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Private Equity Index

Deloitte Private Equity

2025

Foreword

Now in its second year, the annual Deloitte Private Equity (PE) Index explores the impact of the changing dynamics of long-term value creation. It recognises that the pursuit of profit, once the sole driver of business decisions, is no longer sufficient in today's rapidly evolving landscape. Governments, investors, consumers, and society at large are demanding a more holistic approach – one that recognises the interconnectedness of people, planet, and profit in creating lasting value. Now, more than ever, the finite nature of human and natural capital used in the pursuit of profit needs to be recognised.

This report delves into the complex relationship between these three pillars, examining the extent to which Private Equity backed consumer businesses are successfully balancing financial performance with their social and environmental impact. Through a data-driven analysis spanning a wide range of factors, we provide a nuanced and timely assessment of the industry's progress towards sustainable value creation. This methodology is designed to move from theoretical sustainability to data-driven sustainability, recognising the direction of travel in respect of the transformation of the economy. This is particularly pertinent given emerging regulatory obligations and offers a unique perspective in that it brings all three pillars together.

The findings, while anonymised, reveal a sector in transition. While many Private Equity backed businesses are demonstrating a growing commitment to principles beyond what is required by regulation, significant gaps remain. From climate action and resource efficiency to employee well-being and diversity, the data highlights areas where greater ambition and action are needed to align with the expectations of investors, regulators, and society.

This is further underscored by recent UK Government announcements, including the strengthened Nationally Determined Contributions (NDCs) unveiled at COP29. These commitments, aimed at accelerating the transition to a net zero economy, will have far-reaching implications for businesses operating in the UK. From mandatory climate-related financial disclosures to stricter environmental regulations and growing investor pressure for sustainable practices, the policy landscape is shifting rapidly, creating challenges and opportunities for Private Equity firms and their portfolio companies.

This report serves as a vital resource for Private Equity firms seeking to navigate this evolving landscape of value. By providing insights into leading practices, identifying areas for improvement, and highlighting the tangible benefits of a holistic approach, we aim to empower the industry to embrace sustainability not as a constraint, but as a source of profitability, predictability and defensibility in business models – the key metrics which drive valuation and multiples.

The journey towards a truly sustainable future demands collaboration, innovation, and a steadfast commitment to measuring and improving performance across profit, people and planet. This report is a call to action for the Private Equity industry to embrace its role as a force for positive change, demonstrating that financial success and a sustainable future are not mutually exclusive, but rather, inextricably intertwined.

Anne-Marie Laing
Private Equity Leader
Technology & Transformation

Contents

Creating the Deloitte PE Index

Often Private Equity performance is benchmarked on size of deals or the most recent fundraising round. We set out to create the PE Index to benchmark performance based on the value PE firms create during the hold period of their portfolio companies.

We applied a triple bottom line lens to value creation to reflect value for people, value for the planet and value through profit. This reflects the changing dynamics of domestic and international economies and the evolving drivers of future value. This is particularly relevant given the investment cycles of PE firms and explores how businesses must evolve to ensure they maintain profitable business models and a license to operate within emerging sustainable economies.

The PE Index is an outside-in assessment from publicly available data on large, UK-based, PE backed consumer companies. This mirrors the information a potential investor gathers during the early stages of a sales process, the due diligence a CXO might do before joining a team, or what a discerning customer might try to understand about the companies they buy from.

Each of profit, people and planet had a maximum of 100 points, for a total potential score of 300. By evenly weighting each, we set out to understand the balance between metrics and how investing in one area might impact others. We scored portfolio companies on their individual performance against sector and subsector peers and across the entire population.

The data collected was for financial years ending 2023 with a three year look back to 2020 and is not publicly available at a collective level. The 25,000 data points are used to identify trends and patterns within this cohort of 139 UK-based, Private Equity backed companies with 826,000 employees and a total revenue of £161 billion.

As the PE Index is based on lag indicators, the data may show economic recovery and actions taken for people and planet, but it does not necessarily reflect the political and economic pressures experienced in the second half of 2024 or the impacts of new policies and regulations from the change in government on business.

139
companies in this year's PE Index across the Consumer, Retail, Hospitality, Travel and Transport sectors

2.5%
of the UK workforce covered by the 826,271 people directly employed by PE Index Companies

25,000+
data points captured from publicly available sources to compare companies across the PE Index

Profit

'Maximising economic impact'

Measured across growth, margin, return and economic contribution

People

'Positively impacting all stakeholders'

Measured across human capital, diversity, equity and inclusion, supply chain and social capital

Planet

'Protecting our natural capital'

Measured across attitude, ambition and action

Key findings

Triple bottom line

22%
of companies grew both headcount and EBITDA margin while reducing absolute own emissions.

8
companies scored in the top quartile of performance in all three categories: People, Planet and Profit.

9
companies grew EBITDA margin whist also taking steps to tackle Scope 3 emissions and improve supplier payment terms.

Profit

2.3x
higher EBITDA growth post pandemic by female led companies vs. PE Index peers

17.4%
median **three-year revenue cumulative average growth rate** across the PE Index

0.7
median **percentage point (PP) increase on three-year EBITDA margin increase** – significantly compressed compared with topline growth

£188,500
Average employee productivity (revenue generated per employee)

People

5.3%
Weighted **average median gender pay gap – significantly lower** than the UK median of 13.1%

10%
of companies in the PE Index **are led by females compared with 8% across the FTSE 350**

13%
of PE Index companies reported a **cyber or data incident** in the two years to June 2024

5.7%
Median annual workforce growth across the PE Index companies

Planet

46%
of companies **reduced their absolute Scope 1 and Scope 2 emissions**

53%
of companies have **publicly stated their net zero ambition**

2040
Average net zero target year across the PE Index

25%
of companies **tracked and measured more than one category of Scope 3 emissions**

How companies are balancing the triple bottom line

Two out of three ain't bad?

Companies continue to struggle to balance their impact across profit, people and planet, however there was a positive (albeit varying) correlation between scores. Many companies scored consistently in two categories with the third category lagging.

People and planet scores had the highest level of correlation – those who scored highly in one were more likely to score highly in the other. There was a further positive correlation between people and profit scores but the connection between planet and profit scores, although positive, was weak.

Like last year the scores were mostly evenly spread, with 51% of companies in the PE Index scoring in the top quartile of one or more categories of profit, people or planet. 20% of companies scored in the top quartile of two or more categories. Eight companies ranked in the top quartile across the triple bottom line.

Impacts of an outside-in assessment

The median profit score was higher than the median scores for people and planet. While this is not surprising given PE firms have traditionally been measured on returns to investors, we expect this to shift as Private Equity funds adjust for portfolio company business models fit for a net-zero economy.

