

ESG M&A CONSIDERATIONS

May 2022

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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



THE STATE OF ESG

ESG HAS PASSED ITS INFLEXION POINT

ESG is at the centre of public discourse for both the public and private sectors, making it a top priority for most sizeable businesses, including corporates and PE portfolio companies



Time for action (and disclosure)

– shifting focus away from ambitious targets and towards the disclosure of empirically measurable outcomes



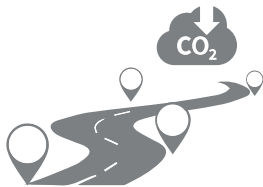
Holistic ESG approach

– solutions cannot be siloed; ESG is now a strategic board level imperative, led by CEOs



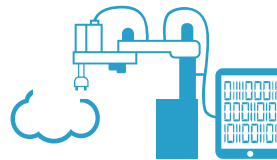
Diversity, equity & inclusion

– DE&I as integral to building the best workforce, not just a moral or equitable duty



Engaging the entire supply chain

– raising standards on environment, labour & human rights, ethics and sustainable procurement



Purpose and reputation

*– genuine ESG strategy, aligning sustainability and stakeholders
– avoid “greenwashing”*



ESG part of M&A decision-making

– another due diligence workflow with a high bar for many acquirers, like financial and commercial DD

WHAT IS REQUIRED TO MEET GLOBAL NET ZERO BY 2050?

The IPCC (Intergovernmental Panel on Climate Change) concluded we need net zero CO₂ by 2050 to meet the goals of the 2015 Paris Agreement and limit global warming to 1.5°C

SITUATION TODAY (HEADED FOR 3°C TEMP RISE)

Record global energy-related CO₂ emissions in 2021 at 36bn tonnes, as GDP recovery relied heavily on coal power

ESG investment strategies in publicly listed corporates, by themselves, have **not yielded** social or environmental **outcomes**

Climate risks remain greatly **underestimated** by the financial sector

Financial flows into climate initiatives are **3 – 6x lower** than levels needed, with **investment gaps widest for developing countries**

Rapid growth of plastics production, almost half used for packaging, but with a **low global recycling rate of 15 – 20%**

SELECT IPCC RECOMMENDATIONS (APRIL 2022)

GHG emissions must **peak by 2025**, and **reduce by 43% by 2030**

More **robust** and **standardised** ESG ratings / scores

Proceeds from carbon taxes should fund **compensating measures**

\$1tn a year **green energy investment** in developing world by 2030

Using **materials efficiently** and in a **circular economy** (reuse, recycle)

“Unless there are immediate and deep emissions reductions across all sectors, 1.5°C is beyond reach” (IPCC report)

LEADING CORPORATES ARE RAPIDLY EMBRACING SUSTAINABILITY

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Increasing pressure from institutional / activist investors as well as consumers / customers

Institutional investors increasingly **focused on sustainability** as part of their investment decisions



Electrification

Energy efficiency

Circular economy

*“We want to **identify** where ESG poses a **risk** and **invest** where ESG poses a **return**.”*

WELLINGTON
MANAGEMENT®
Investment Management Fund

*“Investors continue to prioritise sustainability initiatives and in turn **pay up for assets** with enhanced sustainability profiles.”*

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Equity Research

CORPORATES COMMITTING TO NET ZERO TARGETS...













... BUT THE DEVIL IS IN THE DETAIL

- Target based on absolute emissions or on emissions intensity?
- Target **aligned with Paris Agreement** / science based climate goals?
- Does the net zero target **include scope 3** greenhouse gas emissions?
- Does the company consider the net zero target in planning for capex?
- **Overreliance on carbon offsets** (e.g. planting trees) to meet target?
- Does the company's **governance structure incentivise climate action**?
- Does the company have a process **not to lobby against climate policy**?
- Company also have **targets for “social” and “governance”** in ESG?

CORPORATE JOURNEY TO ACHIEVING NET ZERO TARGETS

Shorter term targets include increased use of recyclable packaging and renewable energy – strong tailwinds for companies that support corporate customers on their ESG journey

	2025	2030	2035	2040	2050
 patagonia	Packaging 100% reusable / recyclable Eliminate virgin petroleum fibre in products	100% of the cotton and hemp fibre used will be Regenerative Organic Certified			
 SIEMENS	50% reduction in landfill waste 30% of top management female	Net Zero Zero landfill waste 100% renewable energy			Net Zero Value Chain
 Unilever	100% reusable / recyclable plastic packaging Deforestation-free supply chains	Carbon Neutral 100% biodegradable ingredients Provide 1.5m people with access to clean water	Net Zero Value Chain		
 IKEA	New products launch without plastic packaging	Climate Positive One third recycled wood in all products Deforestation-free raw materials in supply chain		Zero emissions fuel for ocean shipping	Net Zero Value Chain
 gm	30 new EVs (electric vehicles) globally 90%+ waste diversion from landfills	50% sustainable material in vehicles Packaging 100% returnable / sustainable	Eliminate tailpipe emissions 100% renewable energy in facilities	Carbon Neutral	
 Walmart	Zero landfill waste or incineration in US, Canada, Mexico, UK, Japan	Protect, manage and restore at least 50m acres land & 1m square miles of ocean	100% renewable electricity	Net Zero	
 amazon	100% renewable energy Device packaging 100% kerbside recyclable	100,000 electric delivery vehicles Reduce food waste within US by 50%		Net Zero Value Chain	
 Nike	50% female representation in global workforce 35% minority representation in US workforce	Scope 1 & 2 target -65%, Scope 3 target -30% Eliminate single use plastics in packaging			Net Zero Value Chain
 Nestle	100% recyclable / reusable packaging Deforestation-free coffee & cocoa supply chain	Plant 200m trees 50% ingredients from regenerative agriculture			Net Zero Value Chain
 bp	Zero routine (methane) flaring	50GW renewable generating capacity	Become water positive		Net Zero Value Chain

Source: Company sustainability reports. 'Net Zero' refers to the company including only Scope 1 and 2 emissions, whereas 'Net Zero Value Chain' includes Scope 3 emissions. If not specified, assumed only Scope 1 & 2. 'Carbon Neutral' is typically equating carbon emissions emitted to carbon offsets (net zero carbon), 'Net Zero' goes beyond just carbon and refers to equating all greenhouse gas emitted to greenhouse gas removed (net zero GHG).

