KEYNOTE INTERVIEW

Taking ownership of the SBTi journey

Embarking on the Science-Based Targets initiative can seem like a huge undertaking, but you can make significant progress by taking it step by step, say CVC's Jean-Rémy Roussel and Chloë Sanders

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Q What role does a target company's carbon footprint, and its ability to decarbonise, play in due diligence? How has this evolved over time?

Jean-Rémy Roussel: Ten years ago, during due diligence, we looked at pollution and potential soil contamination seriously, but CO2 emissions was not on the radar screen as one of our key focus points. Fast-forward to today and CVC is signed up to the Science-Based Targets Initiative (SBTi), which includes an engagement target for our private equity portfolio. This means we work with the companies in our portfolio to set their own targets to be verified by the SBTi.

It is therefore important that as part of due diligence we understand whether the management team at a target company is prepared to align with science-based targets, and whether we can see a credible path towards decarbonisation, even if the picture is not yet complete.

For example, there are some situations where a company is still exploring the necessary tech innovation to reach net zero, but there is nonetheless a clear motivation and commitment on the part of the company to reach that goal.

Chloë Sanders: Looking forward, I expect this is only going to become an even more important topic, particularly as regulation in some regions will require companies to not only report on their carbon footprint, but also to have a credible roadmap in place for reducing it.

This requirement for additional transparency creates additional reputational risk, increasing the focus even further.

Q What has your approach to the science-based targets been as a firm?

CS: We first started thinking about this seriously in 2019, really trying to understand what it entailed and what the value could be for CVC and for our portfolio companies. We then made our commitment to the SBTi in 2022 and in 2023 our targets were verified. We are now heavily focused on implementation.

In addition to the Scope 1 and Scope 2 targets that relate to our own operational emissions, the big challenge for us involves our Scope 3 emissions – the targets that we have set at a portfolio level. A few of our portfolio companies were ahead of the curve and had already set science-based targets of their own. Some companies have just required a little bit of encouragement, while others have been starting from scratch. Across the board, however, we recognise that we need to be driving engagement on this.

We had 14 companies participating in our 'climate accelerator' programme in 2023 and it's exciting to see the carbon savings already identified in half of those businesses equates to almost 100,000 tonnes of CO2 per year once all the identified initiatives have been implemented. That equates to approximately 20,000 flights around the world per year.

JR: I would liken the process for the SBTi to the one we went through with the EcoVadis sustainability ratings four years ago. With EcoVadis, we started out with a low uptake, and we are now at over 75 percent engagement. We have set an aspirational target for all portfolio companies to achieve at least a silver rating during the time of CVC funds' investment, which equates to being top quartile, and several have received gold or higher. The situation with the SBTi is similar. We made a commitment. There were a few early adopters. We have now finished the first wave of our climate accelerator programme and are pressing ahead to drive progress with other companies.

Q What have your key learnings been from that first wave?

CS: We are seeing clear positives and we have not yet encountered too many difficulties convincing management teams that this is a good idea. The drivers for each business differ. Sometimes, this can be about customer or employee engagement, sometimes about cost savings, or possibly investor sentiment. But our companies have clearly seen that this process provides them with real value-creation opportunities.

Next, comes the behavioural change element in terms of companies recognising that this is not just about setting a target and then moving on. This will require CO2 being fully integrated into decision making over the long term. It is a significant commitment, which will also require a degree of upfront investment in some cases.

This can take some time for management to get their heads around, which is why we like to start the process as soon as possible after investment in a portfolio company. The longer you have to implement plans in a structured and orderly way, the better. What we don't want is for there to be any last-minute rush to meet targets.

We are typically seeing a reasonably short-term return on investment in terms of cost savings and this does not factor in other more intangible value-creation factors, such as the ability

Q To what extent is access to data still a challenge in establishing and monitoring against targets?

CS: Even before we embarked on the SBTi verification journey, we had a programme we called the Greenhouse Gas Foundation Project which, as the name suggests, is all about getting the foundations right. It is about establishing a point of departure. Companies need to get a full understanding of what their carbon footprint is in order to then make the appropriate strategic decisions to achieve reductions.

The data available for establishing Scope 1 and Scope 2 emissions is fairly good. The situation becomes more challenging when you start looking at Scope 3 – the emissions that emanate from your value chain – which is an important part of the SBTi process. The focus there needs to be on getting the best data available, while recognising that at this stage it is unlikely to be perfect. As more and more companies report on CO2 over time, however, this should improve.

to win new customers or attract employees. There is a degree of variability in how long the return on investment will take. We have examples in the portfolio of companies expecting a return in only three to five years, which is positive to see. Fleet electrification at five companies has identified a total of €2 million in savings over the next six years, for example, while in one particular company, we have identified over €2.4 million of ongoing annual savings following upfront investment with an ROI of five years.

JR: I would add that it has been interesting to witness management teams' reaction to realising just how much CO2 they emit and where that CO2 is coming from. Using the analogy of owning an apartment, a specialist can come in and show an owner not only how much heat is escaping from their home, but also how it is escaping. That same specialist is then able to explain to the owner how they could reduce that loss by perhaps 10-20 percent by taking a series of simple steps.

After that, there are some bigger measures to be taken, such as changing the windows. That requires some investment but will also result in significant savings over time. The quick wins can be very motivating, helping to pave the way for the even more impactful work.

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JEAN-RÉMY ROUSSEL

Q What level of focus on decarbonisation are you seeing from potential buyers in exit processes?

JR: The level of focus from buyers is not yet entirely uniform. Financial buyers and corporates that have made any kind of CO2 reduction commitment will take the issue very seriously.

In terms of geography, both Europe and now Asia are focused on CO2 emissions. Meanwhile, the situation is less consistent in the US because there are some states where the decarbonisation agenda has become politicised. Nevertheless, overall, most buyers are spending a lot more time on understanding the impact of these topics today.

Q To what extent is a company's decarbonisation profile impacting its value?

JR: Typically, we'd expect a company to be valued more highly if it has credible plans in place or is already on its way towards reaching net zero. To return to the analogy of the apartment, if you refurbish your apartment, everything else being equal, you should be able to command a higher price than you would if the apartment had remained unfurnished. Alignment with the SBTi and reductions in carbon footprint will be viewed as positives when a potential buyer analyses a target.

A number of companies are starting to report EBITDA minus CO2 tax, using up to €100 a tonne to make the case. There is a chance this type of reporting could become a requirement in some parts of the world. The less CO2 impact the better – that is pretty easy to understand. Consumers are demanding better transparency on polluting companies. So, I believe scrutiny will increase. While there may be some buyers out there that do not place value on this, I think those are becoming increasingly rare.

Q What would your number one piece of advice be for a firm embarking on this decarbonisation journey?

CS: My number one piece of advice would be that the sooner you get started, the better, because the benefits are significant, and the journey can be enlightening. You do need to ensure that you have real buy-in from the wider business, however. This cannot just be a one-person mission.

JR: I agree. Anyone embarking on this journey needs to be aware that it will take a lot of time and effort, but also that there is huge satisfaction to be had. I would add that the commitment must be fully integrated into the day-to-day running of the business. For us, for example, it encompasses everything from encouraging employees to drive to work in electric vehicles, to purchasing renewable energy across all our local offices. It needs to become a philosophy. When it does, the impact that a firm such as CVC with its 125-plus portfolio companies can have is huge, and seeing that impact can help drive motivation to go further.

Maintaining motivation is crucial. It is much like climbing a mountain. When you are looking up at the summit, it can seem like an impossible task. But take one step at a time and pretty soon you will look back and be amazed at how far you have come. ■

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