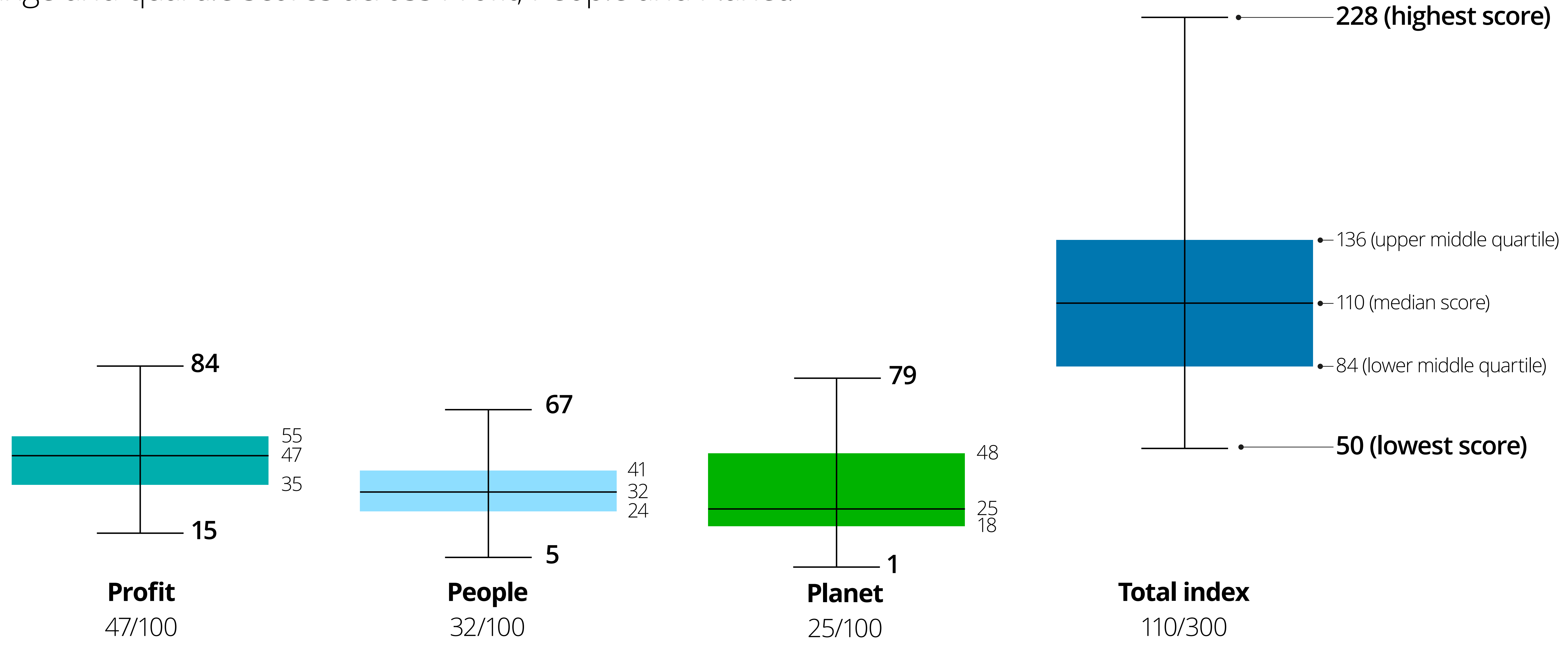
Scores are driven from data obtained in the public domain and are a representation of the public persona of the companies assessed. Some disparity in scores results from deviation in performance and some is due to limited disclosures.

Data for people and planet metrics was disparate, as regulations for private companies in these areas remain less prescriptive than for their publicly-traded peers.

Greater transparency in reporting for profit metrics, coupled with profitability post-COVID 19, meant scores tended to be higher in the profit category.

Range of scores across the index

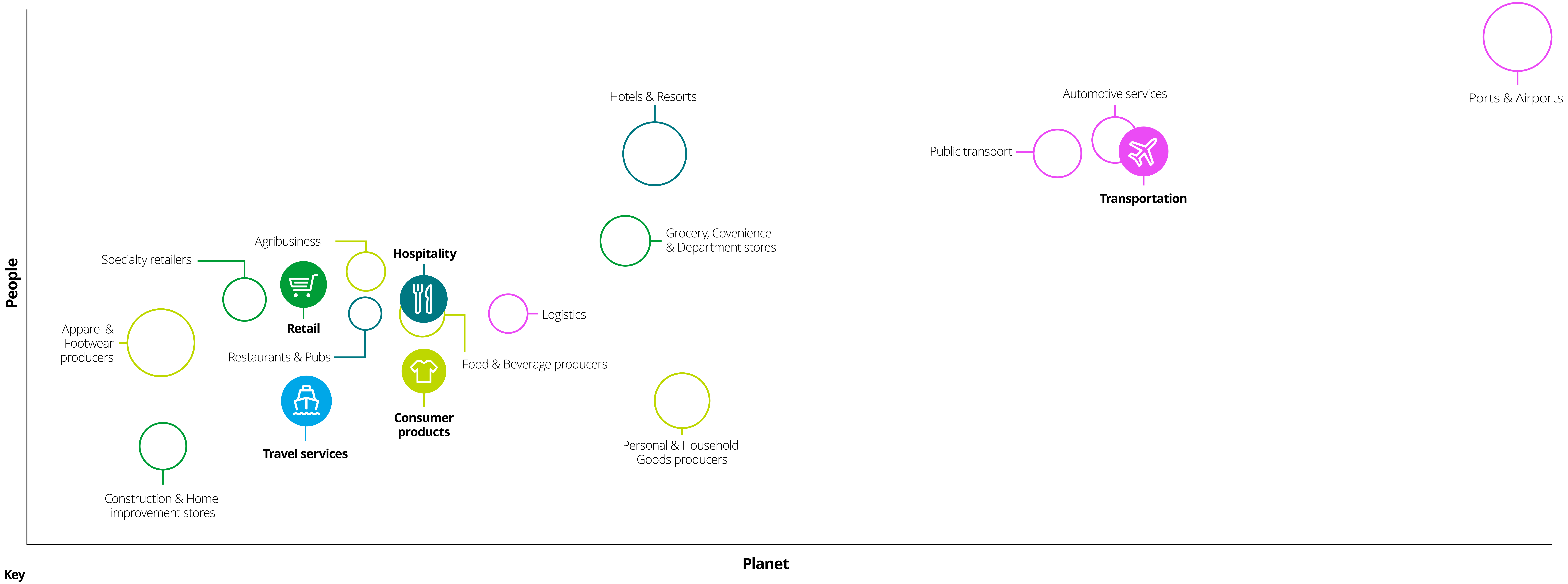
Range and quartile scores across Profit, People and Planet.



Source: Deloitte analysis conducted 2024

How sectors are balancing the triple bottom line

Sector performance across Profit, People and Planet
Median sector and subsectors scores in the Index across Profit (Bubble size), People (Y axis) and Planet (X axis) out of 100 possible points.



Key
Bubble size reflects Profit Score   Outlined bubbles reflect subsector scores (colour coded to sector)

Source: Deloitte analysis conducted 2024

Transparency versus behaviour

The Deloitte PE Index tracks performance across a variety of metrics, some focussed on policies and reporting and others focussed on actions and behaviours. Our scoring system emphasises a balance between having policies and reporting in place, and these policies driving action and outcomes for stakeholders.

Action vs Attitude

Across the PE Index, we assessed 'attitude and ambitions' toward the planet as the policies and governance a company has in place and publicly discloses. Planet 'actions' were measured as reduction in emissions, measurement of scope 3 emissions, use of renewable energy, and other steps the company is taking to reduce environmental impact.

People 'actions' were measured as workforce growth, diversity, equity and inclusion efforts, improvement in supplier payment practices, pension contributions and other actions taken to benefit and protect employees, those in the supply chain, and wider society. People 'attitudes and ambitions' included disclosures around workforce, supplier payment practices, data privacy incidents and ethical business certifications.

