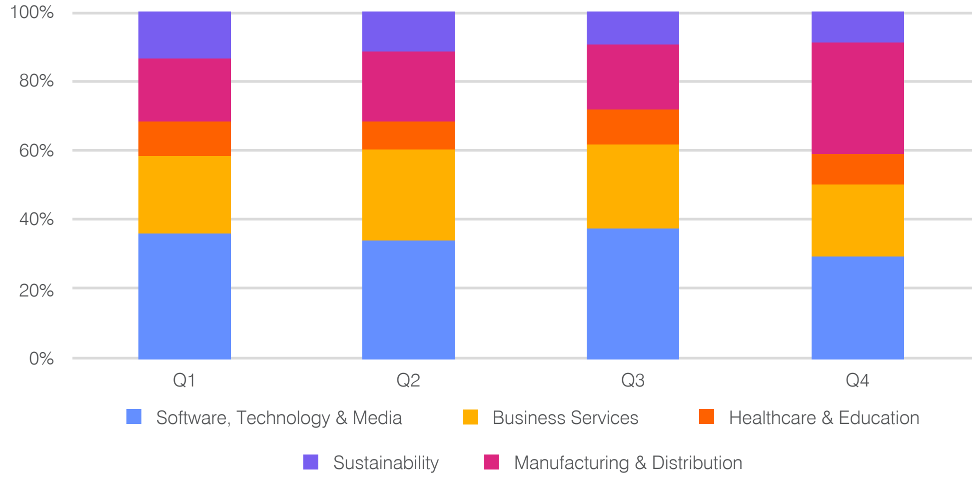
Sustainability

2024 Sector Review & 2025 Outlook

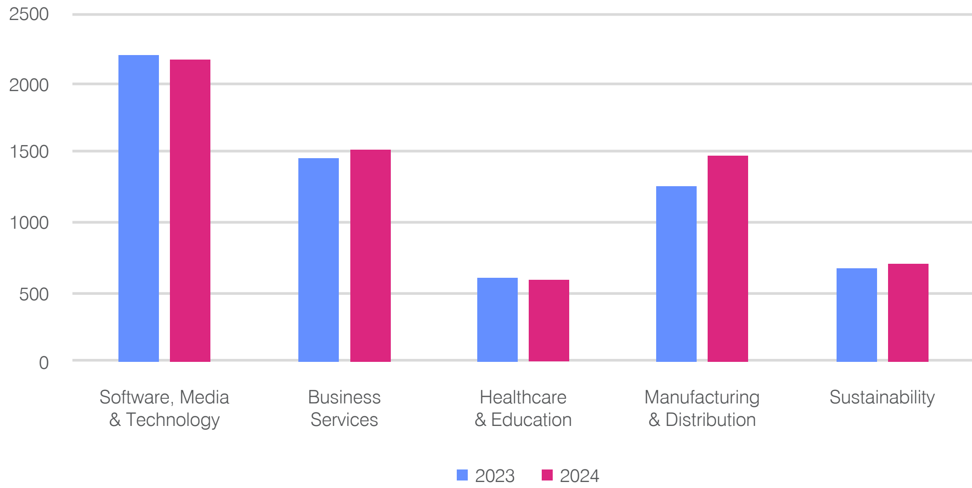
2024 Market Overview

- A major election year – the US, UK, France etc.
- Improving borrowing conditions – Table has finally turned on interest rates – both The Bank of England & The Federal Reserve cut rates in 2024
  - BofE cut rates to 4.5% in February 2025 - down from the peak of 5.25% in August 2023
  - Fed Rate down to 4.5% in December after three cuts across the 2024 from peak of 5.5% in July 2023
- UK borrowing costs are still high – Yields on Gilts almost reached same level as in 2008 – but the outlook is positive for lower and middle market dealmaking in 2025, with market confidence high that interest rates are no longer headed up.
- Key Theme of Digitalisation - continues to disrupt all industries
  - AI-enabled SaaS – enables a new category where service is delivered as a product – e.g. SmarterDx
    - Enables B2B firms to outsource entire functions – this targets operating expenses rather than the typically smaller IT and software budgets
    - Provides opportunities to leverage unstructured data
  - Investors eager to grasp opportunities to put traditional businesses on a platform
- Different impacts of regulation affecting the sustainability sector across the globe
  - In the EU, stricter reporting guidelines were introduced this year. The Corporate Sustainability Reporting Directive (CSRD) requires large and listed companies to share information on how they monitor a wide range of ESG issues and their impact
  - In contrast, since the y/e the new US administration has issued executive orders to promote domestic fossil energy production and rolling back regulations, such as departing from the Paris Climate Agreement. However, individual states such as California and New York set the blueprint for pro-ESG regulation, pushing for more transparency from large companies. The battle between state vs. federal sustainability regulation will continue into this year

