Maximizing Value in an Evolving Landscape

By guiding companies in understanding how their ESG exposures will be viewed by investors and acquirers, we're focused on positioning our clients for success in today's capital-raising and dealmaking environment.

Advising companies about how they will be evaluated by potential investors or acquirers has always been central to our role as investment bankers. As the breadth of issues that matter to investors and acquirers has expanded to include environmental, social, and governance (ESG) factors, the scope of our advice is broadening as well.

Across the universe of potential transaction partners—including institutional investors in public equity, strategic acquirers, private equity firms, and family offices—providers of capital understand that a company's ultimate value is based on more than just financial considerations. That's why we're continually expanding and evolving our M&A and capital markets advisory services to increasingly integrate ESG and sustainability factors that could affect our clients' strategic opportunities.

Preparing and Positioning for Sustainable Success

As advisors to companies evaluating their opportunities to raise capital or exit the business, our job is to help them understand how the business will be viewed and valued by potential investors or acquirers. Traditionally, value drivers in these transactions have centered on growth rates, profit margins, competitive dynamics, opportunities for consolidation, and other purely financial or strategic considerations.

Over the past decade, however, investors and buyers have increasingly realized that ESG and other sustainability issues may have a meaningful impact on a company's value. As investment bankers, we have an opportunity to guide clients through honest and objective assessments of how potential counterparties will view their businesses through this lens.

Materiality is a valuable perspective to use when determining which ESG factors are most relevant to a company's operations and growth opportunities. To provide clients an initiation into ESG and materiality, we have developed an ESG primer, a resource to guide conversations about the state of ESG investing today and the growing importance of sustainability issues for investors. In addition, the primer describes the growing universe of third-party ESG ratings frameworks, which now comprises more than 150 ESG research providers. The primer includes information about ratings methodologies, benefits and considerations of participating in data requests, and implications of ESG scores.

It's our responsibility to guide clients through honest and objective assessments of how potential counterparties will view their businesses through every possible lens, including ESG.

A New Source of Value Drivers

The definition of value drivers in today's dealmaking landscape has expanded beyond purely financial and strategic considerations to include ESG factors. Listed below are some common characteristics that a publicly traded strategic buyer may consider when valuing a potential acquisition target.

Financial	Strategic	ESG
• Revenue growth rates • Profit margins • Visibility into earnings and cash flow • Customer acquisition costs • Cap-ex requirements • Tax exposure • Return on invested capital • Balance sheet strength	• Access to new end markets • Consolidation opportunities • Diversification of client base • Total addressable market • Cost-savings through synergies • Proprietary technology	• Environmental: carbon footprint; risk exposure to climate change • Social: workforce gender diversity; community engagement • Governance: transparency; corporate culture • Impact on ESG rating • Reputational risk

How ESG Factors Shape Exit Opportunities

While ESG factors are most directly applicable to publicly traded companies or ones preparing to go public, all companies—regardless of ownership structure or life cycle stage—should understand how sustainability considerations could affect their opportunities to be acquired or raise capital.

Below is a high-level overview of how ESG factors increasingly are shaping investment and acquisition decisions across the capital-raising and dealmaking landscape:

Initial Public Offerings

Companies preparing to access public equity markets need to understand how their sustainability practices and exposure to ESG-related risk factors could influence their valuations. Institutional investors, especially those focused on longer time horizons, are increasingly integrating ESG factors into their investment decisions. Whether using negative screening, third-party ratings, or more sophisticated fundamental analysis, investors are deploying a range of tools to ensure that their portfolios are aligned with the organization's values. There has been a proliferation of ESG-focused indexes, exchange-traded funds (ETFs), and strategies, so a company's potential market capitalization and investor base could be significantly limited by sub-par ESG practices. In addition, many governments and stock exchanges around the world are requiring enhanced reporting on ESG factors.

Strategic Buyers

Institutional investors' growing focus on ESG factors doesn't just affect companies that are looking to access public equity markets directly; it's also relevant to companies that may be acquired by a strategic buyer. When publicly traded companies evaluate an acquisition target, their due diligence process includes evaluating how the target's sustainability practices will affect the acquirer's ESG rating post-merger. In addition to evaluating an acquisition's direct impact on ESG ratings, strategic buyers will also think about what the acquisition will mean from a brand and reputational perspective.

1. Barron's, "Sustainable Investing is at a 'Tipping Point,' BlackRock Says." Oct. 26, 2018.

Large Asset Managers Raise ESG Expectations

Many of the world's largest asset managers, including BlackRock, Vanguard, and State Street, are using their influence to make ESG considerations higher priorities for the companies they invest in and giving investors more tools for deploying capital in ESG-related strategies.