PE FIRMS ADOPTING ESG PROCESSES AND STRATEGIES

The PE community is coming together to implement ESG, while a growing number of impact funds are under pressure to deploy given a lack of quality ESG assets with scale

Rise of ESG as a Priority

“ESG test” is a hurdle for PE investment committees

- ESG investing is **not black & white**; many companies on a spectrum of grey – some PE firms are investing in the transformation of targets from **“brown to green”** while others are **avoiding** end markets with **high carbon intensity**
- PE firms showing **radically differing views on “no go” sectors** or activities e.g. chemical pesticides, palm oil, animal testing, weapons, tobacco, gambling

“ESG roadmap” for each PE portfolio company

- Many PE firms are creating a unique ESG roadmap for each portfolio company – **CEOs to create an ESG culture** across its employees, customers and suppliers
- **PE firms that have undertaken their own ESG journey are better placed** to support their portfolio companies – work may start years before an exit process

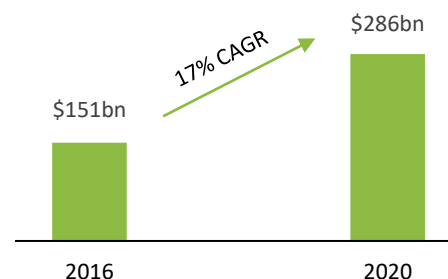
ESG Data Convergence Project

- Leading global **GPs and LPs** ⁽¹⁾ have partnered to align on a **standardised set of ESG metrics** and mechanism for comparative reporting across 6 categories:
 - Greenhouse gas emissions, renewable energy, board diversity, work-related injuries, net new hires and employee engagement
- **GP steering committee members:**

Blackstone Bridgepoint CARLYLE CVC IEGT PERMIRA TOWERBROOK

Rise of Dedicated Impact Funds

Total AUM of private market ESG funds is increasing



91% of PE firms adopted or are developing an ESG policy ⁽²⁾

88% of LPs use ESG performance indicators in making investments ⁽²⁾

35% of PE firms have a dedicated ESG team ⁽²⁾

55% of LPs are investing in dedicated ESG funds ⁽³⁾

Select private equity impact funds



(1) LP steering committee members: AlpInvest Partners, APG, California Public Employees' Retirement System (CalPERS), Employees' Retirement System of Rhode Island, PGGM, PSP Investments, The Pictet Group, Wellcome Trust.

(2) Source: PwC Global Private Equity Responsible Investment Survey (2021). (3) Goby Survey (2022).

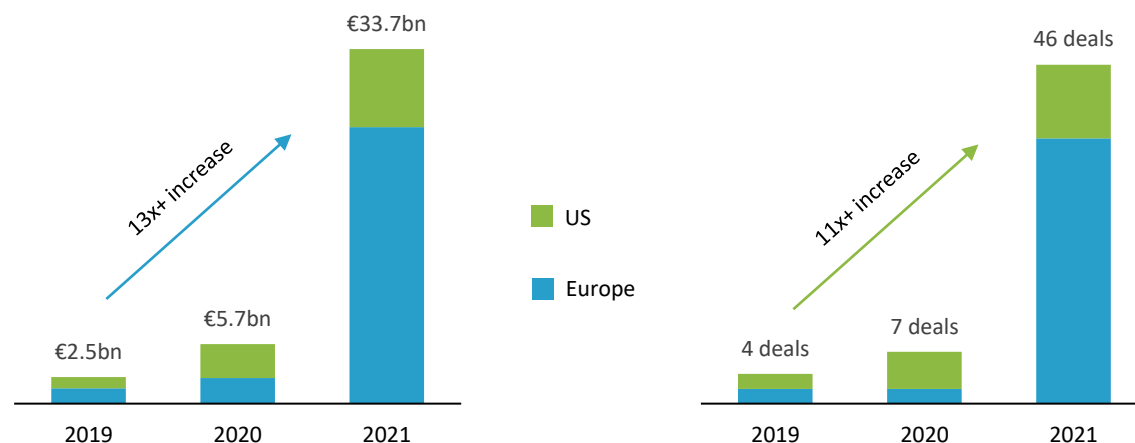
ESG IN THE DEBT MARKETS

ESG-linked margin ratchets (5 – 30 bps price reduction) and relaxed covenants have quickly become a mainstay of European mid-market direct lending, and increasingly in the US too

