

An aerial photograph of a river winding through a dense, green forest. The river is a light blue color, contrasting with the dark green of the trees. The forest appears to be a mix of deciduous and coniferous trees. The river flows from the top left towards the bottom center, with several meanders and smaller tributaries branching off to the right.

# **ESG more critical than ever in M&A: A global perspective**

**2<sup>nd</sup> Athens ESG Forum**

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Director, Baker Tilly South East Europe**





## WHO WE ARE

### About Baker Tilly South East Europe

Baker Tilly South East Europe is a full-service accounting and advisory group that offers assurance, tax and advisory services across all sectors of industry. Baker Tilly Advisory Services Limited is a member of the Baker Tilly South East Europe group specialised in transaction and other advisory services.

Every day, 500 professionals located in **16 offices** throughout **South East Europe** (Cyprus, Greece, Romania, Bulgaria and Moldova) share their expertise to accelerate your growth

**At Baker Tilly we are ready Now, for tomorrow's challenges. We believe in the power of Great Relationships. We lead and listen for Great Conversations. We channel change into progress for Great Futures.**



Over 25 years of successful experience in the markets of South East Europe



High quality services that meet your requirements and objectives



Understanding your business and experience in audit & advise enterprises in your industry



Providing professional support in accounting, consulting, assurance, tax and advisory services

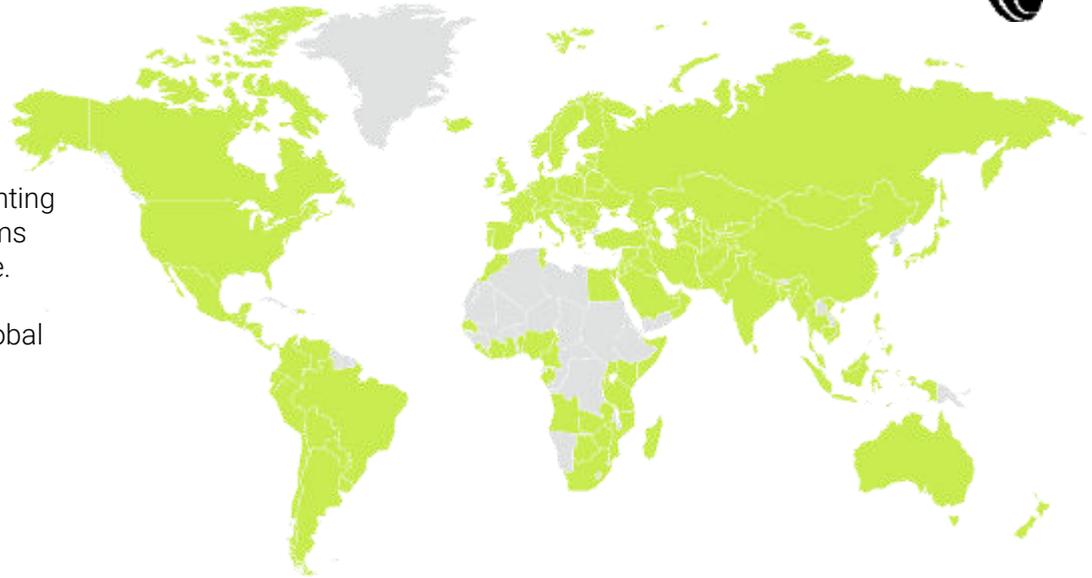
Operating under a unified structure, directed by a single, central management team, operating through **16 offices** in 5 countries by **44 directors** and more than **500 professionals**



## ABOUT BAKER TILLY INTERNATIONAL

We are proud to be a member of the Baker Tilly network, a global network of independent accounting and business advisory firms, whose member firms share our dedication to exceptional client service.

The international network gives us significant global reach in addition to our substantial national presence. We collaborate to leverage our skills, resources and local expertise to help our clients grow locally, nationally and globally.