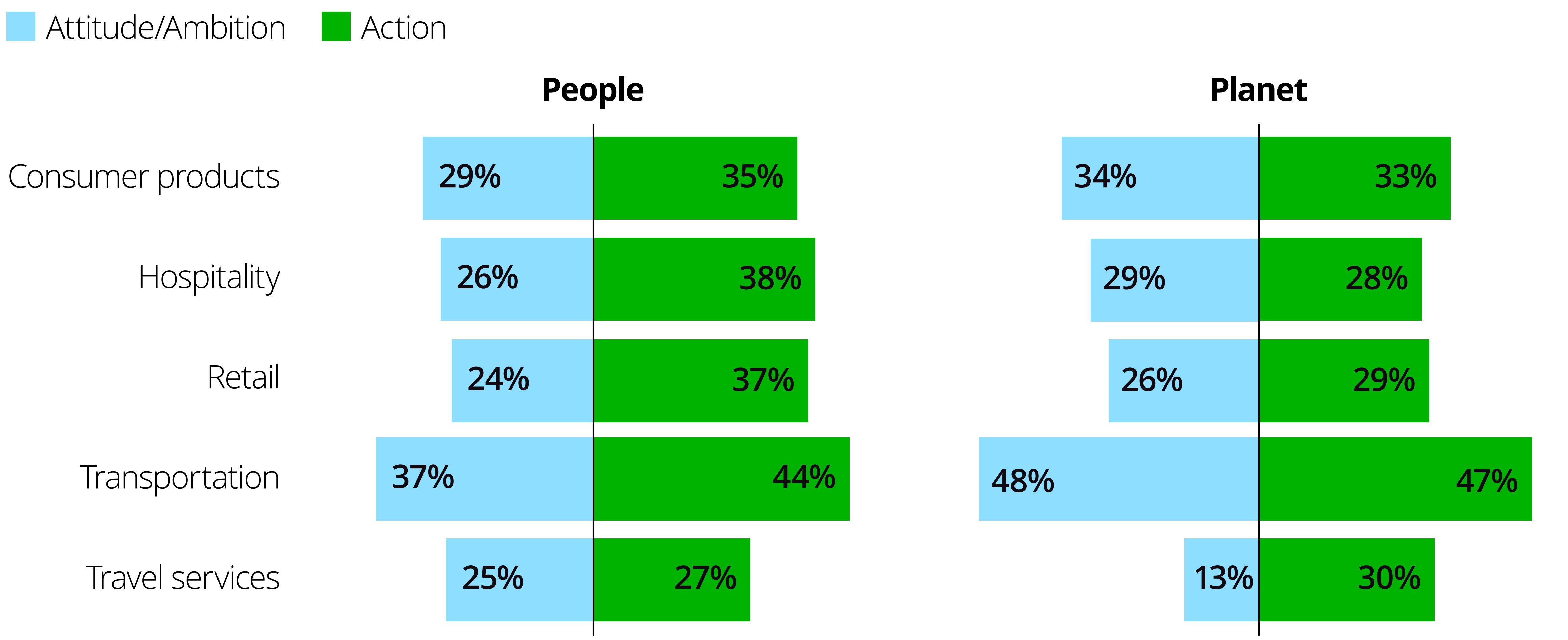
While completing the analysis, we noted a difference in scores between metrics that measured the attitudes, policies and ambitions of a company and those that measured the actions the company was taking.

Many of the differences were echoed within subsectors, providing an interesting lens to view **who is talking about improving triple bottom** line value and **who is taking action to deliver it.** In general, companies scored consistently for their attitudes, ambitions and actions towards the planet. Companies earned more points for people actions than for their people policies and disclosures.

Transparency, reporting and appropriate policies to drive good behaviour are important, so we would not want to see the attitude / ambition score close to zero. That said, **we cannot report our way to a net zero economy or a happy workforce, so actions remain critical.** It is promising to see the planet action scores improving this year compared with last year.

Sector transparency versus behaviour

Sector performance on 'action' metrics versus 'attitude/ambition and policy' metrics based on mean sector scores out of 100%



Source: Deloitte analysis conducted 2024

The shape of economic recovery for PE backed businesses

The cohort studied in this analysis demonstrated robust financial performance overall, driven by strong revenue growth and expanding profit margins in many sectors. However, a nuanced picture emerges upon closer examination.

The majority of companies (128) experienced revenue growth between 2020 and 2023, with 104 companies also achieving EBITDA growth. However, 63 companies experienced margin contraction despite revenue growth, highlighting the impact of inflationary pressures and requiring careful cost management.

Sector-specific dynamics, margin pressures, and company-specific challenges require careful consideration when assessing performance and making investment decisions. The ability to navigate these complexities and drive both top-line growth and bottom-line profitability will be crucial for Private Equity firms to continue delivering strong distributions in an increasingly complex and competitive market environment.

Post-pandemic growth

Median sector and subsector growth across topline, EBITDA and EBITDA margin

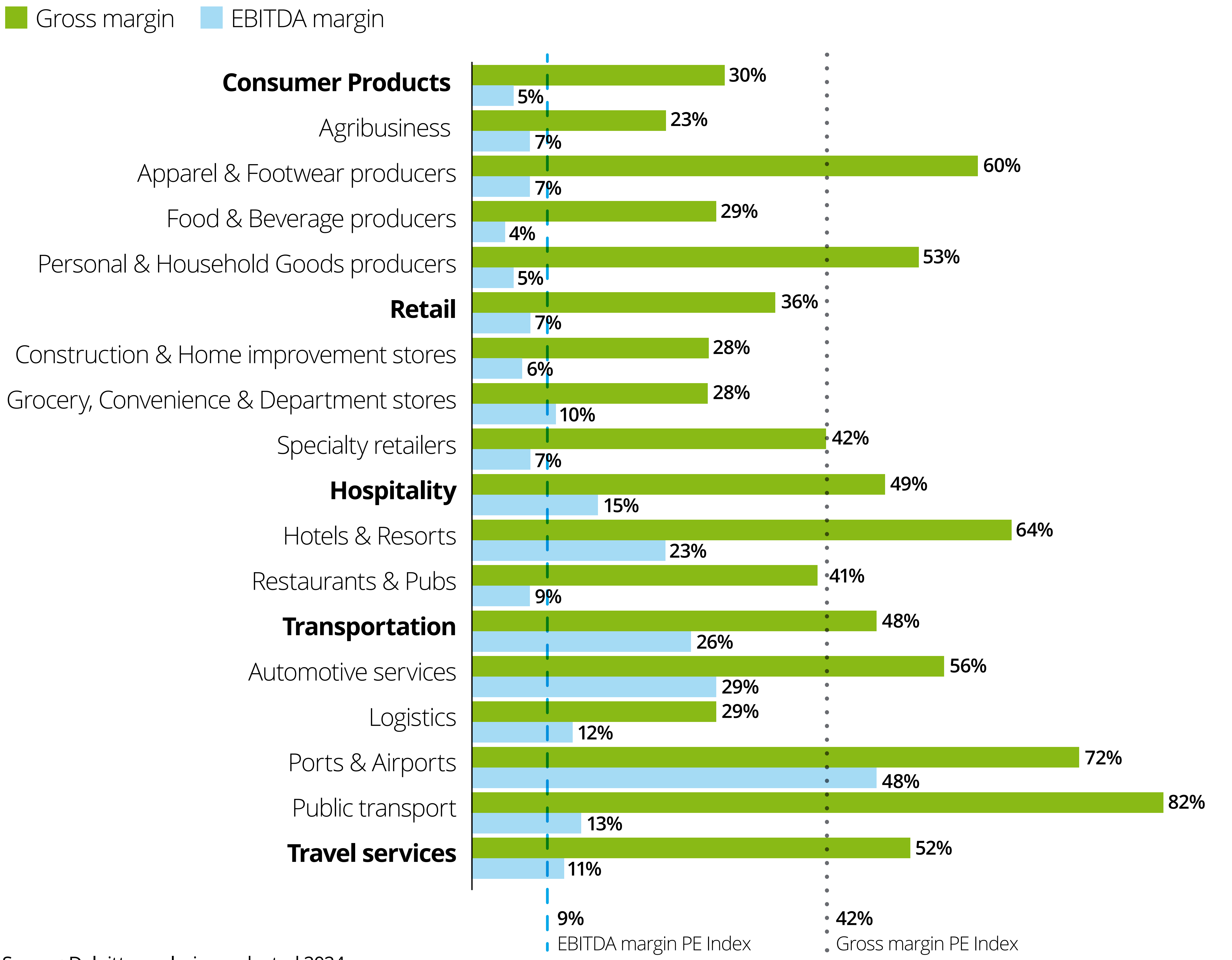
	Revenue CAGR 2020-2023	EBITDA CAGR 2020-2023	3Yr EBITDA Margin change 2020-2023
Consumer products	**11.6%**	**5.8%**	**-0.3pp**
Agribusiness	6.5%	3.4%	-0.3pp
Apparel & Footwear producers	28.7%	5.0%	-6.1pp
Food & Beverage producers	10.7%	6.1%	-1.0pp
Personal & Household goods producers	18.8%	25.6%	3.8pp
Retail	**11.0%**	**11.1%**	**-0.4pp**
Construction & Home improvement stores	15.4%	14.2%	-1.1pp
Grocery, Covenience & Department stores	12.1%	22.6%	2.2pp
Specialty retailers	8.9%	-2.8%	-1.4pp
Hospitality	**33.3%**	**47.0%**	**4.1pp**
Hotels & Resorts	48.4%	>100.0%	40.7pp
Restaurants & Pubs	26.7%	38.4%	0.1pp
Transportation	**12.1%**	**23.0%**	**1.5pp**
Automotive services	12.6%	11.3%	-0.6pp
Logistics	12.1%	30.4%	2.5pp
Ports & Airports	28.0%	23.0%	19.2pp
Public transport	1.9%	8.1%	0.7pp
Travel services	**55.0%**	**>100.0%**	**18.6pp**

Source: Deloitte analysis conducted 2024

Post-pandemic margin compression

Comparison of margins

Median sector and subsector gross and EBITDA margins



Source: Deloitte analysis conducted 2024

Growth and compression

While most companies experienced both revenue and margin growth between 2020 and 2023, a compression of margins is evident in many subsectors. Although not necessarily a sign of crisis, these compressed margins raise concerns, especially given the economic headwinds and political changes in 2024. Increased labour costs due to rising minimum wage rates and employer National Insurance contributions, coupled with higher interest rates for refinancing, are likely to put significant pressure on both portfolio companies and their PE sponsors.