Deals across PCF's sectors in 2024



UK Deal Activity in 2023 vs 2024



Source: Pitchbook, Excludes deals with a stated value of >£500m

M&A Activity: Trade VS. Private Equity

Private Equity: Bounce back in 2024

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- Overdue improvement in Private Equity (PE) led dealmaking in 2024 – 2025. Focus will be on exiting accumulated portfolio companies to get cash back to LPs and recycled into new PE funds.
- Strong uptick in European activity – estimated 18% increase YoY after a lull in deals in recent years due to high borrowing costs.
    - Number of deals estimated to return to 2021-22 levels
- Similar trend in the US and globally – estimated 13% and 12% increase in deal value respectively – with a return to 2022 levels (not yet at 2021 peak)

Trade: Continued Corporate Dominance

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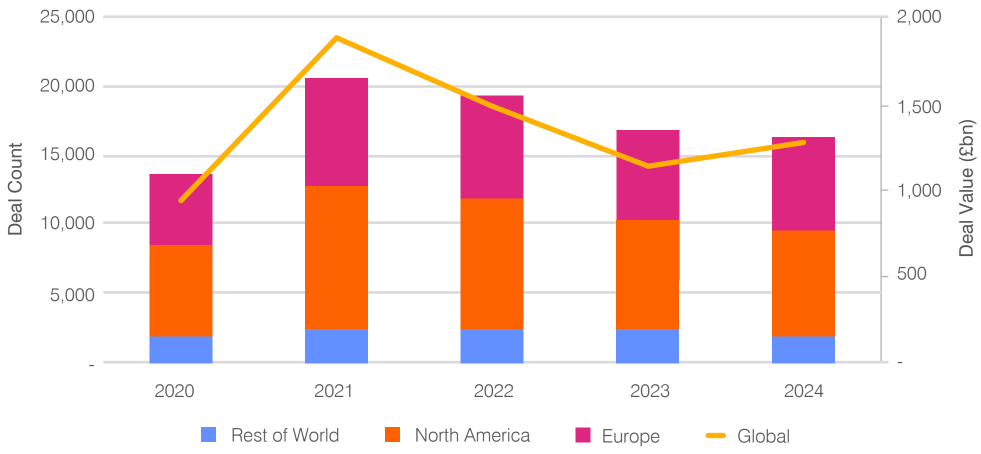
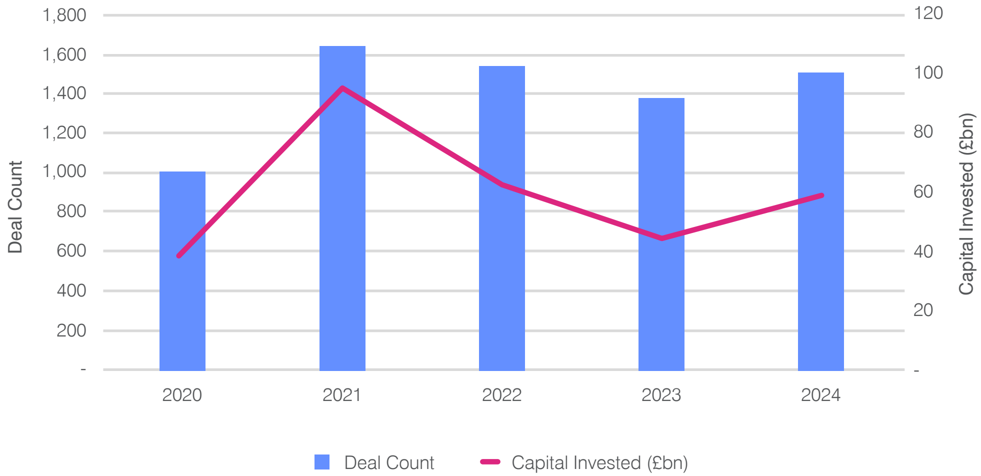
- Corporate-led activity demonstrated greater resilience during the downturn in global deal making over the past two years, and accounted for 63% of UK M&A activity in 2024.
- The gap between PE and trade has however meaningfully closed over the past decade – PE has caught up from a 49% difference in share of M&A value in 2014, to accounting for 47% of M&A activity in 2024. The expected uptick in PE exits will boost firms' confidence and appetite for new deal making in the coming decade.
- The global M&A rebound is in full swing: Recent interest-rate cuts and an uptick in buy-out activity does suggest a resurgence in both PE and Trade activity, particularly as corporate strategics maintain greater buying power impacting M&A activity in the short term.
- Recent eased recession fears amongst C-Suites also prompts acquisition confidence.

