S&P Global
Ratings

Environmental, Social, And Governance Evaluation

Southwire Co. LLC

Summary

Southwire Co. LLC manufactures copper and aluminum wires, cables, and related products for residential and nonresidential construction, energy, infrastructure, and original equipment manufacturing markets in North America, with annual production of about 2.1 billion pounds. The company was founded in 1950 and is headquartered in Carrollton, Ga. The company was founded and is privately owned by the Richards family.

Southwire operates primarily as a metal processor and fabricator; we view its operations as more similar to other companies in the capital goods sector rather than peers in the metals and mining sector. Southwire is materially less exposed to environmental and social risks compared to the miners it sources its materials from.

Our ESG Evaluation score of 70 reflects the company's focus and commitment to enhance its environmental and social sustainability. Company owners the Richards family have a long-term goal to promote and enhance Southwire's sustainability, the belief being it will help the company remain viable for the next 100 years. Southwire has a largely independent board of directors that is well aligned with the senior management team and company shareholders on its sustainability and operating strategy. Southwire has already made progress achieving its sustainability mission over the past three years, with reduced greenhouse gas (GHG) emissions and water intensity, improved safety metrics, and a growing focus on giving back to its workers and communities.

Headquarters	Carrollton, GA
Primary operation location(s)	U.S.
Publication date	Aug. 6, 2020

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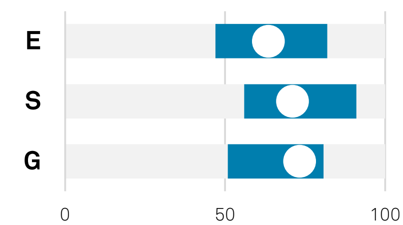
ESG Profile Score:

70/100



Entity-specific attainable and actual scores

Preparedness Opinion:

Adequate

Further Adjustment

+ 0

ESG Evaluation

70/100

A higher score indicates better sustainability

Component Scores

Environmental Profile

Sector/Region Score	32/50
Greenhouse gases	Good
Waste	Good
Water	Strong
Land use	Good
General factors (optional)	None
Entity-Specific Score	32/50
E-Profile (30%)	64/100

Social Profile

Sector/Region Score	41/50
Workforce and diversity	Good
Safety management	Good
Customer engagement	Good
Communities	Good
General factors (optional)	None
Entity-Specific Score	30/50
S-Profile (30%)	71/100

Governance Profile

Sector/Region Score	31/35
Structure and oversight	Strong
Code and values	Good
Transparency and reporting	Good
Financial and operational risks	-3
General factors (optional)	None
Entity-Specific Score	42/65
G-Profile (40%)	73/100

ESG Profile (including any adjustments) **70/100**

Capabilities

Awareness	Good
Assessment	Good
Action	Good

Embeddedness

Culture	Excellent
Decision-making	Good

Preparedness Opinion **Adequate**

ESG Evaluation **70/100**

A higher score indicates better sustainability

ESG Profile

70/100

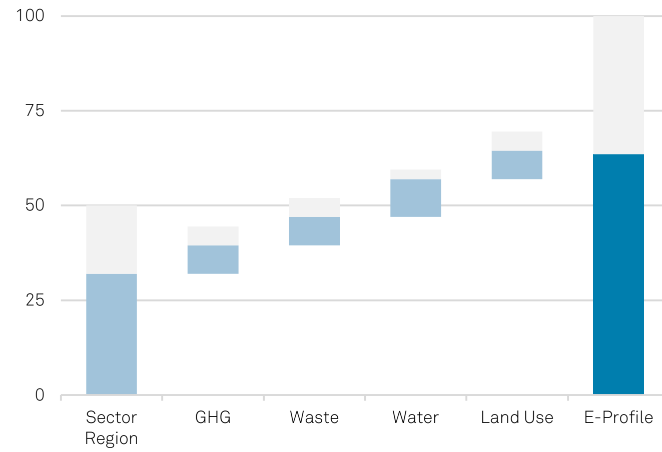
Overview

Southwire's environmental profile score of 64 reflects its relatively good management of its environmental footprint in a sector that is inherently exposed to GHG emissions, pollution, high water intensity, and contamination risks. Relative to peers in the capital goods sector, GHG emissions are above the industry median and water intensity is below it. Waste recycling (excluding scrap metals and PVC) is below the industry median. However, less than 1% of the company's waste is considered hazardous, and downstream pollutants are minimal. The company has lower biodiversity risk relative to peers given the nature of its operations and its footprint. Southwire has modest goals to reduce GHG emissions, water intensity, and operational waste by 2021, and we believe most goals are on target to be achieved.