RISE OF ESG-LINKED PRIVATE DEBT

- Lenders were initially reluctant to provide LPs with additional **ESG-related documentation** but have caught up with what is now the **new market norm**
- **ESG-linked unitranches** now account for more than a **quarter of total mid-market transactions in Europe**, and are becoming increasingly popular
- Pressure to implement ESG features is coming from the companies themselves, not just from LPs
- **Difficulty in defining the ESG KPIs** – those that can be properly measured as a standard business practice
- To maintain the speed of execution, some direct lenders moved KPI discussions to after the deal closes
- Margin ratchets still appear to “lack teeth” as failure to meet KPIs by companies has yet to be penalised
- **Lenders have raised the bar** for what constitutes an “ESG credit” in Q1 2022, leading to a relative fall in the proportion of debt transactions completed with an ESG-linked margin ratchet compared to 2021
- **Carlyle raised the largest ESG-linked PE credit facility** in the US for \$4.1bn and a €2.3bn ESG-linked credit facility for its European PE and real estate platform

LEVERAGED LOAN ESG-LINKED DEBT



Industrial

Acrotec Group

FIVEN

FLENDER

Green Plains

Tech & Services

JAKALA
DATA DRIVEN PERFORMANCE

RESTAURANT
TECHNOLOGIES
SAFER, SMARTER, SUSTAINABLE

syniverse

TSG
TECHNICAL
SERVICES & SOLUTIONS

Consumer

ASDA

BELRON

Cérélia

Nomad Foods
Serving the world with better food

Healthcare

Cerba

kersia
NUTRITION + FOOD SAFE WORLD

MEHILÄINEN

“GREENWASHING” IN THE PUBLIC MARKETS

Asset managers could be found to have “mis-sold” ESG stock funds to retail investors in the public markets – LPs and GPs are keen not to make a similar mistake in the private markets

Public markets (ESG stock funds)

Investors use ESG stock funds to avoid owning shares in publicly listed companies not aligned with the Paris goals – however, a lack of rigorous measurement means that greenwashing is rife

- **\$2.7tn of assets in 2,900 ESG stock funds**, primarily from European retail investors wanting to make a positive impact – \$143bn invested in Q4 2021, but **majority** of climate themed funds were **not in line with 2015 Paris goals**
- Words such as green, ethical, sustainable or responsible being used vaguely and **mean different things to different people** – ESG not universally defined
- Asset managers **rebranding conventional products into ESG offerings** – such “green” claims made by asset managers could amount to **mis-selling**
- However, **2015 Paris climate accord is the legal standard** – companies, not only nations, may have to adhere to e.g. in 2021, court in **The Hague ruled that Shell** had to make greater cuts to its emissions targets than planned
- InfluenceMap found **421 out of 593 ESG equity funds** it assessed had portfolios **not aligned** with the Paris climate targets e.g. those including Chevron, ExxonMobil, Kinder Morgan, Marathon Petroleum, Phillips 66
- Morningstar cut 1,200 funds with assets of \$1.4tn from its sustainable investment list after an extensive review of their legal documents
- **Misinterpretation of ESG activities is a priority for regulators** e.g. European Securities and Markets Authority seeking a **definition of greenwashing**, UK’s CMA (Competition and Markets Authority) has issued its Green Claims Code, US’ SEC taskforce examining ESG funds’ disclosure and compliance

Private markets (private equity)

LPs increasingly prefer GPs that have a robust internal process around ESG risk management and / or actively invest in companies driven by secular growth themes associated with ESG

- **LPs increasingly require GPs**, especially impact funds, to carefully assess their investment opportunities, adhere to **cohesive ESG principles** and **reduce the risk of “greenwashing”** – PE fundraising dependent on ESG credentials
- LPs targeting European GPs that meet the criteria under Sustainable Finance Disclosure Regulation (**SFDR**) **Article 8** (promotes environmental or social characteristics) and / or **Article 9** (sustainable investment as its objective)
- Inherent difficulty of a PE firm reaching carbon neutral with portfolio companies turning over every few years – **ESG roadmap** needed for each **portfolio company** to quickly select and **track the impact KPIs** that matter
- PE firms aggressively **recruiting ESG executives** as LPs increasingly expect GPs to take sustainability factors into account through rigorous internal processes
- Impact funds’ criteria for portfolio companies include a contribution to address needs as defined by the UN Sustainable Development Goals (SDGs) as well a **link between a company’s financial success and impact outcomes**
- Vast majority of **mid-market companies** are in the **early days** of identifying their ESG risks and opportunities compared to large publicly listed corporates
- This is partly due to **privately owned companies not yet falling under the scope of ESG disclosures**, such as TCFD (Task Force on Climate-Related Financial Disclosures) where UK listed public companies are in scope first

RUSSIA / UKRAINE – RECALIBRATION FOR COMPANIES TO TAKE A STAND

In a world governed by ESG criteria, companies are expected to be moral actors – the invasion of Ukraine makes multinationals choose between competing business objectives

- **CEOs and boards** are struggling between **distancing themselves** from the Russian government and protecting their employees based in Russia
- **Sentiment reflected by investors** – since the invasion, share prices of companies continuing business in Russia fell more than those that stopped
- Companies voluntarily **suspending contractual obligations** (beyond that of sanctions) **could see legal claims** made from suppliers and investors
- **Carmakers** and other manufacturers with **physical assets** are concerned that **suspended operations could be nationalised** / seized by the Russian state
- **McDonald's** suspended its 850 Russian restaurants, but **continues to pay its 62,000 employees** in Russia and property leases, costing \$50m a month
- **Accenture** discontinued business and **let go of all 2,300 employees** in Russia
- **Nestlé**, with 7,000 staff in Russia, **halted sales of most of its brands** in Russia, now offering just essential products (e.g. baby formula), after direct public criticism from both consumers and the Ukrainian government
- **BP, Exxon and Shell** plan to **sell their Russian assets** and joint ventures, but finding an acquirer that is not on the sanctions lists is likely to be difficult



850+ multinationals have scaled back, suspended operations or withdrawn from Russia, going above and beyond sanctions

