



DECARBONISATION OF SMEs AND MID-CAP GROWTH COMPANIES: THE KEY ROLE OF PRIVATE EQUITY PLAYERS



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DECARBONISATION AND
INVESTMENT STRATEGIES

SUPPORTING COMPANIES IN THEIR DECARBONISATION PATHWAY

Declarations of intent are no longer enough: there is an urgent need to increase action on climate change. Andera Partners is one of the leading management companies having established an ambitious objective of supporting its portfolio companies to concretely reduce their carbon emissions in line with the Paris Agreement, seeking to reduce global warming by 1.5°C or “well below 2°C”.

Andera Partners has made a commitment and validated its decarbonisation trajectory with the Science-Based Targets Initiative. The SBT initiative was up until now mainly supported by large groups, more exposed to public scrutiny, but whose action alone will not be sufficient: the entire economy must contribute to reducing green house gas emissions.

Companies now require specific and concrete action plans over and beyond the establishment of a trajectory. However, not all companies – especially small-and medium-sized companies – have the resources and expertise to address this stake; this is where private equity must play an important role. In order to meet this challenge, Andera Partners, a major player in the financing of small-and medium-sized and intermediate-sized growth companies in France and in Europe, is launching this year “Andera Climate Solutions”, a unique coaching program.

This is an opportunity to take stock:

- How can management companies provide support to its portfolio companies regarding their climate strategies?
- What are the practical implications of a commitment to SBTi?
- How do these commitments tie in with the challenges of transforming business models and support for growing companies?

1. SCIENCE-BASED TARGETS, THE DECARBONISATION FRAME OF REFERENCE

The fight against climate change is urgent.

Limiting the increase in temperatures to less than two degrees, or even 1.5 degrees is a priority, which requires quick and strong measures to reduce emissions in half by 2030 and to achieve zero net emissions prior to 2050. In this context, all stakeholders must align themselves with the scientific consensus, as summarised in the successive reports of the IPCC .

Investors, management companies and companies are now under increasing pressure to intensify the fight against climate change and incorporate in their respective roadmaps the decarbonisation requirements. This partly results from a stricter regulatory context:

- Article 29 of the French Law on Energy and Climate (LEC) of 2021 requires financial actors to adopt investment strategies coherent with long-term targets relating to climate change, i.e. aligned with the Paris Agreement.
- The CSRD will enter into force in 2024 and establishes reporting obligations for companies with more than 250 employees or which meet certain financial criteria, in order to increase the transparency of these companies with regard to their impact and efforts in creating a business model contributing to the limitation of global warming to 1.5°C.

It is also on this ability to take ownership of CSR issues, and climate-related issues in particular, that economic players are relying for their «licence to operate»: while carbon assets are losing value, supply chains are changing, and so are the expectations of end consumers; compliance with environmental standards is becoming a decisive criterion for attracting long-term investment, and asset management companies, like all other players, must play their part in the sustainable transformation of the economy.

Source: <https://sciencebasedtargets.org/resources/files/SBTi-Private-Equity-Sector-Guidance.pdf>

¹ Intergovernmental Panel on Climate Change (IPCC): the reports of the IPCC provide a regular overview of the most advanced knowledge about climate change, its causes, and its consequences

WHAT IS THE SCIENCE-BASED TARGETS INITIATIVE?

The Science-Based Targets initiative aims to encourage companies to establish greenhouse gas emissions reduction targets in line with scientific recommendations. It promotes strategies aligned with the necessary level of decarbonisation to maintain the increase in world temperatures below 2°C, or even 1.5°C as compared with the pre-industrial period. The Science-Based Targets initiative defines and promotes best practices, inviting companies to commit to decarbonising their activities by defining decarbonisation targets that are independently assessed and approved by the SBTi.

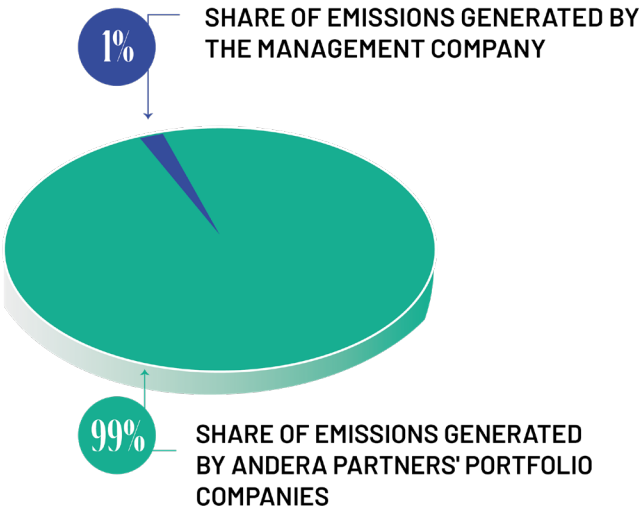


In November 2021, the Science-Based Targets initiative defined the first methodology based on science enabling private equity companies to establish a decarbonisation trajectory, while requiring them to guide the invested companies in establishing their own decarbonisation trajectory.

