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***“The Impact of Energy Efficiency on Corporate Performance of the EU-
Listed Companies”***

Ion Frecautan, Ștefan cel Mare University of Suceava, (Romania)

Prof. Dr. Carmen Nastase, Ștefan cel Mare University of Suceava, (Romania)

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Outline

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I. The background of the current research

- ❖ No frontiers for environmental risks determined by the GHG energy related emissions that is one of the main source for climate change.
- ❖ In the last 5 years two global events took place with systemic impact on EU energy security and the European economy and financial markets: the outbreak of global COVID-19 pandemic and the war between Ukraine and Russian Federation.
- ❖ The top 3 regulatory themes of climate policies set at the EU level in the last 10 years refer the following: Energy efficiency, Renewables and energy services
- ❖ According to the International Energy Agency, the energy efficiency is considered the “Low hanging fruit” for archiving GHG emissions targets in the short and medium terms.
- ❖ The increasing pressure from international organization to strengthen the “partnership with nature” for both developing and emerging capital markets put pressure to implement the regulatory eco-systems and infrastructure for clean energy sources (e.g. Fit for 55 package set at the EU level).
- ❖ The energy sector, dominated by fossil fuels, accounts for 34 % of human-caused greenhouse gas (GHG) emissions, with a total of 20 Gigatons (Gt) of GHG globally (IPCC, 2023)

II. The scope and contribution of the research

The scope of the research is to examine the **relationships** between **energy efficiency factors** and **corporate financial performance** of EU listed companies operating in **the energy intensive industries**.

We consider the energy “efficiency” market because of three important characteristics:

- **First**, the energy market is globalized, and it is the main driver for national and international development;
 - **Second**, the global energy market is in a transition process from brown energy to green energy;
 - **Third**, is the increased trends in the financialization of the energy markets.
- ❖ In addition, the subsequent implications renewable energy analysis on the corporate financial performance is undertaken to reveal the contrast view of the full picture about sources of clean energy.

II. The scope and contribution of the research



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What is Energy Efficiency?

- ❖ “.... is the use of **less energy** to perform the **same task** or produce the **same result**” ([energy.gov](https://www.energy.gov))
- ❖ “... as the “first fuel” in **clean energy transitions**, as it provides some of the **quickest** and most **cost-effective CO2 mitigation** options while lowering energy bills and **strengthening energy security**.” ([IEA, 2023](#))
- ❖ “ as simply means using **less energy** to perform the same task – that is, eliminating **energy waste**. Energy efficiency brings a variety of benefits: **reducing greenhouse gas emissions**, reducing demand for energy imports, and **lowering our costs** on a household and economy-wide level.” ([EESI, 2023](#))

III. Literature key findings and research gaps

The following strands of Literature were identified that are relevant for the research:

- **Barriers for implementing the energy efficiency mechanisms or energy efficiency “paradox”:**
 - Barriers for making energy-efficiency investment decisions (e.g. industry factors, investment decisions overdetermined, long term investment return, organizational context elements, etc.): (*Cooremans, 2017; Iten et al., 2017*);
 - Contrast approach for barriers and drivers of implementing energy efficiency mechanisms for business organizations: *identified barriers (economic; information-related; organizational; behavioral; competence-related; technology-related) (Cagno et al., 2013; Trianni and Cagno, 2012). Drivers for EE implementation (green image, long term strategy for energy price increase, OPEX reduction, fiscal/public finance benefits) (De Groot et al., 2001; Rohdin and Thollander, 2006; Thollander and Ottosson, 2008; Cagno and Trianni, 2013).*
 - *Still there is a lack of academic consensus about the benefits of energy efficiency mechanisms implementation for business organizations.*
- **The energy-efficiency mechanism as a core part of corporate energy management system**
 - Besides other technical aspects of corporate energy management system, the energy – efficiency mechanisms are core components for optimal energy management systems (e.g. ISO 50001 incorporated this duality). The structuring process of the energy management system in the organization should embed centrally the energy efficiency vectors to convert barriers of EE into drivers: (*Lawrence et al., 2019; Fleiter et al., 2012a; Schulze et al., 2016; Cooremans and Schoenenberger, 2019*)
 - Energy management system implies both internal (organizational perspective) and external factors (policy perspectives) that ultimately materializes into an outstanding energy efficiency mechanisms that brings economic and technical benefits for companies (*Backlund et al., 2012; Johansson and Thollander, 2018; Schulze et al., 2016*)

III. Literature key findings and research gaps

The following strands of Literature were identified that are relevant for the research:

➤ **The analysis of the relationships between energy efficiency mechanisms and corporate financial performance :**

- Energy efficiency positively impacts the short-term financial performance (e.g., ROE and ROA) of the company in the energy intensive industries in Asian countries (e.g. Korea, China) : (*Moon and Min, 2020; Russell, 2009; Mazzarano, 2024*);
- Energy efficiency indirectly impacts the corporate financial performance through GHG emissions reduction in the G-6 countries (e.g. impact on Assets turnover and Tobin's Q for Chinese companies, or the impact of EU emission trading scheme on financial performance of EU companies) : (*Samsul Alam et al., 2019; Wang et al., 2021; Makridou et al., 2019*);

➤ **Policy and regulatory impact of the energy efficiency mechanisms on the corporate financial performance:**

- Energy efficiency systems have a positive impact on the corporate financial performance when the moderating role of the government is undertaken in an optimal manner. Also, NGO and competitiveness create additional pressure and positively impacts the corporate financial performance through EES (*Liu et al., 2021*)
- Correctly designed and implemented the energy efficiency policies, will bring the market transformation towards more efficient products and services, which ultimately will increase the customer satisfaction for eco-conscious business partners and respectively the corporate financial performance. (*Zhang and Xie, 2022; Bukaricaa and Tomšić, 2017*)

III. Literature key findings and gaps

- ❖ Energy efficiency is among the main contributors for GHG emission reduction as it is considered “low hanging fruit” and brings immediate results in GHG emission reduction.
- ❖ Still energy efficiency vector of the business is struggling with underinvestment phenomenon which is called the energy efficiency gap or “paradox”
- ❖ The energy efficiency being highly regulated at the EU level, the analysis about its impact on the corporate financial performance is not researched enough which in fact represents a research gap;
- ❖ Energy efficiency management systems are emerging and require to define energy efficiency performance metrics. This is a research limitation about the lack of reliable data on energy efficiency.
- ❖ The Russia-Ukraine war will restate the priority of the Energy Efficiency as being not only a “low hanging fruit” for EU countries but a powerful instrument for mitigating the risk of energy security and increasing the level of European energy independence.

IV. Hypotheses development and the model

Hypothesis 1: The energy efficiency factors positively influence the corporate financial performance

(+) relationship between energy efficiency factors and short-term financial performance indicators;

(+) relationship between energy efficiency factors and long-term financial performance indicators;

Hypothesis 2: The renewable energy factors positively influence the corporate financial performance

(+) relationship between renewable energy factors and short-term financial performance indicators;

(+) relationship between renewable energy factors and long-term financial performance indicators;

IV. Hypotheses development and the model

Methodologically we use pooled OLS to reveal the relationships between energy efficiency factors/renewable energy to corporate financial performance of the EU-listed companies.

$$ROA_{jt} = \beta_0 + \beta_1 * \text{Energy Efficiency factors}_{jt-1} + \beta_2 * \text{Renewable Energy Factors}_{jt-1} + \beta_3 * \text{Corporate Characteristics}_{jt-1} + \text{Country FE}_k + \text{Time Effect}_t + \text{Industry FE} + \varepsilon_{it}$$

..... where the subscripts jt indicate variables by company j in period t

Energy efficiency factors:

- Policy Energy Efficiency
- Targets Energy Efficiency
- SDG 7 Affordable and Clean Energy

Renewable energy factors:

- Total Renewable Energy
- Renewable Energy Use Ratio
- Renewable Energy Use

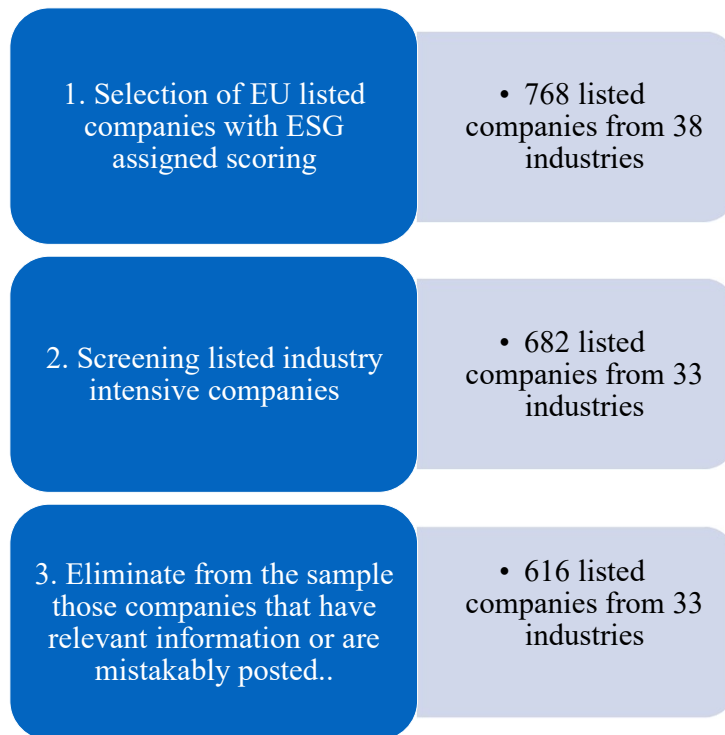
Corporate characteristics

- ESG Score
- CEO duality score
- Board size
- Leverage
- Market Capitalization
- Total Assets

V. Data and variables

- Data about corporate financial performance and energy efficiency mechanisms of the EU listed companies were extracted from *Thomson Reuters*, for the period *2017-2022*.
- We decided to choose this period because of the increasing trend of ESG reporting and sustainable investments in the period post-COP 21, especially for companies from the EU
- The energy efficiency information is extracted as a dimensional components of ESG scoring from Thomson Reuters Eikon.

The screening process of sample selection



V. Data and variables

- ❖ Leading countries that “host” companies with ESG performance disclosure are developed, with a prominent level of climate policy effectiveness.
- ❖ Small number of companies from Central and Eastern Europe that disclosure and register ESG performance.
- ❖ The top industries from the data set are not necessarily the ones that are leading in terms of CO2 and GHG emissions but are energy intensive.
- ❖ Different industries have different climate impacts: e.g., Chemicals, Oil& gas potential impact through CO2 emissions; Machinery, electronic equipment, construction, and engineering for electrical energy intensive consumption;

Country of domicile	Number of companies	Distribution (%)
Sweden	138	22.4%
Germany	124	20.1%
France	71	11.5%
Italy	61	9.9%
Spain	38	6.2%
Denmark	32	5.2%
Netherlands	30	4.9%
Austria	21	3.4%
Ireland; Republic of	21	3.4%
Belgium	20	3.2%
Poland	16	2.6%
Greece	13	2.1%
Luxembourg	12	1.9%
Portugal	10	1.6%
Cyprus	4	0.6%
Hungary	3	0.5%
Czech Republic	1	0.2%
Romania	1	0.2%
Grand Total	616	100.0%

The country distribution of EU-listed companies which disclose ESG information

Industry	Number of companies	Distribution (%)
Machinery	72	11.7%
Biotechnology	48	7.8%
Chemicals	39	6.3%
Electronic Equipment, Instruments & Components	34	5.5%
Construction & Engineering	33	5.4%
Electrical Equipment	31	5.0%
Oil, Gas & Consumable Fuels	29	4.7%
Metals & Mining	26	4.2%
Textiles, Apparel & Luxury Goods	25	4.1%
Automobile Components	24	3.9%
Building Products	23	3.7%
Semiconductors & Semiconductor Equipment	22	3.6%
Electric Utilities	20	3.2%
Diversified Telecommunication Services	19	3.1%
Household Durables	19	3.1%
Air Freight & Logistics	13	2.1%
Industrial Conglomerates	13	2.1%
Construction Materials	12	1.9%
Independent Power and Renewable Electricity Producers	12	1.9%
Transportation Infrastructure	12	1.9%
Automobiles	11	1.8%
Paper & Forest Products	11	1.8%
Other	68	11.0%
Grand Total	616	100.0%

The industry distribution of EU-listed companies which disclose ESG information

V. Data and variables

In the research we calculate Energy efficiency index as following the approach proposed following the methodological approach of (Carmen-Pilar and Martí-Ballester, 2017)

$$EEI = \frac{\left(\frac{(EC_t)}{(Sales_t)} - \frac{(EC_{t-1})}{(Sales_{t-1})} \right)}{\frac{(EC_{t-1})}{(Sales_{t-1})}}$$

..... where *EC* denotes the total energy consumption in gigajoules (*GJ*), *Sales* is the net sales of company at time *t* or at time *t-1*; the *EEI* represents the reduction or growth in energy efficiency for a period which is adjusted by sales (yearly variables).