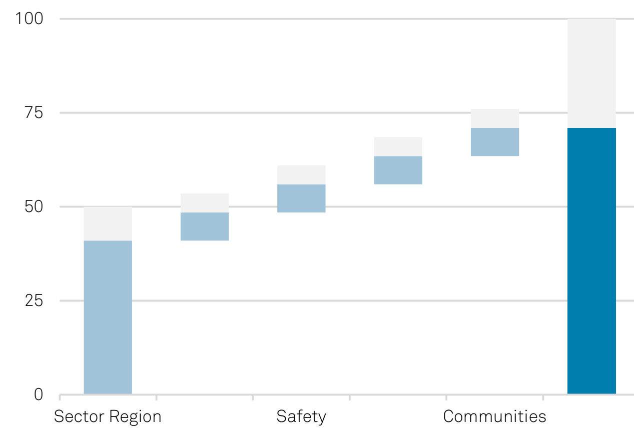
Southwire's social profile score of 71 reflects its diversity, improving safety metrics, and contributions to community welfare. The company has improved its safety metrics over the past three years, with its injury rate and lost work day rate per 200,000 hours decreasing 49% and 55%, respectively, since 2016. The company engages in social causes including organizing volunteer events, recycling programs, and charitable events. Southwire has a somewhat diversified workforce; 20% of its permanent workforce and 30% of its board are female. The company has active engagement with its customers and other stakeholders to better meet their needs and improve its product offerings.

Southwire's governance score of 73 reflects our assessment of its strong structure and oversight and good code and values. We view positively that Southwire, a small privately owned company, is willing to produce a sustainability report and commit capital and resources to achieving sustainability goals. The incoming generation of future owners wishes to promote sustainability as a goal to preserve Southwire's longevity and reputation and protect future business interests. Southwire's board comprises a majority of independent directors, with independent audit, human resources, governance, and sustainability committees. The Richards family tends to cede the company's day-to-day operations to industry experts, although, we believe they affect its overall vision. We believe the Richards family agrees on Southwire's long-term strategy. This is significant, as the three family members on the board hold 60% of the company's shares.

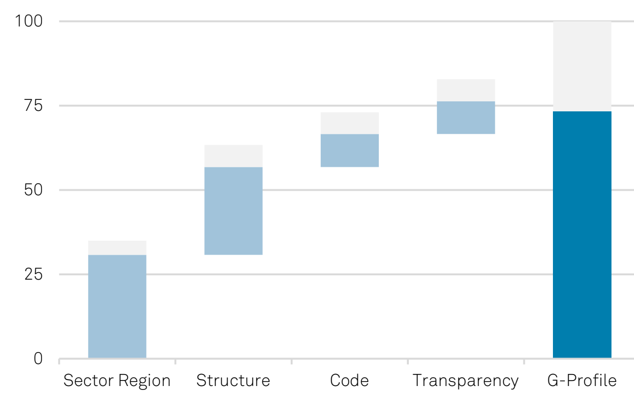
Environmental Profile (30%)



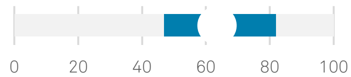
Social Profile (30%)



Governance Profile (40%)



Environmental Profile



64/100

Sector/Region Score

(32/50)

Our sector/region score reflects the exposure to the environmental risks of capital goods companies operating in the U.S., with a further downward adjustment to account for Southwire's metals and mining environmental exposure.

