Deloitte.

德勤

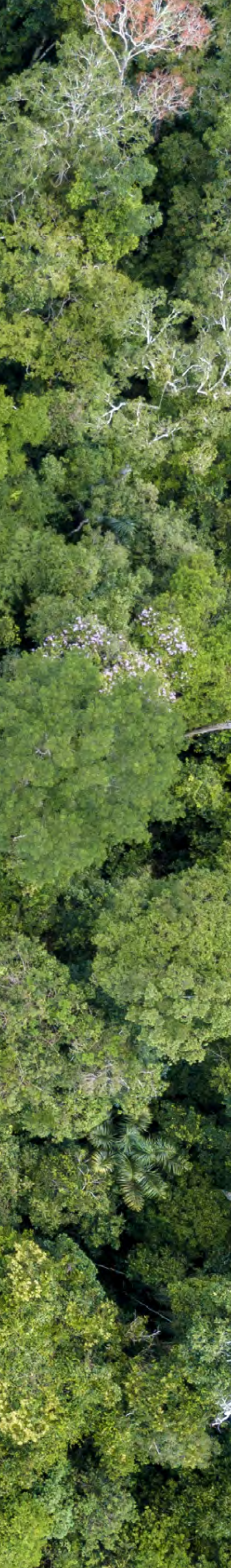
Unlocking Value from ESG Strategies in Post-Transaction Integration

February 2023

MAKING AN IMPACT THAT MATTERS since 1845

Disclaimer

Any material or explanation (including but not limited to presentation slides or verbal explanation) (collectively "Material") provided hereunder serves as a general guide instead of a basis for decision making and shall not be construed as any advice, opinion or recommendation given by Deloitte Consulting (Shanghai) Co, Ltd. ("DC") on the presentation. In addition, the Material will be limited by the time available and by the information made available to ("DC"), you should not consider the Material as being comprehensive as DC may not become aware of all facts or information. Accordingly, DC will not be in a position to make a representation, and will not make a representation as to the accuracy, completeness and sufficiency of the Material. You will rely on the contents of the Material at your own risk. All duties and liabilities (including without limitation, those arising from negligence or otherwise) to all parties, including you are specifically disclaimed. All copyrights and other intellectual property rights contained in the Material are reserved by DC. For the avoidance of doubt, the Material contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of the Material, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on the Material.



Contents

Introduction

For Chinese companies, ESG is becoming progressively more necessary. Companies view ESG as a way of achieving the Chinese government's goal of carbon peak by 2030 and neutrality by 2060. Mandatory requirements from regulators, the needs of investors, the expectations of consumers, and other social groups have made sustainability a strategic imperative.

There is an urgent need for companies to change their mindset - ESG is no longer just a public relations matter nor simply an environmental regulatory issue, but an opportunity for strategic reorientation of long-term corporate development. With ESG as an anchor, companies can discover the "blue ocean" of value creation through continuous managerial and operational improvement.

Sustainable development opportunities are transforming corporate investment and M&A activities. Some post-transaction integration measures have started incorporating some ESG components but still missing the full embedding of ESG elements. Companies should have the foresight to pursue ESG initiatives and adopt a systematic approach. How to embrace ESG in a post-transaction context and upgrade integration practices has become a major issue for companies. This article will introduce Deloitte's methodology and advanced practices to explore how ESG helps companies further unlock value in the post-transaction integration process. We believe this will help companies sharpen their perspective and grasp this strategic opportunity to unlock value.

The Mindset Shift: ESG as the North Star to Unlocking Business Value and Driving Business Transformation

Environmental, Social, and Corporate Governance (ESG) is a strategic imperative for business transformation and is proven to be essential. It is no longer a cliché of abstract concepts but an emerging key driver that unlocks hidden value. Embedding an ESG mindset into daily business operations develops the ability to capture market opportunities through sustainable development, providing companies with a competitive edge.

ESG impact on corporate operation from different dimensions

We observe that companies can benefit from ESG-incorporated operations to create value through six key dimensions: brand differentiation, innovation, operational efficiency, capital access, risk mitigation, and talent management.

Figure 1. ESG generates tangible value that is hard to ignore[1]

Brand differentiation	Innovation & opportunity creation	Operational efficiency
Brands with a demonstrated commitment to sustainability **outperform other brands by a factor of four**	Companies that are sustainability leaders are four times more likely to be recognized as **innovation leaders** in separate, independent rankings	Companies that encouraged their suppliers to reduce resource use saw up to a **45% reduction in operating costs**
Capital access	**Risk mitigation**	**Talent engagement & retention**
Companies with high sustainability scores among raters and rankers experience, on average, **lower costs of capital**	**90% of consumers** will switch brands to support a good cause and boycott a brand due to irresponsible business practice	"High engagement" companies display **higher net income and higher growth**

Source: Monitor Deloitte Analysis

- **Brand differentiation:** Increasingly more consumers are showing stronger preference and loyalty to ESG-incorporated brands. According to research, brands committed to sustainability have better brand recognition and marketing buzz than less committed competitors. One study shows that exemplary "citizenship" and responsible "governance" qualities account for nearly 30% of corporate reputation, the highest factor other than products and services. In addition, recent retail research shows that, after quality, the second-highest reason for customer brand loyalty is sustainable or ethical business practices.

