Sustainability

H1 2025 Sector Review

Macro Summary: H1 2025

UK Performance

- UK economy grew 0.7% in Q1 2025, led by services, manufacturing and strong household spending; exports surged ahead of tariff changes
- Momentum slowed in Q2, with April GDP contracting 0.3% amid fiscal headwinds, labour market softness & global trade uncertainty

Global Growth Outlook

- Revised downward: The World Bank and Morgan Stanley both project global GDP growth at 2.3–2.5% in 2025, down from 3.5% in 2024
- Drivers of Slowdown:
  - Trade shocks from U.S. tariffs (10-25% baseline, with reciprocal rates up to 54% on Chinese goods) are disrupting global supply chains
  - Investment flows are weakening, particularly in developing economies reliant on export-led growth

Inflation & Monetary Policy

- Tariff-driven cost pressures remain a near-term risk, especially in sectors like electronics, automotive, and pharmaceuticals
- Policy divergence: While the BoE and ECB are cautiously easing, the Fed remains hawkish amid U.S. fiscal uncertainty and tariff-induced inflation
- Globally, inflation is predicted to ease to ~4.2% in 2025, with advanced economies returning to target faster than emerging markets – will be interesting to see how this pans out once the US's 'reciprocal' tariffs take effect in August

Sources:
Forecasts for the UK economy – a comparison of independent forecasts (HM Treasury)
World Economic Situation and Prospects 2025 – Mid-Year Update (UN
https://www.gov.uk/guidance/data-use-and-access-act-2025-data-protection-and-privacy-changes)

Sustainable Development & Inequality

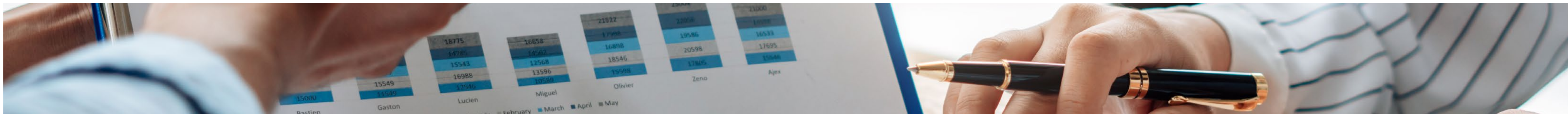
- SDG progress off track: According to the UN's 2025 SDG Progress Report, none of the 17 goals are on course to be met by 2030
  - East and South Asia show the fastest progress, while conflict-affected and fiscally constrained nations are falling further behind
- Fiscal space is a key constraint: Over half the world's population lives in countries unable to invest adequately in SDG-aligned infrastructure

Data & AI Policy Changes

- Data reform: New UK Data (Use and Access) Act 2025 (DUAA) law updates UK GDPR - requires revised privacy policies & Data Subject Access Request (DSAR) processes
- AI & automation expands opportunities across businesses but increases compliance requirements & risks
- Stricter cookie & direct marketing rules expected - prepare for consent changes
- Cross-border data provides easier international transfers, but safeguards needed. Businesses need to monitor legislation in all jurisdictions in which they operate

