

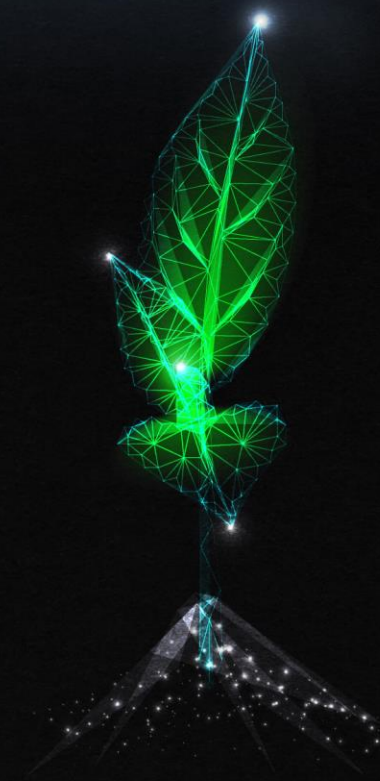


ESG in Deals and
Investment
Best-practice guideline

18 October 2022



Welcome



ESG in Deals and Investment

With you today



Jason Caulfield
Partner
Global ESG M&A

Jason leads the ESG M&A offering globally for Deloitte and sits in the UK team. He has over 25 years of international experience supporting both corporate and private equity clients with complex M&A transactions. He helps identify and deliver operational improvements, restructurings and carve outs to deliver value in transactions.



Susana Costa
Director
Ops and ESG M&A

Susana is a director within the ESG M&A team in the UK and focuses on performance improvement and ESG operations projects. Susana studied ESG at London Business School and has 10+ years' experience working with clients to optimise M&A transaction value.



James Hilburn
Director
ESG M&A Lead

James leads the UK ESG M&A team and advises our PE and corporate clients in sustainability, responsible investment, and to assess the ESG impact on their transactions, and craft risk mitigation and value creation plans for post transaction ESG optimisation.

ESG in Deals and Investment

The guideline

The guideline explores the role that ESG plays across the M&A lifecycle, and provides practical guidance pulled from recent experience on how to integrate ESG into the M&A process, identify and quantify its value potential, and ultimately to execute on ESG levers to create positive value through the transaction.



Focus of today:

- ESG and its importance to stakeholders
- ESG and Value creation
- ESG Due Diligence Process



ESG in Deals and Investment

The guideline



Consumers

79% of buyers are changing preferences based on sustainability

36% of organisations believe consumers are willing to make this change

Cappgemini RI, Consumer How sustainability is fundamentally changing consumer preferences, July 2020



Employees

61% believe business sustainability is mandatory for companies

46% would only work for companies with sustainable business practices

HP Workforce Sustainability Survey, Global Insights Report, April 2019



Regulators

130 Countries have committed to net zero by or before 2050

Mandatory Disclosure emerging across multiple jurisdictions: TCFD (UK); CSRD & EU Taxonomy; SEC

Taxes & Incentives Carbon pricing; Plastics Tax; Sugar Tax; ICE Phase Outs

Edelman Trust Barometer 2020, Morningstar



Investors

88% monitor ESG KPIs to inform investment decisions on an ongoing basis

\$130 trillion committed to net zero aligned investment under the Global alliance for net zero (Gfanz)

\$2 trillion in AUM within dedicated **impact funds** in 2021, 100% growth from 2020.

Intralinks, EMEA Survey of 1500 dealmakers, August 2022



Dealmakers

97% said they are driven by (41%) or conscious of (56%) ESG through the deal process







60% of UK dealmakers have turned down one or more details because of ESG concerns

ESG in Deals and Investment

ESG and value creation

The purpose premium: Why a purpose-driven strategy is good for business

An integrated purpose strategy – one that's focused on the differentiated role a company serves in society – can provide organisations with a 'purpose premium,' driving long-term value and creating competitive advantage

	Brand & Reputation	Greater recognition	78% of consumers were more likely to remember companies that exhibit a strong purpose
		Stronger protection	Brands with strong purpose were 6x more likely to be protected in the face of negative publicity
	Sales and Innovation	Entry into new markets	53% of surveyed CXOs reported new revenue streams from socially conscious offerings
		Price premia	Sustainability-marketed products, compared with conventionally marketed products, saw a 39.5% price premium.
	Operational efficiency	Cost savings	64% of companies with product sustainability programs achieved lower logistics and supply chain costs
		Improved performance	A 10% increase in employees' connection with an organisation's purpose associated with: 12.7% reduction in safety incidents; 8.1% reduction in turnover; 4.4% increase in profitability
	Talent	Employee attraction	78% of people indicated that they would prefer to work for a purpose-driven company.
		Worker retention	~50% of workers and 75% of millennials would take a pay cut to work at an environmentally responsible company.
	Capital and Valuation	Faster growth	High-purpose brands could double their market value 4x faster
		Higher returns	Companies that met stakeholder expectations achieved a 6.4% higher return on equity
	Risk mitigation	Reduced exposure	15% of companies would be unprofitable if accounting for their environmental damage; 32% would have their EBITDA reduced by 25% or more.
		Brand trust	A negative trust-related event eroded three companies market cap by 20%-56%, a combined loss in value of \$70 billion

