

ESG M&A CONSIDERATIONS – EXECUTIVE SUMMARY

May 2022

EXECUTIVE SUMMARY – ESG IN M&A

ESG (environmental, social and governance) is now a standard part of M&A as potential buyers identify ESG related growth opportunities and risks of a target or a specific sector



The State of ESG

- ESG has **passed its inflexion point** and is a **top priority** for corporates and PE portfolio co's
- **Net zero CO₂ by 2050 requires GHG emissions to peak by 2025** and reduce 43% by 2030 globally
- **Large corporates** are embracing **sustainability** and **PE firms adopting ESG** processes & funds
- **ESG-linked margin ratchets** now a mainstay of European mid-market direct lending
- **Greenwashing** common in the **public markets** – LPs and GPs keen **not to make same mistake**
- **Russia / Ukraine** – **850+ multinationals** have suspended operations **beyond sanctions**
- **New era of CSR** – brands pressured to **discuss key social issues** and **stand by their values** to win loyal customers and hire the best talent

ESG Sell-Side M&A Considerations

- Each target company should **start early** on their **ESG roadmap / checklist** to “**walk the talk**”
- Embed a **culture of ESG** in the **organisation** and **work with suppliers** well ahead of a sale process
- Corporates and PE firms are **using ESG service providers** to support company ESG initiatives
- **Two-way impact of ESG** – target's impact on the world and changing world's impact on the target

Develop the right potential buyer list

Highlight and tell the ESG story

Company to evidence the ESG impact

Potentially prepare ESG sell-side DD report

ESG Disclosure and Reporting

- **Limited mandatory ESG disclosure today**, and **no global agreement on standardised KPIs**
- **ESG reporting mandates starting in UK and EU** – **US SEC ESG mandate** expected in a **few years**
- **ESG disclosure** more **regulatory driven in EU** vs. predominantly **stakeholder driven in US**
- Sizeable **corporates** (e.g. Fortune 500) and **PE firms proactively** issuing **ESG related reports**
- **80% of total emissions** from most sectors occur in the **company's value chain (scope 3)**
- **Identify any “ESG reporting gaps”** that exist **between the target and potential buyers**
- **PE firms** operating in the **EU**, subject to level 2 disclosures of **SFDR** from 1 January 2023, to report **environmental data on portfolio co's**

ESG data will increasingly be used to ensure that key non-financial metrics are appropriately priced into M&A valuation

IMPORTANT NOTICE

This document (the "**Document**"), which has been prepared and made available exclusively for you (the "**Recipient**") by Robert W. Baird Limited ("**Baird**"), is strictly confidential and is being provided for information purposes only. This Document must not be copied, reproduced, distributed or passed to others, in whole or in part, at any time without the prior written consent of Baird. By accepting this Document, the Recipient agrees upon request to return or destroy all material received from Baird (including without limitation this Document) without retaining any copies thereof or any notes, analyses or information relating thereto (save to the extent that the Recipient is required to do so by any applicable law or regulation, court order, judicial government or regulatory body or stock exchange to which the Recipient is subject). No failure or delay in exercising any rights in respect of such material will constitute a waiver of such right.

The information in this Document, which does not purport to be comprehensive, is believed to be reliable on the date of publication but has not been independently verified by Baird. Baird does not undertake any obligation to provide further information to update the information herein or correct any inaccuracies in it, whether as a result of becoming aware of information (new or otherwise), future events or otherwise. The information herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable, but Baird does not represent or warrant that it is accurate or complete and no reliance may be placed for any purposes whatsoever on the information contained in this Document. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, management estimates, prospects or returns. To the fullest extent permitted by law, neither Baird nor any of its affiliates, nor any of their respective directors, officers, agents, employees and advisers, accepts any responsibility or liability for any loss, howsoever arising, directly or indirectly, from any use of the contents of this Document or otherwise arising in connection with this Document. The Recipient must make its own independent assessment of the information contained herein after making such investigation as such Recipient may deem necessary in order to determine whether to proceed with any transaction and no information set out or referred to in this Document shall form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Law or other regulations may restrict the distribution of this Document in certain jurisdictions. Accordingly, any recipients of this Document should inform themselves about and observe any applicable legal requirements. By receipt of this Document recipients represent that they are able to receive this document without contravention of any unfulfilled registration requirements or other legal restrictions in any jurisdiction. This Document is provided for discussion purposes only and does not constitute legal, tax, regulatory, accounting or investment advice, or an offer or invitation for the sale, purchase, exchange or transfer of any securities in any jurisdiction or a recommendation to enter into any transaction contemplated in this Document. Accordingly, it is not intended to form the basis of any investment decision.

By accepting this Document, the Recipient agrees to be bound by the contents of this disclaimer.

Baird is authorised and regulated in the United Kingdom for the conduct of investment business by the Financial Conduct Authority. The Document is being distributed only to selected persons who it is believed on reasonable grounds can be classified as Professional Clients or Eligible Counterparties, as defined in the FCA Handbook and MiFID (each such person being referred to as a "**relevant person**"). This Document must not be acted on or relied on by persons who are not relevant persons.