NEW ERA OF CORPORATE SOCIAL RESPONSIBILITY (CSR 2.0)

Consumers are calling on big brands to take a stand on peace and justice – their use of social media can quickly damage corporate reputations or lead to a boycott of brands

- Companies feel increasing pressure to weigh in on **political, social and moral** issues e.g. race / gender discrimination, civil rights, human rights, war, etc.
- **Huge corporate reaction** in the US to murder of **George Floyd** by a police officer in 2020 vs. limited reaction to fatal shooting of Michael Brown in 2014
- Companies are on a journey to further **align their purpose and values** with their business interests and **ESG goals** e.g. hiring the best and diverse talent means standing up for same sex marriage in order to recruit LGBT+ workers
- **Investors** filed a record number of **annual meeting resolutions** in 2021, calling on companies to **align policies with the Paris Agreement**
- **Contributions to political parties** or trade organisations that oppose company values seen as a **business risk** / hypocrisy trap e.g. IBM, PayPal, Pirelli, BlackRock and Charles Schwab no longer donate to political parties
- Polarising issues can **spark backlash on both sides** e.g. abortion in US
- **Companies choosing which issues** to take a stance on, depending on materiality to business, prior engagement, stakeholders and competitors

CSR 1.0 (PRE-ESG)

Philanthropic **charity** projects

Risk based and image driven

CSR is specialised and **siloes**

Avoid discussing **social issues**

CSR 2.0 (WITH ESG)

Collaborative **social enterprise**

Value creation and performance driven

CSR / **ESG** is integrated and **firmwide**

Decide which **social issues** to discuss

NORMS PRE-ESG

Advertise products to consumers

“More of **the same**” recruitment

Arms length supply chain relationships

Shareholder focus – **growth & margins**

INTEGRATED ESG

Narrate company values to community

DE&I (and unconscious bias) recruitment

Due diligenced **supply chain** partnerships

Holistic shareholder criteria, including **ESG**

Companies need to stand by their values to win loyal customers, hire and retain the best talent and reduce risk to shareholders



ESG M&A CONSIDERATIONS

TARGET ESG ROADMAP / CHECKLIST – THE NEED TO “WALK THE TALK”

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Four key areas to evaluate, and potentially improve upon, ahead of an M&A sale process



Culture & Data

Document and implement a clear strategy, action plan and milestone tracking system

Transparency

Create transparency through clear and regular reporting of firmwide ESG progress

Audit

Audit ESG practices of suppliers and customers to drive global improvement

Goals

Set long term objectives and regularly report on the progress to drive continuous improvement



People & Wellbeing

Set up worker safety and other processes to protect and improve their wellbeing

Safety

Supplying or using products and processes that keep employees, users and neighbours safe

Empower

Employees and others with support, training and working conditions to further their lives

Diversity, Equity & Inclusion (DE&I)

Support a diverse workplace that embraces the benefits of collective difference working together



Customers & Suppliers

Understand ESG policies, procedures and risks of customers and suppliers

Understand

Understand the ESG goals of customers and suppliers and how to help them achieve those goals

Co-operate

Collaborate with key relationships to align sustainability objectives, including scope 3 emissions

Technology

Leverage technology to improve sustainability of business processes and products



Environment (Internal & External)

Consider all ways in which company's products / services can facilitate sustainability

Emissions Reduction

Put in place business processes, technology or products that reduce carbon / GHG emissions

Efficiency

Set up businesses processes that are more efficient in terms of resources, time and materials

Circular Economy

Adopt processes or products that enable a circular economy (reuse / recycle on entry / exit)

ESG VALUE CREATION FOR AN M&A SALE PROCESS

ESG is a secular growth theme or underpenetrated opportunity driving many businesses – a target needs to clearly articulate and evidence its ESG story and positive impact

THOROUGH PREPARATION OF ESG STORY

Develop the right potential buyer list

*Knowledge of and **dialogue** with strategic buyers, PE firms and impact funds*

Highlight and tell the ESG story

*Part of **investment thesis** – driving growth, managing risk, reducing costs*

Work with target company to evidence the ESG impact

*Critical for **PE investment committees** and to avoid risk of “greenwashing”*

Potentially prepare an ESG sell-side due diligence report

*Identify **ESG opportunities / risks**, contextualised for the specific sector*

HOW BAIRD CAN HELP?

- Baird’s sector and FSG bankers able to **list the relevant strategic and financial buyers**
- Baird can make no-names **scoping calls** to narrow the group of potential buyers
- Use of **Baird conferences** to introduce the target to buyers **ahead of a sale process**

- **ESG ratings are helpful**, but do not fully substantiate a target’s ESG investment case
- Baird leverages its **subsector expertise** to highlight the company’s **ESG differentiators**
- **ESG** driven frameworks and processes part of the **company’s operations and culture**

- Can be **difficult** to collect the **company’s ESG data** due to a lack of available high quality data as well as a lack of standardisation and accounting methodologies
- Evidence the **value already created from ESG** and the value within the business plan

- Acquirers conduct **buy-side ESG workstreams** on **majority** of sizeable M&A deals
- **Sell-side ESG DD reports** prepared on **minority** of sale processes – scope to increase
- Baird has outlined selected **ESG service providers** on **page 15** of this document

ESG CONSIDERATIONS / RISKS FOR AN M&A SALE PROCESS

Target companies need to consider the two-way impact of ESG – their impact on the world and the changing world's impact on them – as well any “ESG reporting gaps” between the buyer and target

Impact of the target company on the world

Target company should know its impact on the world (e.g. climate, emissions, biodiversity, customers, employees, etc.) and its standing through any ESG ratings

- **Impact on the environment** – track own GHG emissions and impact on biodiversity, as well as engage with tier 1 & 2 suppliers to do the same
- **Impact on stakeholders and broader society** – quantify social impact on customers and employees as well as communities as part of CSR
- **Stakeholder surveys** – identify areas for improvement within ‘social and governance’ to develop a roadmap of initiatives to execute
- **ESG ratings** – benefits of third party validation, taking into account the company's sector, size and geographic locations e.g. EcoVadis overall score (0 – 100) reflects the quality of the company's CSR management system based on percentiles with platinum (top 1%), gold (top 5%), silver (top 25%) and bronze (top 50%)

Impact of the changing world on the target company

Target company to be aware of the risks from the changing world (e.g. climate change, shifts in consumer sentiment, transition to low carbon economy, etc.)