Global PE Deal Activity



UK PE Buyout Activity since 2020



Source: Pitchbook, Excludes deals with a stated value of >£500m

Investor Appetite: Key Themes

Access to Financing and Funding:

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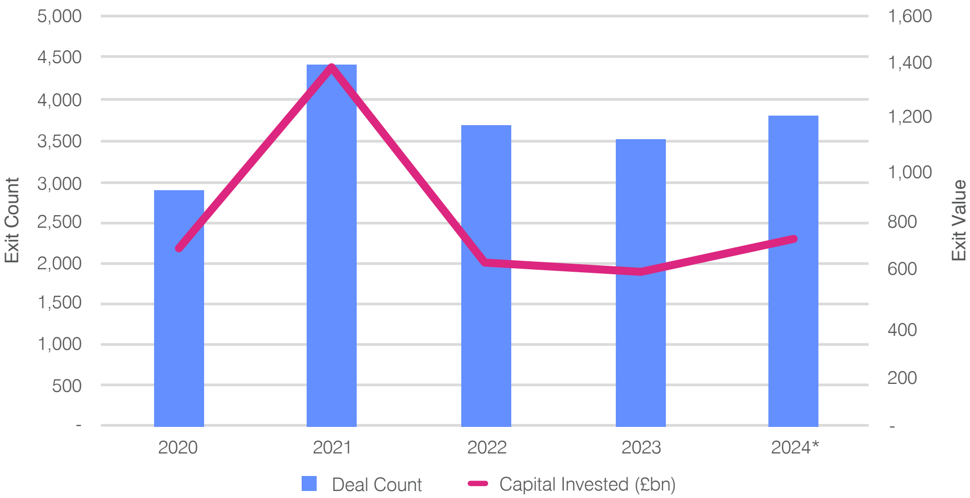
- High-interest-rate environment and recession expectations resulted in smaller growth equity transactions, with PE firms still sensitive to record-breaking rates.
- PE fundraising is a lagging indicator, and after three consecutive years of strong activity, is expected to slow in 2025 because of the disrupted cash flow cycle.
- PE dry powder by the end of July 2024 stood at £2.1tn globally – up c.4% from the start of the year.
- Corporates are cash heavy and ready to acquire
    - During the recent years of economic uncertainties, businesses have been stockpiling cash through a combination of streamlining operations and hesitancy for large spending [Kornferry]
    - Non-financial corporations in the S&P500 started last year with 56% of cash and cash equivalents, and during 2024 bolstered cash on their balance sheets to a record £2tn [JPMorgan Chase]
- Listed acquirors have also benefited from high-valuations, strengthening their financing capacity further

