



## Private equity firms

Assessing and addressing the impact  
of climate change

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The scientific evidence is clear. Companies already feel the effects of climate change through increased risks and costs, shifting consumer demands and direct business disruption. As such, it is important for private equity (PE) firms to understand the effects of climate change, which although a risk, is also a value creation opportunity for companies.

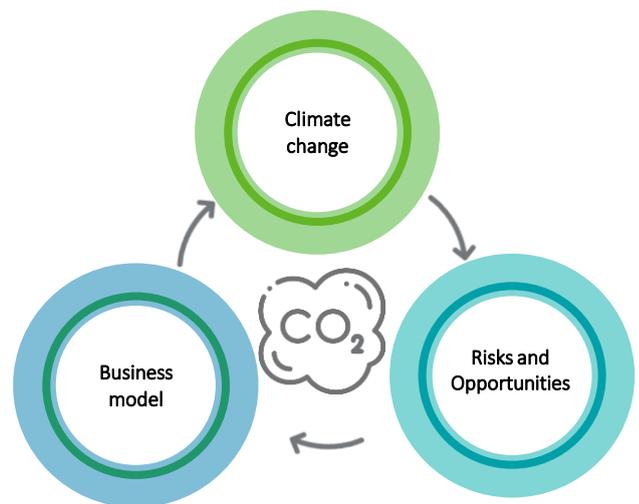
#### Background

Private equity's role across the financial landscape continues to expand. PE deal activity has more than doubled in the past ten years. Meanwhile, the number of companies that were listed on the US stock exchange has fallen by 50 per cent over the last two decades.

As PE activity increases, so too does investor and regulator interest in how PE firms assess the value of their portfolio companies beyond purely economic indicators.

Transparency into how fund managers integrate climate related risks and manage them accordingly will be increasingly important to PE stakeholders across the board in the coming years.

A robust forward-looking approach is needed to incentivise stakeholders to shift their strategy to a low-carbon economy.



### Deloitte's three-pronged approach for value creation when assessing climate related risks

#### Assessment of climate risks at portfolio level

Investors and regulators are placing increased scrutiny on the long-term commitment and positive contribution to sustainable development and CO<sub>2</sub> reduction of investments, both direct as well as through collective investment vehicles. Through assessing climate risks at the portfolio level and implementing mitigating strategies, it is possible to achieve a competitive advantage. At the fund level, aggregation of such data and risks proves an additional level of complexity.

#### Conduct environmental due diligence on select assets and companies (on the buy & sell-side)

Conducting buy-side environmental due diligence on companies and assets is essential to identify the value creation potential. Such analysis should be run at the commercial due diligence stage. Targeting companies that proactively address and manage climate risks and opportunities can position PE investors for greater long term investment success.

Moreover, conducting vendor environmental due diligence on companies and assets is necessary to showcase value created and the remaining value creation potential. The company's sustainability and business strategies will continue after divestment. Proving how climate risks were considered at the time of the assessment will make companies more attractive as investors become more sensitive to climate related and environmental risks.

## Support change management for operational improvement

Sustainability strategies deliver value if change management is effective. Communication and implementation are two sides of the same coin. Investees need support to get things done, and to mobilise employees and stakeholders around a project that gives a purpose to the company. PE investors can leverage existing financial reporting processes and controls to help advance ESG performance measurement and reporting.

### Case studies:

**Climate Sweep (Switzerland):** The private equity client's ask was to assess its portfolio level benchmarks around climate change performance, identify metrics to track progress and improve management oversight of climate risks across all portfolio companies and investments.

Deloitte is conducting a comprehensive review of carbon footprint and climate risk assessments using the Deloitte ClimWise tool, and providing recommendations for target setting and climate management of a selection of portfolio companies. This includes workshops with the Board of Directors and key management of each portfolio company. Below are illustrative examples of how the ClimWise dashboards look and can be tailored according to your business objectives and individual requirements.



**Buy side due diligence (France):** A waste management company that operates at more than 100 processing sites engaged Deloitte for an in-depth analysis of environmental indicators, and to review provisions and contingent liabilities related to environmental issues.

Deloitte's sustainability team identified key environmental issues including regulatory compliance breaches, also as part of financial due diligence. Together with a co-contractor, we supervised phase II investigations and provided recommendations before a deal was closed.

### Cross-cutting themes affecting most industries

**Education and awareness**  
to build capacity and confidence to ask

**Strategy and activation**  
to meaningfully embed climate considerations in your business

**Reporting and communication**  
to share plans for your journey to zero carbon

### Why Deloitte?

- We deliver 30+ ESG and Climate due diligence checks per year giving us a solid understanding of the PE challenges across all industries.
- We developed ClimWise, our tool to scale and accelerate the integration of climate risk into Private Equity.
- We have world-class climate advisory experts, such as Eric Dugelay, a partner from Deloitte France and also a member of the Task Force on Climate related Financial Disclosures (TCFD).
- We have a global network of over 300,000 professionals in 150 countries and over 950 consultants specialising in sustainable development all over the world.

## Deloitte's Sustainability team – creating long-term value for our clients

Our team has over 20 years of deep technical expertise helping private equity companies navigate the regulatory requirements and strategic decisions needed to create value for their investments and portfolios.

Depending on your specific needs, investment portfolio and sustainability goals, we have an extensive suite of services ranging from Audit & Assurance to Financial Advisory to Tax & Legal, providing you with a holistic and progressive approach to achieve your business objectives.

Do not hesitate to contact the team below to discuss how we can help you and your company assess and address the impact of climate change on your company, investments and portfolio.



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