More than three quarters (76%) of the investments into companies in the PE Index were made three or more years ago (in an environment of low interest rates compared to the current refinance rates). Debt levels and debt servicing remain an area of significant focus for both management teams and PE operating teams, further emphasising the need for margin improvement and cash generation.

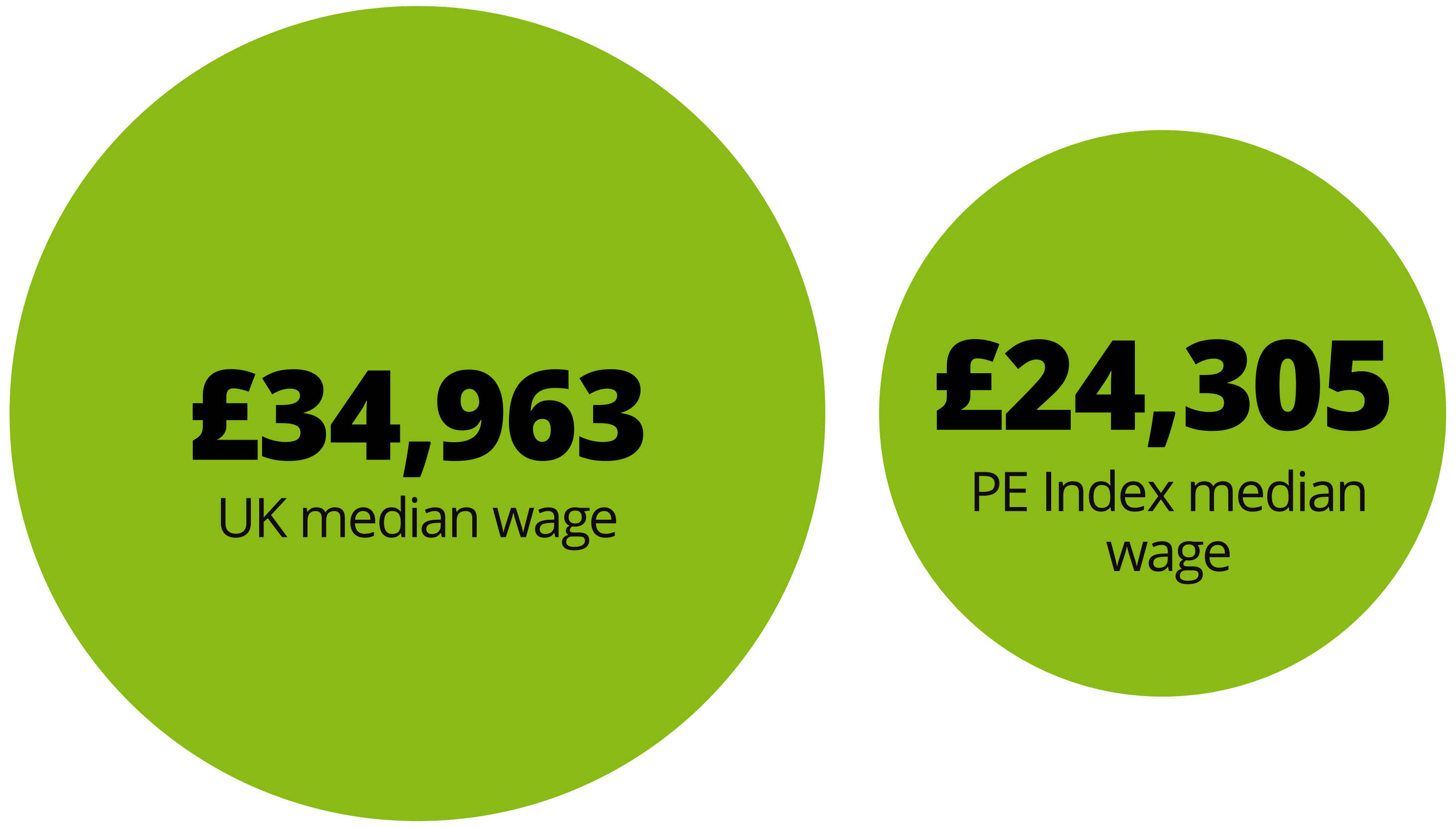
With the flurry of M&A activity in 2021 leading to record asset prices and the subsequent softening in M&A deal activity, PE firms will need to find innovative and market leading ways to grow EBITDA and multiples to achieve the desired returns and distributions for investors. Around a third (31%) of the companies in the PE Index were of the 2020/2021 vintage with the average hold period for PE Index companies of 4.7 years (4.5 years when excluding infrastructure-like assets), so most firms will be considering exit.

To achieve favourable exit valuations, companies will need to innovative in value creation and consider newer solutions such as process automation and technological transformation whilst remaining laser focused on customer needs. These strategies will be crucial for expanding margins, driving profitability and securing desired multiples in a challenging economic climate.

The economic contribution of PE backed businesses

Wages and productivity

Significant variations in median average wages exist across sectors. **The PE Index median wage was £24,305, lower than the UK median of £34,963.**[1]



This difference is mainly due to the higher proportion of minimum wage, casual, or lower-paying jobs in the PE Index's sectors (especially hospitality and retail) compared to the broader UK economy. For context, in 2024, UK median wages for retail cashiers and checkout operatives were £22,600 and £21,588 for waiters and waitresses.[1]

Wage productivity, measured as revenue generated per employee, averaged £188,500 across PE Index companies. **Consumer products and Travel services showed higher wage productivity, linking higher wages and increased output.**

Wages and taxes

Average wages serve as an indicator of employment quality and a proxy for income tax and National Insurance (NI) contributions. Average wages at five companies were below the personal allowance, primarily due to operations in developing countries. Over a quarter (36) of companies fell below the annual minimum wage bracket, indicating seasonal and part-time workforces. The majority (86) of companies paid wages within the basic rate tax band and above the minimum wage, while nearly 12% paid within the higher earner tax band.

Anticipated increases in minimum wage rates, employer NI contributions, and inflation are expected to impact average wages across the PE Index. This dynamic landscape may lead companies to streamline jobs, automate roles where possible, or absorb higher employment costs, potentially resulting in higher earnings for workers and increased productivity. The sectors that have a higher service-component to revenue may be particularly challenged in the expected future economic environment.

Pension contributions

The weighted average pension contribution for employees within the PE Index was 4.0%, exceeding the statutory minimum of 3%. Notably, sectors with historically strong union representation demonstrated higher contribution rates. Concerns arise as 32 companies, representing over 227,000 employees, provided contributions below the statutory threshold. This suggests a significant portion of the workforce may be prioritising current income over long-term savings due to cost-of-living pressures.

This situation presents a dilemma for companies. While forgone pension contributions can directly benefit margins, companies must balance this against the importance of employee financial well-being. Striking a balance between educating employees about future savings, providing competitive wages, and managing rising employment costs within compressed margins remains crucial – especially given the additional costs expected to arise from increased employer NI contributions.

