



# ESG considerations for Private Equity

KPMG Private Equity



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**KPMG is uniquely positioned to support our clients around their ESG journeys. We bring a comprehensive offering across a broad range of competencies, and insights from the forefront of global developments across Private Equity, ESG, and Climate. Our commitment to ESG as a firm, combined with a deep understanding of our clients and industry, affords us a well-bolstered platform of knowledge and expertise from which we service our clients around ESG strategy and implementation throughout the private equity lifecycle.**



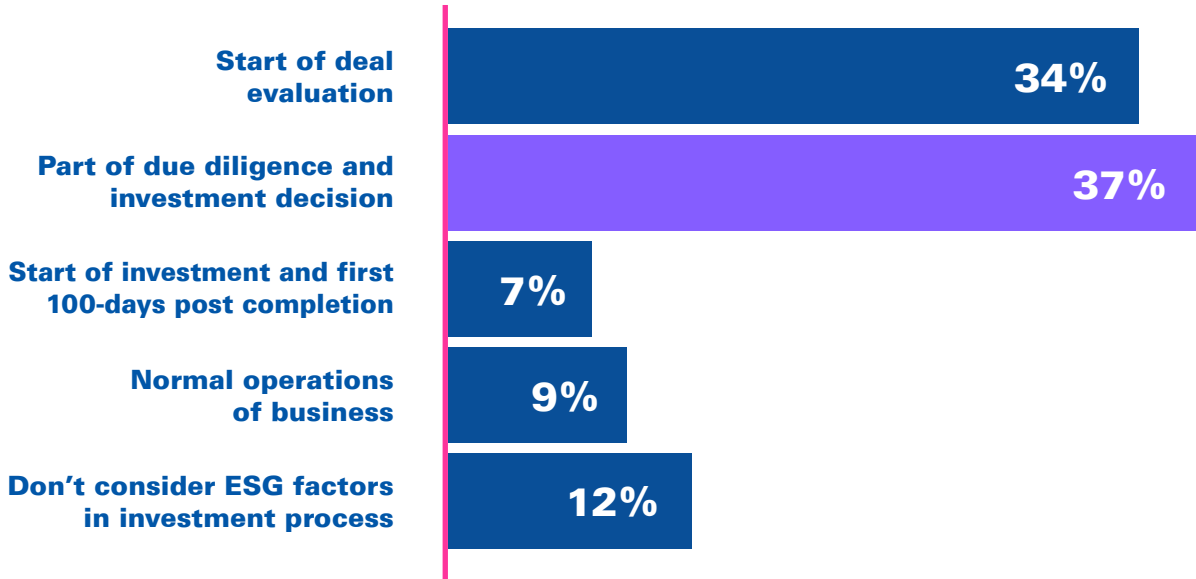
# Private Equity prioritizes ESG

## Accelerating ESG initiatives demonstrates a link between ESG and value

Like institutional shareholders in public companies, private equity (PE) limited partners are pushing funds to step up efforts to address environmental, social and governance ESG issues. There is growing belief that companies with strong ESG scores will command a premium.

ESG has thus become a factor in how funds evaluate assets and how they manage portfolio companies. And, like other managers, PE executives are developing ESG skills so they can turn ESG from a compliance burden to an opportunity to create value. More and more PE funds are addressing ESG earlier in the investment lifecycle, as indicated by KPMG UK research findings below.

### When during the deal cycle do you first evaluate ESG consideration?



Source: KPMG U.K.



## Pre-deal

### Incorporating ESG principles into deal evaluation and due diligence

- PE firms are increasingly incorporating ESG into every due diligence exercise, using as a minimum risk-management and value-preservation lenses to evaluate publicly available and target-provided data.
- During diligence, leading PE firms are supplementing the available data with “outside-in” analyses premised on estimating a target’s greenhouse gases baseline, comparing a target’s emission profile to peers, constructing an estimated ESG rating, assessing the impact and potential cost of climate change on a target’s operations, and creating a forward-looking assessment of how changes—regulation, technology, market demand, others—impact the business.
- PE firms with more advanced capabilities are not only assessing a target’s ESG profile but also mapping postclose ESG opportunities. Examples include: deconstructing a target’s ESG rating to identify levers to pull; employing analytics to get under the covers of a target’s DEI profile—going beyond diversity “snapshots” (i.e., share of employees in various diversity categories) to better “equity,” and “inclusion” measures—in order to identify high-leverage opportunities to drive improvements; and assessing a target’s decarbonization plan to accelerate high ROI opportunities (e.g., renewable power purchase agreements).