- **Innovation and opportunity creation:** Companies with high ESG ratings emphasize long-term value creation through continuous innovation, increasing the chances of harnessing advanced technology, developing the latest business models, and growing market share. Since 2014, US sales of sustainable products have grown nearly 20%, with a CAGR that is four times greater than typical consumer products. Statistics show that sustainable products are the fastest-growing product segment in most CPG categories.
- **Operational efficiency:** ESG-focused companies concentrate on energy savings and efficiency improvement and positively influence business partners throughout the value chain (especially suppliers). Companies that encourage suppliers to reduce resources could achieve up to a 45% reduction in operating costs.
- **Capital access:** Companies with high ESG ratings have performed higher in efficiency, risk management, and corporate governance metrics than their lower-ESG-rated counterparts, lowering capital costs. Channels such as low-interest green bonds can further reduce the average cost of capital. The attractiveness of ESG-related investments shows a 34 percent increase in sustainability investments to reach US$30.7 trillion globally in 2018.
- **Risk mitigation:** Social media trends increasingly influence consumer perception, so ESG-related public relations crises can easily damage corporate brands. Statistics show that 90% of consumers will switch brands to support a good cause or boycott brands with irresponsible business practices. In addition, the global nature of the corporate footprint and the inter-dependencies on international supply presents a vulnerability to extreme weather conditions. In 2019, 215 of the largest global companies reported almost US$1 trillion at risk from climate impact alone, with many risk events possibly occurring within five years. Therefore, it is essential to embed ESG values into routine business operations to mitigate unanticipated risks.
- **Talent engagement and retention:** Companies with higher ESG ratings tend to be people-centric, cultivating an inclusive culture, and focusing on long-term value creation, which is key to attracting and keeping talent. Research shows that 61% of employees consider ESG an indispensable part of company management, and 46% consider sustainability a prerequisite for working in a company. Moreover, nearly 40% of millennials reported that they selected their current job because their employer has a better ESG reputation than alternative employers.

Companies with better ESG performances dominate China's domestic capital market

We have found that companies with high ESG ratings in China's capital market outperformed other players regarding **capitalization value and financial returns**.

Figure 2. Listed companies with higher ESG ratings outperforms others

Source: Capital IQ, Monitor Deloitte Analysis

- **Capitalization increase |** According to our analysis of the MSG China ESG index[2], between the period of October 2013 and October 2022, the MSCI China ESG index increased by 18.9%, far higher than the overall MSCI China index, which showed a -9.5% decrease, The excess returns of ESG investment strategies in the Chinese market are mainly due to the following aspects:
  - As ESG-themed investment is relatively new, companies with ESG strategy signal their focus on long-term value with solid governance and sustainable social impact, attracting more capital to ESG-rated companies, resulting in a positive correlation between ESG score and market capitalization.
  - Companies with high ESG ratings are backed by favorable government policies as their sustainable business development is in line with national strategy (i.e., carbon neutrality, common prosperity).
  - Investment capital attracted to limited number of ESG related assets effectively leads to increase in overall valuations.
- **Financial returns |** Companies with higher ESG ratings tend to perform better in cost-effectiveness, productivity, operational efficiency, risk management, and governance, resulting in a strong competitive advantage. This competitive advantage over lower ESG-rated peers generates higher profitability and reduces systematic risks.

The Pivot: From Passive Disclosure to Proactive Engagement, ESG Transforms Value Creation Approach

With growing awareness of ESG concepts at all levels of society, including investors, financial institutions, and consumers, companies will gradually realize the close connection between ESG practices and corporate value creation, moving from passive disclosure to proactive engagement, and spontaneously integrating ESG aspects in all facets of management and operation to explore new value creation opportunities through the lens of sustainable development.

Three stages in the evolution of corporate ESG practices

To achieve resilient long-term growth, companies must closely align their management operations with sustainable environmental and social development. As sustainability management continues to mature over time, the intrinsic drivers of company growth are undergoing a profound transformation. The evolution of corporate ESG practices can generally be divided into three stages: Compliance-driven, Performance-driven, and Long-term Value-driven.

Figure 3. Three stages of corporate ESG practices

		Responsive: Compliance-driven	Enhanced: Performance-driven	Integrated: Long-term Value-driven
	Green maturity	low		high
Enterprise value driver	Pursuit of return	Non-ESG financial returns	Non-ESG financial returns plus ESG-driven return	Non-ESG financial returns plus ESG-driven return
			+	+
	Risk hedging	Passive risk mitigation	Semi-active risk mitigation	Active risk mitigation
			+	+
	Social impacts creation	(N/A)	Social impact attention	Social impact driven enterprise value
	ESG practice goals	Do NO harm	Mitigate risk and enhance performance	Generate significant value across stakeholder groups

Source: Monitor Deloitte Analysis

Stage 1: Compliance-driven

At this stage, the maturity of green management is low, and intrinsic drivers of value growth are based on the simple pursuit of financial returns. ESG initiatives are often limited to passive compliance with regulatory requirements, specifically in areas with strong regulatory requirements such as emissions, environmental protection, and labor protection. By fulfilling minimum regulatory requirements without proactive engagement, it ensures compliance impact on stakeholders.

Stage 2: Performance-driven

With the tightening of regulation and growing awareness of ESG concepts among investors and financial institutions, green management has matured, and the intrinsic driver of value growth has evolved from the pursuit of pure financial returns in the compliance-driven stage to the pursuit of financial returns with ESG considerations embedded. At the same time, companies have begun to proactively review and avoid potential risks in their operations and are taking a more proactive approach to long-term prevention, with some taking potential ESG impact into account as part of business decision making. ESG is a key tool for companies to explore value growth opportunities, aiming for performance improvement and risk avoidance.