1. ONS (2024). Employee earnings in the UK 2024

Transparency for a growing workforce

While the importance of human capital in driving value creation is increasingly recognised, our data reveals a lack of transparency around key people metrics, including:

Only 21% of companies in the index reported on workplace incident metrics. This is a common area of focus for Limited Partner (LP) data requests and for the ESG Data Convergence Initiative (EDCI). For some PE houses, this data gap represents a blind spot, making it difficult to assess the true risk profile of their portfolio companies and potentially impacting sales processes, as often there is no time limit on ESG due diligence in this area.

6% of companies disclosed employee turnover data. Whilst there is no statutory requirement to provide employee turnover data, understanding attrition of the workforce is a key metric in a productive, happy and stable workforce – all of which create operational efficiencies. From an outside perspective it is hard to assess with such a low level of reporting the comparative success of the companies in the PE Index at retaining talent, but future employees will be interested in these statistics and sharing publicly can help companies attract quality talent.

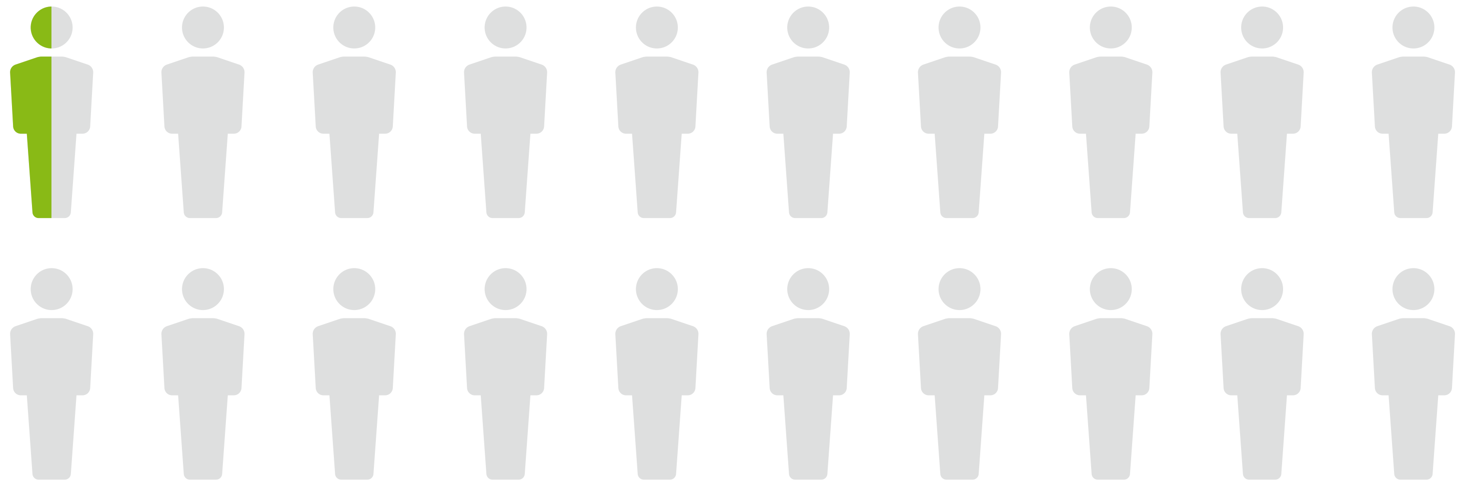
53% of companies reported on employee engagement. The data reveals significant variations in reporting practices across sectors. Employee engagement can be directly linked to productivity, retention and revenue growth, and employee productivity;[2] which could mean portfolio companies are missing value creation opportunities by not reporting and acting on employee engagement feedback.

These findings underscore the need for greater transparency around people metrics within the UK PE landscape, especially given the growing PE backed workforce. This is not just a data issue, it's a strategic issue with the potential to impact financial performance, reputation, valuations and long-term value creation.

PE Index workforce in numbers

Despite a common perception of Private Equity, over **three quarters of portfolio companies in the PE Index increased their headcount in the past year.**

Total number of people directly employed by the PE Index companies was 826,271 – approximately **2.5% of the UK workforce.**[3]



Median year-on-year (YoY) growth for companies was 5.7% (5.8% in previous year) which includes organic growth and acquisitions (YoY growth in Private Sector was 0.9%).[4]

Subsectors with the highest average YoY workforce growth rates

Travel services	Ports & Airports	Specialty retail
18.4%	14.3%	14.9%

2. Deloitte (2016). Engaging the workforce
3. UK Parliament (2024). UK Labour Market Statistics 2024
4. ONS (2024). Private sector employment as % of total employment 2024

Gender diversity improvements in Private Equity

Female representation in management

Representation in management is a critical component of gender equity and unlocking the benefits of diversity for an organisation. The FTSE Women Leaders' Review (which now also applies to the largest 50 private companies in the UK), sets a target for female representation in management of 40% or higher.

A total of 51 PE Index companies (37%) had 40% or more females in management whilst the PE Index average was 37%. For comparison, in April 2024, 35% of the FTSE 100 and 34% of the FTSE 250 executive committees and direct reports were women.[5]

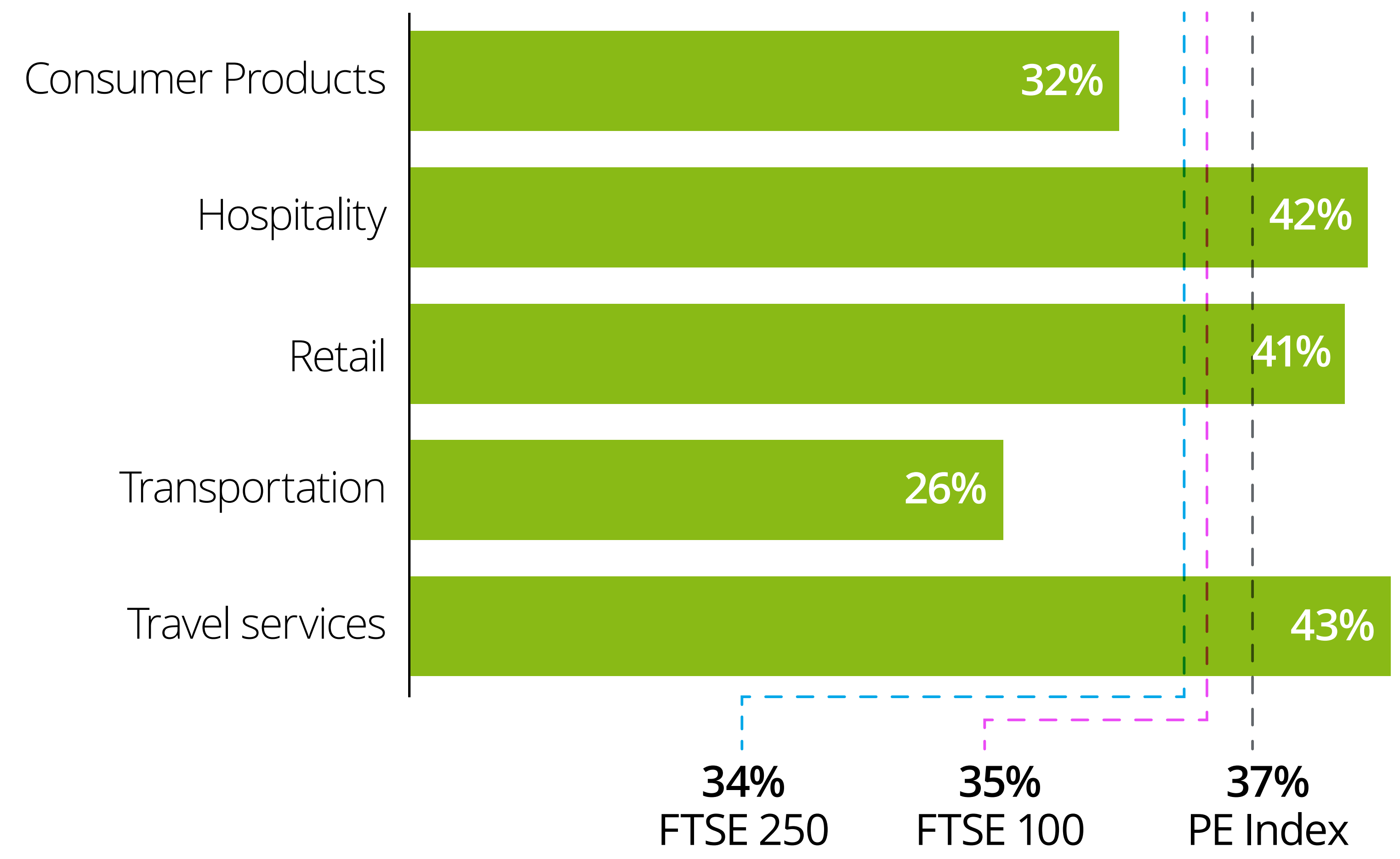
The majority (56%) of companies in the PE Index did not report on diversity in their annual accounts, so we used the proportion of women in the top quartile pay brackets from gender pay gap reporting as a proxy for senior management.