Science-Based Targets is a unique initiative which, although imperfect, has become a point of reference. It reconciles scientific knowledge with the reality of the economic players. More than just a label, it traces a tangible and credible line of progress for companies and investors.

2. ANDERA PARTNERS' SUPPORT PROGRAM:
"ANDERA CLIMATE SOLUTIONS"

BREAKDOWN OF
ANDERA PARTNERS' EMISSIONS



DECARBONATION TARGET OF
THE MANAGEMENT COMPANY



andera
PARTNERS

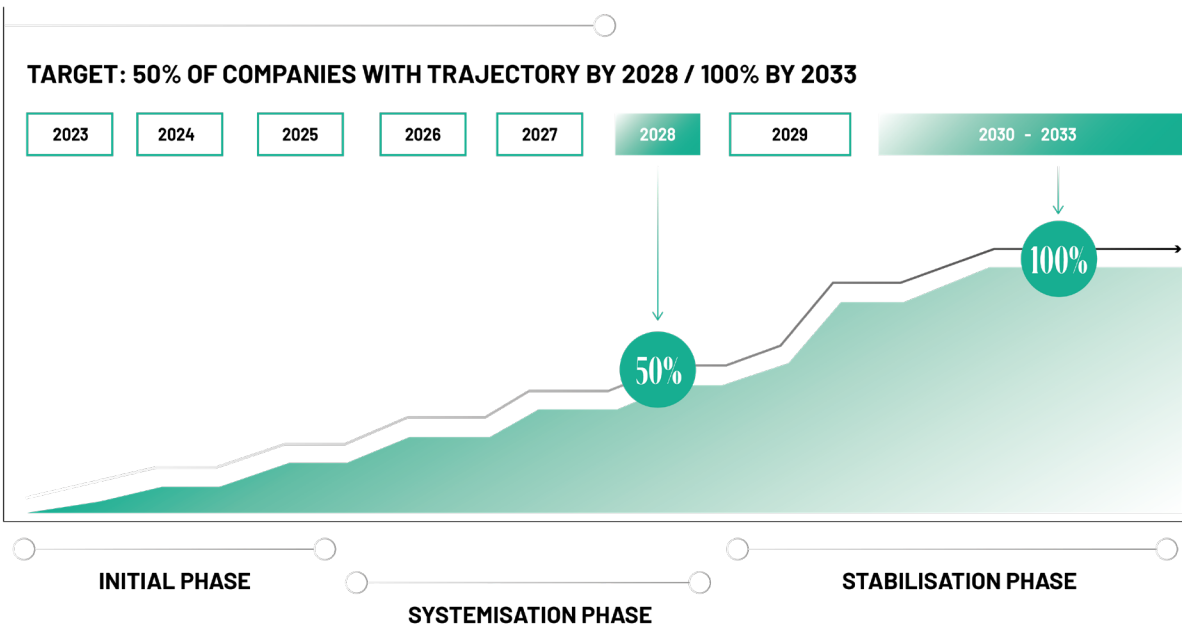
-50% OF SCOPES 1 AND 2 EMISSIONS
BY 2030 VS. 2019

TARGET 1: REDUCING BY 50% SCOPES 1 AND 2 EMISSIONS BY 2030

Our decarbonisation trajectory firstly covers Andera's own footprint (Scopes 1 and 2) in an exemplary approach – 99% of the carbon impact of Andera being generated by its portfolio companies. The target is still ambitious as the management company seeks to reduce its GHG emissions by 50% by 2030 as compared to 2019.

To reach this target, Andera Partners will focus on its energy consumption (consumption reduction actions and green energy supply) and on the conversion of its fleet into electrical vehicles.

ANDERA TRAJECTORY: PORTFOLIO COMPANIES (SCOPE 3)



TARGET 2: 100% OF ELIGIBLE COMPANIES WITH A DECARBONISATION TRAJECTORY BY 2033

- For three of the six business activities of Andera Partners (Andera Expansion, Andera Infra, Andera MidCap), the great majority of its portfolio companies meet the eligibility requirements: shareholdings of more than 25%, a seat on the board of directors, more than five years in operation...
- For various reasons, the companies of the Andera Acto, Andera Life Sciences and Andera Co-Invest funds are, without exception, beyond the relevant scope: type of financial product (mezzanine debt), stage of maturity of the companies (venture capital) or minority position of the fund (co-invest)

Prior to the systematisation phase of the support action, Andera Partners chooses to focus on the companies with the clearest commitment.