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## Tenure

### Incorporating ESG into value-creation plans

- Once a targeted asset becomes part of its portfolio, the PE firm may continue to ramp up the acquisition’s ESG efforts. These typically involve streamlined ESG materiality assessments, baseline emissions measurements, climate-risk assessments of the asset and its supply chain, ESG target setting, and standing up ESG programs.
- PE firms can also take a value creation approach across the portfolio, which may contain businesses that are not yet advancing on ESG. By improving ESG performance, PE owners can increase valuation and make these assets more attractive to potential buyers, who may be shopping for ESG-enhancing businesses.

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## Exit

### Using ESG to enhance the exit story and achieve higher multiples

- As they prepare assets for sale, some PE firms are providing ESG reports to speed up the sales process, signal to ESG-oriented buyers, and maximize value. Some PE-held firms preparing for an exit via an IPO are also touting a credible ESG focus and track record as key differentiators as investors shift more dollars to sustainability plays.

We expect more and more organizations will look for ways to create value through ESG efforts. Like corporates, PE firms now have no choice but to deal with ESG head-on. But PE firms that develop strong ESG-management capabilities and embed ESG into every phase of the investment cycle—and into the strategies of portfolio companies—can earn an ESG premium.

# Key ESG and Climate services for our private equity clients

**Our services can be tailored for private equity general partners, portfolio companies and for specific ESG and Climate investment funds.**

## General partners | portfolio companies | fund level

### ESG and Climate Strategy

A successful ESG strategy is aligned to organization-wide strategy and reflected through deliberate and measurable targets and metrics. We support initiatives to establish top-down oversight structure, integrate ESG and Climate considerations into business strategy and across asset classes, help to develop KPIs, metrics and targets to monitor progress, engage internal and external stakeholder groups and create communications and marketing materials.

### ESG and Climate Operating Model

A successful ESG and Climate program is one that is aligned to business strategy, reflective of stakeholder interests, and adaptable and resilient to future conditions. We review existing policies and procedures, conduct gap assessment, and where needed, develop a new operating model with components including governance practices, management processes, roles and structures, investment management, metrics and incentives, information flow and tools, and adoption of enterprise-wide ESG and Climate culture.

### Maturity and Materiality Assessment

Assessing the maturity of ESG and Climate programs and material issues is a key first step to understand where your organization is and how it should grow. We assess current state to identify gaps in ESG and Climate strategy for remediation to enhance, adapt, and sustain a robust ESG and Climate program. Additionally, we identify important ESG and Climate topics for both stakeholders and the business, allowing better initiative prioritization.

### Target-setting

We help define ESG ambition that sets the tone at the top, embeds in enterprise-wide strategy, drives change throughout the organization, and sends a clear message to shareholders and the wider market.



## Pre-acquisition

### ESG Due Diligence

KPMG takes a systematic approach with an experienced team to identify material issues at deal speed, driving value creation opportunities through outside-in analysis leveraging KPMG's proprietary analytics tools and data subscriptions, highlighting value preservation through identification of potential risks and opportunities, and considering implications of the rapidly evolving regulatory landscape on the target, including sustainable finance disclosure regulation (SFDR).

### Climate Due Diligence

KPMG's depth and breadth of sector and industry experience coupled with our proprietary tools and analytics provides enhanced visibility into climate risks and opportunities associated with an investment target and helps identify decarbonization levers to pull post acquisition. Our climate due diligence approach assesses potential impacts and costs of physical climate risks, creates a forward-looking assessment of potential financial impacts of transition risks associated with changes in regulation, government policy, technology, consumer sentiment, etc.