More than half (73) of the companies in the PE Index are owned by PE firms who sponsor Level 20, an organisation which strives to improve gender diversity in the Private Equity industry. It will be interesting to observe how the diversity initiatives at these PE houses may influence portfolio company management diversity.

Without greater transparency and a concerted effort to promote women into leadership positions, PE backed businesses risk perpetuating a cycle of inequality, limiting their access to diverse talent and perspectives, and ultimately hindering their potential for growth and innovation.

Female representation in management

Average proportion of females in management by sector



Deloitte analysis conducted 2024

Gender pay gap

The performance of PE backed businesses within the cohort on closing the gender pay gap offers a positive outlook, with the overall weighted average median gap of 5.3%, notably better than the average across the UK economy of 13.1%.[6]

It is also positive to see most subsectors continued to improve their gender pay gap from last year. **Companies across the PE Index improved their year-on-year gender pay gap on average by 0.6pp, a strong achievement given the already lower gender pay gaps than UK averages.**

This is particularly noteworthy given the presence of sectors like public transportation and logistics within the PE Index which traditionally exhibit higher gender pay gaps (UK road transport drivers: 14.80%, UK train drivers: 34.35%)[6] versus the median PE Index gender pay gap for Transportation which was 12.8%.

Not all sectors outperformed the UK average. Travel agents nationally had a 14.3% pay gap and the PE Index Travel Services companies had a median pay gap of 29.5%. Some of this can be explained by the heavily tech-enabled business models of PE backed companies in this sector (UK tech companies have a higher-than-average pay gap) but remains disappointing given the Travel Services companies in the PE Index worsened their median pay gap by 6.6pp compared with previous year.

Several companies (18) failed to report their gender pay gap data, raising concerns about underreporting and a lack of transparency within the portfolio.

5. FTSE (2024). Women Leaders' Review 2024
6. ONS (2024). Gender pay gap in the UK 2024

A tale of two trends

Female CEOs outpacing their peers

A total of 14 (10%) companies within the PE Index cohort were led by a female CEO. This compares with 8% of the FTSE 350 companies (excluding investment trusts) which were led by women as of February 2024.[7]

Female-led companies scored better in the PE Index by:

2.3x
EBITDA growth vs sector peers

1.6x
EBITDA margin vs sector peers

2.3x
Proportion of females in management vs PE Index peers

1.4x
Actions to reach net-zero targets

1.7x
Gender pay gap improvement vs PE Index peers

1.3x
Gross margin vs sector peers

These companies did not score as highly as the rest of the PE Index in average pension contribution, absolute emission reduction or emissions intensity reduction. This is due to male-led outliers in the Hospitality, Consumer product and Retail sectors delivering deep emissions reductions and skewing the average. **While these findings do not establish a direct causal link, they strongly suggest that female leadership is a catalyst for positive change, driving both financial performance and progress on critical ESG issues.**

B Corps and the Triple Bottom Line

B Corp certification is a strenuous process where companies must prove they outperform peers on a number of ESG criteria before earning the coveted certification and to recertify every three years. In this year's PE Index, nine companies were certified B Corps.

These companies outperformed their PE Index peers in several categories:

2.4x
more likely to be certified living wage members

2x
the employee growth of PE Index peers

2.3x
higher average pension contributions than PE Index peers

4.2x
more revenue growth and had 2.1x higher gross margin

1.7x
more likely to have a robust net zero target, supported by interim targets and/or Scope 3 emissions

The B Corps underperformed peers with a 1.3x higher gender pay gap, 2.3x smaller emissions reduction and 1.5x smaller reduction in emission intensity. Although there is still room for improvement for B Corps, their performance on the PE Index indicates a strong performance across profit while still performing well in people and planet.

7. FTSE (2024). Women Leaders' Review February 2024

ESG reporting and the need to remain competitive in European markets

Reporting frameworks

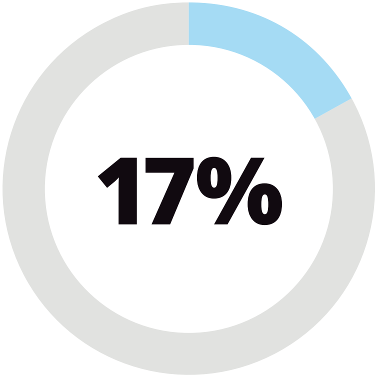
More than a third (35%) of PE Index companies are now reporting under either UK CFD or the Task Force on Climate-Related Financial Disclosures (TCFD) frameworks, a significant increase from 15% in the previous year.

Seven large companies who are within the thresholds for CFD were reporting only under Streamlined Energy and Carbon Reporting (SECR). We expect this is due to the time it takes to adopt the reporting framework and underlying behaviours and note that two of those seven are reporting on some elements of CFD.

Two companies in the Index have voluntarily adopted CFD or TCFD despite not meeting requirement thresholds. Seven did not comply with SECR or any other framework.

PE Index companies vary in their levels of climate reporting.

of companies report **only under SECR**



of companies report **under UK CFD**

companies report **under the TCFD framework**

Further ESG reporting requirements are inevitable

The environmental and social reporting landscape is rapidly evolving in the UK. With new requirements under the UK Sustainability Disclosure Standards expected to be implemented by 2026, and potential further diversity and workforce reporting brought in by the UK Government, private companies will face increased regulatory and competitive pressure to strengthen their ESG reporting, policies and governance.[8]

As UK assets continue to compete for funding with those across Europe, broader ESG considerations must be taken into account.

Transparency and the Walker Guidelines:

The Walker Guidelines for Transparency in Private Equity encourage enhanced reporting practices for the UK's largest PE backed businesses. This year's PE Index reveals that the 24 companies subject to the Walker Guidelines outperformed their peers in several key areas:

- **Climate action:** 3.4 times more likely to have **robust net zero targets** and 1.5 times more likely to share climate transition plans.
- **Employee benefits:** Average pension contributions were **2.5 times higher than peers.**
- **Social responsibility:** 1.5 times more likely to **report on workplace incidents and waste diversion from landfills.**
- **Financial performance:** Achieved **2.2 times higher EBITDA margins** and **1.4 times greater revenue growth over three years.**

While the companies subject to the Walker Guidelines demonstrated slightly lower performance on employee growth, emissions reduction, and female representation in senior management, these metrics are not directly linked to transparency. As more ambitious Walker Guidelines are implemented, monitoring their impact on PE Index performance will be interesting.

8. British Private Equity and Venture Capital Association and Private Equity Reporting Group (PERG) (2024). Walker Guidelines Refresh: Disclosure Benchmarking Report 2024

Net zero: the quality and credibility of ambitions across sectors

While 73 companies deserve recognition for setting net zero targets, only 48 companies defined interim targets. 60% of net zero targets included Scope 3 emissions, which encompass a company's broader value chain. This data suggests many targets include an incomplete picture of the companies' true environmental footprint.

Science-based targets

Twelve companies have targets validated by the Science-Based Targets Initiative (SBTi) and 11 are committed to have them validated, but the majority of assessed PE backed businesses are failing to align their goals with scientific consensus.

