

ESG Fact Sheet Healthcare

DILIGENCE

ESG SERIES

Introduction

Environmental, social and governance (ESG) factors have quickly grown to be a critical part of credit analysis in the European leveraged finance market. Despite the increasing focus on ESG, efforts have been fragmented as the market lacks consensus on the type of ESG disclosure that is necessary.

To foster a discussion about what ESG information investors would like companies to disclose and to build consensus, the European Leveraged Finance Association (ELFA) has arranged a series of workshops with sub-investment grade borrowers, investors, credit rating agencies, private equity sponsors, bankers, and lawyers. The willingness to improve ESG disclosure has been apparent on all sides, but borrowers have requested more specific and consistent guidance on what investors would like to see. For further findings from the workshops, please find the related briefing papers [here](#) including a report highlighting valuable insights from fund managers on why certain ESG data matter to them in light of the recent [EU Sustainable Finance Disclosure Regulation \(SFDR\)](#) and the subsequent rise of Article 8 and 9 funds in the market.

ELFA aims to address the above challenges by publishing sector-specific ESG Fact Sheets. The ESG Fact Sheets reflect the input of credit analysts, corporate borrowers and ESG specialists who discussed the key ESG factors for each specific industry.

ELFA believes the ESG Fact Sheets can help align market expectations, serve as an important engagement tool for investors and ultimately help streamline the disclosure process for borrowers. They are intended to serve as a starting point for ESG discussion between issuers, the buy-side, the sell-side and third-party service providers, and are not intended to be the definitive industry ESG disclosure standard nor replace customised investor ESG due diligence.

The ESG Fact Sheets have been updated to include the Principal Adverse Impact (PAI) indicators which are increasingly being used by investors to satisfy regulatory reporting requirements in line with the [EU SFDR](#). The PAI indicators may also be used by investors as sustainability indicators used to measure the attainment of the environmental or social characteristics or to demonstrate that an investment qualifies as a sustainable investment. ELFA expects the ESG Fact Sheets to evolve over time with the benefit of your feedback. Please send any comments [here](#).

For issuers looking for further guidance around how to disclose ESG factors some resources that can be used are:

- The [EU Corporate Sustainability Reporting Directive \(CSRD\)](#) and the [draft European Sustainability Reporting Standards \(ESRS\)](#)
- The [SASB Standards](#), now part of the IFRS Foundation
- The Global Reporting Initiative ([GRI](#))
- The ESG Integrated Disclosure Project ([ESG IDP](#)) template

Specifically for climate related disclosures, there are multiple different frameworks but irrespective of the framework it is important to disclose the baseline that is used. Some of the organisations/frameworks are:

- The [TCFD](#) for disclosure on climate-related risks
- The [CDP](#) for disclosure on climate, forests and water
- The Climate Disclosure Standards board ([CDSB](#))
- The [SBTi](#) for GHG emission targets
- The [TPI](#) to assess preparedness for a low carbon economy

The ESG Fact Sheets have been published in conjunction with the “[Guide for Company Advisors to ESG Disclosure in Leveraged Finance Transactions](#)” which is designed to assist company advisers in their incorporation of ESG factors in the diligence and drafting process for corporate borrowers.

| Publication / Version no. | Date | Change / Update to Content |
|---------------------------|----------------|--|
| Original Publication | September 2021 | |
| Version 2.0 | February 2022 | Annual update to add ESG KPI table and further minor non-substantive changes. |
| Version 3.0 | March 2023 | Update to introductory section, further clarification added to carbon data requests and additional questions on executive pay structures, anti-bribery, anti-corruption and whistle blower policies and procedures. Sector-specific ESG considerations are highlighted in bold. Additional ESG KPIs are also added in the Excel table. |

