Proskauer

Question of the Week:

Why is it still important to link corporate ESG strategy to M&A?

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In my view, it is now an essential part of the M&A investment thesis. Increasingly, we are seeing institutional investors align their portfolio companies towards better ESG compliance and performance, underlining that ESG is now a critical performance KPI for investments. In fact, GPs and managers need to demonstrate a sharp focus on ESG in order to retain and attract certain LPs as part of its capital raising, which in turn flows downwards as more cash to fund M&A activities.

Richard Bull, M&A, London

M&A can play an essential part in helping companies achieve their ESG goals, whether by providing access to new capabilities and technologies that improve ESG performance, or by creating opportunities to scale sustainability initiatives more quickly and efficiently. Additionally, as ESG has received heightened attention from all stakeholders in recent years, I have seen ESG considerations become a major driver of structure and even a primary impetus for certain deals. For example, I have helped clients in carve out transactions that were specifically designed to improve environmental stewardship and meet certain investor commitments related to emissions targets.

Simon Sharpe, M&A, New York

The advance of ESG in the marketplace accelerates, with increasing pressure on companies from investors, the press, regulators, and the growth of ESG funds. Once the SEC implements extensive new disclosure rules, investors are sure to ramp up pressure, using the new public disclosure for leverage, and ESG funds' diligence will necessarily be more probing. In M&A, ESG's profile will only increase in valuation and diligence, not to mention as a factor in "cultural fit." A company's ESG activities (or lack thereof) can impact reputation and valuation, and become a headwind (or tailwind) on stock price, and a lightning rod or deterrent to litigation.

Frank Zarb, Capital Markets, Washington DC

ESG policies are no longer corporate window dressing. Investors are paying much closer attention to the meaningful incorporation of ESG values and practices within a business. Employees are at the heart of an effective corporate ESG strategy particularly in the context of M&A. As a result we see an increased focus on issues such as ESG driven goals and performance criteria, diversity & inclusion initiatives, workplace culture, and employee retention and wellbeing.

Nicola Bartholomew, Labor & Employment, London

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