KEYNOTE INTERVIEW

Why SBTi makes sense for private equity

For CVC, the Science Based Targets initiative is the most credible and stringent approach to decarbonisation, say managing partner Jean-Rémy Roussel and head of ESG Chloë Sanders

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Q Why did engagement with the Science Based Targets initiative appeal to CVC?

Chloë Sanders: We see decarbonisation as a core part of our overarching ESG strategy, as well as part of our broader aim of creating sustainable value in all the businesses we back. Decarbonisation has the potential to be a real value enhancer for our investment portfolio, so we want to ensure that we are taking a robust approach.

Furthermore, stakeholder pressure on businesses to decarbonise has been growing for a number of years. We saw a real step change in 2019 and then with the onset of covid. It was becoming increasingly clear that the business community had to accelerate its role in achieving net zero. We intensified the work we were doing to understand what it would take for CVC to decarbonise and, in particular, recognising that with a portfolio of over 125 companies with more than half a million employees, to have real impact, we needed to address emissions at the portfolio level and inspire concrete action within individual portfolio companies.

We initially explored carbon offsetting, but quickly realised that this was not a stand-alone long-term solution – we want to achieve true decarbonisation. We learned of the Science Based Targets initiative, which at the time was a lot less well-known than it is today, but it had strong foundations, with organisations such as the World Wide Fund for Nature and World Resources Institute as founding partners.

Jean-Rémy Roussel: What we like about the SBTi is its high credibility. There is nothing wishy washy about it. You apply, you get validated and you get going. We believe it is the most respected and independent decarbonisation standard out there.

The focus is on a real decrease in carbon, with very few exceptions. The initiative is stringent and demanding, it requires short to medium-term targets to be set and lays out what companies need to achieve to fulfill their share of the fight against climate change, which is why we chose it and why it has been embraced by the board of CVC. A number of our portfolio companies have already adopted it as well.

Q What are the particular idiosyncrasies involved in setting science-based targets for a private equity firm?

JRR: When we began engaging with the SBTi, there wasn't any specific guidance for private equity. We were able to set science-based targets at a house level, but that doesn't address the more material source of emissions at a portfolio level. Through our membership of Initiative Climat International, we became active members of the net-zero working group and put time and resources into supporting the creation of guidelines specific to our industry.

Q What does engaging with the SBTi mean in practical terms?

CS: There are two elements. First, we needed to work out a strategy for CVC at a house level. Where are we today and what targets should we be aiming for? The SBTi looks for near- to medium-term targets – 2030 or earlier. But the bigger piece of the puzzle is the portfolio. We have submitted targets whereby nearly half of our companies will have set their own SBTi targets by 2027, with the remainder to follow. This involves engaging with the portfolio companies' management to ensure we maintain the relevant trajectory to meet these targets. Education within CVC as to what it means for companies to set and meet their targets has been crucial to this.

The SBTi in action

Building materials distributor STARK achieved SBTi validation last year

Q How are you going about engaging with management teams on these efforts and what has the response been?

CS: The first step is to get the foundations right. A company needs to have a clearly defined and measurable annual carbon footprint, a 'point of departure', in order to set science-based targets. We have been working on this with nearly half of our portfolio companies, using an external adviser to ensure carbon footprints are in line with the Greenhouse Gas Protocol, which is a SBTi requirement.

Through that initial engagement programme, we have also learned a lot in terms of which companies are well placed to set targets. Which have the clearest business case? Which have customers expecting them to decarbonise quickly? Those are the organisations that are best placed to set targets first, helping us to learn and also gain further traction in the wider portfolio.

JRR: When we onboard a new portfolio company, and indeed even before that in the due diligence process, we are already considering ESG. Today, that includes explaining CVC's SBTi commitments. Portfolio companies then recognise that by becoming part of CVC's portfolio, this is a commitment we will ask them to make.