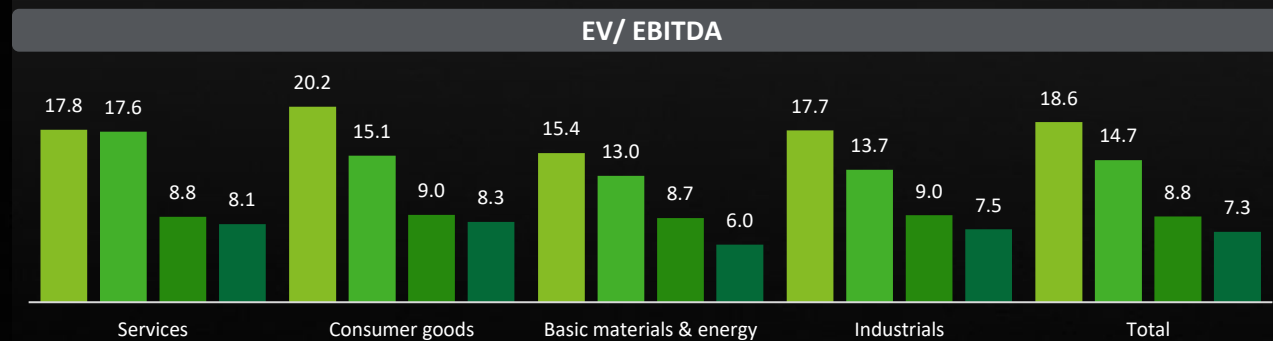
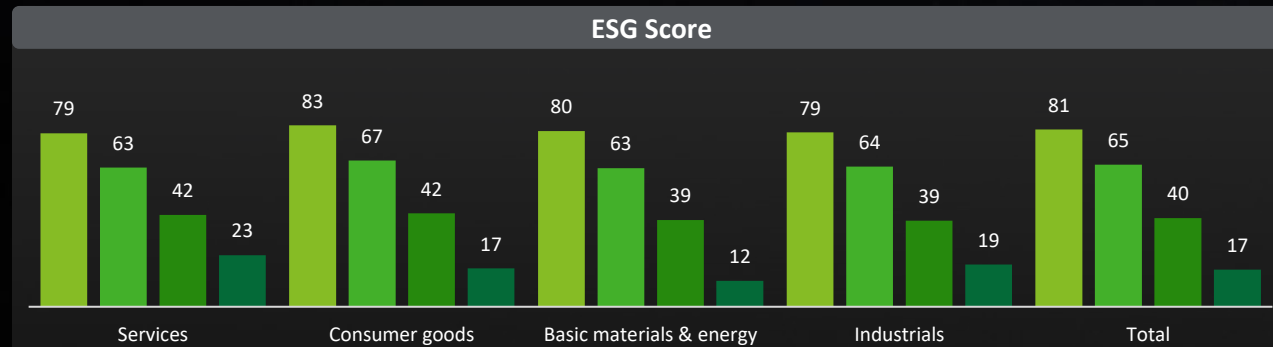
ESG in Deals and Investment

ESG and value creation

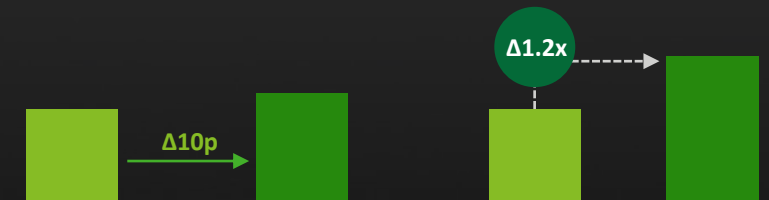
Isolated effect of ESG score

Insights by sector

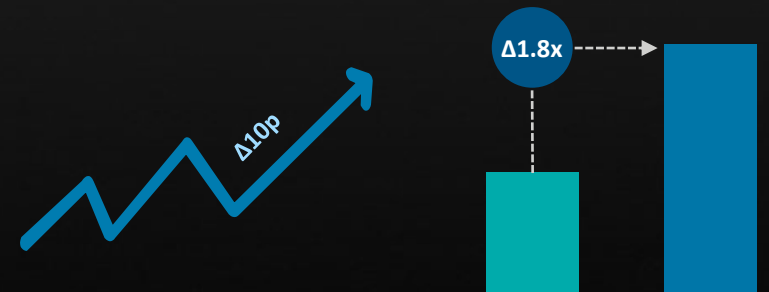
Refinitiv ESG ratings ■ A ■ B ■ C ■ D



The higher the ESG score at a point in time... the higher is the EV/EBITDA



10-point higher ESG score is associated with an approximate 1.2x higher EV/EBITDA multiple