** a negative value for the EEI means lower energy consumption which is higher energy efficiency*

V. Data and variables – Variables description

Symbol	Name	Description
<i>PEE</i>	<i>Policy Energy Efficiency</i>	Does the company have a policy to improve its energy efficiency?
<i>TEE</i>	<i>Targets Energy Efficiency</i>	Has the company set targets or objectives to be achieved on energy efficiency?
<i>SDG7</i>	<i>SDG 7 Affordable and Clean Energy</i>	Does the company support the UN Sustainable Development Goal 7 (SDG 7) Affordable and Clean Energy? -company is supporting Goal 7 of SDG to Ensure access to affordable, reliable, sustainable, and modern energy for all data considered only from SDG Goals.
<i>TRE</i>	<i>Total Renewable Energy</i>	Total Volume of Renewable energy consumed by the company
<i>REUR</i>	<i>Renewable Energy Use Ratio</i>	Total energy purchased from primary renewable energy sources is divided by total energy use.
<i>REU</i>	<i>Renewable Energy Use</i>	Renewable Energy Use - Does the company make use of renewable energy? - renewable energy produced/purchased for its own use only - waste that is converted to energy and is used by the company for their own use.
<i>CEODS</i>	<i>CEO duality score</i>	CEO duality is a business practice where the CEO of a company also acts as the chairman of the board of directors
<i>ESG</i>	<i>ESG Score</i>	The ESG score shows the sustainability performance of the company measured through the methodology used by TR Eikon
<i>BS</i>	<i>Board size</i>	The number of board members
<i>EEI</i>	<i>Energy Efficiency Index</i>	The energy efficiency index calculated according to the method of Martí-Ballester (2017)

VI. Research methods and Key findings – Testing Hypothesis H1

H1. The energy efficiency factors positively influence the corporate financial performance:

(+) relationship between energy efficiency factors and short-term financial performance indicators;

(+) relationship between energy efficiency factors and long-term financial performance indicators;

VARIABLES Dep. Variable	Model 1 ROA	Model 2 ROE	Model 3 T'Q	Model 4 ROA	Model 5 ROE	Model 6 T'Q
<i>PEE</i>	0.0936*** (0.0209)	0.0565** (0.0237)	-3.7632 -6.5234	0.1486*** -0.0206	0.1230*** -0.024	2.6957 -6.2945
<i>TEE</i>	-0.0128 (0.0152)	-0.0131 (0.0172)	-0.0556 -4.7471	-0.0061 -0.0148	-0.017 -0.0172	-2.4407 -4.5253
<i>SDG7</i>	0.0185 (0.0148)	0.0341** (0.0168)	0.0828 -4.6356	0.0223* -0.0133	0.0314** -0.0155	0.3596 -4.0676
<i>EEl</i>	0.0001 (0.0002)	0.0001 (0.0002)	-0.0094 -0.0613	0.0001 -0.0002	0.0001 -0.0002	-0.0066 -0.0614
<i>LogMcap</i>	0.0246*** (0.0059)	0.0586*** (0.0066)	29.1094*** -1.8277	0.0134*** -0.0052	0.0398*** -0.006	22.5495*** -1.5846
<i>LogTA</i>	0.0253*** (0.0066)	-0.0284*** (0.0075)	-23.9213*** -2.0703	0.0450*** -0.0052	0.0062 -0.006	-17.1918*** -1.5823
<i>Lev</i>	-0.2971*** (0.0347)	-0.0642 (0.0393)	18.5180* -10.8321	-0.2120*** -0.0327	0.0086 -0.038	19.9421** -9.9814
<i>CEOD</i>	-0.0002 (0.0002)	-0.0004 (0.0003)	0.0143 -0.0706	-0.0002 -0.0002	-0.0002 -0.0003	-0.0074 -0.0668
<i>BS</i>	-0.0060*** (0.0015)	-0.0011 (0.0017)	-0.2111 -0.4818	-0.0068*** -0.0014	-0.0051*** -0.0017	-0.1602 -0.4404
<i>ESG</i>	-0.0017*** (0.0004)	-0.0006 (0.0005)	-0.1232 -0.1308	-0.0026*** -0.0004	-0.0014*** -0.0005	-0.2214* -0.1228
<i>Constant</i>	-0.8465*** (0.1013)	-0.1264 (0.1148)	-85.0574*** -31.6628	-1.1122*** -0.0766	-0.8679*** -0.0889	-99.7764*** -23.3513
<i>Observations</i>	2,841	2,841	2,841	2,841	2,841	2,841
<i>R-squared</i>	0.1782	0.1801	0.1016	0.1078	0.0651	0.0701
<i>Time, Country, Industry FE</i>	YES	YES	YES	NO	NO	NO