When we are buying a business, we are considering whether it and the management team are ready and able to set science-based targets. Deal teams recognise the importance of decarbonisation when it comes to exit and investment performance. A business that is well on the road to decarbonisation is likely to be more attractive to a broader range of potential buyers. Equally, there is a growing awareness that financing will be cheaper if a company is engaged with the SBTi. Our deal teams and our management teams are motivated because they see it is a way to maximise value.

Q Are companies in certain sectors more amenable to the SBTi than others?

CS: There are some sectors where the pressure to decarbonise is more material, particularly if there is pressure along the value chain to set targets. Another key delineator is location. Scandinavia has governments pushing net zero and

STARK Group

STARK Group is a CVC portfolio company headquartered in Denmark. It is a business-to-business distributor of heavy building materials in the Nordic region and Germany, and was backed by CVC in 2021.

STARK is taking measures to become a net-zero emissions distributor of heavy building materials by 2050. To achieve this, it has announced a target to reduce its GHG emissions by 42 percent by 2030, from a 2020 baseline, and has also pledged to source 100 percent renewable electricity by 2030.

Furthermore, with Scope 3 emissions representing 98 percent of the company's total emissions, STARK is seeking to reduce these by 12 percent by 2030.

STARK achieved SBTi validation in 2022 and has already implemented several measures to immediately reduce waste and energy consumption, and minimise indirect environmental impacts in its supply chain.

Zabka Group

Zabka Group is a chain of 8,000 convenience stores across Central and Eastern Europe owned by CVC funds. It has been awarded a platinum medal by sustainability ratings firm EcoVadis, placing it in the top 1 percent of companies in the world in terms of its integration of ESG factors. In particular, Zabka has implemented a best-in-class carbon footprint management system and had its emissions reduction targets verified by the SBTi.

Zabka has committed to reduce absolute Scope 1 and Scope 2 GHG emissions by 25 percent by 2026 from a 2020 base year and to reduce Scope 3 GHG emissions from franchisees by 70 percent per PLN of revenue over the same timeframe. It has also committed to have 75 percent of its suppliers by spend, covering purchased goods and services, adopt science-based targets by 2026.

legislation is there to support these efforts. Companies in the region are more likely to see this as something that needs to happen and recognise the benefits of taking action. Their customers are asking for it and their governments are regulating for it.

"As long-term investors, we are committed to the decarbonisation agenda, and our SBTi commitment underpins this"

JEAN-RÉMY ROUSSEL

Meanwhile, we are also seeing increased focus in the rest of Europe – and both Asia and the US are catching up. In many respects, the energy crisis is helping companies focus on decarbonisation because it can now have clear short-term as well as long-term benefits.

Q Is there a sense of frustration that the SBTi and other similar initiatives don't take emissions avoidance into account?

CS: We have a number of portfolio companies that are considering the evolving concept of 'Scope 4' [emissions avoided because of a product or service] due to the support they provide others in reducing their carbon footprint. It is an evolving area, but also highly complex. It can be challenging to credibly measure emissions avoidance, which is needed to avoid the risk of greenwashing.

Q How would you describe LP attitudes towards decarbonisation?

CS: Investors today definitely have a heightened focus on these topics. We have received statements from a number of investors notifying us of their own net-zero commitments, and we now regularly collaborate with investors as we each pursue our own decarbonisation targets.

Q How is the macroeconomic environment impacting stakeholder attitudes towards net zero?

JRR: This challenging economic environment simply highlights the importance of fairness in the transition. We cannot afford to leave people behind because if we do, short-term demands will continue to be prioritised over long-term imperatives.

We have already seen signs that short-term needs can quite easily begin to derail long-term sustainability plans, with more coal starting to come back online to avoid energy dependence on foreign powers. Renewable energy, of course, is key, and there is an increased sense of urgency behind its roll-out. As long-term investors, we are committed to the decarbonisation agenda, and our SBTi commitment underpins this. ■