BlackRock	Vanguard	State Street Global Advisors
$6.3 trillion in AUM	$4.9 trillion in AUM	$2.8 trillion in AUM
In January 2018, BlackRock announced that it expects companies to have robust ESG management and that it will double the size of its investment stewardship team (currently the largest of any global asset manager) to at least 60 over the next three years. In October 2018, the firm unveiled seven sustainable core ETFs, as well as a new ESG-focused analytics tools that investors can use across all BlackRock ETFs. BlackRock projects that the amount of funds in all ESG-focused ETFs will increase from $25 billion in 2018 to more than $400 billion in 2028.[1]	In August 2017, Vanguard took the unprecedented step of voting by proxy to require Exxon Mobil to report on its climate impact and risks. In September 2018, it unveiled two new low-cost ETFs centered on excluding companies engaged in industries such as alcohol, adult entertainment, tobacco, and weapons. In addition, the ETFs aim to avoid firms that fail to meet diversity, human-rights, and environmental standards.	In August 2017, State Street issued new climate-change disclosure guidance for companies emphasizing the need for discussion of climate-change scenario planning and its impact on the company's long-term strategy. State Street's "Fearless Girl" campaign, which started in 2017 when the firm installed the now-famous statue in New York's financial district, seeks to raise awareness about gender diversity on corporate boards. In September 2018, State Street announced that it will implement enhanced proxy voting guidelines in 2020 for companies with no women on its board of directors.

Source of AUM data: P&I Research Center, as of May 28, 2018.

Private Equity Funds

More financial sponsors are launching impact- or ESG-focused funds that provide capital and management expertise to companies that are driving positive social and environmental changes. In addition to these sustainability benefits, financial sponsors and their limited partners view these funds as alternative sources of attractive, low-correlation returns. Even financial sponsors without dedicated impact or ESG funds are increasingly incorporating sustainability into their investment decisions, especially for portfolio companies where the exit is expected to be an IPO or acquisition by a publicly traded company.

Family Offices

Single-family and multifamily offices are a rapidly growing force in the M&A landscape. *The Economist* estimates that there are between 5,000 and 10,000 family offices globally managing a combined $4 trillion of assets,[2] more than 20% of which is invested in private equity, through either direct investments or funds, according to data from UBS and Campden Wealth.[3] For many family offices, stewardship of the family's assets and legacy are primary considerations, and more than two-thirds of the world's family offices have been founded since 2000, during an era when ESG considerations became increasingly prominent.[4] As a result, there is a natural inclination among family offices to seek companies whose mission and culture align with the family's values, as well as to avoid investing in companies whose environmental and social practices may carry reputational risks for the family. WB

Case Study: Investing in Upward Mobility in an Evolving Economy

Across industries, disruptive forces have rapidly altered the skills needed by employers. Penn Foster is dedicated to bridging this skills gap and fostering upward mobility for workers and their families through job-specific training and education programs.

Not Disclosed
PENN FOSTER
has been acquired by
BainCapital Double Impact
2018

In May 2018, William Blair advised Penn Foster on its acquisition by Bain Capital Double Impact, the impact investing strategy of Bain Capital. Penn Foster's focus on helping workers in lower-paying jobs enhance their skills and improve their career prospects aligned with Bain Capital Double Impact's mission to invest in companies that are delivering social benefits.

"Practical education is the most powerful enabler of the sort of social and economic mobility that can transform families and communities. We believe that Penn Foster is well-positioned to be a crucial part of the solution to help close America's skill and equity gaps," said Deval Patrick, a managing director at Bain Capital Double Impact.

2. *The Economist*, "How the 0.001% Invest." December 15-21, 2018.
3. UBS and Campden Wealth, "Global Family Office Report 2018."
4. UBS and Campden Wealth.

Identify the Purpose of Your Capital

At William Blair, we believe that all capital has purpose and that all capital can make an impact. Whether you invest in one of our proprietary strategies, draw insights from our equity research, work with our investment bank for capital-raising and advisory solutions, or entrust our wealth advisors with your personal capital, we are committed to delivering ideas and solutions to help you fulfill the purpose of your capital.

Whatever your vision is for your capital, we invite you to begin a dialogue with William Blair to explore ways that those values can be expressed with your capital and in all aspects of your financial life. WB

Contact Us

Contact William Blair to learn how our professionals around the world can help you with your investment banking, investment management, and private wealth management needs: **info@williamblair.com**