

# Why sustainability / ESG is the new norm in M&A dealmaking



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*The business of sustainability*



# Who is ERM?

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- ERM is the global market leader in the provision of ESG-related support to a Client base of over 100 GPs and LPs
- We work for 50% of the Fortune 500 corporates, and well known Financial sector clients
- We provide bankable reporting from a highly respected ESG adviser with lenders and pension funds, comfortable placing reliance on ERM findings
- Sustainability is at the heart of the services we provide and how we operate our business



- 160 offices in 40 countries
- 5,000+ professional staff
- Completed projects in 150+ countries
- Owned by Partners, with institutional PE backing

# What does ERM mean by ESG?

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## Environmental

- “Traditional” environmental issues (soil contamination, etc.)
- Business model & product viability/ opportunity
- Natural resource usage (availability, efficiency, dependency, etc.)
- Climate change, flooding and other severe weather issues



## Social

- Labour & working conditions (including Health & Safety)
- Employee engagement
- Supply chain and contractor management
- External stakeholder engagement and impacts to communities
- Human Rights



## Governance

- FCPA / Anti-Bribery
- Cyber Security
- Boards & Committees
- Succession planning
- ESG strategy, management, policies and resources
- Disclosures and assurance
- Board diversity

# Sustainability issues are long-term cumulative..

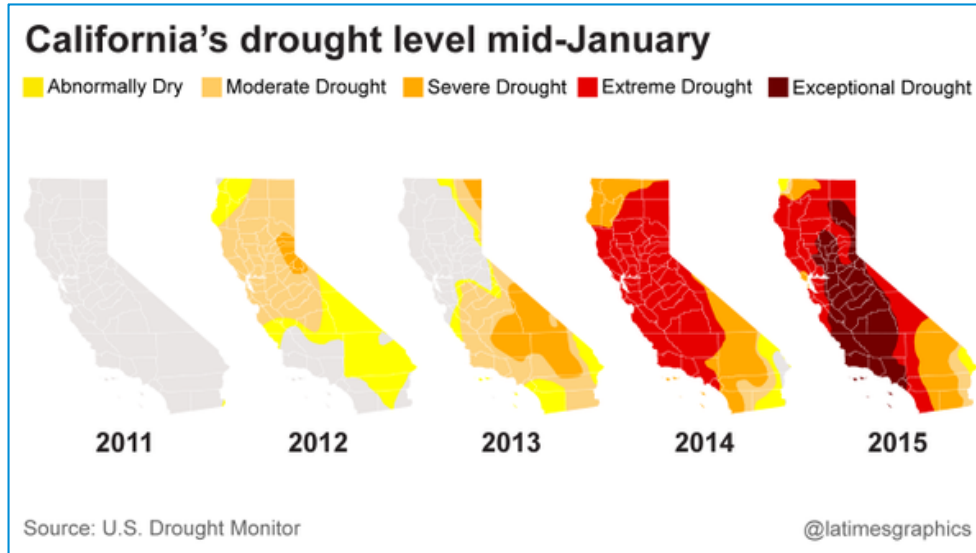
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## Risks of highest concern – by period

Next 18 months	10-year horizon
1 Unemployment	1 Weapons of mass destruction
2 Fiscal crises	2 Extreme weather events
3 Failure of national government	3 Natural disasters
4 Energy price shock	4 Failure of climate change mitigation
5 Profound social instability	5 Water crises