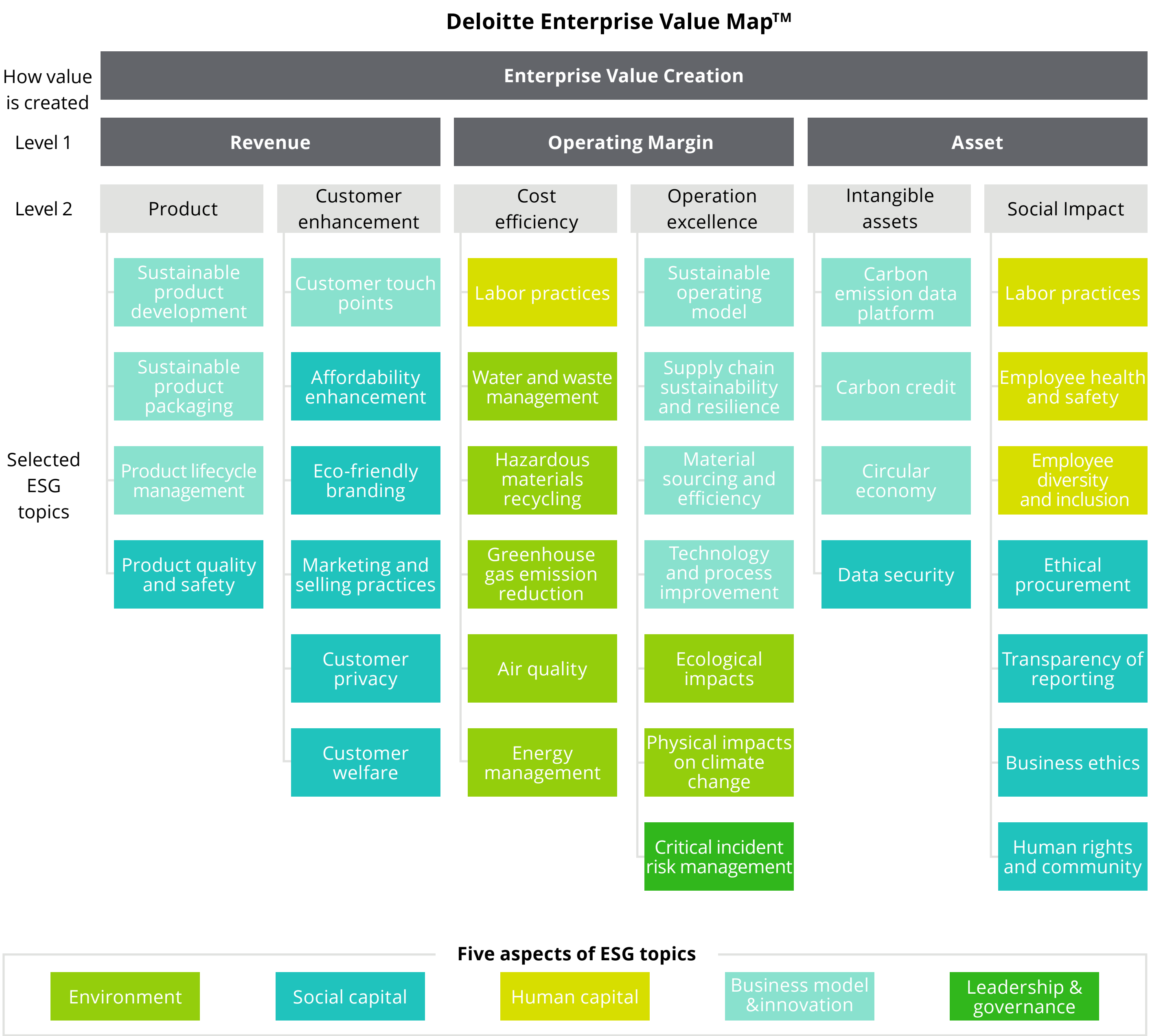
Stage3: Long-term Value-driven

Along with the penetration of ESG values in society, companies would further enhance the maturity of green management by fully embedding ESG considerations into business strategy, management, and operation. Companies have shifted their focus from the previous performance-driven stage to building more resilient and green competitive advantages through strategic transformation and business management improvement, while reducing environmental, social, and managerial risks. The goals of ESG practice at this stage are to achieve sound development through responsible management and operation and to pursue more positive social and environmental impacts.

The link between ESG practices and corporate value creation

To help companies identify the intrinsic link between ESG and corporate value creation, we apply the Deloitte Enterprise Value Map and overlay the correlation between five representative ESG practices (environment, social capital, human capital, business model & innovation, leadership & governance) and the three key drivers of corporate value creation (revenue, operating margin, and asset) where we can see how ESG practices contribute to the sustainable development of the environment and society, while creating tangible benefits for companies over the long run. Below we have selected some examples of ESG practices to help companies build a more concrete understanding.

Figure 4. The link between ESG topics and enterprise value



Source: Monitor Deloitte Analysis

- **Product |** Changing the value proposition of products, through R&D innovation, packaging, and full-cycle product carbon footprint management to reduce the environmental impact of products, promote the economic development of local communities, and meet consumer demand for sustainable products and services to drive revenue growth.
- **Customer Enhancement |** Strengthen the construction of a responsible corporate brand image in marketing and other aspects to enhance brand value and customer stickiness.
- **Cost Efficiency |** Use technology to drive and empower the maximum utilization of assets and resources.
- **Operation Excellence |** Streamline operations, identify and apply new processes and process management tools to improve management resilience for sustainable growth.
- **Intangible Assets |** Taking a holistic view, actively tracking, and managing carbon emission allowances, carbon footprint data, and other intangible assets and enabling technology to extract deep business value.
- **Social Impact |** Proactively commit to corporate social responsibility and lead all internal and external stakeholders to achieve mutual benefit and a win-win outcome.

The Challenge: Upgrading Post-Transaction Integration, ESG Unlocks Abundant Value

M&A is a crucial lever of corporate value creation. Acquisition and divestiture of assets enable companies to develop assets, technologies, and capabilities necessary for sustainable development. We foresee that the integration of the ESG concept into M&A activities will become the standard in the foreseeable future, where ESG elements will run throughout the entire M&A cycle through deal origination, execution, post-transaction integration, ownership, and exit implementation to form an organic feedback loop to unlock significant growth in enterprise value.

Refreshing post-transaction integration approach in the ESG era

In the M&A cycle, post-transaction integration is a key stage to improve investment operation and maximize return. Based on our experience, we believe that to achieve outstanding value growth in post-transaction integration and to improve the maturity of green management, ESG considerations need to be applied in the three fields of **strategy & business, operation & process, and governance & organization**.

