# BDO ESG DUE DILIGENCE

## integrating Environmental, Social and Governance factors as key considerations for investment decisions and business strategy

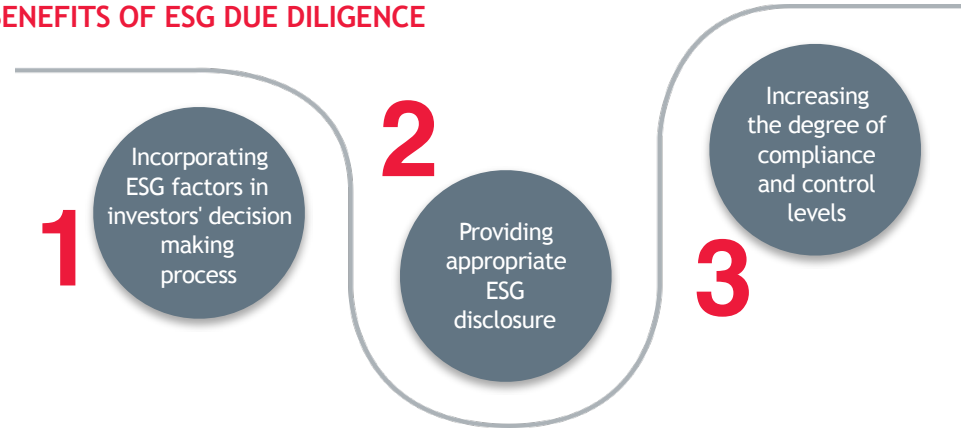
The purpose of ESG Due Diligence is to develop a clear understanding of a company's credentials in relation to Environmental, Social and Governance factors. The ESG Due Diligence process aims at verifying how the company has enacted the commitments set out in relation to ESG criteria and identify potential relevant risks for investors' considerations.

### THE NEED FOR ESG AND MARKET COMMITMENT SO FAR

ESG factors should not be considered in isolation from other factors in the due diligence process. In fact, ESG factors are integral to the risk assessment process as a whole and as a way to assess the long-term nature of investment opportunities. A broad range of market participants are increasingly focusing on ESG and demanding that these factors are considered as part of the overall investment assessment process. These participants include:

- **INVESTORS AND FINANCIAL MARKETS** - Interest in ESG factors has increased significantly over recent years. These factors are now considered as an essential component in guiding investment decisions when conducting significant transactions, due to their intrinsic link with both risk and long-term value.
- **REGULATORS** - Governments and the public sector as a whole have a responsibility to verify the relevance and nature of significant transactions. They are therefore required to establish new rules within the regulatory environment, with the purpose of integrating ESG within the evaluation of business opportunities.

### BENEFITS OF ESG DUE DILIGENCE




### ABOUT THE ESG DUE DILIGENCE TEAM AT BDO

- Working across **a number of different sectors** for a variety of major national and international companies. This means we have a broad view of the issues, enabling us to identify synergies across different areas and provide innovative advice to our clients.
- A team with **multidisciplinary and transversal skills** who specialise in sustainability. This means we can guarantee that issues will be analysed from a number of different angles, but all through the sustainability lens so our clients get well-round, specialist advice.
- **Availability and responsiveness.** Our partners and managers lead from the front, staying close to the issues and driving delivery. This enhances quality and gives our clients peace of mind.
- Regularly working with colleagues across our **global BDO network** to satisfy local requirements. We operate a single, international system, which means we can provide the same consistency and level of advice, wherever our clients need it.

### BDO's key figures

**167**
OFFICES IN COUNTRIES AROUND THE WORLD

**88.000+**
PROFESSIONALS IN THE GLOBAL BDO NETWORK

**$ 9,6 bn**
ANNUAL GLOBAL REVENUES AS OF 30 SEPTEMBER 2019

**800+**
PROFESSIONALS BASED IN ITALY

**18**
OFFICES IN ITALY

## ADDING VALUE

The purpose of ESG Due Diligence is to identify relevant risks in terms of materiality, reporting, management and control. As a result, ESG Due Diligence adds value to the traditional due diligence process.

## ESG DUE DILIGENCE PHASES

### PHASE 1

**PRELIMINARY ANALYSIS**

During this phase, we provide a broad overview of the company's procedures in relation to ESG. We also provide the necessary data to understand the level of implementation of critical aspects by the company in the context of regulation and international best practice.

