



ESG Considerations in M&A Due Diligence and Developments and Trends in ESG & M&A Transactions in Asia

PolyU Pass seminar
5 July 2022

Agenda

1. Current ESG landscape in M&A Market
2. The role of ESG in M&A deals
3. Challenges and opportunities of ESG deployment in M&A deals
4. ESG due diligence for M&A
5. ESG due diligence case study
6. The expected future of ESG and M&A

Speaker:



Ms. Sammy Koo

Partner

Strategy and Transactions

Ernst & Young Transactions Limited

Current ESG landscape in M&A market

Significant impact of climate events on the natural, business and living environments, leading to the concern of ESG

Compared to a +1.5°C world, in a +2°C world we would experience¹:

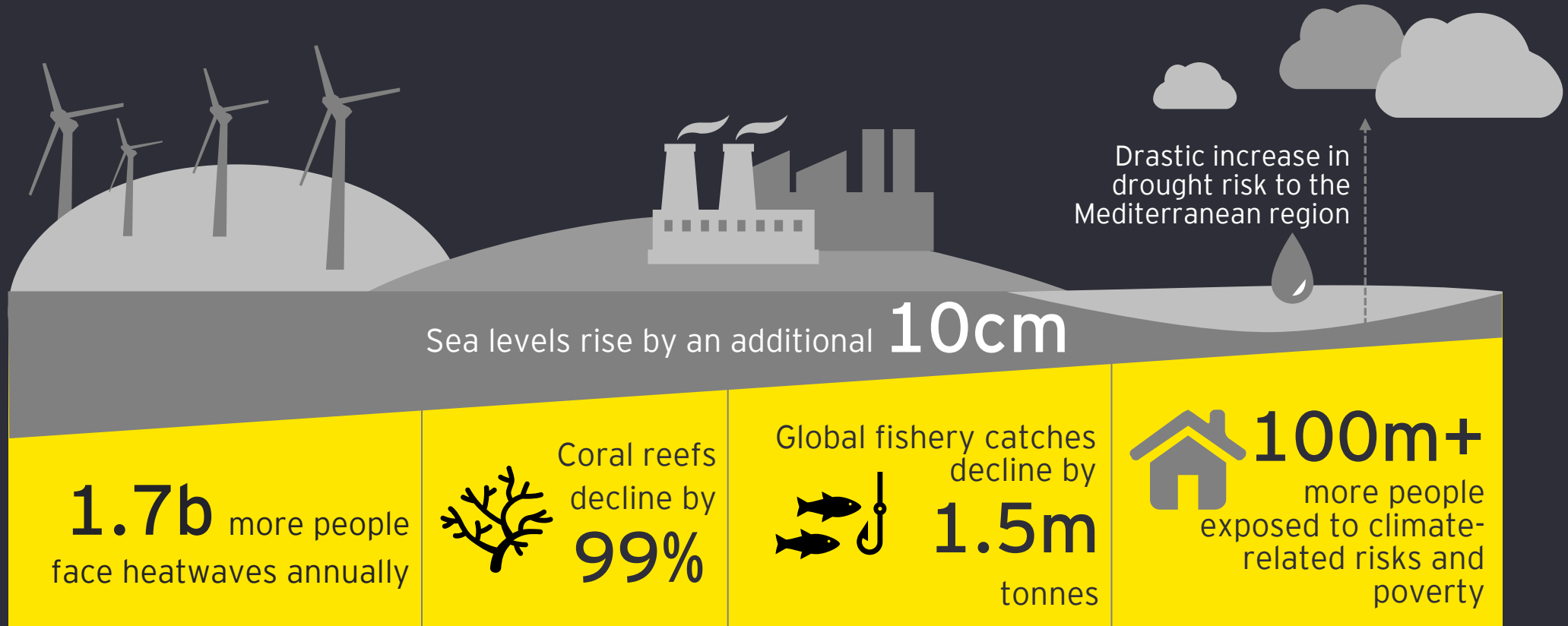


Figure 1: Effects of global warming of 2°C, compared with 1.5°C. (Source: IPCC)

Note 1: Base of comparison = pre-industrial levels = approximation of the surface air temperature of this era

Current ESG landscape in M&A market

ESG aids to lower risk, discover and unleash new opportunities

ESG Risks

ESG issues continue to rise. **6-7** of the **top 10** risks are now ESG related (in terms of likelihood and impact)¹