Figure 5. Embedding ESG within the post-transaction integration (Illustrative)

	DEAL ORIGINATION	DEAL EXECUTION	OWNERSHIP	EXIT IMPLEMENTATION
Enterprise Priorities	***Find sectors and specific companies on high-growth trajectories***	***Perform robust due diligence on acquisition target to minimise risk***	***Improve operations of investment to maximise value***	***Sell for profit***
ESG Lens	**Opportunity**	**Risk / upside**	**Integration for Value Creation**	**Valuation**
Key Steps	• Perform high-level screening for ESG-related opportunities and risk factors at sector and target company level • Conduct materiality assessment cognisant of both legacy issues and future megatrends	• Perform ESG Due Diligence for inclusion in investment memorandum • Support the integration of ESG-factors into valuations • Develop ESG Action Plan to address risks and seize opportunities, ensuring sufficient visibility and influence post-investment to implement	• Work with **Board and Management** to implement ESG Action Plan • Track ESG initiatives, development and impact by defined **non-financial KPIs** • Manage quarterly **ESG reporting**, to LPs and stakeholders • Support ESG-based **value protection and creation** e.g. resource efficiencies, reduced liabilities, top talent attraction • Periodic **stress testing** of portfolio companies' ESG risks and opportunities	• Review final status of progress on ESG Action Plan • Articulate valuation contribution of achieved ESG-positioning • Perform ESG Due Diligence (VDD)
ESG Toolkit	• ESG Governance capabilities e.g. ESG Policy and Principles, Reporting • ESG Investing Guidelines (e.g. positive themes, exclusionary list, consideration of megatrends impacting portfolio sectors and markets) • ESG strategy and materiality assessment framework	• ESG ADD framework • Embedding ESG factors in the enterprise value assessment method	• **ESG ValueFocus®**[3] • Design of **ESG policies** • Standardised approach to incorporate ESG into **100 day plan**	• ESG VDD framework • Tracking of ESG initiatives, as well as any opportunities successfully taken and/or risks transformed into opportunities, to form a component of the overall narrative.

Source: Monitor Deloitte Analysis

I. Strategy & Business

While carrying out enterprise-level strategic planning after post-transaction integration, ESG-leading companies typically incorporate ESG concepts into systematic planning, combining the corporate-level and operational-level strategies, integrating various operational and functional strategies, and avoiding treating ESG as a standalone management issue. We have summarized and refined a set of strategic sustainable development methodologies, aimed at assisting companies in simplifying their strategic-planning process and clarifying their future development direction.

Figure 6. Strategic choice cascade for enterprise's sustainable development

What are our goals and aspirations?

- **Define sustainability vision and de-carbonization goal** aligning with business goals and maximize social ESG impact
- **Develop quantifiable de-carbonization targets and actionable roadmap** in line with the industrial characteristics and obtain support from broad stakeholders

Where will we play?

- Based on scenario analysis of challenges and opportunities of carbon neutrality, **optimize business portfolio, reduce ESG risk of assets,** and deploy green businesses
- **Identify key ESG materiality based on the company's strengths and resources**, focus on the selected areas to amplify impacts

How will we win?

- Drive business model innovation, product and service design embedded with **sustainable mindset**
- **Promote sustainability value with business partners throughout the value chain** while reducing its own carbon emission

What capabilities are required?

- During the integration process, **identify capacity gaps** in open-ended innovation, digitalization, decarbonization technologies, etc.
- As the financial value of carbon asset gradually emerged, **carbon asset mgmt. as well as mgmt. capabilities will be indispensable**

What kind of Org. and mgmt. system required?

- **Determine governance structure suitable for reaching its sustainable goals,** with R&R and processes clearly set
- Optimize performance management, including **KPIs and evaluation system**
- **Optimize in-house talent system required for enhancing business green mutuality**
- Enhance leadership with **sustainability mindset and company culture**

Source: Monitor Deloitte Analysis

- **Vision and Goals |** The sustainability vision and goals determine how fast and far a company can pursue its sustainable development objectives. Integrated ESG goals should align with the corporate vision and positioning, where it is coherent with the business on the one hand while also fully maximizing ESG impact on the other. Formulating quantifiable goals and actionable roadmap on this basis would be consistent with industry characteristics to obtain broad support from stakeholders.
- **Where to play |** Based on the redefined vision and mission, combined with industry factors, the company identifies key ESG materiality based on its strengths and resources, prioritized according to stakeholders' recognition of ESG materiality and its impact on business performance, and optimized to avoid ESG risk exposure. In practice, the consideration of ESG materiality varies by industries. Taking carbon neutrality as an example, we observe that during the implementation phase, ESG-enhanced strategic focus could vary according to industry, which can be broadly divided into three types - justifying existence, building competitive advantage, and new business incubation.

Figure 7. Three types of strategic focuses for carbon neutrality

Strategic Focus	Representative Industries		
Justify existence Focus on operation decarbonization to respond to policy and compliance risks	Electricity	Iron/Cement	Petrochemical
Building competitive advantage Minimize products' carbon footprint to transform sustainability into product competitiveness that attracts consumers	Automotive	Consumable	Real Estate
New business incubation Develop new products and services to empower sustainable development of customers with its own capabilities and resource advantages	Financial Institutions	Internet/Tech	Waste mgmt.