- **Physical risks from climate change** – company facilities based in areas impacted by increasingly volatile weather e.g. floods, hurricanes, etc.
- **Risks from stricter regulation** – staying ahead of and adapting to incoming regulations e.g. reducing sugar content in food & bev products
- **Shifts in consumer sentiment** – evolving or reinventing products and the business model to address consumer needs e.g. health & wellness
- **Transition to low carbon economy** – established technologies now in decline e.g. many investors assume that the net present value of ICE (internal combustion engine) divisions of auto OEMs is zero given shift to EVs (electric vehicles)
- **“Stranded asset risk”** – companies with limited potential buyer appetite (due to external ESG concerns / headwinds) unlikely to be sold

Different ESG disclosure for the buyer and target

As corporate acquirers and PE firms increase their ESG disclosure, target companies should be aware of any “ESG reporting gaps” that exist between themselves and potential buyers

- A privately owned **US target** selling to a publicly listed **US corporate buyer** is unlikely to encounter an ESG reporting gap as both companies are **not currently mandated to report ESG data**
 - However, **90%+ of Fortune 500** now produce a **sustainability report**; such an acquirer would need the target company to collect data for its next firmwide sustainability report
- A **US or European target** selling to a large publicly listed **European corporate** is likely to have an ESG reporting gap as EU / UK have **mandated select ESG reporting** for certain listed companies
- **PE firms operating in the EU**, subject to level 2 disclosures of SFDR from 1 January 2023, will be mandated to **accurately report environmental data**, including GHG, on their **portfolio companies**

SELECTED ESG SERVICE PROVIDERS

We are seeing corporates and PE firms across North America and Europe use ESG service providers to support company ESG initiatives, including the use of M&A ESG due diligence

Broad Service Providers with ESG DD Capabilities



- ESG due diligence (DD) is now a fundamental part of the M&A process for many companies
- Extend traditional selection of DD reports to include a dedicated sell-side report on ESG evaluation

ESG Data and Ratings Platforms



- Retrieve, rank and process datasets on ESG metrics, disclosure scores, risks and sector benchmarks
- Some ratings focus on a company's compliance with regulations, not the company's ESG impact

ESG Consultants with Due Diligence Capabilities



- Evidence the company's current ESG impact and its future opportunities
- Deep ESG knowledge is critical in highlighting complex impacts
- Support the ESG story of an M&A sale process

Supply Chain and ESG Risk Management



- Third party risk can be a "black box" for many – map tier 1 and 2 supply chain and highlight those posing the most risk
- Companies work with hundreds of suppliers – assess their ESG impact, alignment and culture

Consultants with ESG Offerings



- Reposition or refocus to benefit from an ESG label and align with increasing ESG reporting regulation
- Implementing technical ESG processes requires external expertise
- Instill ESG into a core value of company culture

SELECT BAIRD CASE STUDIES – ENVIRONMENTAL SUSTAINABILITY

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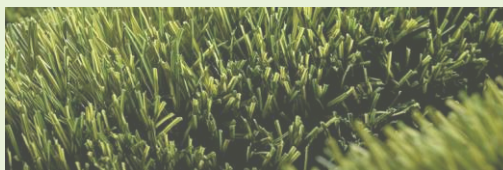
Ecological restoration for land and water that mitigates the impact of human development on the environment

- ✓ 15,000+ special status species habitat acres preserved and 400 miles of stream restored
- ✓ Design and delivery of nature-based solutions to reduce 280 tonnes of nutrients into waterways
- ✓ 20 million restorative trees planted
- ✓ Unique platform covers green-grey spectrum with a powerful ecology differentiator
- ✓ Highly technical, comprehensive service delivery of complex ecosystem restoration



Premium artificial turf supplier; reduces energy and water consumption plus end-of-life recycling initiative

- ✓ Recycle old artificial turf fields upon replacement – 39,000 tonnes per year diverted from landfill
- ✓ Significant 45m³ per day fresh water conservation
- ✓ New product that avoids the use of rubber infill and microplastics emissions
- ✓ Single polymer turf product that can be recycled into higher quality end of life material
- ✓ Artificial turf systems enable sports in urban areas or elsewhere 365 days a year



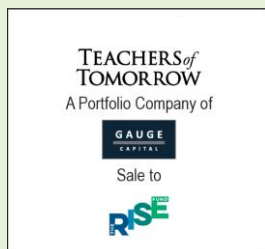
Specialty recycled fibre and sustainable packaging, with low carbon footprint production processes

- ✓ Accelerating the conversion to recycled content and cultivating circular economy opportunities
- ✓ Recycled fibre & paper facilities reuse water 17x and 30x, with 4 million trees preserved each year
- ✓ 26% lower climate change impact relative to average virgin fibre
- ✓ Only producer of recycled fibre that is FDA compliant for direct food contact
- ✓ Diverse set of blue chip customers and high growth / ESG conscious brands



