Why sustainability / ESG is the new norm in M&A dealmaking
Who is ERM?

• 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?

### 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...

Risks of highest concern – by period

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

Source: World Economic Forum, Global Risks 2018
…and seem to happen somewhere else

California’s drought level mid-January
- Abnormally Dry
- Moderate Drought
- Severe Drought
- Extreme Drought
- Exceptional Drought

Source: U.S. Drought Monitor

Child labour

Beijing air pollution

BP oil spill

The business of sustainability
But ESG creates value in the business context

ESG value
- Healthy
- Energy-efficient
- Non-toxic
- Biodegradable
- Renewable
- Fair trade
- Responsibly-made
- Organic

Business context
- Comfort
- Power
- Speed
- Quality
- Low-cost
- Performance
- ROI

= value creation

Adapted from: MIT Sloan, Jason Jay.
# ESG risks & opps in Automotive and Apparel

<table>
<thead>
<tr>
<th>Risks</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand - World Bank estimated US$45.7bn economic damages &amp; losses.</td>
<td>Tesla</td>
</tr>
<tr>
<td>Collapse of Rana Plaza in Bangladesh 2013</td>
<td>Levi jeans made from plastic bottles</td>
</tr>
</tbody>
</table>

*The business of sustainability*
ESG topics have impact across the value chain

Looking at relevant ESG risks and opportunities along the value chain leads to a complete picture of all risks and opportunities, as compared to traditional Env DD.
Consequences of E&S topics on a transaction

<table>
<thead>
<tr>
<th>Capital expenditure (capex)</th>
<th>Operating expenditure (opex)</th>
</tr>
</thead>
<tbody>
<tr>
<td>License to operate</td>
<td>Future Growth &amp; Operations</td>
</tr>
<tr>
<td>Revenue &amp; margins</td>
<td>Reputation</td>
</tr>
</tbody>
</table>
"We were late entering into the renewables market — possibly too late".
Sectors where ESG DD is typically conducted

- Mining & Metals
- Oil & Gas
- Manufacturing
- Chemicals
- Pharma
- Power
- Infrastructure
- TMT
- Retail & Consumer Goods
- Healthcare
- Real Estate
- Tourism
Focus on the Right ESG Aspects

“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.”

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

- Performance on material issues
  - High: +6.0%
  - Low: -2.9%

- Performance on immaterial issues
  - High: +2.0%
  - Low: +0.6%