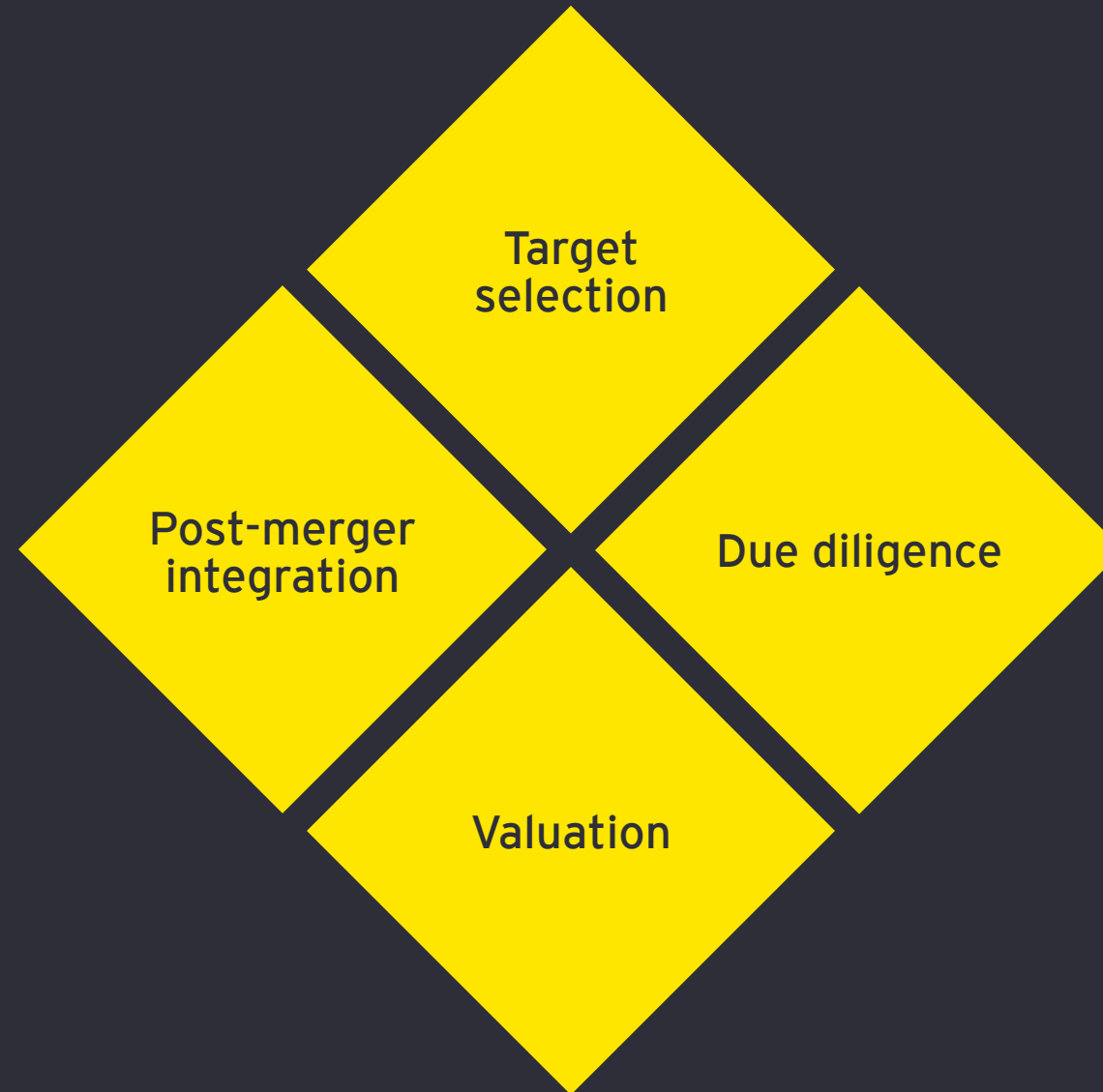
ESG Opportunities

UN Sustainable Development Goals define **17** focus areas with **169** associated targets, creating focuses and various emerging sustainable businesses

1. According to World Economic Forum, 2021 *Global Risks Report*

The role of ESG in M&A deals

ESG integration in various stages



Challenges and opportunities in the ESG deployment in M&A deals

Leverage the ESG lens to enhance governance on risk management, and capture the opportunities arisen

Challenges

Opportunities

ESG performance and risk quantification and financial metrics translation



Establish ESG data system to identify underlying impact on business performance

No one size fits all framework and strategy



Identify material ESG issues and allocate resources efficiently to enhance management