### Carbon Baseline

Knowing where to start from is an important step in the decarbonization journey. KPMG's carbon reduction methodology sets you on the road to success. Using the GHG Protocol, we assist to evaluate and establish processes for measuring and analyzing opportunities to reduce and report on emissions.

## Post-acquisition

### Climate Risk and Opportunity Assessment

KPMG has developed an approach to climate risk and opportunity analysis that is robust, understandable, and stretches the planning horizons of management. Our approach helps understand climate materiality factors, define and scope Task Force on Climate-Related Financial Disclosures (TCFD) scenarios for business, triage physical risks and perform qualitative transition risk and opportunity identification, model the impact of risks and opportunities, and develop action plans and future guidance for TCFD disclosures.

### Decarbonization

We use a comprehensive approach that assesses current state and vision, with a core focus on asset-level diagnostics and analysis. Our proprietary Decarbonization Pathways tool helps to measure carbon baseline, set future targets, define operational changes and investments required to reduce greenhouse gas emissions. We identify and support with implementation of decarbonization levers such as energy efficiency, renewable power purchase agreements, supply chain management, fleet decarbonization, green financing solutions, carbon offsets, and more.

### Reporting and Assurance

We help build a trustworthy, robust reporting strategy grounded in the commitments and material topics established in enterprise-wide ESG strategy. Our ESG Assurance solution provides assurance over ESG data, processes, and reporting, building trust amongst stakeholders in reported ESG information.

# Market-leading climate tools

KPMG's market-leading climate tools generate insights and create value while increasing the efficiency of projects.

Tool	Purpose	Output	Description
<b>Climate Change &amp; Sustainability Maturity Assessment</b>	Climate maturity assessment	<ul style="list-style-type: none"> <li>Climate maturity dashboard for each company</li> </ul>	<ul style="list-style-type: none"> <li>TCFD-based assessment framework and dashboard for assessing an organization's climate change and sustainability maturity</li> <li>Tool facilitates a rapid review of ESG structures, policies, and processes while generating a roadmap for meaningful improvement</li> </ul>
<b>Decarbonization Pathways Tool</b>	Assess cost and impact of various decarbonization solutions, e.g., power purchase agreements (PPAs)	<ul style="list-style-type: none"> <li>Current and forecast greenhouse gas (GHG) emissions profiles</li> <li>Comparison of reduction scenarios to identify most cost-effective path to meet GHG targets</li> <li>Visualization of scenario alignment to science-based targets (SBTs)</li> </ul>	<ul style="list-style-type: none"> <li>Current and historical baseline GHG emissions of physical assets with aggregation up to facility, department, and organization level</li> <li>Various quantified reduction scenarios and approximate costs</li> </ul>
<b>Global Climate Policy Tracker</b>	Climate regulation and policy requirements	<ul style="list-style-type: none"> <li>Country/sector level climate regulatory and policy requirements</li> </ul>	<ul style="list-style-type: none"> <li>KPMG is currently developing a Climate Policy Tracker (CPT), a database tracking climate regulatory and policy and incentive developments at a country and sector level. CPT aims to assist clients in better understanding the global policy environment and support opportunity and risk assessment for more informed decision-making.</li> </ul>
<b>AIRBICS – AJ-based GHG accounting</b>	GHG emissions	<ul style="list-style-type: none"> <li>Supply chain emission data gathering</li> </ul>	<ul style="list-style-type: none"> <li>AI-based GHG accounting to help shape future green procurement</li> <li>Tool designed to intelligently and automatically acquire CO<sup>2</sup> data from third parties</li> </ul>
<b>Climate IQ</b>	Risk – Climate	<ul style="list-style-type: none"> <li>Quantification of physical, transition and macroeconomic risks across multiple scenarios</li> </ul>	<ul style="list-style-type: none"> <li>Risk management tool that evaluates KPIs to address the questions around a company's exposure to climate change</li> <li>Helps formulate strategic decisions in line with business needs and regulatory requirements</li> </ul>