SELECT BAIRD CASE STUDIES – SOCIAL IMPACT

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Online teacher training and development platform; encouraging teacher diversity & reducing attrition rates

- ✓ Developing a network of teachers to address high teacher attrition rates (40% leave in first 5 years)
- ✓ Serves 1,200+ districts and 5,400 schools annually, with a 95% district rehire rate
- ✓ Places teachers in high need subjects (SPED, STEM) with ability to match teachers to student demographics (e.g. non-white, male, bilingual)
- ✓ Strong correlation between student attainment rates and teacher relatability (e.g. race, culture, socioeconomic background)



Fertility clinics, offering highly advanced and effective procedures to support the journey to parenthood

- ✓ Delivers elevated pregnancy per embryo with unique time lapse imaging procedure – success rate of 44% vs 39% sector average
- ✓ 51,000+ babies delivered
- ✓ UK's largest private provider of genetic and donation (egg, sperm, embryo) services
- ✓ Remains engaged with the patient after their treatment cycle, providing the necessary support and counselling for parents (successful or not)



School-based behavioural health and therapeutic services to children with special needs and autism

- ✓ 7,250 employees serving 200,000 children across 1,000+ school district clients in 42 US states
- ✓ \$200bn US market for special education, with more outsourcing to third parties (currently 10%)
- ✓ Provides federal and state-mandated services to fulfil IEP (individualised education programme)
- ✓ Ability to serve autism & community segment
- ✓ Leading clinicians with a K-12 team of 60 dedicated regional and local clinical managers



SELECT BAIRD CASE STUDIES – GOVERNANCE / COMPLIANCE



Supply chain compliance software and services for food & bev, medical devices, pharma and cosmetics

- ✓ Helps navigate complex regulations to ensure consumer safety and FDA-related compliance
- ✓ Innovative Compliance Monitor platform enables tool for tracking regulatory status of suppliers
- ✓ Only provider of approved asynchronous online food safety certification courses – 10,000+ users
- ✓ Provides transparency throughout the supply chain
- ✓ Tracks all shipments into the US and provides continuous monitoring of supply chain



Supply chain risk and performance management; insight on sustainability, modern slavery, DE&I & cyber

- ✓ Enhances supply chain visibility through proprietary risk scoring across ESG, H&S and CSR
- ✓ Certified suppliers are 3 times more likely to enforce labour standards
- ✓ 40% of audited companies are less likely to have an accident vs. average
- ✓ Identifies supply chain risks early, which may have carried severe financial or reputational damage
- ✓ Reduced supplier qualification cost in the UK for utilities sector by £30m a year



Emergency preparedness and crisis management software focusing on public health and safety

- ✓ Connects government agencies, first responders, and private and public health organisations to manage incidents faster and more efficiently
- ✓ Simplifies information access to make better decisions quicker
- ✓ Tracks and deploys healthcare resources
- ✓ Streamlines emergency alerts and communications on small and large scale
- ✓ Preserves the ability to operate before, during and after a crisis





ESG DISCLOSURE AND REPORTING

ESG DISCLOSURE

Sizeable corporates and PE firms are proactively issuing annual ESG related reports and are starting to embed a culture of ESG throughout the organisation and its suppliers

ESG DISCLOSURE

	Environmental	Social	Governance
<i>Scientific based measurements</i>	CO ₂ / GHG emissions (tonnes) Energy consumption (GJ) Renewable energy share (%) Water consumption (m ³) Pollution and waste	Diversity and inclusion metrics (%) Equal pay / pay ratio (x) Customer retention ratio (%) Employee turnover ratio (%) Employee learning opportunities	CEO pay ratio (x) Gender diversity of board (%) Board attendance rate (%) Anti-corruption, ethics & compliance (case-by-case, \$m penalties) Stakeholder engagement
<i>Supply chain audits and due diligence</i>	Sustainability of raw materials Practices of suppliers, OEMs and business partners	Labour conditions and safety Charitable donations	Employee representation Identify underlying stakeholders / controlling interests

COLLECTION AND REPORTING OF DATA IS CRITICAL TO PROVE (AND IMPROVE) A COMPANY'S ESG CREDENTIALS

<i>Ability to evidence ESG attributes</i>	Enabling a circular economy	Carbon negative / net zero	Employer of choice in the sector	Positive impact on communities	Reputation for integrity / transparency	ESG culture driven by CEO and board
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ESG REPORTING FRAMEWORKS

Confusion around ESG KPIs are sparking demand for comparable data – however, there are a number of different frameworks depending on type and size of company and geography

SELECT ESG REPORTING REGULATION

■ Global ■ US targeted ■ European targeted

Corporates	■ Corporate Sustainability Reporting Directive (CSRD)
	■ Financial Stability Oversight Council (FSOC) Report
	■ Taskforce on Climate-related Financial Disclosures (TCFD)
	■ Sustainability Accounting Standards Board (SASB)
	■ ISO 14064 – International Standard for GHG Emissions
Investors	■ Partnership for Carbon Accounting Financials (PCAF)
	■ EU Green Taxonomy
	■ EU Sustainable Finance Action Plan
	■ Sustainability Disclosure Requirements (SDR)
	■ UK Stewardship Code
	■ Sustainable Finance Disclosure Regulation (SFDR)