Strategic Implications

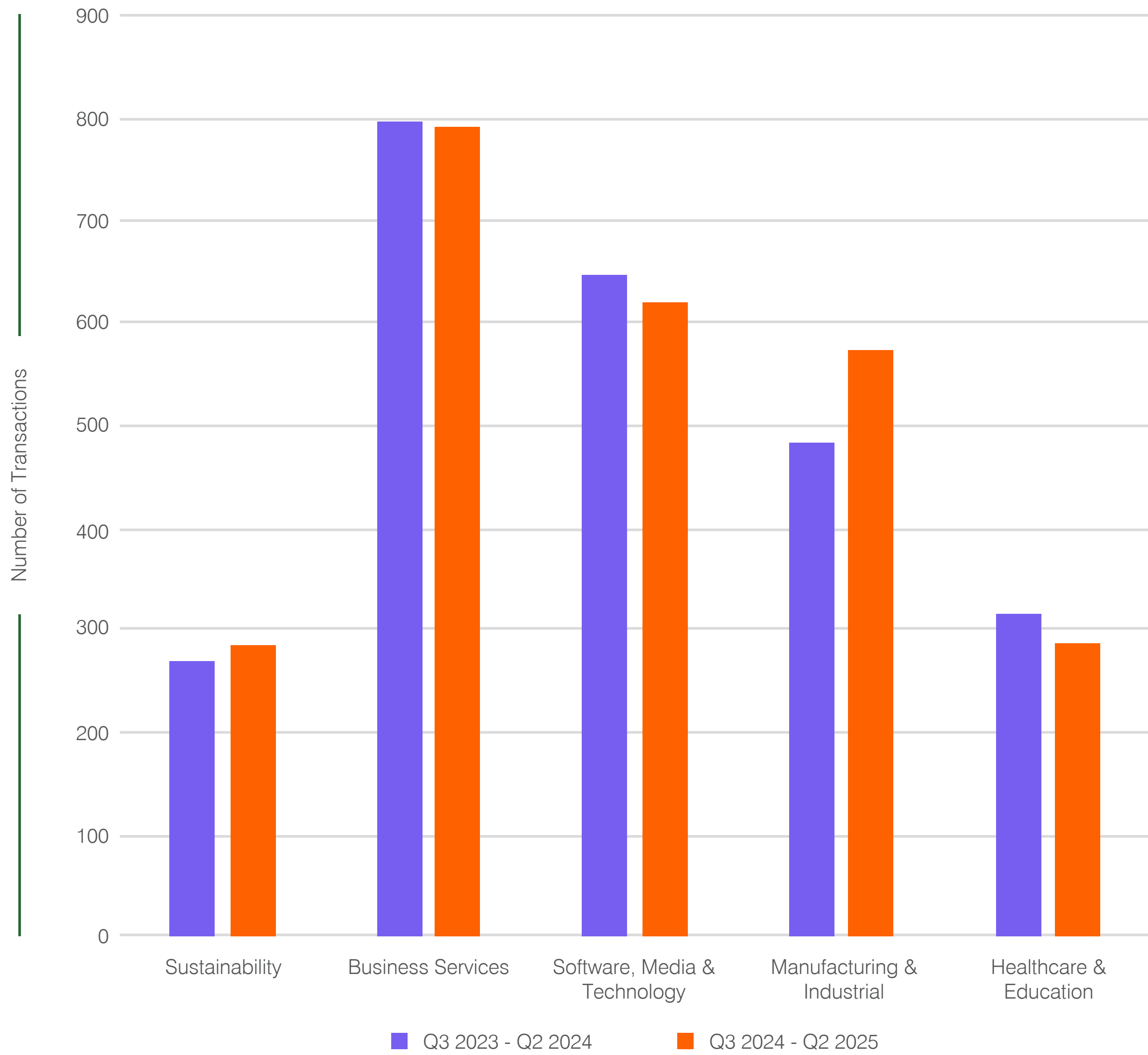
- For UK-based investors and advisors: The UK's relative macro-stability, combined with its separation from EU trade policy, may position it as a safe harbour for international capital, particularly in ESG-aligned sectors
- For legal and financial professionals: Expect heightened demand for cross-border structuring that navigates tariff regimes, and for due diligence on ESG compliance as sustainability reporting becomes a differentiator



UK M&A Overview

- Modest increase in deal activity in the UK: PE and M&A volumes saw a slight year-on-year rise overall
- Activity increased from Q1 to Q2, with momentum expected to accelerate through H2 2025
    - Boosted by rate cuts, dry powder pressure, strategic expansion, and valuation clarity
- Manufacturing & Industrial led growth: driven by tech investment, rising demand, and pro-growth policies
- Corporate buyers dominate: 62% of UK deals in H1, in line with the 2-year average of 63%
- Private Equity rebalances: Strong performance in Q1 2024 initially signalled a change in the balance across M&A landscape
    - Activity is now tracking historic norms – buyout accounts for 31% of deals in H1 with remaining 7% being follow on Growth Capital deals

UK Deal Activity Year on Year



Source: Pitchbook

Key Trends Industry Shifts

Regulation & Policy

- UK SRS Exposure Drafts (June '25): Mandatory sustainability disclosures aligned with ISSB; heightened demand for audit, legal, and advisory services
- GBIS Momentum Builds: 80k+ home upgrades fuel supply chain growth in insulation, smart heating tech, and retrofit planning
- DEFRA Biodegradable Waste Plan: Ban by 2028 under consultation; businesses face mounting stakeholder pressure to pivot early