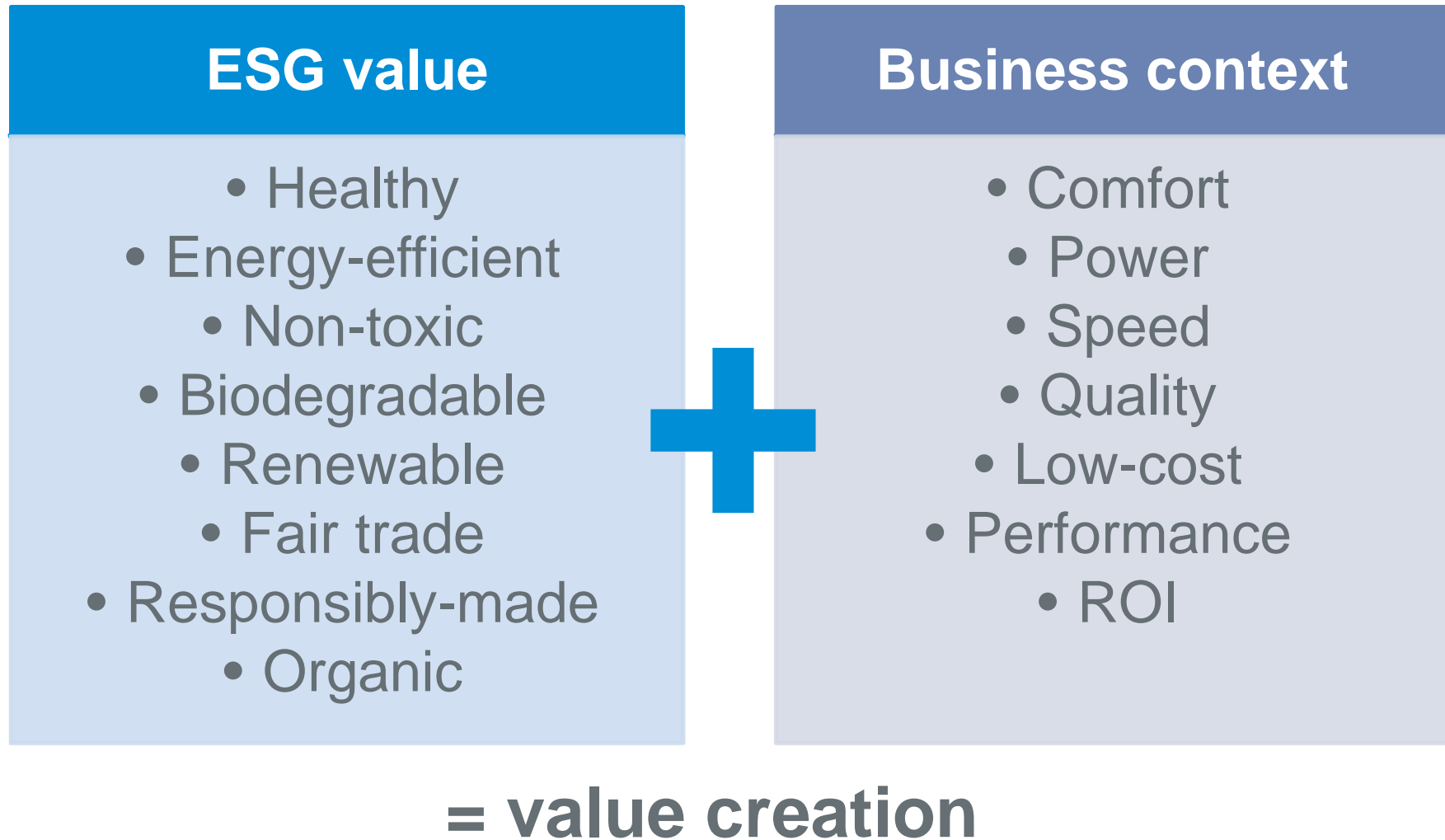
Source: World Economic Forum, *Global Risks 2018*

# ...and seem to happen somewhere else



# But ESG creates value in the business context

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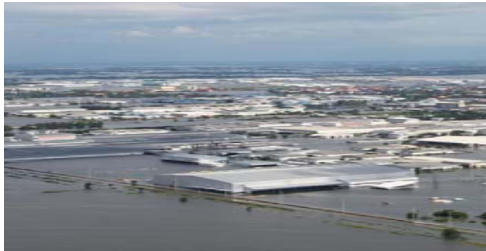


Adapted from: MIT Sloan, Jason Jay.

# ESG risks & opps in Automotive and Apparel

## Risks

Thailand - World Bank estimated US\$45.7bn economic damages & losses.