Limited accessibility of ESG data for benchmarking



Participate in ESG assessments to monitor competitiveness and increase exposure

Risk of greenwashing accusations due to poor due diligence

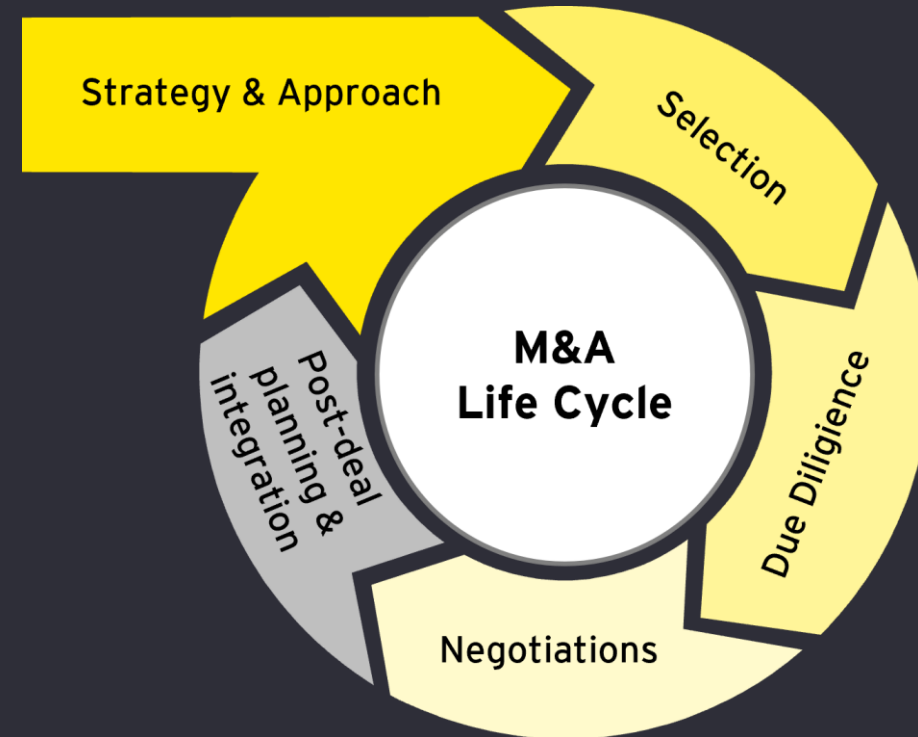


Formulate ESG framework to manage and lower relevant operational risks

ESG due diligence for M&A

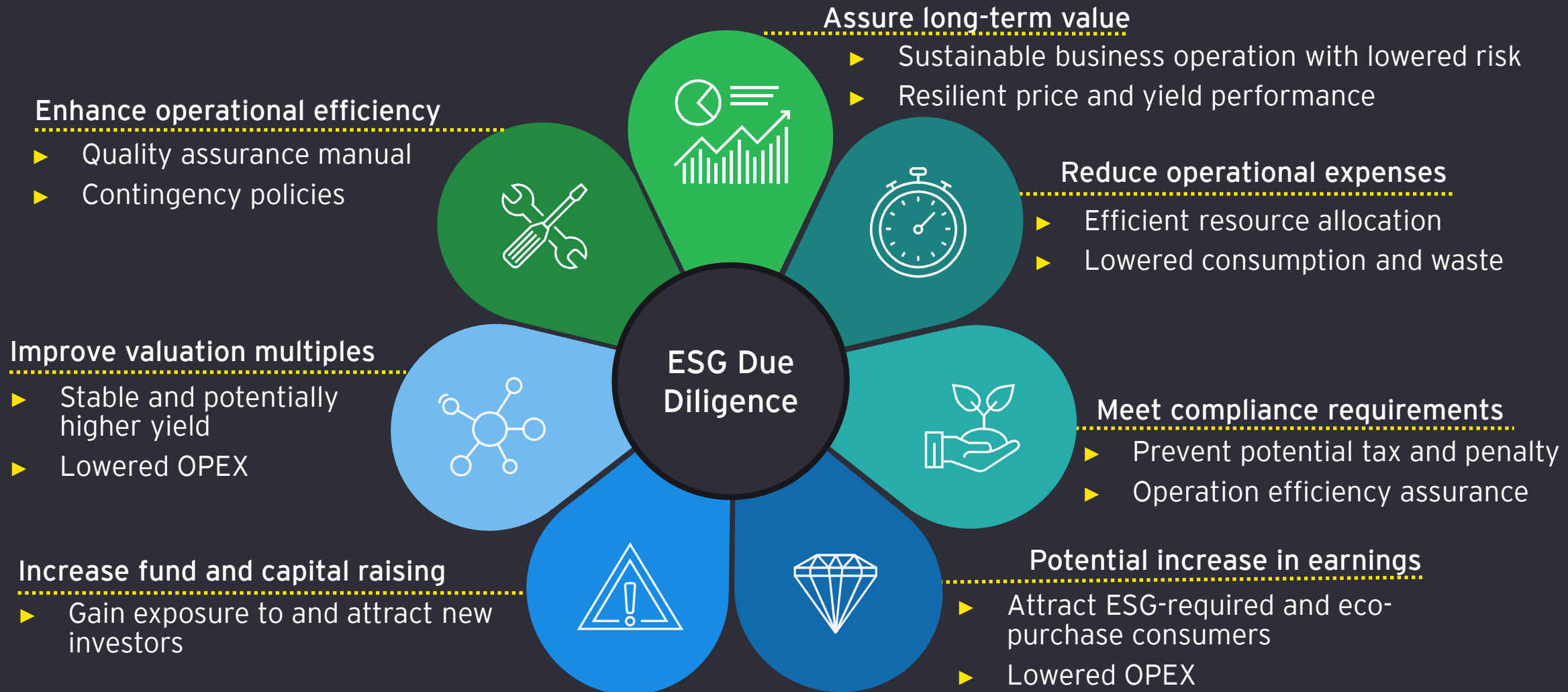
An important tool to build resilience and mitigate risks