ESG Fact Sheet – Healthcare

Sector-specific ESG considerations are highlighted in bold

General

- **What are the most material ESG issues for the company in your view and how have you determined these?**
- How are ESG matters/considerations integrated within the business strategy?
- Is there a C-suite/board member with responsibility for ESG matters?
- Details on how you may have contributed to helping achieve any of the UN Sustainable Development Goals
- Disclosure of any legal processes with third parties, including (environmental) regulators, unions and/or individual employees¹
- Describe measures in place to monitor supply chain risks, performance on supply chain metrics and how this compares to peers²
- Details about affiliations with professional or industry standards business platforms
- Details about certifications which are linked to the E, S or G or all three

Environmental Pillar

- Description of environmental/climate change policy
- Any targets set in relation to greenhouse gas emissions (split between scope 1/2/3 if available) and using best efforts estimates, what % of emissions the targets cover
- If you have emissions targets, describe your emissions reduction targets in as much detail as you can³
- Disclosure of policies around energy management and any projects to reduce energy usage
- Disclosure of sites/operations located in or near to biodiversity-sensitive areas⁴
- Disclosure of policies around any exposure to hazardous substances, water consumption and waste
- Describe any policies for the sustainable sourcing of materials
- Details of any circular economy/recycling initiatives
- Describe exposure to single use plastics and any plastics recycling initiatives

Social Pillar

1. Employees

- Disclosure of policies to protect employees from hazardous waste (if applicable)
- Disclosure on occupational health and safety policies and track record
- **Information about employee turnover, well-being and satisfaction (e.g. how this is gathered and measured), including for any contracted workforce**
- Information on the relationship with unions including LTIR relating to strike action or threats
- Disclosure on diversity and inclusion statistics and targets, how these are measured, and their achievement historically
- Details about employee training programmes
- Describe policies on human rights, employee legislation and modern slavery
- Describe policies and processes in place to monitor labour standards across the supply chain

2. Customers and Community

- Details on how customer satisfaction is monitored and current performance (e.g. complaints, Net Promoter Score (NPS)) and how this compares to peers
- **Details on how product safety is monitored, including any information on product recalls or any other controversies**
- Description of customer policies including adherence with regulatory requirements
- Details on how relationships with local communities are managed

3. Privacy & Data Security

- **Policy and process for safeguarding data security and customer privacy**
- **Policy and process for managing customer information, including how and where it is stored**
- **Policy and process for dealing with cyber threats**
- **Disclosure of any governmental fines, reprimands, or other regulatory actions with respect to customer data**

¹Include disclosure on environmental incidents, litigations and legal proceedings linked to ESG in the last 12 months

²Examples of topics to include are: i) % of supply chain (by total cost) that is subject to ESG DD; ii) % of suppliers subject to ESG DD that have seen shortcomings; iii) % of suppliers where you have identified shortcomings that you have engaged with; iv) % of ESG engagements where the level of business you do with the supplier has changed post engagement

³Carbon targets: the details to include for best-in-class disclosure would include information such as the base year, target year, reduction amounts (including how to reach these and if targets include a plan to use carbon offsets), the scopes covered and the % of emissions these cover, and if you will seek external verification of targets

⁴Biodiversity sensitive areas could include (i) UNESCO world heritage sites, (ii) Key biodiversity areas as mapped in <http://www.keybiodiversityareas.org/kba-data> and (iii) Natura 2000 protected areas which are mapped here: [Natura 2000 Network Viewer \(europa.eu\)](#)

Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, and any other required industry practices
- Main criteria when constructing the board and if there is a specific representative for ESG issues
- Describe any targets and timeline for increasing diversity of the board
- Disclosure on all control committees (e.g. Audit, Remuneration, Investment), including involvement of independent directors
- Disclosure of the metrics to which management remuneration is linked, if any is linked to ESG targets and if yes, what % is linked to ESG
- Describe any written anti-corruption and anti-bribery policies and procedures, including whistle-blower policies and which, if any, policies are missing. Provide information on any significant past incidents.
- Describe risk management policies, strategic planning process and business code of conduct
- Disclosure of the size of the financial control function and how this is adapted as the company grows
- Describe financial policy in relation to acquisitions, asset sales and leverage
- Disclose information on your auditor, including how long they have been in place, process for selecting the auditors, and any audit related issues in the past
- Disclosure of your Revolving Credit Facility (RCF) and/or other material covenants including their current levels
- Disclosure of details of any ESG-linked financing