Collapse of Rana Plaza in Bangladesh 2013



## Opportunities

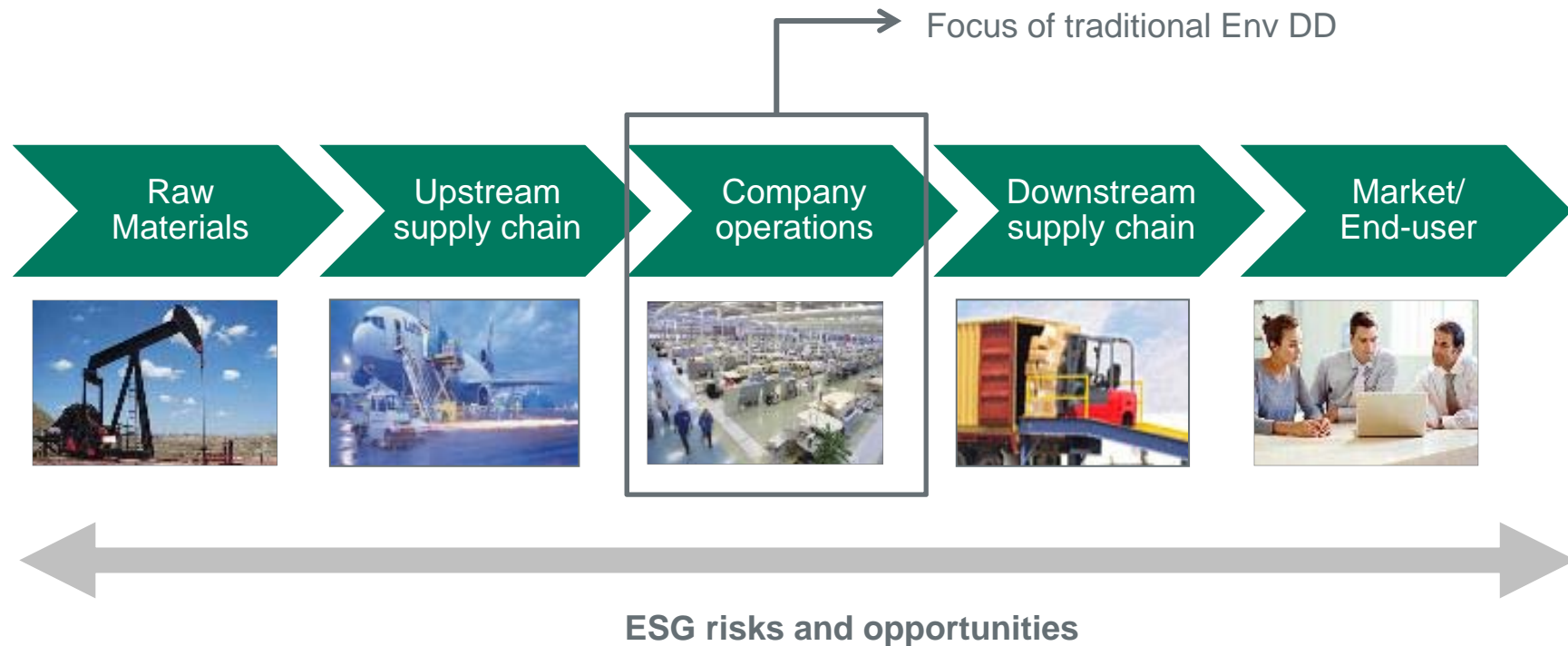
Tesla



Levi jeans made from plastic bottles



# ESG topics have impact across the value chain



Looking at relevant ESG risks and opportunities along the value chain leads to a completer picture of all risks and opportunities, as compared to traditional Env DD.