Robust standard errors in parentheses;

*** p<0.01, ** p<0.05, * p<0.1

VI. Research methods and Key findings – Testing Group Hypothesis H1

- **H1.1 – Validated:** Energy efficiency policy adopted by companies will influence positively the short-term financial performance expressed through ROA and ROE for EU listed companies. Companies will manage to improve the short term corporate financial performance by implementing EE policies together with energy efficiency management systems as proposed by ISO 50001. (*Moon and Min, 2020; Samsul alam et al., 2019; Wang et al., 2021*)
- The level of relationship between EEI, TEE and short-term financial performance reveal that EU listed companies still should rip the “low-hanging fruits” of energy efficiency benefits, that need in-depth implementation of the Energy efficiency policies to obtained trully economic and financial effects.
- The SDG 7 ("Affordable and clean energy"), as a way of energy efficiency representation has a positive and statistically significant relationships with short term financial performance which strengthen the idea that EU listed companies are highly committed and interested in making energy utilization more efficient.
- **H 1.2 – NOT Validated:** The relationships between energy efficiency factors and Tobin's Q is statistically non-significant and depending on the model its connectedness is positive and negative, which reveal the idea that energy efficiency factors do not influence the long-term financial performance of the company. (*Mazzarano, 2024*) and contrary to the findings of (*Wang et al., 2021*)

VI. Research methods and Key findings – Testing Group Hypothesis H2

H2. The renewable energy factors positively influence the corporate financial performance:

(+) relationship between renewable energy factors and short-term financial performance indicators;

(+) relationship between renewable energy factors and long-term financial performance indicators;

VARIABLES Dep. Variable	Model 1 ROA	Model 2 ROE	Model 3 Tobins'Q	Model 4 ROA	Model 5 ROE	Model 6 Tobins'Q
<i>logTRE</i>	0.0012 -0.0013	0.0063 -0.0097	-0.0446** -0.0183	0.0011 -0.0009	0.0011 -0.0071	-0.0396*** -0.0135
<i>REUR</i>	-0.0006 -0.0085	-0.0691 -0.0634	0.4788** -0.2024	0.003 -0.0077	-0.0133 -0.0587	0.3499** -0.1728
<i>REU</i>	0 -0.0112	0.0254 -0.0837	0.1976 -0.2461	0.0076 -0.0102	0.0422 -0.0774	0.0364 -0.2277
<i>SDG7</i>	0.0049 -0.0037	0.0373 -0.0277	0.1877** -0.0915	0.004 -0.0031	0.0091 -0.0233	0.1553** -0.0734
<i>EEl</i>	0 0	0 -0.0002	0.0005 -0.0008	0 0	0 -0.0003	0.0008 -0.0009
<i>LogMcap</i>	0.0318*** -0.0021	0.0675*** -0.0158	1.1503*** -0.0482	0.0300*** -0.0018	0.0583*** -0.014	1.0611*** -0.0386
<i>LogTA</i>	-0.0299*** -0.0028	-0.0825*** -0.0209	-1.0635*** -0.0587	-0.0294*** -0.0023	-0.0527*** -0.0179	-0.9870*** -0.0496
<i>Lev</i>	-0.0816*** -0.0123	-0.0607 -0.092	-0.7271** -0.2987	-0.0671*** -0.0108	0.1332 -0.0826	-0.3267 -0.2568
<i>CEOD</i>	0 -0.0001	0.0001 -0.0005	0.0029** -0.0014	0 -0.0001	0.0001 -0.0004	0.0018 -0.0014
<i>BS</i>	0 -0.0006	0.0051 -0.0047	-0.0161 -0.0151	-0.0005 -0.0005	-0.0042 -0.0038	-0.0108 -0.0117
<i>ESG</i>	-0.0002 -0.0001	0.0005 -0.001	-0.0066** -0.0033	0 -0.0001	0.0007 -0.001	-0.0043 -0.003
<i>Constant</i>	0.0695* -0.0412	0.9419*** -0.3079	0.2786 -0.8633	0.0653** -0.0314	0.0358 -0.239	0.6552 -0.7005
<i>Observations</i>	928	928	1009	928	928	1009
<i>R-squared</i>	0.4652	0.2528	0.5829	0.3334	0.0318	0.5067
<i>Time, Country, Industry FE</i>	YES	YES	YES	NO	NO	NO