Entity-Specific Score

(32/50)

Greenhouse gas emissions — Good

- We view GHG emissions as good based on dedicated reduction goals and slow but ongoing progress. Southwire measures its energy intensity through tonnes of carbon dioxide equivalent (tCO2e)/ton of production. Under this measure, the company aims to reduce its GHG emissions and energy intensity 15% by 2021 relative to a 2016 baseline, and achieve zero carbon energy for its operations by 2025 relative to a 2018 baseline. However, as of 2019, the company has only reduced its GHG emissions 1.7%.
- Total scope 1 and 2 emissions intensity measured by tCO2e/mil. US$ has steadily decreased year over year to 71 tCO2e/mil. US$ in 2019 from 91 tCO2e/mil. US$ in 2016. However, the reduced intensity is primarily driven by improved copper pricing driving up company revenues and less by green initiatives.
- Emissions intensity is higher than the capital goods industry median, given the significant amount of energy required to melt cold metal and convert it into rods. Southwire plans to further reduce emissions by increasing solar panel installations at its facilities, and replacing old equipment with newer energy-efficient machines.

Waste — Good

- We view Southwire's waste management as good, reflecting its minimal downstream exposure, which is somewhat offset by its relatively weaker direct performance compared to sector peers.
- Southwire's primary operations, the production and sale of copper wire, have minimal downstream waste exposure due to the longevity of the product (30+ years). Additionally, copper wire maintains some monetary value, which promotes recycling at the end of its lifecycle.
- The company recycled 51% of its waste in 2019, which is below the capital goods industry median, and peers such as Prysmian Group (63% waste recycled). However, the company further recycles scrap metals and PVC, which it tracks separate from its waste recycling reporting.
- The company has recycling programs where customers can return their used steel or wood reels to be refurbished and shipped with a new product at a discount.
- Less than half a percent of the company's total waste was classified as hazardous. We expect this trend to persist.

Water — Strong

- We view Southwire's water management as strong primarily because its water intensity (as measured by cubic meters [M3] per million of revenue) was 157M3 in 2019, well below the capital goods sector median intensity.
- Southwire has a water intensity reduction target of 10% by 2021 compared to a 2016 baseline of 225 gal/ton. We view this target as obtainable since as of 2019, water intensity was already down about 4.6% to 215 gal/ton.
- About 7% of Southwire's water withdrawals comes from high-water-stress locations --nearly 66% of its water is sourced from local municipalities throughout the U.S.
- Each Southwire site manages its own water usage and discharge, with ultimate responsibility sitting at the EVP of operations. Southwire provides water recycling metrics on two of its plants but does not provide companywide water recycling metrics in its sustainability report.

Land use — Good

- We view land use as good because Southwire's overall direct impact on biodiversity is fairly limited, and plants are located in rural areas with limited biodiversity exposure. Risks are more prevalent in Southwire's copper and aluminum suppliers due to the inherent and adverse environmental and land use impact of mining ore.
- Management's goal is to minimize its ecosystem impact and restore and maintain any remediated sites.
- Given Southwire's proximity to nearby rivers and creeks, storm runoff or accidental discharge could affect local ecosystems. Southwire has had only one notable incident over the past several years. In October 2019, a process cooling water line failed at its Carrollton plant, releasing an estimated 1,200 gallons of processed water mixed with a drawing solution into the nearby Buffalo Creek, killing some fish. The incident was financially immaterial.

General factors (None)

- We have not adjusted the environmental profile.

Social Profile

71/100

Sector/Region Score (41/50)

Our sector/region score reflects the exposure to the social risks of capital goods companies operating in the U.S.

Entity-Specific Score (30/50)

Workforce and diversity — Good

- We view Southwire's workforce and diversity as good, reflecting age and gender diversity metrics broadly in line with its sector as well as investments in training. As a result of good workforce management, the proportion of female workers is approximately 20% of its permanent workforce, and female representation on the board is 30%. About 88% of the company's workforce is aged 30-50. Workers over 50 and under 30 each make up about 5% of the company's total workforce. Out of roughly 7,000 workers, less than 400 are independent contractors. We view these workforce demographic metrics as statistically in line with peers.
- Southwire's turnover rate has risen in the past three years, increasing to 20% in 2019, due to plant closures, disciplinary actions, and retirements. We do not expect this increase to continue, nor do we believe that it affects the company's ability to attract and retain talent or operate effectively.
- Southwire operates a training facility near its Carrollton plant offering leadership and hands-on training to contractors, employees, and local students.