Sub-Sector Specific Topics

Pharmaceuticals

Environmental Pillar

- Disclosure of any manufactured products using substances banned in certain regions or which are under investigation by regulators
- Details on sustainable product development initiatives, including product carbon footprint labelling

Social Pillar

- Details on how pricing is determined, including applicable regulations, affordability, ROI considerations, pricing committees and how risks around pricing are managed
- Details on any access to healthcare in low and middle-income countries/communities
- Details on how accessibility and affordability factors into the product development process
- Disclosure on the new medication verification process
- Disclosure on policies and procedures around product labelling

Hospitals and care homes

Social Pillar

- Details on how patient safety is monitored
- How do you ensure fair pricing across your footprint?
- How do you align with the quadruple aim?

Hospitals and care homes

Environmental Pillar

- Details on sustainable product development initiatives, including product carbon footprint labelling
- Details on the recyclability and rechargeability of products

Social Pillar

- Details on how pricing is determined, including applicable regulations, affordability, ROI considerations, pricing committees and how risks around pricing are managed
- Details on how accessibility and affordability factors into the product development process
- Disclosure on policies and procedures around product labelling

ESG KPIs (for the table below in Excel format [click here](#))

| Company Name | Metric | Units | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---------------|------|------|------|
| SFDR requirements | PAI | | | | | |
| Environmental | Revenues | Millions (reporting currency) | | | | |
| | 5 Non-renewable energy consumption | GWh | | | | |
| | 5 Renewable energy consumption | GWh | | | | |
| | 5 Share of non-renewable energy consumption | % of total | | | | |
| | 5 Share of non-renewable energy production | % of total | | | | |
| | 6 Energy consumption | GWh | | | | |
| | 6 Energy consumption intensity | GWh/1m revenues | | | | |
| | 5 Non-renewable energy production | GWh | | | | |
| | 5 Renewable energy production | GWh | | | | |
| | 8 Emissions to water | Tonnes | | | | |
| | 9 Hazardous waste and radioactive waste | Tonnes | | | | |
| | 4 Fossil fuel exposure | % of revenues | | | | |
| | 7 Activities negatively impacting biodiversity sensitive areas | | | | | |
| | Carbon disclosures | 1 Gross Scope 1 GHG emissions | Metric tonnes | | | |
| 1 Gross Scope 2 GHG emissions: location based | | Metric tonnes | | | | |
| 1 Gross Scope 2 GHG emissions: market based | | Metric tonnes | | | | |
| 1 Gross Scope 3 GHG emissions | | Metric tonnes | | | | |
| 1 Total GHG emissions | | Metric tonnes | | | | |
| 2 Carbon footprint | | Metric tonnes | | | | |
| 3 GHG intensity | | Tonnes/1m revenues | | | | |
| Carbon offsets | | Metric tonnes | | | | |
| Social | 10 Violations of UN Global Compact (UNGC) and OECD Guidelines for Multinational Enterprises | Total number | | | | |
| | 11 Does the company have active policies to monitor compliance with the UNGC and OECD Guidelines for Multinational Enterprises? | Yes/no | | | | |
| | 12 Unadjusted gender pay gap | Female-male difference in gross hourly salary, as % of male gross hourly salary | | | | |
| | 13 Female board members | Number | | | | |
| | 13 Male board members | Number | | | | |
| | 13 Board gender diversity | Ratio female to male, expressed as % of all board members | | | | |
| | 14 Exposure to controversial weapons | % of revenues | | | | |