Source: Desk Research, Monitor Deloitte Analysis

- **Justify existence:** Relates primarily to energy and material extraction industries, where carbon emissions are a natural by-product of their operations, making carbon emissions reductions a top priority. If these companies cannot achieve significant decarbonization objectives, they will have to purchase carbon emission credits which will increase operating cost or potentially face punitive penalties and even closure of facilities. Thus, developing carbon asset management, operating capabilities and mastering technologies such as carbon capture, utilization, and storage (CCUS) and renewable energy will be vital to achieving strategic transformation towards carbon neutrality.
- **Building competitive advantage:** Primarily for consumer-facing industries such as automotive, FMCG, and real estate. Carbon emissions from operations account for a relatively small proportion of the entire product life cycle. Hence, achieving decarbonization along the value chain and integrating sustainability into products and services to engage with consumers enables differentiated value propositions and competitive advantages.
- **New business incubation:** Financial institutions, internet technology companies, and waste management industries can provide decarbonization technology, finance, and digital solutions. Reacting to increasing decarbonization demands from various industries, these companies can embrace new growth engines and strategic opportunities, followed by potential synergies between incubated new businesses and existing businesses.

- **How to win |** While reducing carbon emissions and achieving operational decarbonization, companies drive business model innovation and embed product and service design with a sustainable mindset to reduce costs, increase efficiency, and improve profitability. At the same time, companies may promote ESG values with business partners throughout the value chain, leading stakeholders to create a sustainable ecosystem.
- **Capabilities required |** The existing technical resources and capabilities often cannot support achieving sustainable development goals. Accordingly, companies may identify capability gaps and build key competencies such as open-ended innovation, carbon asset tracking and management, digitalization, decarbonization technologies, and ESG talent training to provide the basis for future strategy implementation.
- **Management system |** ESG-leading companies typically establish ESG committees, management offices, and working groups. The committees are responsible for defining and clarifying organizational division and management processes at all levels and optimizing performance management systems based on quantifiable sustainable goals. In addition, enhancing top down ESG leadership with a sustainability mindset and company culture is indispensable for strengthening employees' ESG awareness.

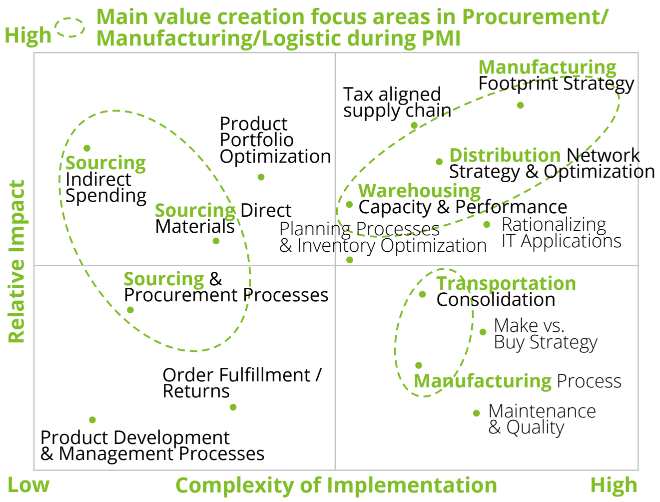
II. Operation & Process

Post-transaction integration with embedded ESG considerations in optimizing operation and process, focuses on exploring potential value enhancement in reducing environmental burden and expanding positive social impact. Based on Deloitte's industry insights, the critical success factors of ESG-leading companies in post-transaction integration include:

- Closed loop execution of ESG practices: Implement the process of Plan → Do → Check → Act to ensure the precise implementation of each action plan and continuous tracking and optimization.
- ESG information transparency and clear division of roles and responsibilities: Enhanced communication within the team on integration policies, ESG strategies, action plans, etc., to ensure a clear division of roles and responsibilities and a collaborative working environment in ESG post-transaction integration implementation.
- Build an ESG ecosystem: Export ESG concepts and guide business partners within the value chain to develop ESG initiatives through information, experience sharing, and business cooperation, thus fostering the maturity in the market.

In the post-transaction integration process, the screening of potential value enhancement areas and the formation of quick win strategies are generally considered along the dimensions of implementation complexity and financial returns. Taking procurement, manufacturing, and logistics as examples of the main functions of the supply chain, ESG related transformation in areas such as procurement management, manufacturing process, and logistics optimization could generate scale effect post-transaction.

Figure 8. Main value creation focus areas during post-transaction integration—procurement, manufacturing, and logistics as example



Embedding ESG considerations in the value creation areas mentioned above enable new perspectives to initiate strategic upgrades.

- **Procurement management:** Incorporate ESG assessment and qualification processes in supplier development and management mechanisms; develop supplier KPI evaluation standards and promote them to the supplier network; develop and promote supplier ethical procurement policies to meet overall ESG goals; achieve a win-win situation for both procurement management and social impact improvement.
- **Manufacturing process:** Install clean energy equipment to improve operational energy efficiency; strengthen carbon footprint management throughout the entire product life cycle; achieve cost optimization; leverage intangible assets; achieve a win-win situation of carbon neutrality with downstream stakeholders.
- **Logistic efficiency:** Adopt clean energy and new technologies to improve vehicle efficiency and reduce emissions; design and promote assessment policies for downstream logistic suppliers for carbon emission reduction; promote excellent operation and sustainable development of the overall industry.

Source: Desk Research, Monitor Deloitte Analysis

Figure 9. Typical ESG practices in value creation areas during the post-transaction integration – procurement, manufacturing, and logistics

Procurement

Procurement Management

- Incorporate **ESG assessment and qualification processes** in supplier management mechanism
- Collect and assess **accurate ESG data of the upstream supply chain** timely
- Develop and promote **supplier ethical procurement codes** for suppliers to meet overall ESG goal

Manufacturing

Manufacturing Process

- Identify **new technology and manufacturing process management tools** and constantly improve supply chain efficiency for energy & waste saving
- Upgrade manufacturing technique for sustainable product packaging, **enhance the product lifecycle carbon footprint management**
- **obtain and analyze ESG data and maximize data value for** carbon neutrality realization