GREENHOUSE GAS (GHG) PROTOCOL

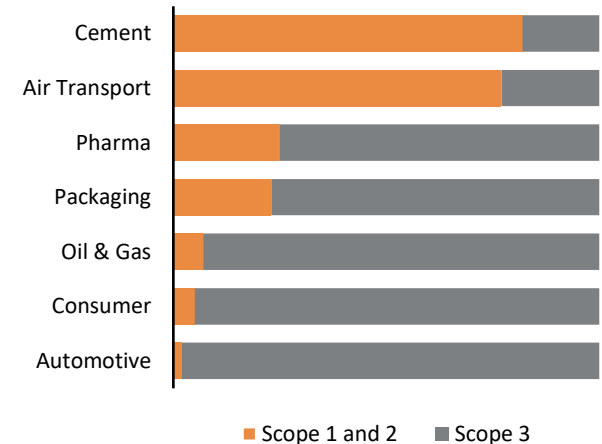
Scope 1 – Direct emissions – GHG emissions directly from operations that are owned or controlled by the reporting company

Scope 2 – Indirect emissions – indirect GHG emissions associated with the production of energy consumed by the reporting company

Scope 3 – All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions

If / when scope 3 reporting becomes mandatory for publicly listed companies, privately owned mid-market businesses (that are in the value chain of the reporting company) will have to report their emissions

80% of total emissions from most sectors are scope 3



SELECT TRADE BODIES / ASSOCIATIONS

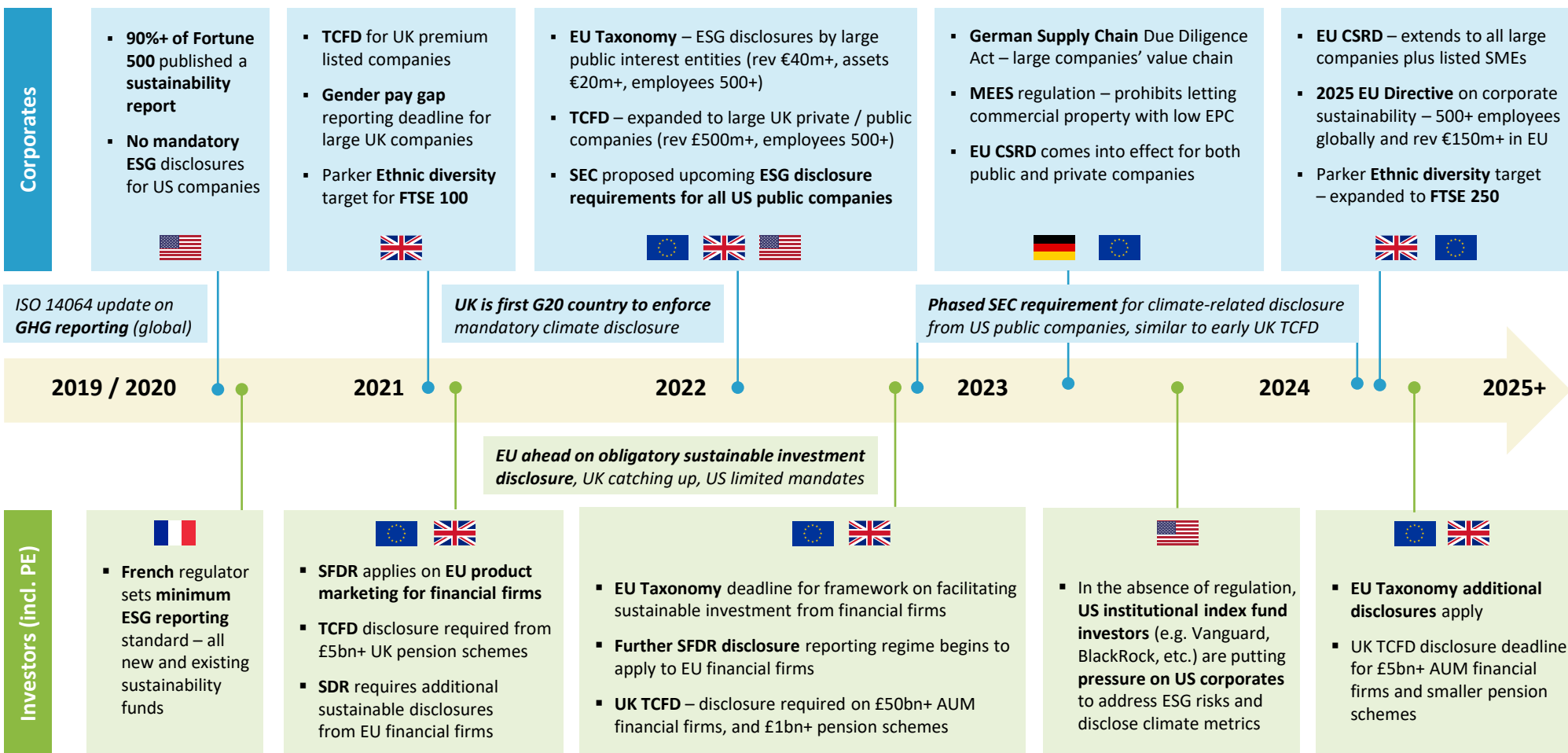


DIVERGENCE IN US AND EUROPE SUSTAINABILITY REPORTING

		2021	2022	2023	2024	2025	2026
US	SEC		-		Large public		All public
EU	Taxonomy & CSRD		-	Taxonomy; Large public interest	CSRD; All large and most listed (incl. listed SMEs)		
UK	TCFD	Premium public	Large public and private		Extension to all SMEs (predicted)		

ESG REPORTING – TIMELINE AND SCOPE

European regulation is ahead of the US for climate-related disclosures – each year the mandatory ESG disclosure scope expands for both corporates and investment funds