US\$4.36bn  
COMBINED GLOBAL REVENUE



38,600 PEOPLE



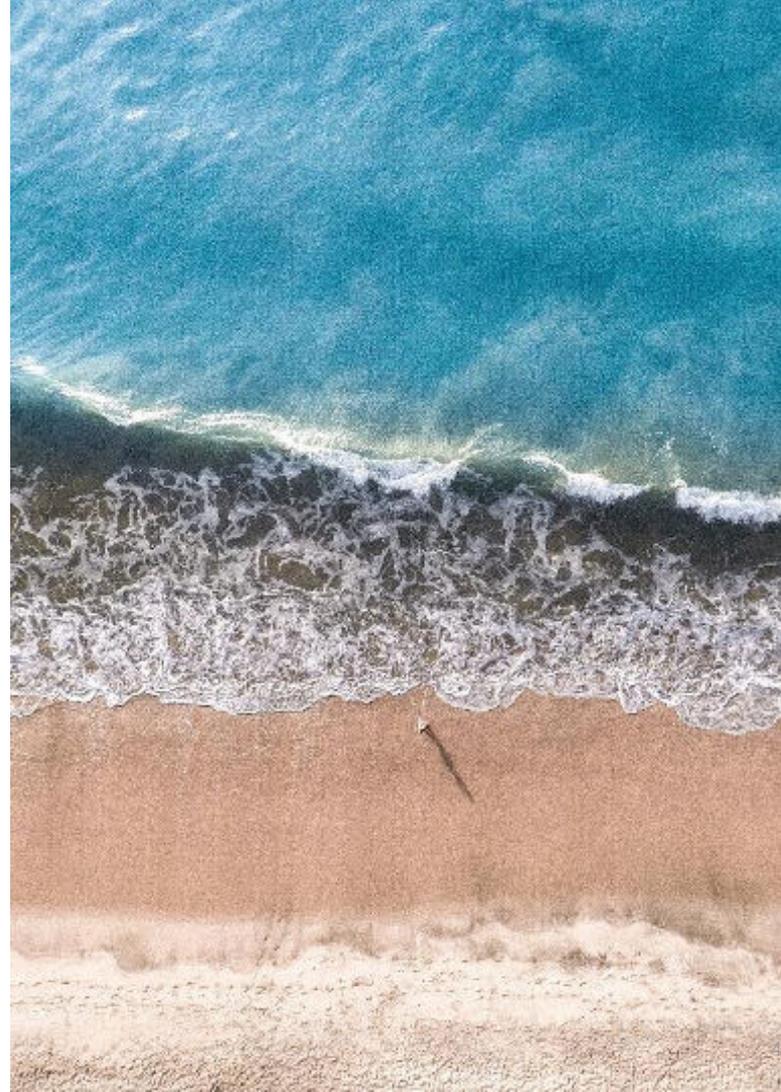
706 OFFICES



148 TERRITORIES

## ESG MORE CRITICAL THAN EVER IN M&A

- Insights from our “Global dealmakers 2021: Cross-border M&A outlook” report
- From June to July 2021, Baker Tilly International with Acuris Studios analysed the opinions of 150 dealmakers at corporations and private equity firms to gauge their opinions on M&A trends and challenges in the global market.
- Respondents were evenly split and based in the following regions: Asia Pacific, North America and Europe.
- Global dealmakers 2022: M&A market update (March 2022)





## ESG MORE CRITICAL THAN EVER IN M&A



- Past year may have marked a turning point for the importance of ESG both for the business community and for the customers and markets they hope to engage
- Traumatic year for business right around the globe, and there is naturally increased scrutiny on how they have managed
- These issues not only damage the public perception and bottom line of a business, but they make a business far less attractive to investors or buyers looking at M&A