A company that increases its ESG score by 10 points experiences an increase of approximately 1.8x in its EV/EBITDA multiple

ESG in Deals and Investment

Understanding ESG performance

Our approach

Key considerations

1 Gathering and reviewing information available

- Identifying which ESG performance metrics are crucial to the transaction (leverage existing frameworks, e.g. SASB)
- Getting assurance that information presented is comprehensive and reliable

2 Assessing the maturity and effectiveness of the target's ESG management

- Assessing maturity based on rating of ESG strategy, accountability, implementation of initiatives and transparency / reporting

Example: ESG Strategy maturity assessment

	Not Formalized	Developing	Mature	Best-in-class
ESG Program / Strategy	<ul style="list-style-type: none"> • No formal ESG program in place • May have a sense for material ESG topics and some activity to address/ manage 	<ul style="list-style-type: none"> • Some (not all) material ESG topics identified with related initiatives to manage; topics not placed into a cohesive ESG/Sustainability program • No or limited engagement with key stakeholders on material topics 	<ul style="list-style-type: none"> • Material ESG topics identified and integrated into a cohesive program • May maintain stakeholder map & materiality map or equivalents 	<ul style="list-style-type: none"> • Material ESG topics identified and integrated into a cohesive narrative that links to company's purpose • Multi-year objectives to achieve improvements over time • Clear sense of key stakeholders and engagement channels

ESG in Deals and Investment

Understanding ESG performance

Our approach

Key considerations

3 Benchmarking performance against peers and stakeholder expectations

- Benchmarking used mostly as a source of triangulation given challenges with availability and quality of data
- Benchmarking helps validate management statements and indicates where a company is leading / lagging against peers

Example: Environmental metrics benchmarking

	Peer 1 (USA)	Peer 2 (USA)	Peer 3 (USA)	Peer 4 (EUR)	Peer 5 (EUR)	Peer 6 (EUR)	Peer 7 (EUR)	Peer 8 (EUR)
Environment								
GHG Emissions (Scope 1, 2, 3)	Green	Green	Green	Green	Green	Green	Green	Green
Energy consumption	Green	Green	Green	Green	Green	Green	Green	Green
Emissions intensity	Green	Green	Green	Green	Green	Green	Green	Green
Share of renewable energy	Green	Green	Green	Green	Green	Green	Green	Green
Waste	Green	Green	Green	Green	Green	Green	Green	Green
TCFD Disclosure	Green	Green	Green	Green	Green	Green	Green	Green

4 Assessing the positive contribution of a business to the sustainable economy

- Applying commonly used frameworks from the more qualitative UN Sustainable Development Goals to the Impact Management Project and the Global Impact Investor Network’s IRIS+, and even the EU Taxonomy