Global PE Exit Activity



**NB: Estimated final data for 2024 exit value*

Source: Pitchbook,

PE Exit Activity

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- PE firms have struggled to realise an acceptable price for their assets against the combined backdrop of Covid followed by interest rate increases, with longer hold periods evident across portfolios as a result. At the start of 2024:
    - The PE sector was sat on a record 28,000 companies (according to Bain) with a collective value of £2.5tn.
    - The proportion of those assets held for more than five years was up 18% on end of 2022.
- With 10-year funds being the norm, pressure to divest demonstrate returns in order to raise follow-on funds is increasing. Fortunately, interest rates have levelled off and the trajectory looks downwards (albeit unclear to what degree and over what timeframe). Signs of more exit activity are being seen as a result. We anticipate an uptick in exit activities in 2025, with the recycled cash driving increasing funds available for reinvestment:
    - 9% YoY increase in 2024 for the global PE exit counts
    - PE exit activity consistently increased across Europe and the US - 17% YoY for US & 19% YoY for Europe

2024 Sector Highlights

Sustainability considerations are increasingly important to all businesses, whether driven by cost saving measures, public image or staff attraction and retention – In the face of a volatile weather environment globally in 2024, how can a business be a “better” corporate citizen?

The regulatory backdrop is strengthening, with the Corporate Sustainability Reporting Regulations 2024 now obligating large and listed companies to publish information on how they monitor a wide range of ESG issues and their impact on our planet.

- Approximately 50,000 companies worldwide will be required to disclose over 1,000 data points and track and measure their sustainability performance. It includes companies that have:

Net turnover of	Balance sheet assets	Employees
€40m+	>€20m	250+

- This marks a significant step change in reporting – scrutinising large businesses and ensuring evidence is provided will promote the development of systems for monitoring so that the scope of reporting requirements can be extended realistically to include smaller players. Smaller players will of course be impacted directly too, as larger players demand evidence from across their supply chains to fulfil their own obligations.

The UK is also a hub for development of specific environmental technologies – second in the world (to the US) for its start-up ecosystem in the space.

AgTech

Focus on regenerative agriculture and low-carbon transition on farms – 72% of the UK’s land is used for agriculture.

UK Government announced that a refreshed ‘Food Strategy’ will be released in 2025.

Climate Tech

Investment into UK-based climate tech companies surged 24% in 2024, totalling £4.5 billion. UK-based AI climate tech firms saw a 128% increase in investment - reaching £1.01 billion in 2024 [PWC].

Green Energy & Clean Tech

Government laid out groundwork for GB Energy – a proposed, publicly-owned energy company that aims to transform the UK’s energy landscape.

UK committed £1.2 billion to the Green Industries Growth Accelerator, focused on developing technology in offshore wind, CCUS, and nuclear energy.

ESG Consulting & Advisory

Increasing engagement from senior executives indicates growing recognition of the importance of sustainable practice – In the UK, 44% of financial firms now have board directors with professional experience in sustainability, (66% of bank boards) (EY).

Initiatives like B-Corp are becoming more popular – UK B-Corp certified firms hit the 2,000 milestone in 2024 – there are now over 9,000 B-Corps worldwide across 160+ industries.

Human Capital Management (HCM)

Industry focus on optimisation and boosting productivity through consolidation services and investing in tech and training. Consolidation in the space and a focus on diversification of clients and service offerings to address slow down in global hiring and recruitment.

2025 Road Map

The world needs to decarbonise at a rate 20x faster to limit global warming to 1.5C [Net Zero Economy Index 2024]

First wave of EU's CRSD's regulations to drive change this year - Additional pressure from both investors and consumers

- Opportunities in ESG consulting and advisory space, in particular in the identification and use of ESG data metrics to allow parties to evidence and benchmark sustainability activity
- SMEs are unlikely to face direct regulatory reporting pressures in the near future, however early adoption will enable them to match competitors and be seen as proactive rather than reactive. Helping generate a positive profile for any investment requirements and indeed support any desire to join supply chains of larger businesses. All this will drive further demand for advisory services