Safety management — Good

- Southwire has sufficient safety policies and goals and tracks safety metrics for its employees, in line with industry standards. These include a 75% decrease in its total recordable injury rate relative to a 2016 baseline (reported at a 49% decrease as of 2019), a 10x increase in injury-free event reporting (reported at a 46x increase as of 2019), and being ready to achieve Occupational Safety and Health Administration Voluntary Protection Program or equivalent certification at all sites by 2021 (reported at achieved at 55% of sites as of 2019).
- The company's incident rate (the total number of injuries per 200,000 hours worked) has steadily declined 49% to 0.87 in 2019 from 1.71 in 2016. The lost work day rate for every 200,000 hours worked has declined 55% to 0.13 in 2019 from 0.29 in 2016. This is due to equipment replacement and stricter safety rules, where employee violations could result in termination. We view these improvements to be in line with the general industry trend of focusing more on safety and employee wellbeing.

Customer engagement — Good

- We view customer engagement as good based on industrywide practices. Southwire has set a goal to invest 10% of its EBITDA by 2021 to develop and commercialize four breakthrough solutions for its customers' sustainability challenges, though the exact monetization and how these solutions will be undertaken are unknown. The company targets to generate $1 billion in incremental revenues tied to these solutions.
- Southwire actively engages its customer base through customer satisfaction surveys, user forums, trade shows, among other channels, to better align its products and services to meet customer needs and to enhance product safety. These engagements help Southwire formulize and develop auxiliary products and offerings that are less commoditized than wire and cable.
- Southwire employs product experts to travel to job sites to increase training and awareness on safety, which we view as a good industry practice.

Communities — Good

- Southwire has taken multiple initiatives to improve its community engagement, commensurate with its role as a large employer in a rural community. We believe these initiatives are in line with the sector average.
- Southwire engages in various community welfare initiatives, including partnering with local high schools to help students in danger of not graduating, providing aid in disaster relief efforts, and giving charitable donations.
- The company has set a goal to launch environmental outreach and electronics recycling in 100% of its communities by 2021. This could also help ensure an adequate pool of future labor by enhancing the sustainability of the communities of its plants and workers. The company has achieved this goal in 39% of its communities as of 2019.
- Southwire is the main employer in many of its communities. Increased employee termination due to automation or plant closures could cause heighten reputational risk.

General factors (None)

- We have not adjusted the social profile.

Governance Profile

0 50 100

73/100

Sector/Region Score (31/35)

Our sector/region score reflects the comparatively high governance standards of companies headquartered in the U.S.

Entity-Specific Score (42/65)

Structure and oversight — Strong

- We view Southwire as having strong structure and oversight due to an independent and somewhat well-diversified board, as well as effective checks and balances. The board comprises 10 members: six are independent, three are members of the Richards family, and the CEO. We view this independence as stronger than other family-owned companies and in line with international best practices. The board has independent audit, human resources, governance and sustainability committees.
- The average age of board members is 65, with average tenures of nine years for independent directors and 19 years for the nonindependents. While these are long tenures, which somewhat offset the board's high level of independence, these directors bring continuity as representatives of the founders. In addition, 30% of the directors are women, which is in line with international practices and stronger than typical private companies in this sector.
- Southwire is still 100% owned by the founding family, who remain engaged and significantly influence company direction. However, they've hired independent industry experts to handle daily operations and rely on professionals to manage the business. This approach helps overcome the inherent risk of having family members personally or emotionally attached to issues that could impede the business.

Code and values — Good

- Southwire has good code and values. Southwire, unlike most small private companies in the U.S., has a comparatively strong sustainability focus. This is evidenced by resourcing at the board level and public reporting on sustainability metrics and targets in line with many larger public companies.
- The company has low tolerance for violations of its code of conduct. For example, new employees are placed on a six-month probationary period, where they will be terminated if the code is violated or they endanger other employees through improper or unsafe behavior.
- We further view the score as good because environmental and social responsibility, together with integrity and diversity, are prominent values and purposes for the company. The company's governance policies are comprehensive and public. They cover antimoney laundering, bribery, fraud, whistleblowing, conflict of interest, political donations, slave labor, and other principles. This is in line with other peers in the sector.
- The company publicly releases its standards of business ethics and conduct, supplier sustainability manual, employee handbook, and sustainability reports, which give more detail on its ESG-related policies, procedures, and greater insight into its code and values. These disclosures are in line with other peers in the sector.