Logistics

Logistics Efficiency

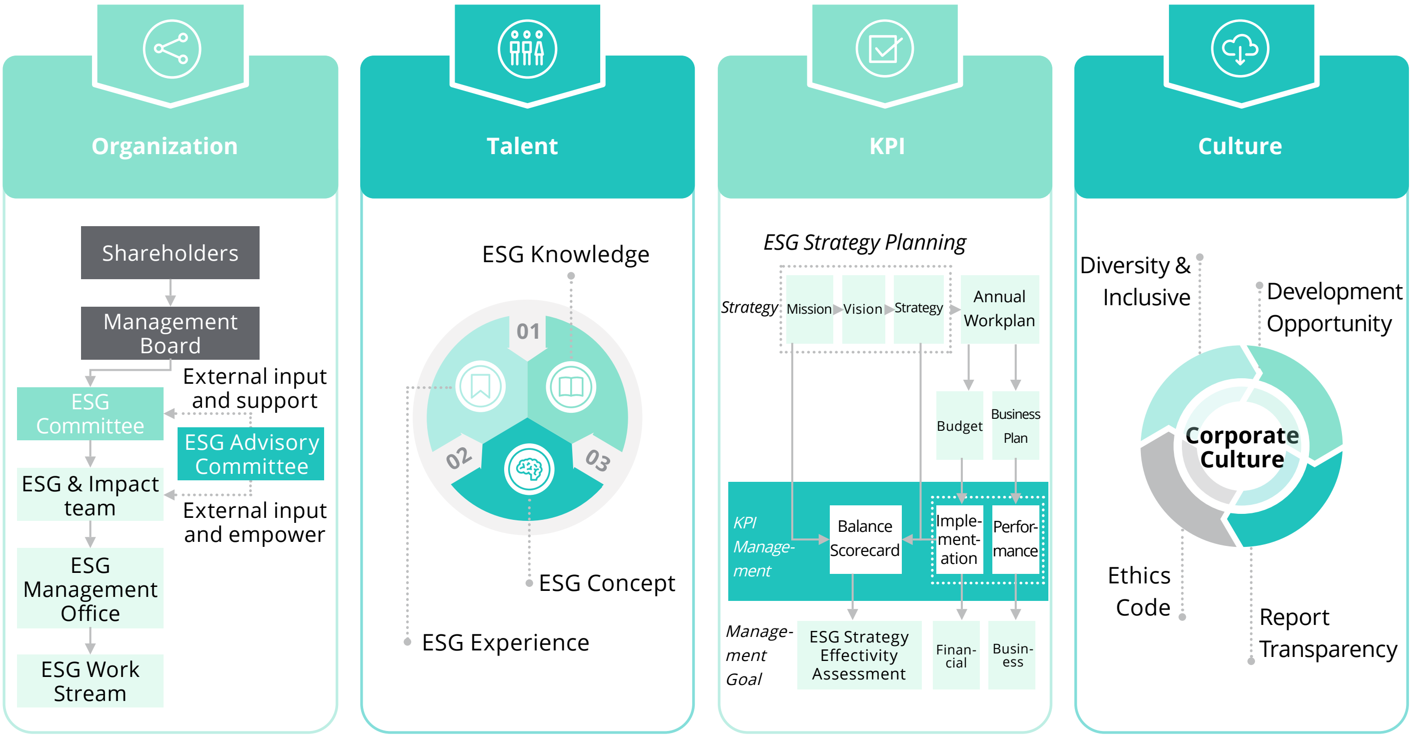
- **Switching to green energy resources and upgrading IT system** to improve vehicle allocation efficiency and reduce energy consumption
- **Screen and adopt new technologies** to improve vehicles' efficiency and reduce emission
- **Design and promote assessment policies for downstream logistic suppliers** for carbon emission reduction

Source: Desk Research, Monitor Deloitte Analysis

III. Governance & Organization

In traditional post-transaction integration process, companies typically implement integration practices from the dimensions of organization, talent, KPI, and culture to ensure a smooth transition and integration of corporate cultures. Embedding ESG considerations will uncover new perspectives to the above four dimensions.