Green Investment & Finance

- Climate Tech Surge: UK climate investments up 24%, topping £4.5bn — AI-led carbon monitoring, resilient grids, and energy storage key themes
- Sector Strategy Support: New cleantech roadmap targets £30bn annual investment; nuclear, hydrogen, and CCS prioritised
- Financial Sector ESG Push: FCA's SDR reforms reinforce integration; institutional investors demand transition-aligned portfolios

Talent & Innovation

- ESG Hiring Peaks: ~1M UK roles across CSO, ESG analytics, and net-zero compliance; embedded in finance, manufacturing & real estate
- Hybrid Skill Premiums: Cross-trained professionals (e.g., legal/finance + ESG) highly sought in advisory and investment roles
- Tech Innovation Hub: Growth in UK-based ESG analytics, climate risk modelling & B-Corp reporting platforms amid global policy volatility

Sources:
The UK's Modern Industrial Strategy – Clean Energy Industries Sector Plan
https://www.gov.uk/government/consultations/exposure-drafts-uk-sustainability-reporting-standards/exposure-draft-of-uk-sustainability-reporting-standards-uk-srs-s1-and-uk-srs-s2
https://www.gov.uk/government/consultations/exposure-drafts-uk-sustainability-reporting-standards
https://www.gov.uk/government/consultations/near-elimination-of-biodegradable-waste-to-landfill
https://energysavingtrust.org.uk/what-is-the-great-british-insulation-scheme-eco-plus/

Public Market

Key Trends:

- Sector-wide Q2 rebound highlights sustained investor confidence following earlier disruption from U.S. policy shifts ("drill baby drill")
- Fluctuations in Green Energy:
  - AFC Energy - AIM-listed hydrogen fuel cell player - experienced a valuation correction in March once it released its weaker financial performance and confirmed a £2.8m inventory write-off
    - Its near total collapse of top-line performance initially inflated its revenue multiple
    - This steadily climbed in Q2 after the company announced its new strategic direction
  - Meanwhile, Nasdaq-listed solar battery company, NeoVolta Inc, reported strong revenue growth in Q2
    - Its US-based assembly has proved to be an asset during tariff uncertainty
    - Revenue forecast to grow 200% YoY
- Clean Tech & Green Energy multiples are strong compared to other verticals, although future valuation growth will be tied to profitability
  - Shareholders will begin to expect a return on their investments and multiples may face pressure without margin expansion
- HCM multiples remained steady across H1:
  - Players provide essential functions like payroll and benefits administration and generally benefit from stable recurring revenue models
  - Relatively mature space which leads to fewer disruptive entrants and predictable growth trajectories
  - Strategic acquisitions instead drive growth, as larger players target customers and complementary tools to broaden product-offerings