### PHASE 2

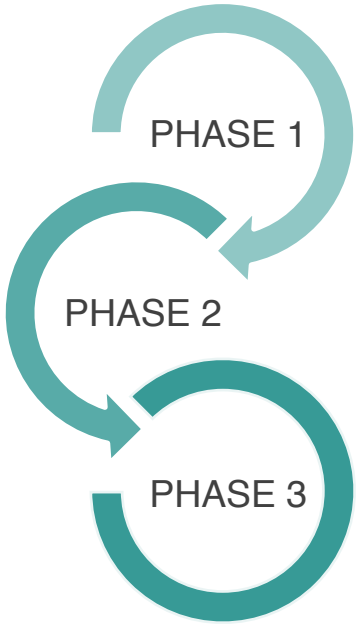
**ON-SITE AUDIT AND INSPECTION**

During this phase, we assess the commitments expressed by the company's management team against the implementation of such commitments.

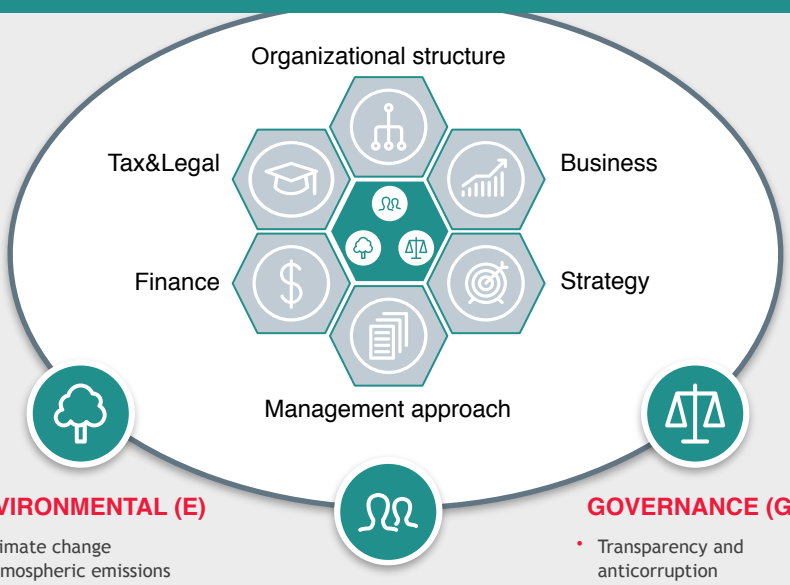
### PHASE 3

**ESG REPORTING**

During this phase, we assign a score in relation to ESG criteria, in particular around factors such as compliance measures, management procedures, reporting and attitudes towards improvement.




## AN INTEGRATED APPROACH TO THE TRADITIONAL DUE DILIGENCE




### ENVIRONMENTAL (E)

- Climate change
- Atmospheric emissions
- Use of natural resources
- Waste disposal

### SOCIAL (S)

- Health & Safety
- Engagement of local communities
- Diversity and equal opportunities
- Human rights

### GOVERNANCE (G)

- Transparency and anticorruption
- Remuneration policies
- Diversity across members of the Board
- Long-term fiscal strategy

## BDO case study #1

**Client**: A multinational automotive company with international manufacturing facilities, including in Italy.

**Client objective**: Our client was being acquired by another company and needed to undertake a complex due diligence process.

**Solution provided**: Trough the combination of multidisciplinary skills, we considered ESG risks to be low as the company had made significant ESG commitments and implemented relevant procedures to satisfy those commitments. The company's focus on sustainability also provided confirmation of the strength of its management policies and procedures and demonstrated the robustness of its compliance process and overall business model.

## BDO case study #2

**Client**: A development bank providing debt and equity funding, long-term loans and risk capital to private companies operating in emerging markets.

**Client objective**: The client was considering acquiring a minority stake in an insurance company serving SMEs and retail clients in Southeast Asia.

**Solution provided**: BDO was engaged to carry out financial, ESG and actuarial due diligence to assess the risks associated with the acquisition of the minority stake. Our work highlighted the target company's strengths and weaknesses, as well as potential measures contributing to both broad and structural improvements.

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