Transparency and reporting — Good

- Southwire's transparency score is supported by ESG disclosures that are above legal and regulatory requirements. Southwire is a privately owned company and does not publically release its audited financials. The company does, however, have audited financial reports for its debt investors.
- The company has a dedicated portion on its website with a detailed breakdown of its sustainability goals and initiatives, as well details on past ESG-related incidents.
- For the past three years, Southwire has published an extensive sustainability report in line with the GRI and UNGC that provides a large degree of color on the company's air emissions, waste management, and other detailed environmental statistics.

Adjustments including financial and operational risks — -3

- Our negative adjustment is derived from a recent and financially material cyber event, for which remedial actions are still unfolding.
- While there are adequate mitigating measures in place, we note that the company's family ownership limits potential upside for the governance profile.

Preparedness Opinion

Preparedness	Low	Emerging	**Adequate**	Strong	Best in class

Awareness	Developing	**Good**	Excellent
Assessment	Developing	**Good**	Excellent
Action	Developing	**Good**	Excellent
Culture	Developing	Good	**Excellent**
Decision-making	Developing	**Good**	Excellent

Summary

We view Southwire's preparedness as adequate reflecting its good awareness of long-term risks and opportunities (e.g. technological change, urbanization, supply chain disruption). Its good assessment of the potential impact risks have on the business, and good action planning to translate potential risks into opportunities. Furthermore, the company's familial roots and dedicated sustainability goals demonstrate its excellent culture. Finally, we assess the entity's decision-making as good, reflecting its track record of decisions that have successfully reinforced strategic objectives including GHG emissions reductions and safety improvements.

The company has adapted a long-term strategy that includes enhancing its environmental sustainability and social impact. The Richards family believes improving Southwire's environmental and social sustainability is a key element in assuring the company's operating longevity over the next 100 years. Southwire has structured its key sustainability goals and initiatives into five distinct tiers (Growing Green, Living Well, Giving Back, Doing Right, and Building Worth). Each initiative has goals and targets, project owners, and sufficient resources to help achieve its success. The Richards and senior management plan to continue to grow the company organically through product innovations to complement its existing wire and cable sales, and through potential future acquisitions to expand product offerings and end markets.

Awareness	Developing	**Good**	Excellent

We believe Southwire demonstrates good awareness of potential disruptions and strategic risks. The company has shown good awareness through its identification of key emerging risks that could potentially impede its growth strategy and long-term viability, including technological disruptions, changes to the power grid from urbanization, and supply chain disruptions among other pertinent risk factors. The board of directors meets formally four times a year to discuss strategy and risks, with periodic calls scheduled throughout the year to fill in the gaps between the quarterly meetings. Southwire has a risk oversight committee that encompasses individuals from different levels of the organization, including members of senior management as well as plant and shift managers that provide a more front-line view to the board. The committee is tasked with identifying, presenting to the board, and working on potential remediation strategies of key risks. Southwire has structures to enhance its awareness of emerging environmental and social risks as they arise through its creation of a sustainability committee. Additionally, the Richards family hires outside consultants to better enhance its awareness of potential governance issues, and the company as a whole hires an outside consulting group to better determine risk exposures.

Assessment	Developing	**Good**	Excellent

We view Southwire as having good risk assessment, based on internal risk review procedures, risk mapping, and external audits to further identify the impacts of key risks and disruptors. Southwire's risk oversight committee works concurrently with the board and senior management to identify, assess, and categorize risks based on probability of occurrence, time horizon, and severity. Once identified, risks are assessed using a multistep process. The combined group examines the company's exposure to the risk, historical response and past management, and ways to enhance or develop new strategies to confront the risks it faces through back testing and some crisis and pricing-related scenario analysis. Furthermore, Southwire solicits the opinion and expertise of local government and community officials in assisting in risk assessment. These consultations cover a range of topics to better help Southwire identify the environmental and social impact it may have on local communities. In addition to the annual monitoring, the company conducts a systemwide materiality assessment every three years to reprioritize existing and categorize emerging risks and to assess and prioritize the sustainability topics most significant to its business and stakeholders. We believe this time horizon and risk assessment are in line with most companies in the sector.

