

## End 2 End M&A

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EQUIPMENT WHOLESALER | HVAC | THE NETHERLANDS

# ESG due diligence identifies and assesses potential deal- and sustainability-related risk

**Deloitte's ESG due diligence enables timely identification and assessment of sustainability related risks.**

### Client Issue

Our client, a large listed French distributor of electrical, heating, lighting and renewable energy products was in the process of acquiring a leading distributor of HVAC (Heating, Ventilation, and Air Conditioning) products and services in the Netherlands.

To strengthen its commitment to reducing its greenhouse gas (GHG) emissions, our client linked the financing conditions of a bond to the achievement of its direct and indirect emissions-reduction targets. This resulted in a very favorable interest rate, but also meant that certain GHG reduction targets must be met, to prevent an increase in the rate if not achieved.

There was a concern that the acquisition of the Dutch target could jeopardize our client's ability to meet its GHG reduction targets, and thereby trigger the interest rate penalties with a significant financial impact.

Deloitte's ESG due diligence identified a sustainability-related risk that could potentially terminate the transaction. Our assessment and quantification of this risk provided our client with clear guidance on how to proceed.

## Solution

As part of Deloitte's ESG due diligence services, the potential breach of the sustainable bond covenants was highlighted in our red flag report.

The target's sustainability reporting was not at a level whereby the impact of its GHG emissions could be readily assessed. A consolidated view of the post acquisition GHG emissions and potential impact on the sustainable bond's conditions could therefore not be easily compiled.

In collaboration with our client, Deloitte formulated an approach whereby we could obtain the relevant product and volume data from the target, and process this into the model used by our client to generate comparable GHG emission data.

This analysis enabled us to perform estimates on what the consolidated GHG emission impact would be post acquisition, and consequently whether there would be any significant risks in breaching the sustainable bond conditions.

Our conclusion was that even after allowing for an acceptable margin of error, the impact of the acquisition would not result in combined GHG emissions that would breach of the sustainable bond conditions and result in interest rate penalties.



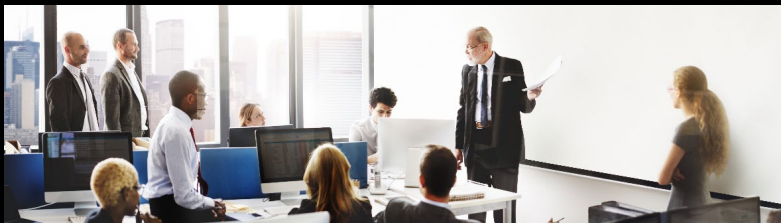
## Impact

Overall, the biggest impact of Deloitte's involvement was the elimination of uncertainty pertaining to the sustainability risk and providing the client with the confidence to pursue and conclude their transaction.

Deloitte's ESG due diligence identified a risk that could potentially result in the termination of the transaction. As this was a relatively new type of risk, it required careful analysis and consideration.

Not only did we identify the risk, but we also performed further analysis and quantification to assess the potential impact so that our client could make an informed decision.

We believe our multi-skilled team and experience was a valuable contributor in assisting our client in solving this challenge.



## Contact



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