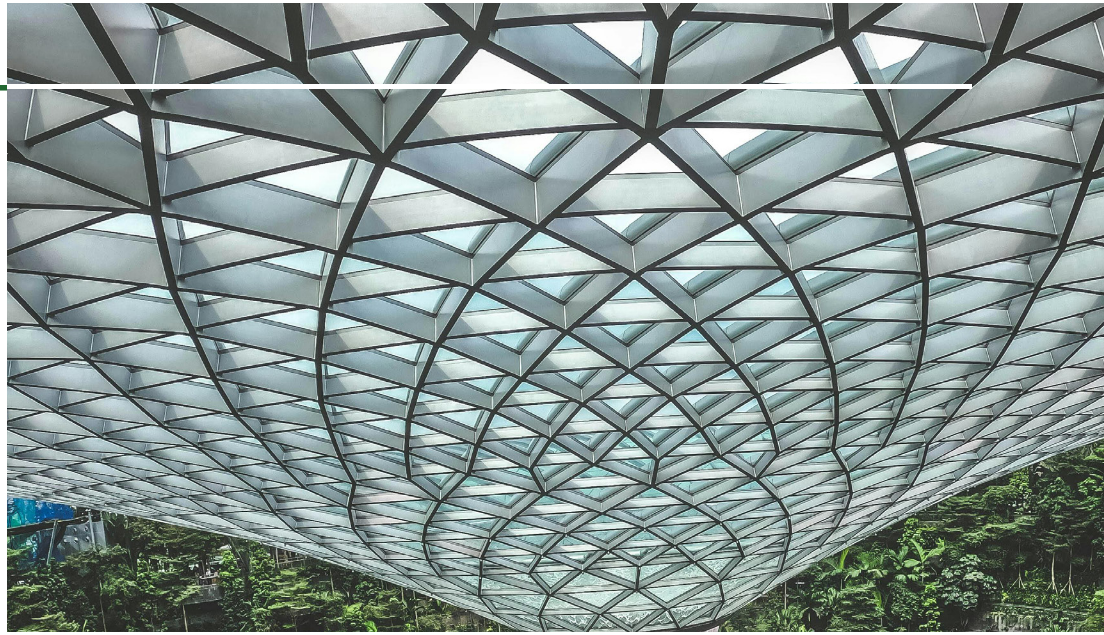
AI & Machine Learning is already starting to drive transformative change:

- To enhance productivity, sustainability and resilience to climate change – In British agriculture, it enables farmers to adopt precise methods through predictive algorithms and smart farming tools, alternatively the use of robotics in agriculture can reduce pressures on labour supply chain
- 73% of businesses surveyed are planning to use or exploring the use of AI for CRS reporting – this will accelerate the development of ESG technology capabilities
- AI can also enable faster development of specific technologies through running simulations

Commercial success will depend on AI players having access to the right data for training the product, which is becoming more of a challenge as access to data is tightening and becoming more expensive

Privacy is a key concern in parallel to environmental concerns – Safe, secure data storage needs to be prioritised by firms – How much data are parties willing to put into the mostly open-source AI ecosystem to process?