The degree of ESG management is significant in determining a company's potential of long-term performance, operation stability and value.



ESG due diligence for M&A

Enhancing operation efficiency and excelling the long-term value



ESG due diligence for M&A

The key considerations



Material factor

Specific regional, industry and sector ESG factors



Corporate value

Regulatory and reputational risks and opportunities tied with corporate values and corporate social responsibility



Business cycle

Exposure that exists within the target's business cycle



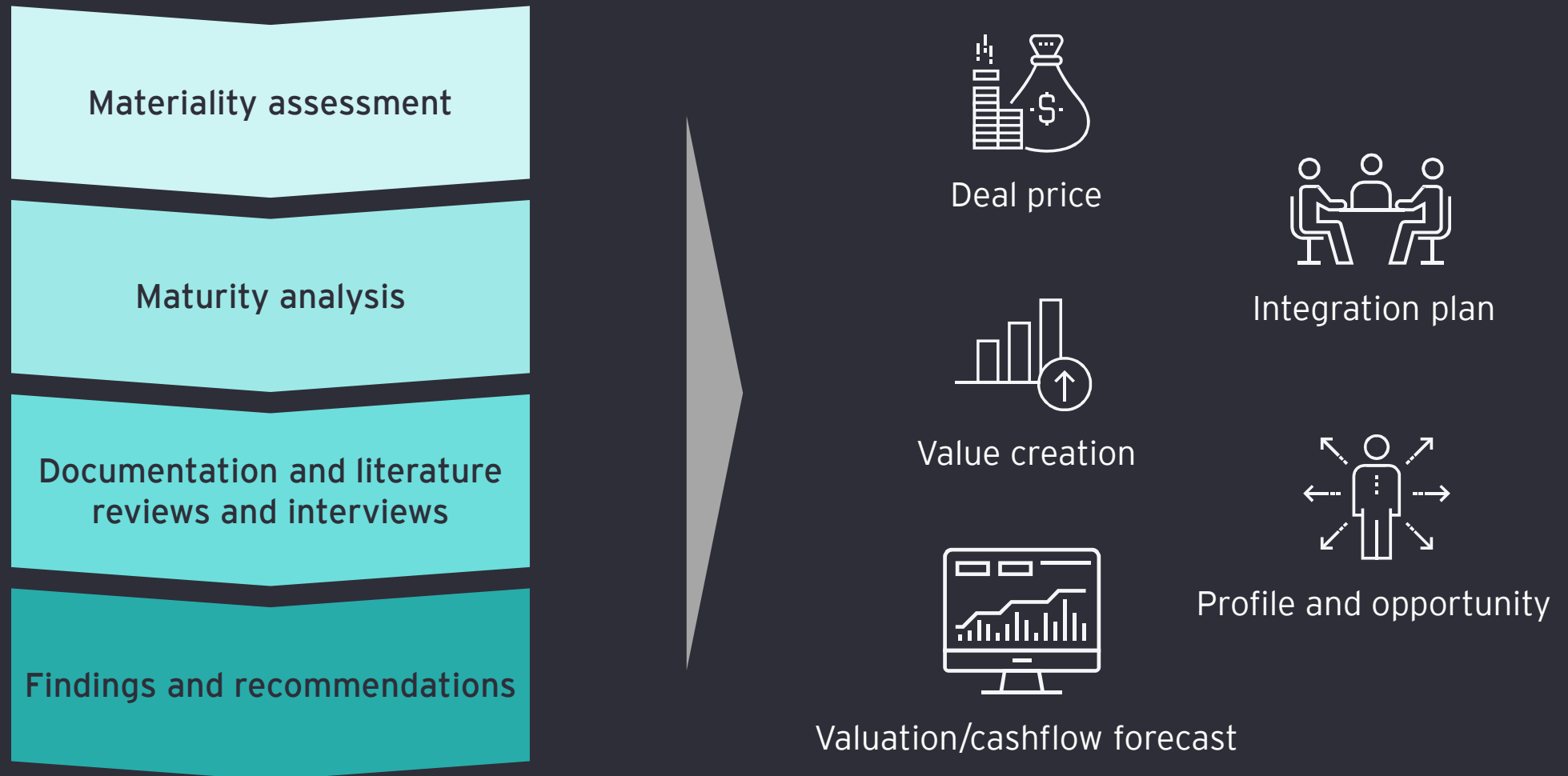
Investment goal

The goals of the acquirer and how ESG fits into their investment strategy

ESG due diligence for M&A

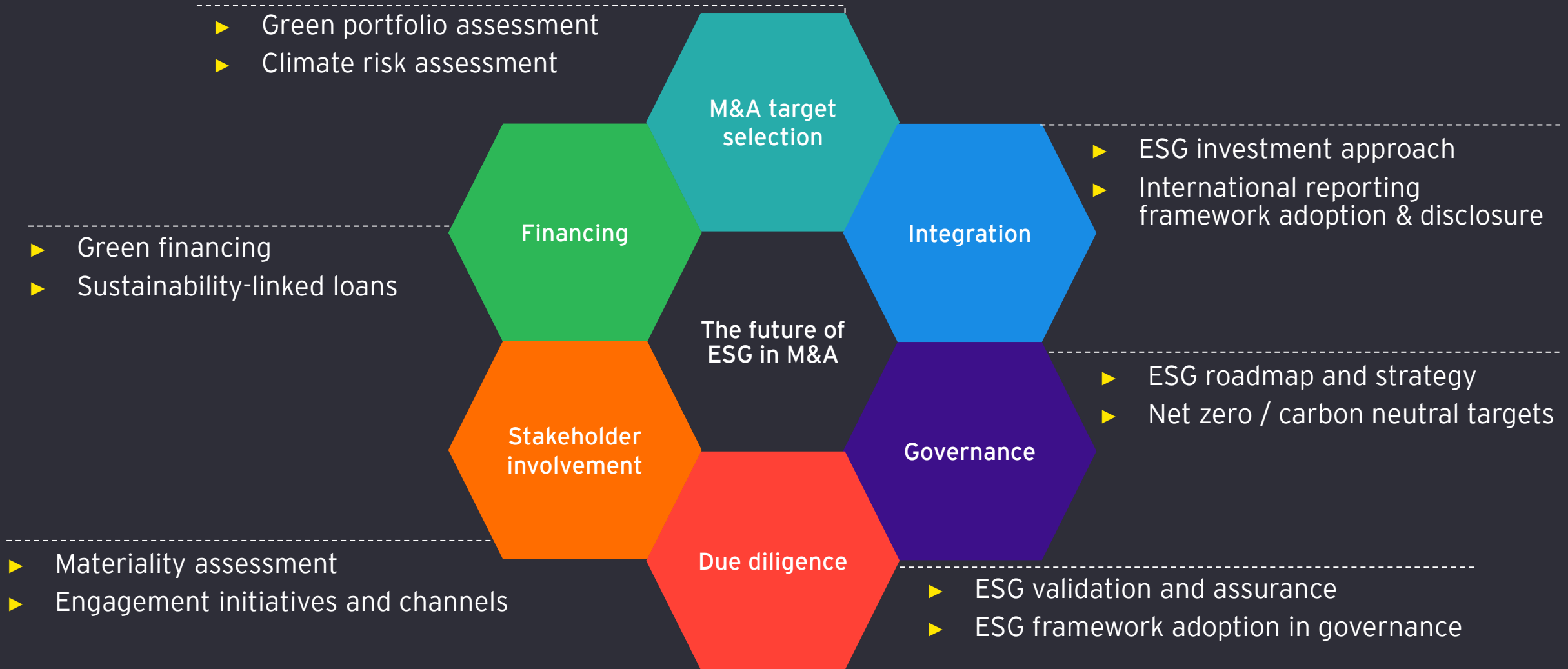
A value generating approach

A comprehensive approach to ESG due diligence provides the both buyers and targets with a multitude of benefits beyond compliance with ESG standards and guidelines.



The expected future of ESG and M&A

ESG infiltration in all aspects of business operation



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