We note that the process of SBTi validation is robust and requires time and effort from sustainability teams to achieve, so not all portfolio companies may feel this is the best use of limited resources. We are encouraged by the additional 12 companies that, although not SBTi aligned, have robust net zero goals which include interim targets, Scope 3 emissions and share publicly the plan and actions required to transition to net zero in line with their targets.

Transition planning

The Transition Plan Taskforce (TPT) provides a valuable framework for translating net zero ambitions into concrete action plans. Only 22% of PE Index companies have shared their formal transition plans, underscoring the need for PE houses to prioritise and support the development of robust transition strategies within their portfolios.

If Sustainability Disclosure Standards are adopted in the UK, companies may be required to publish their transition plans to substantiate their net zero targets (and set those targets if they have not already done so).

(In)credible ambition

The proportion of companies publicly stating their net zero ambition was materially the same as last year. The average year for decarbonisation, 2040, is ambitiously 10 years before the UK Government's target of 2050. But the lack of robust interim goals and targets not supported by transition plans raise concerns about the concrete steps being taken by today's management and sponsors (given five to ten-year industry hold periods).

Decarbonising companies' own operations and energy supply are critical steps to reaching net zero, but PE backed companies must also work with their supply chains, customers and other stakeholders to collectively work toward a credible path to net zero. Setting interim targets supported by tangible actions plans is paramount to achieve the industry's ambition.

53% of the PE Index companies have **publicly shared their net zero targets**

22% of PE Index companies have **shared their formal transition plans**

2040 The average net zero target year for PE Index companies – **a full decade before the UK Government's target**

23 companies have **set or committed to set science-based targets aligned to SBTi**

Decoupling growth from greenhouse gas emissions and natural resource consumption

Absolute emissions

We saw a return to growth for most companies in the PE Index emerging from the COVID-19 pandemic and cost-of-living crisis. Unfortunately, most of these companies have not managed to decouple that growth from carbon emissions.

While 64 (46%) companies successfully reduced their absolute emissions, 54% saw an increase. This trend underscores the difficulty of achieving genuine decarbonisation while simultaneously pursuing business growth. SBTi recommends companies should target a linear reduction of Scope 1 and 2 emissions of 4.2% per year[9] – 49 companies (35%) in the PE Index achieved this standard or higher.

Among companies that achieved EBITDA growth, 57 experienced an increase in absolute emissions. Alarmingly, there were 18 companies who shrunk EBITDA while also increasing their absolute emissions.

The top performing subsectors for emissions reductions were Apparel & Footwear producers (average YoY reduction of 31%), Ports & Airports (12%) and Travel services (9%). The worst performers across the PE Index were Restaurants and Pubs (40% increase) and Personal and Household goods producers (36%).

34% of PE Index companies **shrunk absolute emissions and increased EBITDA**

Emissions intensity

The majority of companies (87) achieved a reduction in emissions intensity (measured as total Scope 1 and Scope 2 emissions generated per £1million revenue), a positive indicator of improved resource efficiency. However, 52 companies experienced an increase in emissions intensity.

The PE Index data reveals significant sectoral and sub-sectoral variations in emissions intensity, highlighting the need for tailored strategies and interventions.

Verification and regulation

Companies may see a rise in assurance-related costs hitting their margins as some ESG and energy regulations (like EU Corporate Sustainability Reporting Directive (CSRD) and some forms of UK Energy Savings Opportunity Scheme compliance) require third party verification of some ESG and emissions data. Only 18% of companies in the PE Index had their Scope 1, 2 or 3 emissions data third-party verified.

48% of PE Index companies **shrunk emissions intensity and increased EBITDA**

Unlocking value through supply chain and Scope 3

Scope 3 emissions reporting is important for understanding a company's environmental impact but challenging due to data limitations and reliance on external parties. Effectively measuring and **managing Scope 3 emissions can be a source of value creation and value protection** by improving a company's understanding of suppliers, product origins, potential risks and cost-saving opportunities.

As European regulations like CSRD and the Carbon Border Adjustment Mechanism are phased in **tracking and reporting Scope 3 emissions will become critical for companies to remain competitive in European markets.**

Key findings from the PE Index show:

- **36 companies** reported on more than one Scope 3 emissions category.
- **18 companies** provided data for five or more categories.
- **Nearly a third of companies** did not report any Scope 3 emissions.

9. SBTi (2021). Progress Report 2021

Conclusion: Future value drivers in an evolving economy

Leading firms are recognising that long-term value creation extends far beyond the bottom line, encompassing the well-being of people and the health of our planet. This holistic approach is not merely an ethical imperative but a strategic advantage in light of the ongoing transformation of domestic and international markets.

While some may perceive increased transparency and disclosure as a burden, the reality is far more nuanced. By embracing a deliberate and comprehensive approach to reporting and the behaviours behind reporting, PE firms and their portfolio companies unlock a range of benefits, creating a ripple effect of value that extends to all stakeholders.

Consider the power of a strong reputation. **Transparency builds trust, enhancing standing with investors,** regulators, customers and future management teams. This can manifest as easier fundraising for general partners, appropriate levels of regulatory intervention (both for the Private Equity industry and for portfolio companies) or winning in the market as a sustainable business.

Limited partners are increasingly seeking opportunities to align their capital with their values, and companies with strong ESG performance are well-positioned to capitalise on this growing pool of responsible capital. This access to capital (sometimes at a lower cost) fuels growth and enhances long-term financial resilience of Private Equity firms, especially in the increasingly competitive fundraising environments we see in Europe and globally.

In an era where talent is a key differentiator, companies with robust ESG profiles hold a distinct advantage.

The value of tomorrow's exits rely upon recognising that multiples will be calculated on the basis of a company's ability to trade in the emerging net zero economy, as well as to attract and retain the best talent. Increased ESG performance (both in terms of people and planet) and transparency provide additional flexibility around exit strategies and timelines and can streamline due diligence processes. A clear and compelling ESG story tied to the equity story can be a source of **value protection as well as value creation** in achieving multiples not available to companies without the same 'future-readiness'.

Finally, in a world where ESG is a dividing factor for some governments and investors, UK companies and their PE sponsors must be taking 'enough' action to remain competitive with European peers and retain access to markets that are developing higher ESG minimum standards and carbon border adjustment mechanisms.

In essence, **the journey towards expanding the definition of value is not about checking boxes** or complying with regulations. It's about recognising that a commitment to profit, people and planet is inextricably linked to sustainable value creation and value protection. By weaving these principles into the fabric of their operations, PE firms and their portfolio companies are not only building better businesses but also retaining the ability to compete in a sustainable and equitable future.

Key benefits of a holistic approach to value creation

- **Reputation and license to operate**
- **Access to talent**
- **Operational efficiencies**
- **Access to capital**
- **Value at Exit**
- **Competitiveness in other markets**

Methodology

We selected the population for the Deloitte PE Index based on UK headquartered, Private Equity backed companies with over 250 employees and greater than £100 million revenue. We chose these criteria to create a population with full statutory financial statements including strategic and directors' reports, streamlined energy and carbon reporting disclosures (at a minimum), gender pay gap reporting and payment practices disclosures.

From this population we selected industries that were close to the UK consumer including Consumer product producers, Retailers, Hospitality, Transportation and Travel services.

Metrics used to assess companies were identified as critical to PE houses, investors, and companies, including many of those reported in the ESG in Private Capital Survey and the ESG Data Convergence Initiative.[10] [11]

We endeavour to balance the metric selection between disclosures which could be reasonably expected from a private company, and what the market leaders are doing, particularly around people and planet.