Robust standard errors in parentheses; ***
p<0.01, ** p<0.05, * p<0.1

VI. Research methods and Key findings – Testing Group Hypothesis H2

- **H 2.1 – NOT Validated**: The results show that renewable energy factors do not have a significant impact on the short-term financial performance of EU listed companies due to the following reasons:
 - renewable energy prices, usually are much higher, so companies should pay a premium to get clean energy in their operational business processes, therefore the cost impact is negative;
 - to include renewable energy in the production processes, significant capital expenditures are needed to get the target consumption of renewable energy sources; ([Mazzarano, 2024](#))
- **H2.2 – Validated** : The results show that long-term financial performance is more responsive to the renewable energy factors, which we include in the empirical analysis especially for Renewable Energy Use Ratio, and Renewable energy Use.
- The positive relationships between long-term financial performance and renewable energy factors confirms the efficiency of the climate policy implemented at the EU level (especially climate policies referring to renewables), because higher is the higher rate of renewable utilization the higher is the long-term performance for the EU energy intensive listed companies. ([Frecautan et al., 2023](#))
- TRE is negatively correlated with Tobin's Q which indicated that the capital market reacted negatively to the utilization of renewable energy in the long term. ([Mazzarano, 2024](#))
- The negative relationship is also statistically significant which requires further empirical analysis that should include the study events considering the COVID-19 pandemic period and the Russian-Ukraine conflict. Both events had a deep impact on the European energy markets, which consequently also impacted the energy for end-users. ([Carmen-Pilar Martí-Ballester, 2017](#))

VI. Research methods and Key findings – Robustness check

- Each energy efficiency mechanism and renewable energy factors has been assigned a scoring equivalent calculated regarding industry and country benchmarks at the defined data point scoring level;
- The detailed analysis reveals that our results are robust considering the TR scoring system for both types of performance indicators, short-term (ROA, ROE) and long-term (Tobin's Q).
- In the model we control our variable for year and country fixed effects for Policy Energy efficiency usage, as it is related specifically to the country regulatory system, and we control the variable for industry fixed effects the Renewable energy factors as these are related more to the industry specifics.

<i>Dependent VARIABLES</i>	<i>Model 1 ROA</i>	<i>Model 2 Tobin's Q</i>	<i>Model 3 ROE</i>	<i>Model 4 ROA</i>	<i>Model 5 Tobin's Q</i>	<i>Model 6 ROE</i>
PEES	0.0021*** (0.0003)	-0.0056** (0.0023)	0.0019*** (0.0005)			
TEES	0.0000 (0.0002)	-0.0022* (0.0013)	0.0005* (0.0003)			
SDG7	0.0485*** (0.0157)	-0.0095 (0.1264)	0.0384 (0.0280)	0.0126*** (0.0042)	0.2974*** (0.1147)	0.0390 (0.0257)
EI	0.0001 (0.0002)	0.0006 (0.0018)	0.0001 (0.0004)	0.0001 (0.0000)	0.0011 (0.0011)	0.0000 (0.0002)
logTRE				-0.0032*** (0.0007)	-0.1048*** (0.0196)	-0.0045 (0.0044)
REURS				0.0001* (0.0001)	0.0063*** (0.0015)	-0.0003 (0.0003)
Constant	-0.0959** (0.0395)	1.1531*** (0.3191)	-0.0417 (0.0707)	0.0794*** (0.0148)	1.6992*** (0.4031)	0.7166*** (0.0903)
Observations	2,346	2,378	2,378	1,009	1,017	1,017
R-squared	0.0422	0.0748	0.0187	0.2322	0.2498	0.1723
Year FE	YES	YES	YES	YES	YES	YES
Industry FE				YES	YES	YES
Country FE	YES	YES	YES			

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Robust standard errors in parentheses; ***
p<0.01, ** p<0.05, * p<0.1

VII. Conclusions

- ❖ The empirical results consolidate the idea that the energy efficiency mechanisms implemented at the EU listed companies through sound policy regulations consolidate the short-term corporate financial performance.
- ❖ Renewable energy sources will strengthen the long-term financial performance of the EU companies as it requires significant investment resources and high prices in the energy markets.
- ❖ The negative relationships between Total Renewable Energy and Tobin's Q (as a representation of long-term financial performance) could be that increasing reliance on renewable-based energy systems increases liabilities over the market value of assets, hindering company's financial performance.
- ❖ Indirectly, the exploration of "low-hanging fruits" through energy efficiency resources will contribute to the reduction of the GHG emissions and will increase the organizational competitiveness through sustainability.

Thank you for your attention!