loan
Opinion Report Provided by
Sustainalytics

"A sustainability-linked loan presented a unique opportunity to merge our sustainability strategy with our financing strategy"

Paul Macfarlane
Group Treasurer, Downer



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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 800 staff members, including more than 300 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