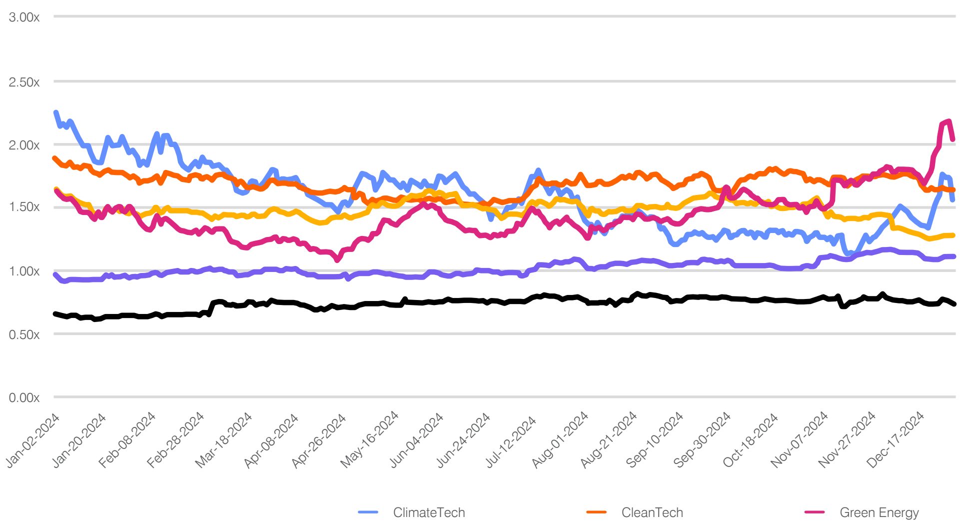
Public Market Overview



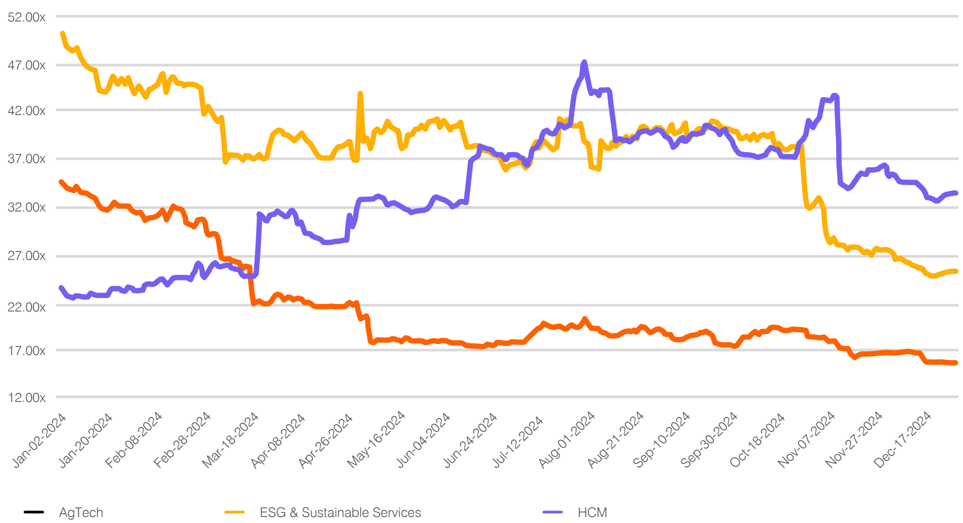
Revenue multiples have settled compared to exaggerated peaks in 2021, and now look fairly stable but the growth stage (including some pre-profit) nature of many of the companies feeds through to high EBITDA multiples and volatility, both of which should reduce over time as the companies mature into stronger, more cash flow certain entities. By way of example, Polestar's tracked companies within ESG & Sustainability Service started the year with a c.50x EBITDA multiple, spent much of the year at around 40x and finished at 26x. Overall, players within these verticals need to be prioritising strong margins and established processes as investors start to demand these to confirm expectations of growth potential. Clean Tech finished the year with a 16x EBITDA multiple – although there is a large range for individual companies within the vertical of 6x - 34x. As growth profiles and valuations become more defined, we expect a narrowing of this range.

Note: The tracked sets produced insufficient data for comparable EBITDA multiples across our other subsectors – Agtech, Climate Tech and Green Energy. These emerging spaces have exciting potential with planned government support, such as GB Energy, and a rise in the supply of green finance.