Figure 10. Typical ESG practices—organization, talent, KPI, and culture



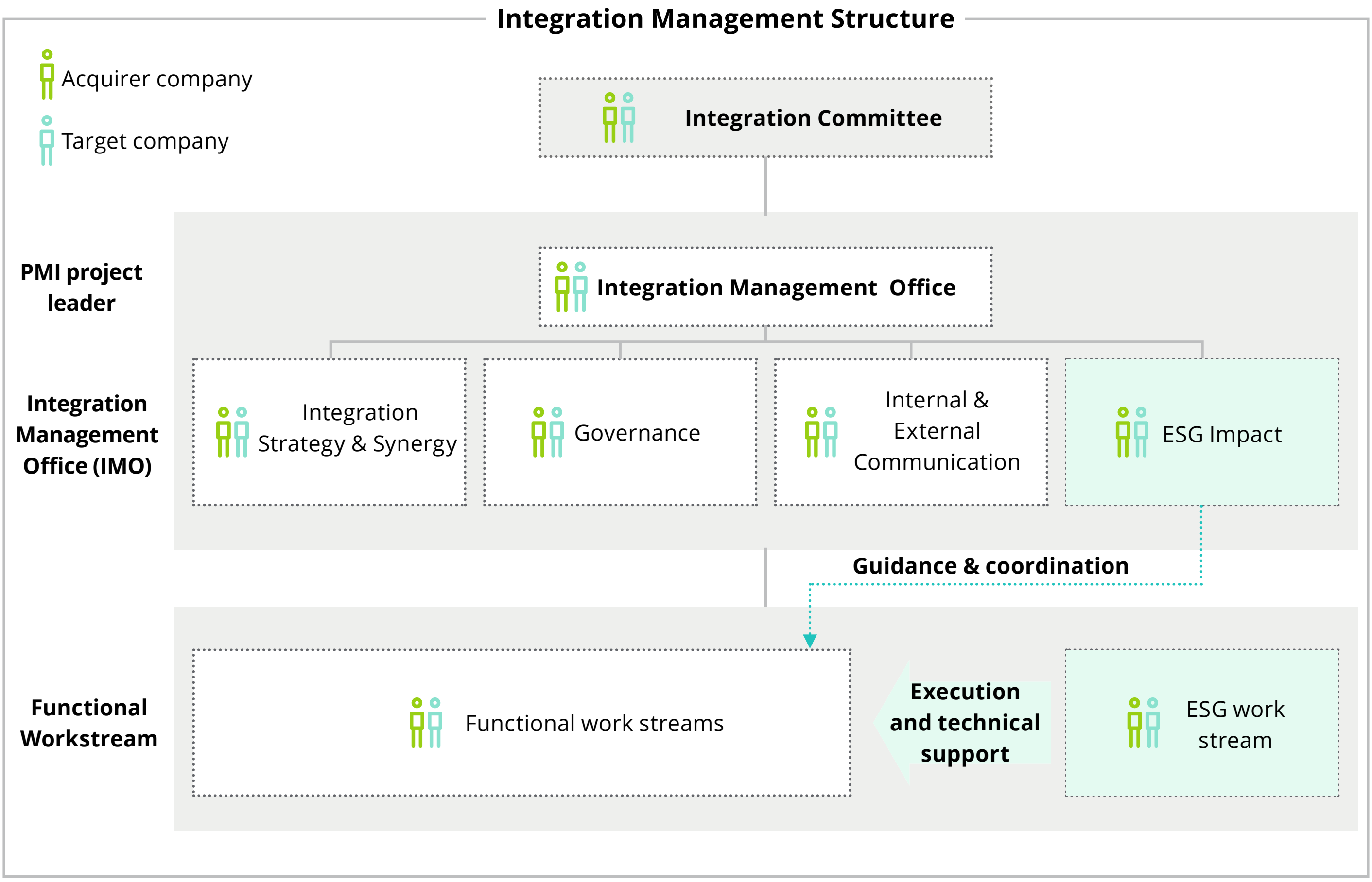
Source: Desk Research, Monitor Deloitte Analysis

- **Organization |** Promote sustainable development management starting from the Board; establish principles and authorization framework to enable top-down collaboration and in-depth participation from the Board; ensure alignment with business strategy; determine and optimize management structure based on the company's specific situation.
- **Talent |** Identify gaps in ESG talents; build a professional ESG team with members from diversified backgrounds and expertise with a clear structure of roles and responsibilities; incorporate feedback from relevant departments to optimize the talent training system.
- **KPI |** KPI is the key to ensuring the effective implementation of ESG strategies; companies need to set ESG-related KPIs to track ESG performance, calibrate corresponding incentives to support the overall strategy, and adjust the KPI system accordingly.
- **Culture |** Embed ESG elements into corporate culture and values; form a strong cultural awareness of sustainable development; align ESG goals with key cultural metrics

The embedding of ESG elements in post-transaction integration requires an upgrade of the Integration Management Office

The Integration Management Office (IMO), is the central institution to promote transaction execution and integration, leads the formulation of the Day100 plan and plays a bridging role across various stakeholders within the company. After embedding ESG considerations, the Integrated Management Office needs to incorporate an ESG Impact team as well as an ESG workstream to effectively facilitate top-down ESG management and form a well-coordinated working mechanism both horizontally and vertically within an organization.

Figure 11. ESG embedded in post-transaction integration management structure (Illustrative)



Source: Desk Research, Monitor Deloitte Analysis

- **ESG impact group |** Provides guidance for functional work streams as part of the Integration Management Office and ensures the alignment of goals, norms, and principles; designs overall ESG policies in the post-transaction integration period based on the company's sustainable development vision; provides coordination and information input for functional work streams; regularly assess the financial and non-financial impact of ESG initiatives and report to the Integration Management Office and the company's ESG Committee, etc.
- **ESG work stream |** Provides technical support and professional input to the functional work streams in ESG initiative implementation; supports each functional work stream to develop an ESG execution plan; regularly assesses implementation progress and reports to the Integration Management Office, the company's ESG Committee, and the ESG Impact group, etc.

Concluding Remarks

With an increasing focus on sustainable development, ESG will become an indispensable part of corporate M&A integration. This change will no doubt help to enhance the competitiveness and attractiveness of companies in the capital market, which in turn will create a virtuous cycle of resilience and longer-term value creation capabilities.

ESG elements should be embedded in the M&A integration process at three levels: strategy & business, operation & process, and governance & organization, which is a fundamental change in how companies operate. Challenging though it may be, it also presents a huge opportunity. As a leading global management consulting service provider, with an extensive suite of methodologies, ESG tools, and end-to-end M&A experience, Deloitte is well positioned to help companies embrace ESG in M&A and post-transaction integration operations to decisively win in the post-pandemic era.

Contacts

For further discussion about how ESG can help companies enhance value in the post-transaction integration process, please contact:

Deloitte Consulting China

Chen (Victor) Wei Hao
Deloitte Consulting China, Mergers & Acquisitions Offering Leader
Email: vicchen@deloitte.com.cn

Teo Chee Wee
Deloitte Consulting China, Partner
Email: cheeweeteo@deloitte.com.cn

Liu (Gordon) Yun Feng
Deloitte Consulting China, Director
Email: gordliu@deloitte.com.cn

Special thanks to Liang Feng, Min Zhao, Xinyi Zhang, and Yuan Zou, who made their contribution to the publication.

Endnotes

1. Deloitte Insights, "Measuring the business value of corporate social impact", 2020/7/31
2. MSCI (Morgan Stanley Capital International), Morgan Stanley Capital International, is a leading global provider of financial information. Its MSCI index is the most influential stock index in the world and the most used benchmark index by global portfolio managers. MSCI MSG China ESG Index is the universal index of China A-share RMB ESG. Companies with higher ESG ratings receive higher weights, and the weighted sectors are energy equipment, banking, food and beverage, pharmaceuticals and biotechnology, non-banking finance, electronics, automotive, etc. The indexes are adjusted to remove some underlying companies with poor ESG ratings from the parent index, and then adjust the weights of the remaining stocks according to their ESG ratings.
3. ESG ValueFocus® is an end-to-end ESG M&A framework developed by Deloitte to guide corporate transactions from a strategy perspective, with elements including but not limited to long-term value creation through due diligence and post-transaction integration.