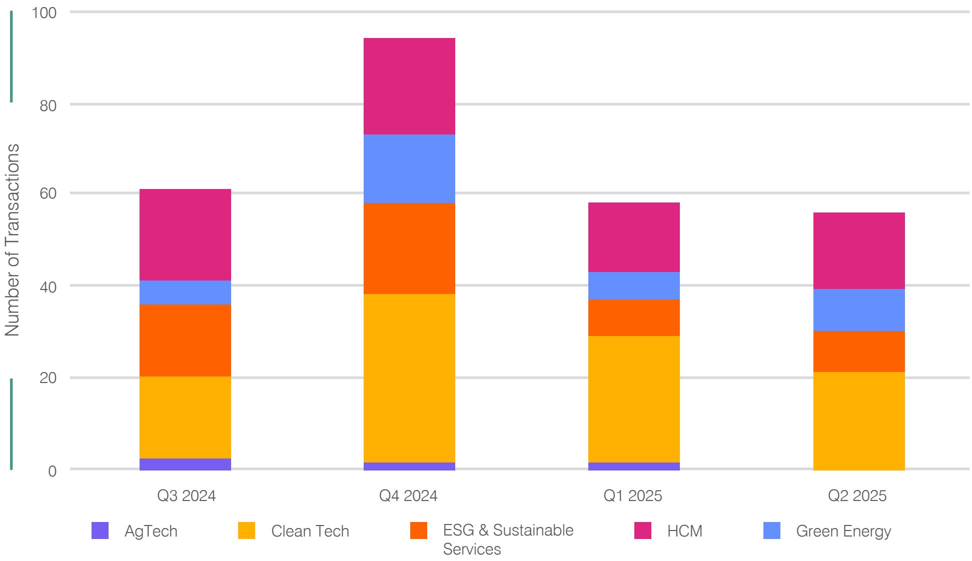
H1 2025 Revenue Multiples

Source: S&P 500 - CapIQ

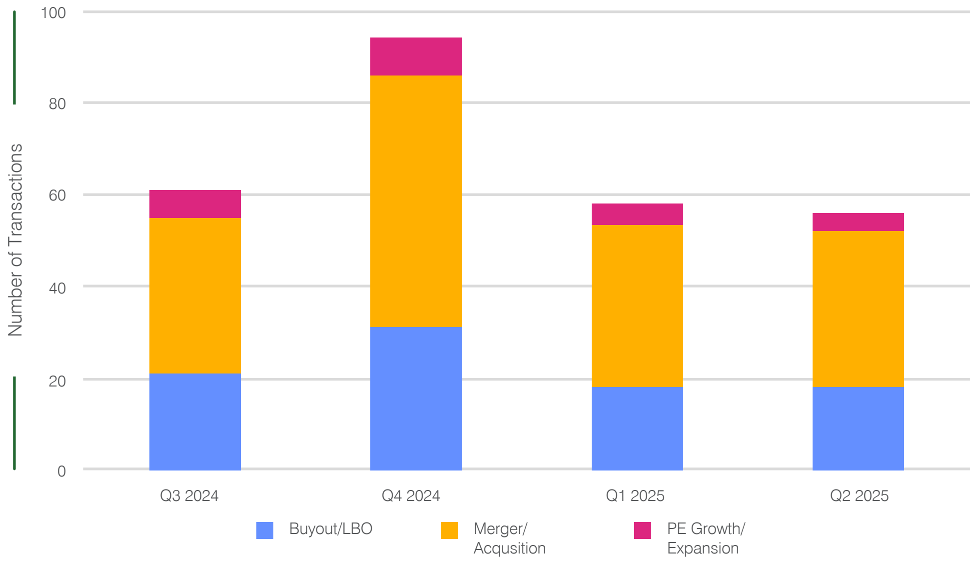
Sources:
https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/1/sustainability-and-esg-investments-will-keep-expanding-under-trump-analysts-say-87097152
https://www.esgdive.com/news/companies-recalibrating-esg-strategies-response-us-policy-shifts-conference-baord-report-pwc-trump/751468/

Private Transactions - UK

Sustainability UK Deals by Subsector



Sustainability UK Deals by Type



Source: Pitchbook

- Drop in deals in Sustainability in H1 2025 highlights that attitudes towards the space were tested by changing governments – US has strong influence on UK landscape
- Players in ESG & Sustainability Services, Clean Tech and Green Energy will benefit from strong policy incentives
  - Helps de-risk investments and attract capital
- In contrast, AgTech shows slower growth, likely due to less direct policy support, longer commercialisation timelines and friction from farmers slower to adopt new tools
- Uptick in HCM deals reflects the increased market interest Polestar has seen over the last year
  - Highlights growing market recognition of social sustainability as a material driver of long-term value
  - Reinforced by evolving employee expectations around reward, recognition, and workplace culture

PE attitudes to Sustainability:

- Firms continue to embed ESG deep into portfolio companies
- Many have launched dedicated sustainable funds (e.g. Palatine & Bridges) and treat ESG as a core value driver, not just a compliance requirement
- Growth equity incubates emerging innovations to capture future upside as rapid organic growth is possible
  - Driven by regulatory and end-consumer demand for sustainable practice

Sources:
https://www.aoshearman.com/en/insights/financial-services-horizon-report-2025/financial-services-horizon-report-2025-sustainability-and-esg
https://sustainabilitymag.com/articles/how-could-the-us-uk-trade-deal-affect-sustainability
https://greenly.earth/en-gb/blog/company-guide/understanding-the-uk-governments-mandatory-net-zero-targets
https://agritechfuture.com/smart-farming/uk-agritech-sector-holds-promise-but-clear-policy-and-targeted-support-are-vital/

Active Investors & Acquirors

Consolidation across the Sector acquirors target fragmented early-stage markets to gain scale and streamline operations.