ESG in Deals and Investment

Understanding ESG performance



Our approach



Key considerations

5

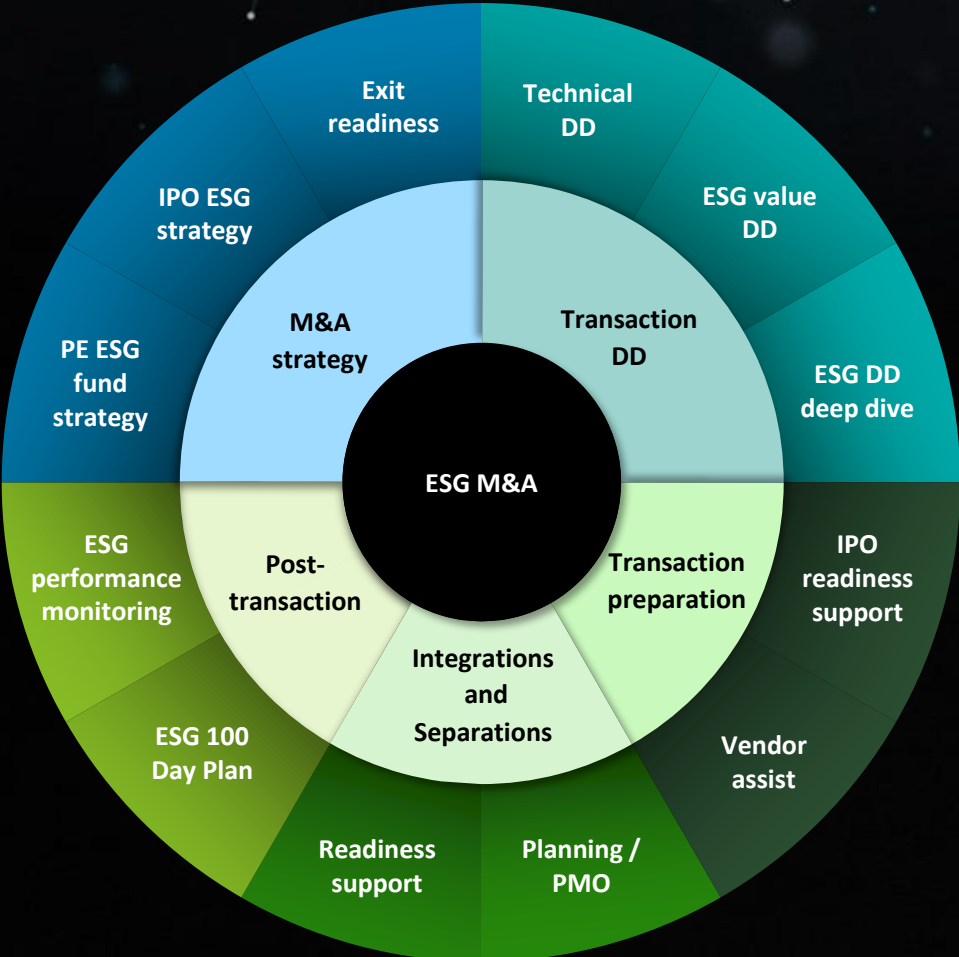
Quantifying value of ESG

- Assessment of potential financial impact based on ESG factors assessed during due diligence process

	Negative impacts of ESG factors	Positive impacts of ESG factors
P&L: sales/revenue	<ul style="list-style-type: none"> • ESG-related product or brand issues • Introduction of product-related ESG regulations • Physical and transition risks of climate change • Lower demand for unsustainable products which may become more expensive 	<ul style="list-style-type: none"> • Enhance reputation for sustainable products and practices • Higher demand for sustainable products • Earn subsidies and government support • Higher staff productivity
P&L: expenses	<ul style="list-style-type: none"> • Increasing carbon/other ESG taxes and levies • Higher operating costs to address climate change impacts and more stringent ESG standards • Additional headcount to manage/address ESG performance 	<ul style="list-style-type: none"> • Lower cost of producing more sustainable products • Better retention rates and talent • Lower cost of debt
Balance sheet	<ul style="list-style-type: none"> • Writing down the value of assets exposed to the physical and transition impacts of climate change • Invest in plant and machinery to meet existing and emerging regulations. • Need to introduce provisions due to environmental contamination or occupational health liabilities 	<ul style="list-style-type: none"> • Allocate capital to more sustainable plant and equipment

ESG in Deals and Investment

Conclusion



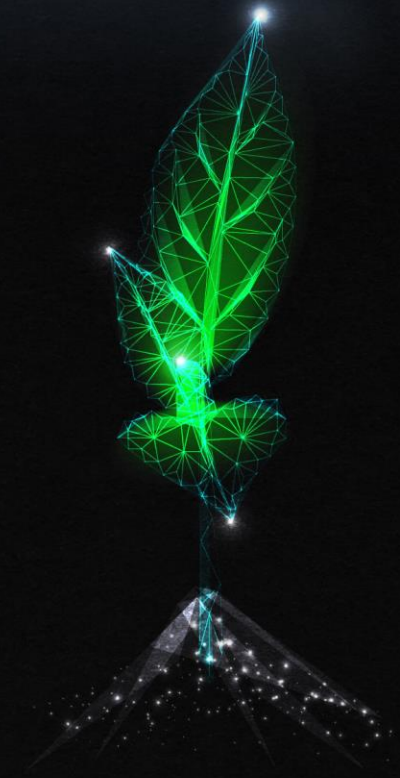
Conclusion

The businesses that **succeed with ESG in their M&A strategies** cut through the hype and focus on strategic alignment, due diligence, execution, and value creation.

The approaches taken during the deal should reflect relevant frameworks, be backed by robust due diligence, and be carried out in a world of evolving expectations.

ESG-assessed M&A will be an important means to create growth, a competitive edge, and access to affordable capital.

Thank you!





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. [Please click here to learn more about our global network of member firms.](#)

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2022 Deloitte LLP. All rights reserved.

Designed by CoRe Creative Services. RITM1197306