# Consequences of E&S topics on a transaction

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**Capital  
expenditure  
(capex)**

**Operating  
expenditure  
(opex)**

**License to  
operate**

**Future  
Growth &  
Operations**

**Revenue &  
margins**

**Reputation**

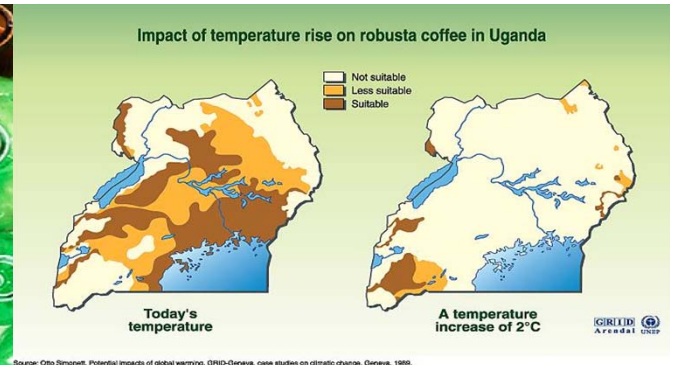
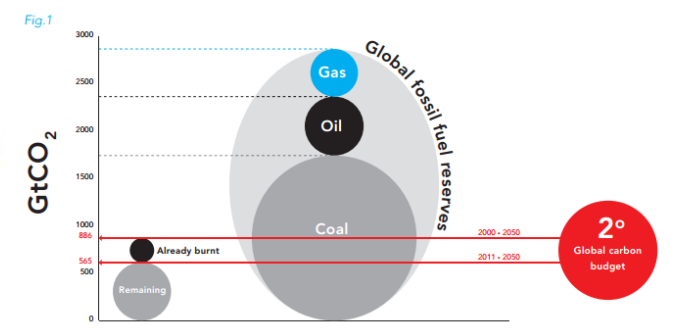
# Portfolio - Value Creation & Protection



“We were late entering into the renewables market — possibly too late”.



Comparison of the global 2°C carbon budget with fossil fuel reserves CO<sub>2</sub> emissions potential



Source: Otto Simons, Potential impacts of global warming, GRID-Geneva, case studies on climatic change, Geneva, 1999.

# Sectors where ESG DD is typically conducted

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<b>Mining &amp; Metals</b>	<b>Oil &amp; Gas</b>	<b>Manufacturing</b>
<b>Chemicals</b>	<b>Pharma</b>	<b>Power</b>
<b>Infrastructure</b>	<b>TMT</b>	<b>Retail &amp; Consumer Goods</b>
<b>Healthcare</b>	<b>Real Estate</b>	<b>Tourism</b>

# Focus on the Right ESG Aspects

Harvard  
Business  
Review

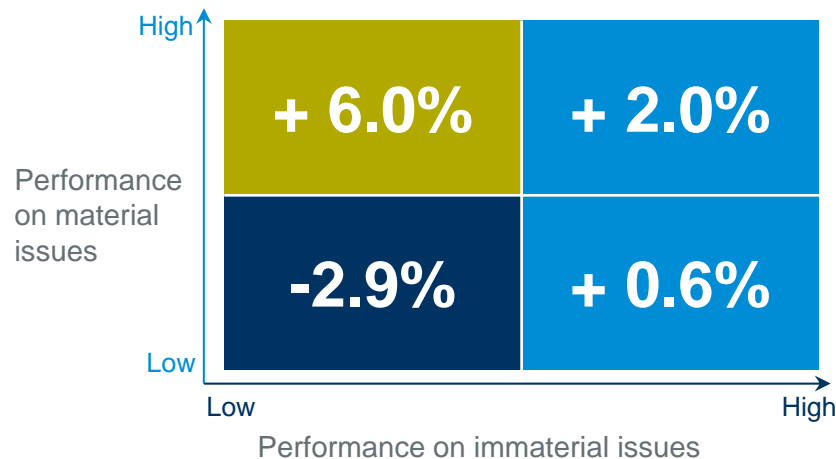
SOCIAL RESPONSIBILITY

## The Type of Socially Responsible Investments That Make Firms More Profitable

by George Serafeim

APRIL 14, 2013

Effect of financial returns of investors treatment of ESG issues, annualised alpha:



*“The results are very consistent: firms making investments on material ESG issues outperform their peers in the future in terms of risk adjusted stock price performance, sales growth, and profitability margin growth.”*

*“Companies should stick to social and environmental issues that are strategically important for their business if they want such efforts to contribute to the valuation.”*