SELECT BAIRD TRANSACTIONS WITH ESG STORIES

SELECT RECENT BAIRD TRANSACTIONS WITH ESG STORIES

BAIRD



*has achieved an average of **15x EBITDA** for its sell-side M&A deals with ESG stories*

ESG Consulting Services



Regulatory-driven EHS, ESG, air quality and engineering consulting platform



ESG services focusing on global climate change consulting and Australian innovative engineering solutions



Energy efficiency programmes and services; expand access to cleaner and equitable energy

Environmental Solutions



Ecological restoration for land and water that mitigates the impact of human development on the environment



Producer of pipe liners facilitating efficient and less disruptive 'no dig' repair of wastewater pipes



Aftermarket focused manufacturer of highly-engineered clean air and water filtration technologies



Environmental cleanup services, focusing on abatement and indoor air quality with 2,000+ jobs per month



Environmental remediation and geotechnical services; 96% non-discretionary regulatory driven work

SELECT RECENT BAIRD TRANSACTIONS WITH ESG STORIES (CONT'D)

BAIRD

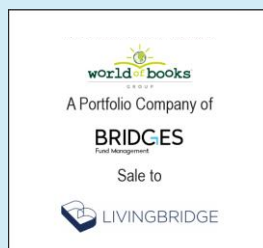
Circular Economy / Recycled or Reusable Materials



Highly efficient, eco passive, reusable and recyclable temperature controlled packaging



Premium artificial turf supplier; reduces energy and water consumption plus end-of-life recycling initiative



Book and media online re-seller; broad reusing, improving literacy rates, charitable donations, certified B corporation



Specialty recycled fibre and sustainable packaging, with low carbon footprint production processes



Produce plastic free food storage bags; reusable, non-toxic, pure form silicone

Consumer – “Better for Us”



Healthy, nutritional, non-GMO drinks for children; reusable, BPA free bottles with different character tops



Fresh, practical and nutritious foods (hummus, dips, salads); the health reference in the ready-to-eat market



Women’s underwear for real bodies, bra donations for women’s shelters, PFAS free products, leakproof and reusable



Sustainable shoes made with natural materials (e.g. merino wool, eucalyptus fibre), certified B corporation



Drive-thru coffee shops, with “measurable action in philanthropy, sustainability and DE&I, one cup at a time”

SELECT RECENT BAIRD TRANSACTIONS WITH ESG STORIES (CONT'D)

BAIRD

Testing, Inspection, Certification & Compliance (TICC)



Analytical testing and solutions for trace-level contaminants in air, water, soil and biota and for life sciences



Supply chain compliance software and services for food & beverage, medical device, pharma and cosmetic customers



Integrated food safety, quality & sustainability services for compliant, ethical and transparent supply of global food

Vehicle Electrification

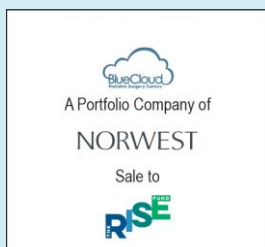


Electric SUVs and pickup trucks, supported by a vertically integrated ecosystem to deliver fast-paced innovation cycles



Solid-state lithium-metal batteries for EVs; anode-less cells deliver high energy density and lower material costs

Specialist Healthcare



Medicaid reimbursed dental surgery for paediatric and special needs patients



Specialised pediatric home-based nursing, helping alleviate the carer shortage



Fertility clinics, offering highly advanced and effective procedures to support patients on their journey to parenthood



School-based behavioural health and therapeutic services to children with special needs and autism

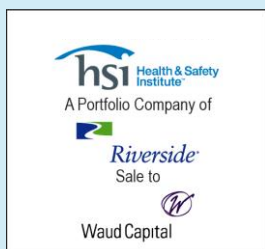


Healthcare equipment for homes and care homes; affordable, clinically effective solutions to help the disabled remain mobile

SELECT RECENT BAIRD TRANSACTIONS WITH ESG STORIES (CONT'D)

BAIRD

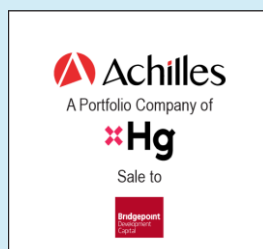
Governance, Risk & Compliance (GRC) / Environmental, Health & Safety (EHS)



EHS compliance and training platform for regulated and high safety consideration industries



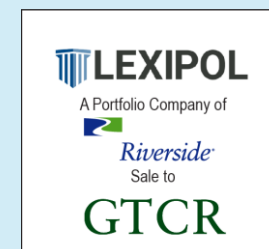
Provider of mandatory EHS training and compliance to regulated end markets



Supply chain risk and performance management; insight on sustainability, modern slavery, DE&I and cyber

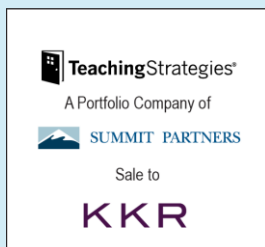


Emergency preparedness and crisis management software focusing on public health and safety

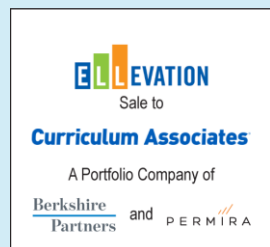


Policy, learning and wellness platform for law enforcement and high stress industries

Education



Early education content and assessment platform; connecting teachers, children and families to learning and data



English language learning platform for underserved non-native speakers and foreign student population



Online teacher training and development platform; encouraging teacher diversity and reducing attrition rates



Online teacher training and certificate provider to alleviate teacher shortage and increase teacher skill / incomes



SaaS education platform for special needs students, including IEP compliance (individualised education programme)

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