Revenue Multiples



EBITDA Multiples



Revenue mutliples for the past year

Source: CapIQ, PCF tracks companies with market cap. <£1bn

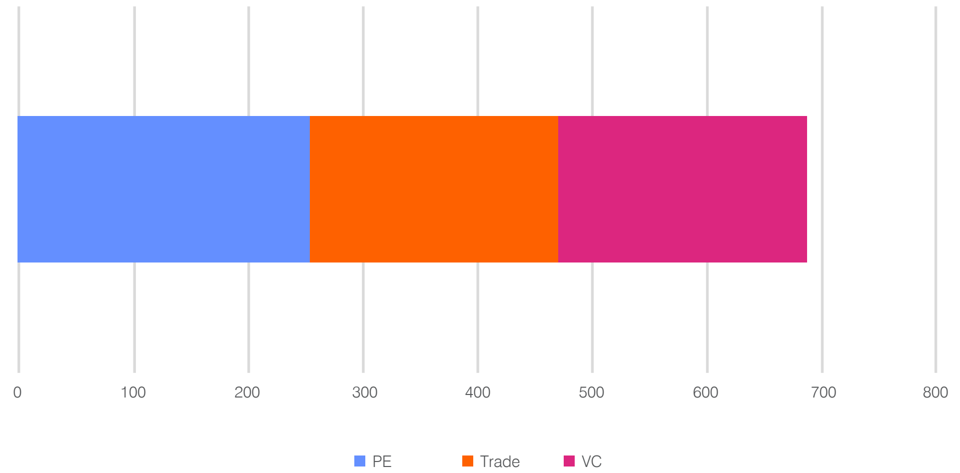
Private Transactions Overview

Other than climate tech all verticals enjoyed an uplift in deal activity relative to 2023. In particular, the number of UK Agtech deals doubled from 2023 to 2024 highlighting positive attitudes towards the vertical, with HCM also demonstrating a similar uplift as the space turns to inorganic growth and consolidating operations and services.

High Venture Capital involvement compared to other sectors – an industry trend of an early-stage yet maturing market that is in high demand

- 78% of VC firms have either fully or partially incorporated sustainable principles into investments strategies - target sustainable investments as a result [Pitchbook]
- By tracking VC involvement, we can begin to predict when the right time for sale is for a sustainability asset – although if your asset is well developed, PE will be keen to get involved whilst the market continues to mature to give it opportunity to sell at a much higher multiple down the line

UK Sustainability Deal Activity by Type



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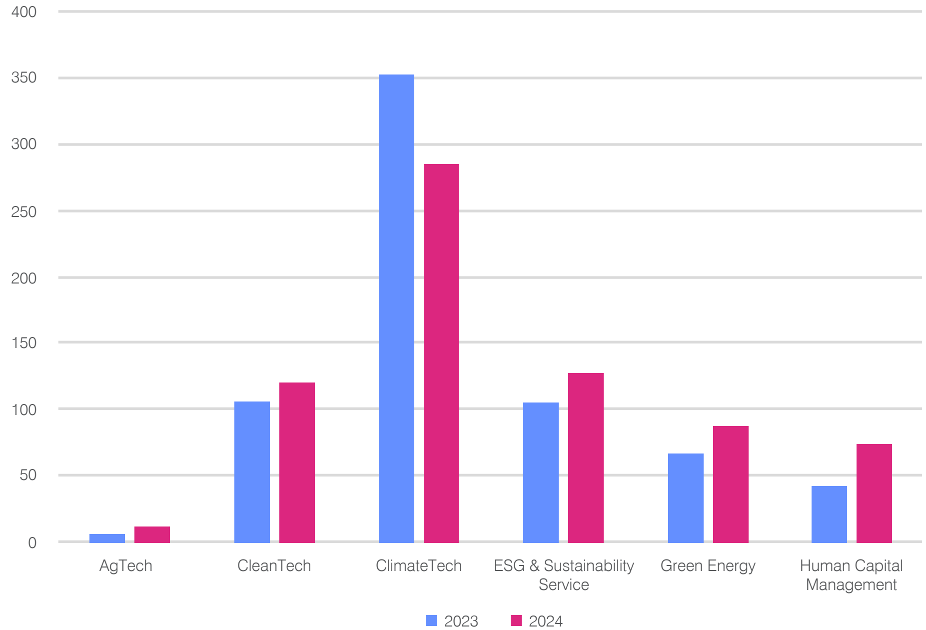

NB: Search criteria for deals includes PE and Corporate transactions only

Source: Pitchbook, Excludes deals with a stated value >£500m

Investor Appetite

More than half of investors believe boardroom experience in sustainability has a significant impact in the attractiveness of a company and 22% indicate it has a highly significant impact [EY].