Tool	Purpose	Output	Description
<b>EnVision</b>	Risk – Physical climate	<ul style="list-style-type: none"> <li>Physical asset level risk exposure</li> </ul>	<ul style="list-style-type: none"> <li>Triage of physical assets to identify current and future risk to climate change effects such as flood, sea level rise, wildfire, water stress, etc.</li> </ul>
<b>Dynamic Risk Assessment (ORA)</b>	Risk – ESG	<ul style="list-style-type: none"> <li>Identification and enhanced understanding of organizational risk</li> </ul>	<ul style="list-style-type: none"> <li>Risk analysis tool that prioritizes issues/risks/impacts in sustainability, ESG, and social impact context</li> <li>Creates a risk list; assesses the likelihood, potential impacts, and velocity of the risks and maps the connections and relationships between them</li> </ul>
<b>ClimAID</b>	Risk-ESG	<ul style="list-style-type: none"> <li>Climate risk exposure score</li> </ul>	<ul style="list-style-type: none"> <li>Classification of exposures according to ESG characteristics (e.g., asset class, sector, counterparty, geography, and maturity)</li> <li>Estimation of risks based on methodological tools</li> </ul>
<b>Sustainability Risk Reporting Solution</b>	Risk – Portfolio	<ul style="list-style-type: none"> <li>Portfolio risk profile</li> </ul>	<ul style="list-style-type: none"> <li>Provides an overview of the sustainability risk profile of investment portfolios</li> <li>Calculates ESG/sustainability risk, metrics, scores, exposures, and KPIs</li> <li>Designed for regulatory/standard driven disclosures such as FDR, Taxonomy, TCFD, and principles of responsible investing (PRI)</li> </ul>
<b>Country Prioritization Tool</b>	Risk – Supply chain	<ul style="list-style-type: none"> <li>National supply chain climate risks aligning with companies' specific data</li> </ul>	<ul style="list-style-type: none"> <li>Country prioritization tool based on climate risk – allows an overlap of client data with external data to help global companies with global suppliers, assets, and markets</li> </ul>

# Why KPMG: ESG client case briefs

## **Climate-related criteria for new funds**

A \$23 billion PE firm required support for establishing criteria for new funds under development to meet emerging stakeholder requirements for climate performance. We worked with the client to establish principles for new funds that included setting objective GHG targets, developing a detailed methodology to support establishing baselines and targets, recommending due diligence procedures and a reporting format and cadence to investors and auditors. We provided a robust methodology for assessing climate-related metrics for new funds, and clear guidance on how to integrate the criteria into governance, reporting and audit processing.

## **Due diligence resulted in cost savings and a credible pathway to net zero targets**

A major U.S. vehicle company engaged KPMG for its due diligence services to assess the current environmental impacts of its all-electric and gas-powered vehicles. We worked with the client to conduct a benchmarking analysis of its peers in the automotive sector and identify leading practices for ESG reporting as well as describing potential regulatory and framework alignment. We conducted a rigorous environmental assessment of the client's all-electric and gas-powered vehicles, including calculating fuel economy, manufacturing emissions, future manufacturing emissions, water consumption, waste, and recycling data. We provided the client with a range of cost saving measures and costs estimates for implementing a renewable energy strategy through PPAs and offsets, utilizing offsets for natural gas emissions, and utilizing Scope 3 offsets to create a credible pathway for a net zero target.

## **Decarbonization strategy resulted in lower operating costs**

An \$835m infrastructure client was at risk of losing a major customer because the client had made minimal progress on decarbonization goals and initiatives. Working with our client, we measured asset-level historical and baseline year Scope 1 and 2 GHG emissions and identified and quantified the cost and timing of available decarbonization levers, including renewable energy procurement, on-site solar, asset electrification, and biofuel usage. Further, we supported the management team in evaluating numerous decarbonization pathway scenarios, committing to a Net Zero path, a target for 100% renewable energy, and a tangible plan for achieving its goals and its external-facing communications. Through our work, the client committed to 65% GHG emission reduction by 2032, being Net Zero Carbon in 2040, and achieving 100% renewable energy in 2032. Moreover, one key result of this project is that the client was able to realize lower operating costs relative to its previous operations.



# Contact us



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