**65%**  
of dealmakers say ESG is important when considering investment



**60%**  
say they have walked away from an investment due to a negative assessment on ESG issues at a potential target



**52%**  
say that their ESG investment strategy has had a positive impact on overall investment returns



**60%**  
of private equity investors have yielded positive returns from ESG investments, compared to 44% among corporates



**90%**  
say they put improvement plans and tracked indicators in place if ESG-related issues are raised during the investment process



**Regulation**  
is the top driver pushing the ESG agenda in most markets



**87%**  
say they are taking ESG factors into consideration to decrease investment risk and potential litigation



**77%**  
say climate change is the most important ESG issue at their firm



**Western Europe (98%) and North America (82%)** are the markets doing the most to promote and prioritise ESG goals and frameworks



Sectors leading the way in terms of ESG reporting:  
-TMT (93%)  
-Consumer (63%)  
-Financial services (63%)



**83%**  
say they conduct due diligence on ESG issues at investment and M&A targets



**51%**  
say ESG factors have a positive impact on the value of the target

## DEALBREAKERS AND OPPORTUNITY MAKERS



Looking at the views of 60 dealmakers worldwide, we consider that ESG is more critical than ever in weighing up M&A and investment targets, with **65% of respondents considering it an important part of the investment strategy**.

While regulation and outside pressure is responsible for some of that awareness, **84% of respondents say the issue also matters to their organisation**, suggesting the tide is turning for investments considered purely on financial terms.

### Within organisation



### When considering investments/M&A

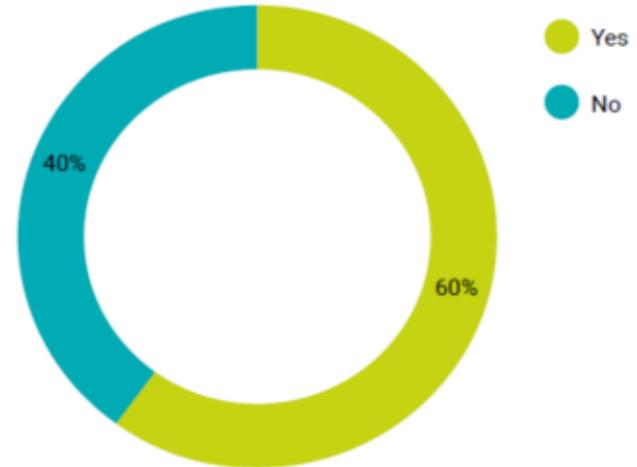


How important is ESG within your organisation?



## WALK AWAY OR BARGAIN DOWN

- Some see ESG issues as a **lever to negotiate a better price** for the target while others, particularly private equity investors, saw an **opportunity to turn around poor ESG performance** to generate better returns.
- Some 63% of **PE investors say they put an ESG improvement plan in place** when they identify ESG issues in an acquisition, perhaps explaining why 60% of PE investors say their **ESG investment strategy produces positive returns**.
- Among corporates – who are **less likely to have a formal improvement plan in place** – **only 44% say they have seen positive returns** while 17% say it is too early to know.
- A high proportion of dealmakers have seen **consistently better returns for investments with a strong ESG profile**.



Has your firm ever walked away from an investment or M&A due to a negative assessment on ESG issues at the target?



## SOCIAL CONSCIENCE RAISED BY RISK AND REGULATION

In many cases, the key driver for investing in companies with a strong ESG record is to combat the increased regulatory pressure, amid growing global demands for more sustainable investment