Private markets offer alternative routes for investors to capitalise on the energy transition – rather than public sector energy initiatives which are behind the curve.

E.g. 15% YoY predicted increase in UK wind power between 2024 and 2025.

70% of business leaders say they are likely to use acquisitions and divestments to access the talent and technology they need to accelerate decarbonisation and meet their net zero commitments [PWC]

71% of investors agree that companies should incorporate ESG/ sustainability directly into their corporate strategy [PWC's Global Investor Survey 2024]

Highlights from *PCF's 2024 Sustainability Survey*

94% of Private Equity firms agree that sustainability is changing the way they measure/ track performance, an indicator that careful consideration of sustainability performance will increase future business value

- 70% of PE respondents named sustainability one of several important factors to consider when making an investment – 21% of these named it as the primary factor
- 45% of respondents thought that a clear sustainability focus would result in higher valuation multiples
- 60% of respondents strongly agree that sustainability is a necessary part of business strategy going forwards
- On the whole, PE places more importance on sustainable initiatives than corporates running the businesses – 85% of PE respondents consider sustainability as part of their investment criteria as it follows the ethos of their firm

Active Buyers:

Majority of investors/acquirors completed one transaction over the year. The most active buyers are:

PE Investors	Number of UK Investments 2024	Targets	% of Sector Deals
Inflexion Private Equity (*Via Celnor Group)	11	Aitken Laboratories (*) UP Fitness (*) Concept Environment Solutions (*) HBE (*) Arbtech (*) Veriflo (*) Seed Environmental (*) CHPK Group (*) Wirehouse Employer Services Hydrop ECS Barbour EHS	3.1
Energy Capital	8	Biffa Eco-Power Environmental Hazrem Environmental Severn Trent L&S Waste Management Renewi Reenan Recycling Atalntica Sustainable Infrastructure	2.2
Beech Tree Private Equity	3	Sustainable Energy First Ineco Group Dakro Air & Water	0.8

Corporate Acquiror	Number of UK Acquisitions 2024	Targets	% of Sector Deals
Origin Enterprises	4	Brooks Ecological GE Consulting Avian Ecology Bowland Ecology	1..1
Good Energy Group	3	Empower Energy Amelio Solar Energy JPS Group Renewables	0.8
Hometree	2	Geowarmth The Little Green Energy Company	0.6

Selected Transactions

Overall, trade is dominating the space, with Private Equity having a higher involvement in UK Sustainability transactions than across Europe and internationally:

- 350 investing in the UK (39% Trade, 26% PE)
- 1,340 investing in European (45% Trade, 23% PE)
- 2,932 investing worldwide (47% Trade, 21% PE)

UK Clean Tech and Climate Tech have similar revenue multiple ranges - from 0.2x to 17x (excluding outliers)

Worldwide this expands to 0.1x up to 40x (excluding outliers)

Worldwide ESG revenue multiples range from 0.5x – 30x, with the top end valuations occurring from US firms – there is strong demand outside of the UK and opportunities for global deals.

CATTLE EYE

Cattle Eye

Developer of livestock monitoring platform designed to improve the protein supply chain - acquired by GEA Group for **c.£6m in March 2024**

ELGIN

Elgin Energy

Developer of solar projects to promote renewable energy - Bought out by Copenhagen Infrastructure Partners for **£310m in April 2024**

SIMS METAL MANAGEMENT

Sims Metal Management

Metal recycling services - acquired by Unimetals for **£195m in August 2024**

JPSGroup CONSTRUCTION

Part of good energy

JPS Group Renewables & Construction

Specialists in solar powered battery installation - Acquired by Good Energy Group for **c.£14m in February 2024 - Revenue multiple 3.6x**

perkbox

Perkbox

Digital employee engagement platform - Bought out by Greate Hill Partners for **£130m in February 2024 - Revenue multiple of 3.6x**