| Additional SFDR Indicators** | | | | 2019 | 2020 | 2021 | 2022 |
|------------------------------|----|---|-----------------|------|------|------|------|
| Environmental | 4 | Any carbon emission reduction initiatives aimed at aligning with the Paris Agreement? | Yes / No | | | | |
| Social | 6 | Any policies on the protection of whistleblowers? | Yes / No | | | | |
| Governance | 15 | Anti-corruption policy in place? | Yes / No | | | | |
| | 15 | Anti-bribery policy in place? | Yes / No | | | | |
| | 17 | Number of convictions and amount of fines for violation of anti-bribery laws | Number/millions | | | | |
| | 17 | Number of convictions and amount of fines for violation of anti-corruption laws | Number/millions | | | | |
| Non-SFDR KPIs | | | | | | | |
| Environmental | | Waste to landfill | m ³ | | | | |
| Social | | Customer complaints | Number | | | | |
| | | Number of litigations ongoing regarding patient safety and/or health outcomes | Number | | | | |
| | | Overall board diversity | % | | | | |
| | | Net new hires | Number | | | | |
| | | Annual employee attrition | % | | | | |
| | | Did you conduct an employee survey? | Yes/No | | | | |
| | | Employee survey participation rate | % | | | | |
| | | Proportion of employees covered by unions | % | | | | |
| | | Number of work related incidents | Number | | | | |
| | | Number of work related fatalities | Number | | | | |
| | | TRIR (Total Recordable Injury Rate) | Number | | | | |
| | | LTIR (Lost Time Incident rate) | Number | | | | |

*Statement on principal adverse impacts of investment decisions on sustainability factors, Table 1, EU SFDR Annex I

**Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters – Table 3 under EU SFDR Annex I

Definitions

| Metric | Definition |
|--|---|
| Non-renewable energy consumption | Any energy that is not from renewable sources |
| Renewable energy consumption | "Energy from renewable sources' or 'renewable energy' means energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas; " |
| Scope 1 emissions | Direct emissions from owned or controlled sources |
| Scope 2 emissions | Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company |
| Scope 3 emissions | All other indirect emissions that occur in a company's value chain |
| Total GHG emissions | Sum of scope 1,2 and 3, all reported in metric tonnes for the whole company |
| GHG intensity | Carbon usage in relation to total revenues, using the reporting currency |
| Energy consumption intensity | Energy in GWh/revenues |
| Unadjusted gender pay gap | 'Unadjusted gender pay gap' means the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees |
| Activities negatively impacting biodiversity sensitive areas | % of footprint that is in biodiversity sensitive areas, could include; (i) UNESCO world heritage sites, (ii) Key Biodiversity areas as mapped in http://www.keybiodiversityareas.org/kba-data and (iii) Natura 2000 protected areas which are mapped here: https://ec.europa.eu/environment/nature/natura2000/data/index.en.htm |
| Board diversity | % of diverse board members |

About the ESG Exclusion Checklist:

The ELFA ESG Exclusion Checklist is a resource designed to streamline the ESG screening process for credit managers, borrowers, and arranging banks. It is designed for arranging banks to complete at the time of a new corporate loan or bond syndication, enabling borrowers to publish this information in a concise format directly to their syndicate. Based on the information provided, credit investors will be able to quickly and easily determine if the business activities of a corporate borrower breaches any of their internal ESG guidelines.

Note that the ESG Exclusion Checklist is not meant to be a template for the exclusions that a fund or credit manager may decide to use, as it is designed to include most common exclusions used by managers in the European leverage finance market.

This version of the ESG Exclusion Checklist incorporates feedback received during a public consultation process conducted in the second half of 2021. We will aim to update the ESG Exclusion Checklist annually in line with updates to the ELFA ESG Fact Sheets.