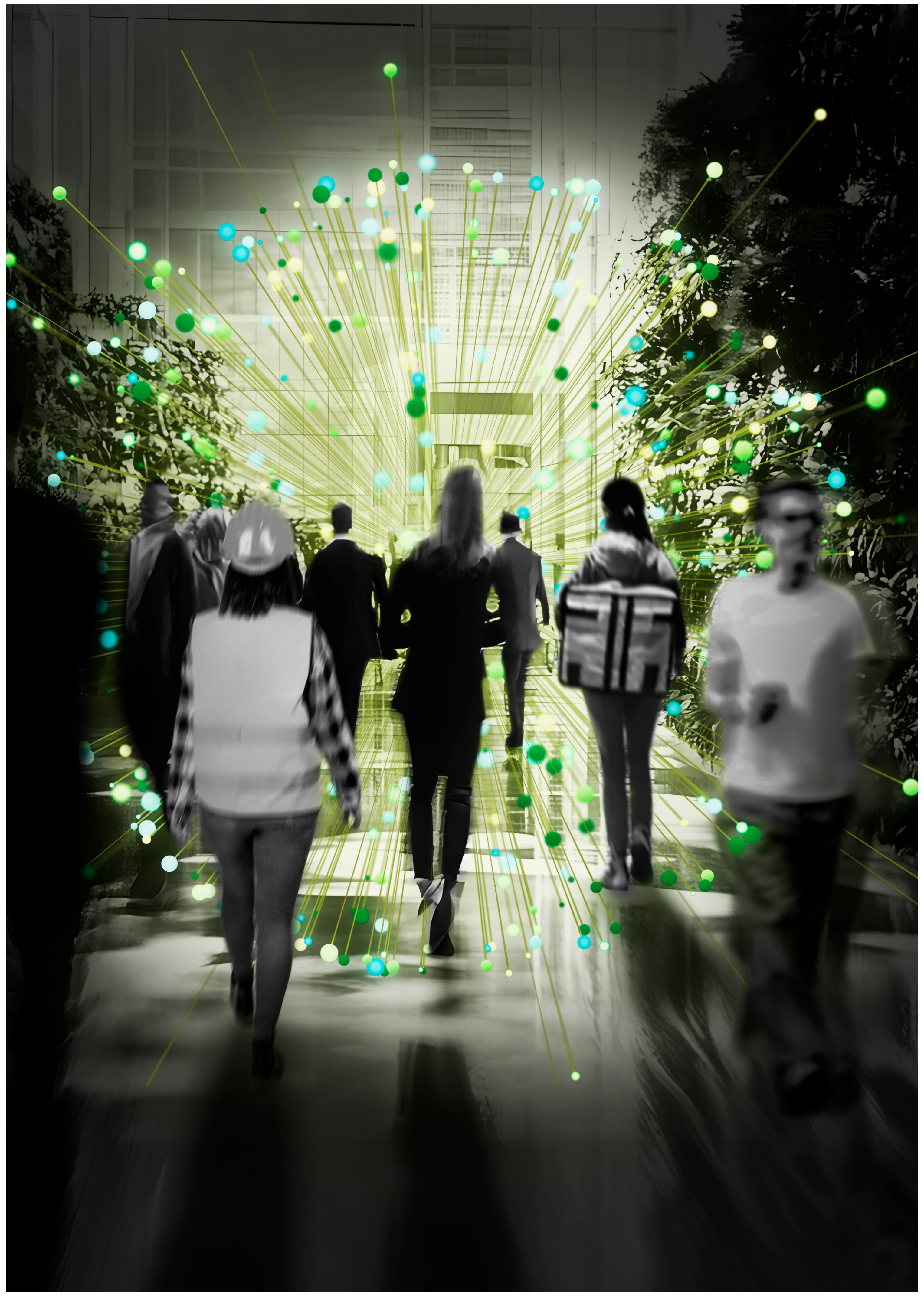
For profit, companies were assessed on their most recent annual financial performance and for some metrics how this compared to their performance either one (financial years ended 2023 vs 2022) or three years (financial years ended 2023 vs 2020) prior to that. We used ten metrics of impact across growth, margin, return and economic contribution.

For people, companies were assessed across fourteen metrics around human capital, diversity equity and inclusion, supply chain and social capital. The people metrics were a mix of binary criteria (e.g. certified living wage employer or not) and numerical performance (e.g. median gender pay gap %).

For Planet, companies were assessed across thirteen metrics around attitude, ambition and action.

Most binary metrics were compared across the entire PE Index population while most numerical metrics were compared against sector peers (e.g. growth and gender pay gap). Some numerical performance metrics had set thresholds that needed to be reached to score certain points (e.g. companies who increased their year-on-year absolute direct GHG emissions, scored zero points for that metric).

Where data could not be sourced by our team, companies were assigned a score of zero for that metric.



10. Deloitte (2023) ESG in Private Capital Survey 2023
11. ESG Data Convergence Initiative

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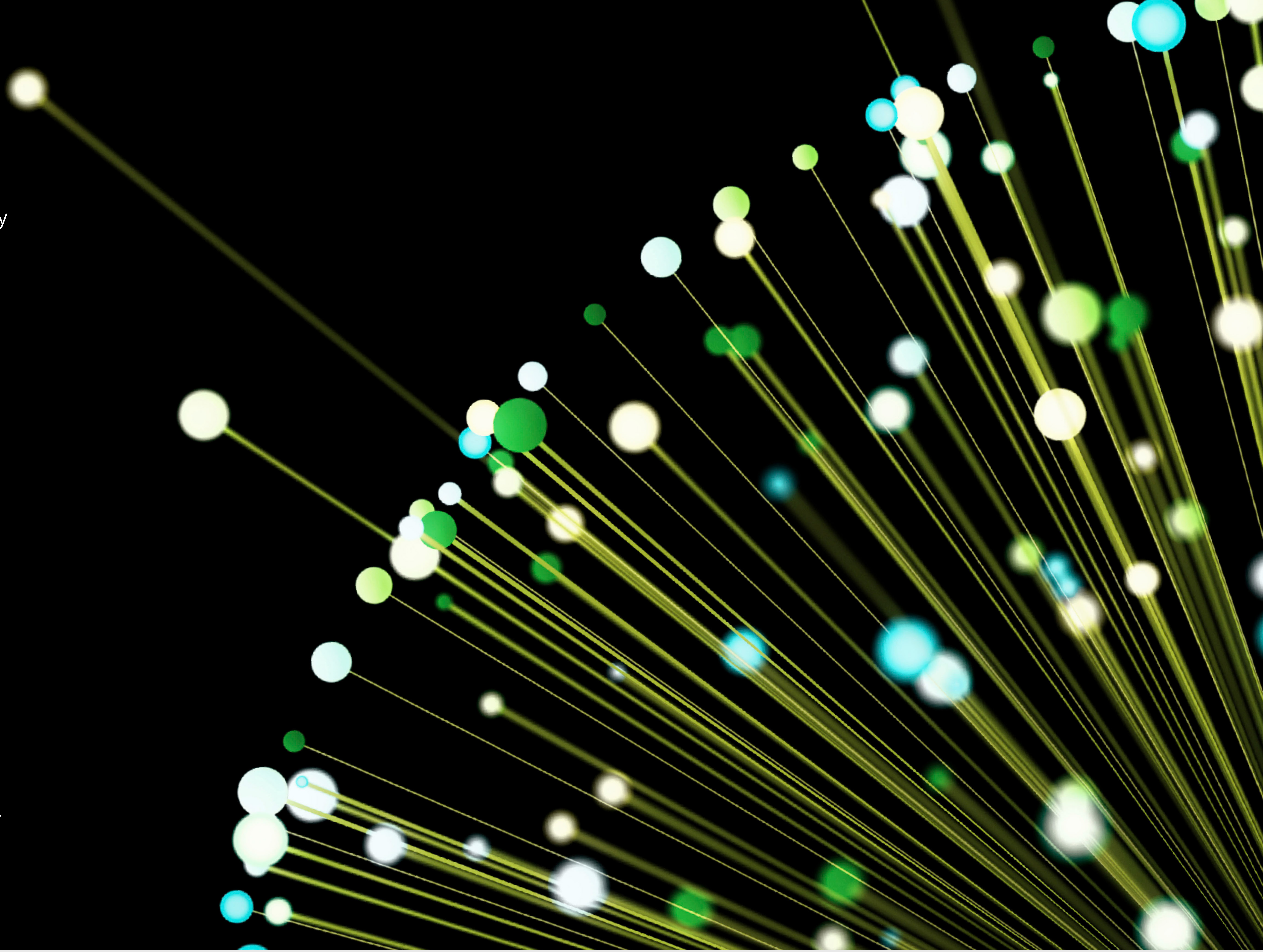

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