PRIVATE EQUITY: WHY ESG AND TECHNOLOGY BELONG TOGETHER

VIDEO TRANSCRIPT

So we have looked at the maturity and investment levels of companies in both sustainability and technology. And what we have seen is that the so-called twin transformers, who are relatively mature and invest relatively much, making it a priority in both items, have proven to be much more profitable, growing and resilient throughout the pandemic when looking at financial KPIs and outlooks. And that is not a coincidence because ESG is to a very large degree driven by technology. Let me give you two examples.

Number one, this is also a result from our research and our global survey among private equity firms. The number one single challenge in ESG is measurement and traceability. The same result, by the way, applies to all industries also outside of private equity. Traceability and measurability is the unsolvable problem to solve, and you can only solve it with technology, with IT. In essence, it's a data problem. You need to collect all kinds of data from inside the company, from the market, from suppliers, across scope one, scope two, scope three, and you need to manage this data from developing a new product until retiring it. And if you don't have this, it will be very, very hard to measure your progress against net zero and it will be very, very hard to fulfill your reporting requirements to the various stakeholders and investors and lenders. There are other challenges, of course, on the chart as well. I would not go into those right now because they are a little bit less technology related, but I am sure you are all aware of them.

Let me give you second evidence why ESG and technology belong together. If you look at the actual heavy lifting, getting the ESG agenda executed, reducing your carbon footprint, not even talking about, and that's not on the slide here, building new businesses like circular businesses where you have to set up an entirely new supply chain, just reverse, which is system, system, system, and then also some steer. If you only look at something like carbon emissions, you will see that many of the items, be it upstream, be it in your own operations, or be it downstream, are in the end only enabled and often driven by technology. And we have color coded these items purple here. So, it starts with purchasing goods and services, where you have to collect the data from your suppliers and where you have to plan your products in product lifecycle management systems, and continues with transportation and distribution that has to be optimized and can be a huge source of emissions, obviously. It continues with your own operations, like the management of electricity and heat consumption, and then downstream things like transportation pay again, but also packaging, etc. can play a role. And all those equations can only be solved and supported in a seamless kind of fashion by technology.

So, we tend to recommend to start working on this agenda pre-deal with an ESG due diligence, which is doing much more than just checking if the regulatory requirements are fulfilled. But which is looking at ESG in a value creation kind of sense, tying the ESG agenda to the technology agenda, because only when the two come together, actual progress will be seen during the holding period. We also work on things like taxonomy and data architecture, and of course the extra heavy lifting asset and operations is something we support as well.