Action Plan	Developing	**Good**	Excellent

Southwire demonstrates good action planning and makes efforts to align long-term strategy with its day-to-day operations. The company has structured its key sustainability goals and initiatives into the aforementioned tiers. Each tier has a distinct strategy and sufficient resources to help carry out the company's mission statement, including reducing GHG emissions, improving employee safety, and enhancing employee welfare. Each tier has a project owner who helps plan the strategy, monitor its progress, and present results to the board. Additionally, the Richards family drafts a shareholders' letter to the board each year, with the goals and initiatives laid out for the next 12 months. Afterwards, extensive planning sessions are held to establish that year's strategy. We believe Southwire is compelled to act based on what it perceives as changing market dynamics to maintain its relevance and competitive position. Although Southwire has identified future risks (e.g., technological disruptions, supply chain issues, environmental sustainability), it hasn't specifically communicated a detailed plan or strategy beyond considering future acquisitions and adapting the business to market opportunities. Another example, a detailed plan on how Southwire will reduce its GHG emissions 15% by 2021 when the latest disclosed progress was at 1.7%, is not in the company's sustainability report, beyond considering more renewable energy sources and working with external parties to identify areas of emissions improvement.

Culture	Developing	Good	**Excellent**

We view Southwire to have excellent culture due to a focus on safety, sustainability, strong family values rooted throughout the organization, and a goal of giving back to its employees and communities. The private family-owned company has expended both human and financial capital to publish an annual in-depth sustainability report, and has committed publicly to tangible sustainability goals. We view the company's sustainability focus and public commitments, as more akin to a large publicly owned company. This, along with the Richards family's support and championing of ESG goals, makes it clear that sustainability is a long-term strategy for Southwire. Not only is ownership handed down from one generation of the Richards family to the next, part of the workforce is also second or third generation. This provides a sense of family and togetherness among the company's workers, and helps preserve the long-term culture. We believe that culture fosters innovation. At Southwire's Thorn Customer Solutions Center management and product developers engage with both employees and customers to create new efficient and safer equipment and machinery. The center also serves as a training hub for employees to test out and provide their feedback on equipment, so as to better incorporate the views of those using and building the products. Furthermore, Southwire actively engages with its workforce and other stakeholders through engagement surveys, roundtable discussions, and town hall meetings. In these forums management solicits feedback, and aligns long-term strategy and culture with the various internal and external parties throughout the organization.

Decision-making	Developing	**Good**	Excellent

We view Southwire to have good decision-making given the alignment of strategic initiatives and strategy undertaken by the board and senior management. Although the company is privately owned, it functions more like a public company than a private one, with a board constituted by a majority of independent directors. The Richards are not involved in the company's day-to-day operations, instead deferring to its experienced management team. However, we believe the family members are in close contact with the management team and other board members, and may have large sway into their decision-making process. Each year the Richards family drafts a shareholders letter to the board to better align the strategy and interests of the two parties. We believe the family presents a unified front and has a consensus over the company's long-term goals and strategy. This is significant, as the three family members on the board hold 60% of Southwire's shares. An example of Southwire's good decision-making that reinforced its longer term sustainability goals include decisions such as the installation of more solar panels on its plants and facilities, and holding more recycling events. Although exact capital allocations to sustainability are unknown, Southwire has communicated it plans to use 10% of its EBITDA by 2021 to develop solutions to customers' sustainability challenges.

Sector And Region Risk

Primary sector(s)	Capital goods
Primary operating region(s)	U.S.

Sector Risk Summary

Southwire operates primarily as a metal processor and fabricator. This makes it materially less exposed to the environmental and social risks akin to the copper and aluminium miners it buys from, albeit some of these risks still exist. We view the company as more comparable to other manufacturers and fabricators in the capital goods industry from a sustainability standpoint, which are exposed to similar environmental and social concerns as Southwire, including emissions reduction and human capital management.