ESG Exclusion Checklist -

Percent of revenue from the following:

100->50% >50->25% >25->15% >15->10% >10->5% >5->0% NA

Controversial weapons
 Weapon support systems and services
 Weapons and/or tailor-made components for civilian firearms (production)
 Weapons and/or tailor-made components for civilian firearms (retail)
 Weapons and/or tailor-made components for military/police

Tobacco (production)
 Tobacco (sale)
 Tobacco (services)
 Alcohol (production)
 Alcohol (sale)
 Alcohol (services)
 Trade of recreational cannabis
 Production of recreational cannabis
 Opioid manufacturing
 Opioid distribution

Thermal coal mining or sale
 Oil sands extraction or sale
 Oil sands related pipeline industry
 Fossil fuel extraction from unconventional sources, including arctic O&G
 If oil and gas producer: revenue from natural gas
 If oil and gas producer: revenue from renewables
 If oil and gas producer: % of reserves deriving from natural gas
 Nuclear energy
 Revenues from fossil fuels
 Oil exploration, including equipment for exploration and storage

Physical casinos
 Online gaming platforms
 Gaming revenues from unregulated markets
 Services to the gaming industry
 Predatory or payday lending
 Pornography/adult entertainment
 Private prisons

Hazardous chemicals
 Hazardous pesticides and/or non biological pesticides
 Hazardous waste
 Asbestos production or extraction
 Ozone-depleting substances

Activities contributing to deforestation or in protected areas
 Speculation in food/soft commodity derivatives
 Intensive animal farming (production)
 Intensive animal farming (retail)
 Animal testing
 Drift net fishing
 GMOs
 Cloning
 Non-sustainable palm oil production or processing

For utilities, percent of electricity generated by the following:

100->50% >50->25% >25->15% >15->10% >10->5% >5->0% NA

Thermal coal
 Liquid fuels (aka oil)
 Natural gas
 Nuclear generation
 Renewables

UN Global Compact Principles

| | | |
|---|------------|-----------|
| Are you a signatory? | Yes | No |
| Are you in breach of any the UN Global Compact principles ? | Yes | No |

ILO Conventions

| | | | |
|---|------------|-----------|---|
| Are you in breach of any the ILO conventions? | Yes | No | A breach means as determined by a court, tribunal, government agency or multilateral organisation |
|---|------------|-----------|---|

OECD Guidelines for Multinational Enterprises

| | | | |
|---|------------|-----------|---|
| Are you in breach of any the OECD Guidelines for Multinational Enterprises? | Yes | No | A breach means as determined by a court, tribunal, government agency or multilateral organisation |
|---|------------|-----------|---|

UN Guiding Principles on Business and Human Rights (UNGPs)

| | | | |
|--|------------|-----------|---|
| Are you in breach of any the UN Guiding Principles on Business and Human Rights (UNGPs)? | Yes | No | A breach means as determined by a court, tribunal, government agency or multilateral organisation |
|--|------------|-----------|---|

Definitions

| | |
|--|---|
| Controversial weapons | The manufacture of anti-personnel mines, cluster weapons, depleted uranium, nuclear weapons, weapons of mass destruction, white phosphorus, biological, toxin and chemical weapons |
| Weapon support systems and services | Weapon control systems, target navigation systems, etc |
| Tobacco | Cigars, cigarettes, e-cigarettes, smokeless tobacco, dissolvable and chewing tobacco, or any obligor that is classified as "tobacco" by S&P & GICs |
| Fossil fuel extraction from unconventional sources, including arctic O&G | E.g. Arctic drilling, shale oil and shale gas or other fracking activities |
| Services to the gaming industry | E.g. sale or manufacturing of machines, payments support, data services |
| Predatory or payday lending | E.g. Payday lending means the extension of high-cost short-term credit as such term is defined in the FCA Handbook |
| Hazardous chemicals | E.g. substances on the UNECE list of hazardous substances and mixtures or on the OSHA (Occupational Safety and Health Administration (US Department of Labor)) list |
| Hazardous pesticides and/or non biological pesticides | E.g. pesticides that are considered as such by the WHO or GHS (Global Harmonized System) |
| Hazardous waste | e.g. Waste associated with hazardous chemicals or pesticides |
| Ozone-depleting substances | As covered by the Montreal Protocol on Substances that Deplete the Ozone Layer (1989) |

Please include below any additional comments in respect to your answers