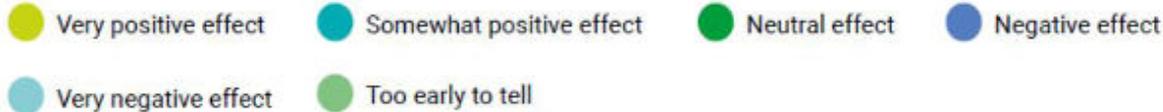
Average



Private equity firm



Corporate

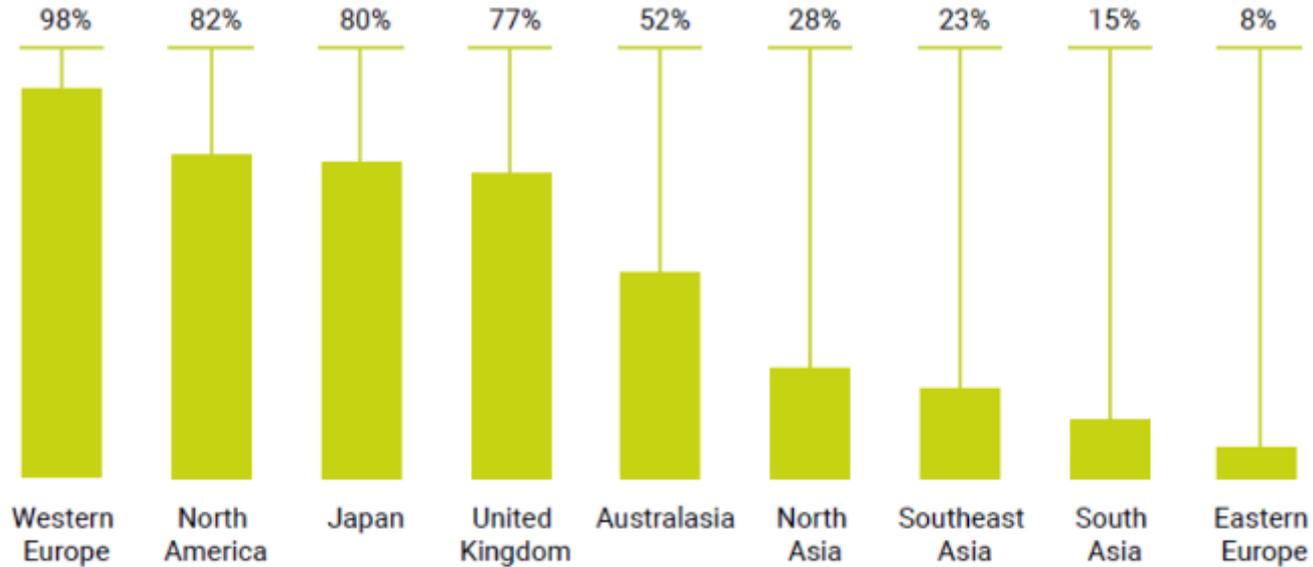


What effect has your ESG investment strategy had on overall investment and M&A returns over the past 1-2 years?



## PROMOTING ESG GOALS AND FRAMEWORKS

Dealmakers want to know not only that the company has avoided legal action to date but also that no sleeper issues will emerge.



Which markets are doing the most to promote/prioritise ESG goals and frameworks?



The importance of ESG factors is another sweeping trend.

With disparate groups of stakeholders – governments, regulators, investors, customers, and employees – demanding new focus on issues such as sustainability and diversity, many corporations have been forced to reconsider their portfolios.

Increasingly, they are committing to adapt deal strategies to sustainability and long-term value creation.

Significant dealmaking in **the energy sector** reflects a strong recovery for commodity prices, with global demand now picking up. However, another important theme is emerging.

As the world struggles to confront the challenges of climate change, there is **growing competition for sustainable businesses in areas such as renewable energy**. In the mid-market, where more of these greener companies are to be found, EMU transactions accounted for 11% of global M&A deal volumes last year and 13% of deal values.



## MOVING FORWARD



- ESG is clearly a strong theme during investments and M&A activities
- Building an ESG framework and incorporating Sustainability Development Goals in your strategy with multiple advantages, including financing
- Increased awareness and alignment with business strategy is one of the key first actions to take
- “Consumers buy on belief: they want to know the business or brand they are engaging with has treated its people well, that it is not damaging the environment, that it is working appropriately for their communities”



**Thank you for your attention**

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