We have adjusted the environmental sector and region score downward to reflect Southwire’s close ties to the metals and mining sector. The sector poses risks such as high generation of pollutants, biodiversity concerns and high water and energy intensity.

Environmental exposure

The capital goods sector includes companies operating in the industrial equipment, components, and services segment. It also includes companies operating in aerospace and defense, and in engineering and construction. We believe the sector has moderate exposure to environmental risks, including greenhouse gas emissions from energy consumption, water use and pollution, waste discharge, and climate-related physical change, although risks and exposures vary by subsector. Capital goods must meet required environmental standards and customers' demand for more energy-efficient products, while mitigating the potential for costs and fines. Given the broad nature of capital goods' end-markets, the sector is exposed to environmental risks in downstream sectors such as oil and gas and utilities, where regulations are also stringent. In the aerospace defense subsector, aircraft engine emissions are increasingly globally regulated, which could increase demand for the newest aircraft, but might also require investment in product development. This could be material if ever-stricter regulations require major technological changes. Companies in engineering and construction are exposed to increasing climate change risk. Although they factor in some weather-related delays to complete construction projects, extreme climate events can cause major delays and project cost overruns. The sector is also very materials-intensive, using mainly steel, iron, aluminum, glass, plastics. The increasing number of electronic components in machinery and vehicles has made them reliant on critical materials that are only produced in a few countries and/or in politically unstable countries. The sourcing of conflict minerals (most common ones being tantalum, tin, tungsten, and gold and largely used in electronic components) is increasingly regulated, and good management of complex supply chains is key to managing this risk. To manage the growing scarcity of materials, the sector will also need to improve recyclability of products and take charge of product end-of-life management by remanufacturing, for example.

Mining inherently threatens the environment and competes with other businesses and communities for water and electricity. It can also release toxic elements into the air, water, or soil. Open pit and underground mining involves crushing and treating large amounts of ore, resulting in tailings that can alter ecosystems if not contained properly. Other types of mining like heap leaching use toxic fluids (cyanide or sulfuric acid) that are devastating if leaked into the environment. Alloy production such as steel or aluminium is extremely power-intensive and a heavy air polluter. Steel mills generate significant carbon dioxide, nitrogen oxide, and particular matter that need proper treatment before being released into the open air. Finally, coal-fired power plants are the world's most greenhouse-gas-intensive assets which is why governments are increasingly limiting them and encouraging greener forms of energy.

Social exposure

Material social risks for capital goods companies include those related to human capital management and employee health and safety, albeit exposure to social risks differs by subsectors. Human capital risks include the management and retention of skilled labor, which the industry increasingly relies on to adapt to a changing work environment brought about by greater automation at production plants, increased digitalization, and robotics. Companies also need to maintain productive and long-lasting relationships with employees in fairly highly unionized industries. This is also relevant for aerospace and defense, and engineering and construction. Employees' safety is a key risk for the sector given the use of large and dangerous equipment in the production process. For aircraft manufacturers, product safety is of paramount importance as an aircraft accident caused by a design flaw or poor quality can result in injuries and deaths, as well as order cancellations or significant remediation costs. More specifically for engineering and construction companies, community opposition to construction and the dangers of operating in countries with civil unrest or weaker regulatory regimes is heighted. This can result in more stringent regulations for contractors, as well as higher costs and risks of business disruption.

Social risks are substantial in the mining sector. Despite efforts to improve conditions, safety risk is still higher than in other sectors, both for employees who work under difficult conditions in many cases and for communities who may be exposed to accidents, and may also face adverse economic consequences when mines close. Both, of course, can have pronounced financial effects and enduring reputational consequences, with the potential to diminish a social license to operate and sometimes the actual removal of a permit. The sector also faces significant workforce issues. Diversity remains low, and high unionization can periodically lead to labor disruptions. In some parts of the world--generally in remote areas with limited workers' rights--human rights violations may be common and require policies and monitoring to prevent; these issues are more relevant for mining operations than for metal production. Finally, given the commoditized nature of the sector, exposure to customer-related risk is relatively low.

Regional Risk Summary

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries and has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. This can undermine management oversight. Remuneration continues to be a contentious point, because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism.

This report does not constitute a rating action.