Active M&A scene in sustainable waste management as acquirors rely on inorganic growth.

Investor/Acquiror	Add-on Sponsor	Target	Deal Date	Deal Type	Subsector
CIRQLR GIVING WASTE A SECOND LIFE	icon infrastructure	Chambers Waste Management	31/03/2025	Buyout/LBO	ESG & Sustainability Service
		Ellgia	22/04/2025	Buyout/LBO	
		Wilrose Environmental	01/05/2025	Buyout/LBO	
zellis	Apax Partners, Ergo Partners	Elementsuite	09/01/2025	Buyout/LBO	Human Capital Management
UNSEEN	Pelican Capital, ThinCats	Shine Interview	17/03/2025	Buyout/LBO	
		Meet & Engage	17/06/2025	Buyout/LBO	
Org group		Venturi (Human Capital Services)	13/05/2025	Merger/Acquisition	
		Enterprise Digital Resources	23/06/2025	Merger/Acquisition	
access	Altaroc Partners, GIC Private, Hg, HgCapital Trust, TA Associates Management, The Access Group	Eploy	27/06/2025	Buyout/LBO	
Diligent	Ares Management, Blackstone, Blue Owl Capital, Clearlake Capital Group, Golub Capital, Insight Partners (New York), Morgan Stanley Private Credit, Norwest Venture Partners	Vault Platform	22/05/2025	Buyout/LBO	
upvolt		SolarKW	03/01/2025	Merger/Acquisition	CleanTech
		Deege Solar	30/04/2025	Merger/Acquisition	
		OHM Energy	11/05/2025	Merger/Acquisition	Green Energy

Source: Pitchbook

UK Deals in Sustainability

<table>
<tr><th>Company Name</th><th>Deal Date</th><th>Deal Size (£m)</th><th>Post Value (£m)</th><th>Deal Type</th><th>Investor</th><th>Subsector</th></tr>
<tr><td>Harmoney Energy Income Trust</td><td>25/03/2025</td><td>200</td><td>200</td><td>Merger/Acquisition</td><td>Drax Group</td><td rowspan="7">Clean Tech</td></tr>
<tr><td>Aegis Energy</td><td>20/01/2025</td><td>100</td><td></td><td>PE Growth/Expansion</td><td>Quinbrook Infrastructure Partners</td></tr>
<tr><td>Rolls-Royce SMR Ltd</td><td>08/01/2025</td><td>85</td><td>1,185</td><td>PE Growth/Expansion</td><td>Undisclosed Investor</td></tr>
<tr><td>Connected Kerb</td><td>29/01/2025</td><td>65</td><td></td><td>PE Growth/Expansion</td><td>Aviva Investors Global Services, National Wealth Fund (United Kingdom)</td></tr>
<tr><td>Northern Energy Oil</td><td>10/03/2025</td><td>8.3</td><td>8.3</td><td>Merger/Acquisition</td><td>NWF Group</td></tr>
<tr><td>CMO Group</td><td>09/06/2025</td><td>1.8</td><td>1.8</td><td>Merger/Acquisition</td><td>Lords Group Trading</td></tr>
<tr><td>Advanced Blade Repair Services</td><td>17/04/2025</td><td>1</td><td>1.4</td><td>Merger/Acquisition</td><td>Wind Asia Training</td></tr>
<tr><td>Advantage NRG</td><td>27/062025</td><td>15.7</td><td>15.7</td><td>Merger/Acquisition</td><td>Hercules (Construction and Engineering)</td><td>Human Capital Management</td></tr>
<tr><td>Copper Bay</td><td>09/04/2025</td><td>5.8</td><td>5.8</td><td>Merger/Acquisition</td><td>Guardian Metals</td><td>ESG & Sustainability Service</td></tr>
<tr><td>A&D Carbon Solutions</td><td>12/06/2025</td><td>2.8</td><td>2.8</td><td>Merger/Acquisition</td><td>Earnz</td><td>Green Energy</td></tr>
</table>

Source: Pitchbook