Office locations

Beijing
12/F China Life Financial Center
No. 23 Zhenzhi Road
Chaoyang District
Beijing 100026, PRC
Tel: +86 10 8520 7788
Fax: +86 10 6508 8781

Changsha
20/F Tower 3, HC International Plaza
No. 109 Furong Road North
Kaifu District
Changsha 410008, PRC
Tel: +86 731 8522 8790
Fax: +86 731 8522 8230

Chengdu
17/F China Overseas
International Center Block F
No.365 Jiaozi Avenue
Chengdu 610041, PRC
Tel: +86 28 6789 8188
Fax: +86 28 6317 3500

Chongqing
43/F World Financial Center
188 Minzu Road
Yuzhong District
Chongqing 400010, PRC
Tel: +86 23 8823 1888
Fax: +86 23 8857 0978

Dalian
15/F Shenmao Building
147 Zhongshan Road
Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou
26/F Yuexiu Financial Tower
28 Pearl River East Road
Guangzhou 510623, PRC
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121

Hangzhou
Room 1206
East Building, Central Plaza
No.9 Feiyunjiang Road
Shangcheng District
Hangzhou 310008, PRC
Tel: +86 571 8972 7688
Fax: +86 571 8779 7915

Harbin
Room 1618
Development Zone Mansion
368 Changjiang Road
Nangang District
Harbin 150090, PRC
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056

Hefei
Room 1506 Tower A China Resource Building
No.111 Qian Shan Road
Shu Shan District
Hefei 230022, PRC
Tel: +86 551 6585 5927
Fax: +86 551 6585 5687

Hong Kong
35/F One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2852 1600
Fax: +852 2541 1911

Jinan
Units 2802-2804, 28/F
China Overseas Plaza Office
No. 6636, 2nd Ring South Road
Shizhong District
Jinan 250000, PRC
Tel: +86 531 8973 5800
Fax: +86 531 8973 5811

Macau
19/F The Macau Square Apartment H-L
43-53A Av. do Infante D. Henrique
Macau
Tel: +853 2871 2998
Fax: +853 2871 3033

Nanchang
Unit 08-09, 41/F Lianfa Plaza
No.129 Lv Yin Road
Honggutang District
Nanchang 330038, PRC
Tel: +86 791 8387 1177

Nanjing
40/F Nanjing One IFC
347 Jiangdong Middle Road
Jianye District
Nanjing 210019, PRC
Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Ningbo
Room 1702 Marriott Center
No.168 Heyi Road
Haishu District
Ningbo 315000, PRC
Tel: +86 574 8768 3928
Fax: +86 574 8707 4131

Sanya
Floor 16, Lanhaihuating Plaza
(Sanya Huaxia Insurance Center)
No. 279, Xinfeng street
Jiyang District
Sanya 572099, PRC
Tel: +86 898 8861 5558
Fax: +86 898 8861 0723

Shanghai
30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: +86 21 6335 0003

Shenyang
Unit 3605-3606,
Forum 66 Office Tower 1
No. 1-1 Qingnian Avenue
Shenhe District
Shenyang 110063, PRC
Tel: +86 24 6785 4068
Fax: +86 24 6785 4067

Shenzhen
9/F China Resources Building
5001 Shennan Road East
Shenzhen 518010, PRC
Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Suzhou
24/F Office Tower A, Building 58
Suzhou Center
58 Su Xiu Road, Industrial Park
Suzhou 215021, PRC
Tel: +86 512 6289 1238
Fax: +86 512 6762 3338 / 3318

Tianjin
45/F Metropolitan Tower
183 Nanjing Road
Heping District
Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 8312 6099

Wuhan
Unit 1, 49/F
New World International Trade Tower
568 Jianshe Avenue
Wuhan 430000, PRC
Tel: +86 27 8538 2222
Fax: +86 27 8526 7032

Xiamen
Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 298
Fax: +86 592 2107 259

Xi'an
Unit 3003, 30/F China Life Finance Centre
11 Tangyan Road, High-tech Zone
Xi'an 710075, PRC
Tel: +86 29 8114 0201
Fax: +86 29 8114 0205

Zhengzhou
Unit 5A10, Block 8, Kineer Center
No.51 Jinshui East Road
Zhengdong New District
Zhengzhou 450018, PRC
Tel: +86 371 8897 3700
Fax: +86 371 8897 3710

MAKING AN IMPACT THAT MATTERS since 1845

About Deloitte
Deloitte China provides integrated professional services, with our long-term commitment to be a leading contributor to China's reform, opening-up and economic development. We are a globally connected firm with deep roots locally, owned by our partners in China. With over 20,000 professionals across 30 Chinese cities, we provide our clients with a one-stop shop offering world-leading audit & assurance, consulting, financial advisory, risk advisory, tax and business advisory services.

We serve with integrity, uphold quality and strive to innovate. With our professional excellence, insight across industries, and intelligent technology solutions, we help clients and partners from many sectors seize opportunities, tackle challenges and attain world-class, high-quality development goals.

The Deloitte brand originated in 1845, and its name in Chinese (德勤) denotes integrity, diligence and excellence. Deloitte's professional network of member firms now spans more than 150 countries and territories. Through our mission to make an impact that matters, we help reinforce public trust in capital markets, enable clients to transform and thrive, empower talents to be future-ready, and lead the way toward a stronger economy, a more equitable society and a sustainable world.

Designed by CoRe Creative Services. RITM1261247

This is printed on environmentally friendly paper