An increasing number of companies will receive support each year in order to achieve the target of 100% of eligible companies committed to the SBTi by 2033.



**NOËLLA
DE BERMINGHAM**

Chief Sustainability
Officer, Andera Partners

"Our commitment is not limited to validating the decarbonisation trajectories of our companies. We work with the companies we invest in to draw up action plans to achieve their objectives. Many growing SMEs lack the internal resources and tools to carry out this transformation successfully : we are a key ally in their efforts to decarbonisation."

BUSINESS CASES: THE "ANDERA CLIMATE SOLUTIONS" PROGRAM



Specialist in Information Systems consultancy for Human Resources, HR Path provides three areas of expertise: HR advisory, HR solutions integration, and payroll outsourcing, with operations in 20 countries.

Andera Partners provides growth support to the leader seeking to become a first-rate world player on its market. HR Path was the first company in the Andera portfolio to benefit from the "Andera Climate Solutions" program.

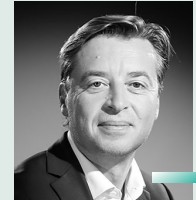
The program, which contains six support phases and includes the calculation of the scopes 1, 2 and 3 carbon footprint, enabled HR Path to establish an ambitious decarbonisation trajectory, aligned with the Paris Agreement: reducing scopes 1 and 2 emissions by 50% in absolute terms, and scope 3 by 61% per euro million of turnover generated by 2031.

An action plan for decarbonisation was also established including the modelling of the impact of the various initiatives contemplated.

The Andera Climate Solutions program falls under the framework of the global corporate social Sustainability Program offered by Andera to portfolio companies, supporting them in achieving sustainable transformation.

CYRIL COURTIN

Founding Partner of HR PATH



"Andera has now provided us with very solid support for over a year regarding sustainability. Assisting us in developing our broad guidelines and direction and in adopting a specific strategy roadmap for the next five years, we have now established a complete and detailed sustainability plan."

"For HR Path, the commitment to sustainable development is structuring and greatly responds to the needs of our stakeholders (employees, clients, partners...). We are striving to position ourselves as a key player in tomorrow's society and Andera's help with this support program is a real asset."

MasterGrid is a key player in strongly value-added services in the field of transportation and electricity distribution. Its technical expertise enables to improve the availability of electrical facilities, to extend their lifespan while reducing their carbon footprint. Through its organic growth and by means of an offensive acquisitions strategy, MasterGrid seeks to become a global leader in electrical system services.



LUDOVIC VALLON

President of MasterGrid

"The «Convention des entreprises pour le Climat» increased our awareness of the urgent need to act, and this initiative enabled us to create synergies with other players in our ecosystem and identify numerous measures to reduce our impact. With the assistance of Andera, we have now established a concrete action plan and we are resolutely committed to decarbonising our business activities and transforming our business model."

Andera supported MasterGrid in the establishment of a sustainability roadmap and in the assessment of its carbon footprint in 2021. In 2022, MasterGrid together with 150 companies, adhered to the «Convention des Entreprises pour le Climat», and this year formalised its intention to decarbonise pursuant to the SBT methodology and the targets of the Paris Agreement.

3. WHAT ABOUT NET ZERO TARGETS BY 2050?

As for Net Zero emissions by 2050, if this remains the ultimate goal, it is not very concrete at this point and may risk delaying the necessary action – a criticism that is being levelled more and more often – because the deadline seems to be too vague and distant.

“Zero net carbon is the ultimate goal, but immediate measures must be taken to decarbonise”

“Our roadmap is clear: with this target of 100% for our companies validated by SBTi by 2033, we would firstly like our companies to drastically reduce their emissions and to follow the suitable trajectory to align themselves with the targets of the Paris Agreement. The net zero target by 2050 is essential but virtual at this stage: it must not prior a concrete emissions reduction trajectory, with ambitious short-term targets, where the company provides itself with the means to decarbonise.”

*Noëlla de Bermingham,
Chief Sustainability Officer of Andera Partners*

4. DECARBONISATION AND INVESTMENT STRATEGIES

A management company like Andera Partners supports companies over a period of many years. However, most of the current companies will no longer be in its portfolio by 2033.

The purpose of the established target of 2033 is thus twofold:

- It establishes and endorses the support action relating to the transformation of the companies, solidly anchored in the DNA of Andera Partners
- It renders future commitments and the impact on the investment strategy tangible. The future companies in which Andera Partners will invest, regardless of their business sectors, will be strongly involved in the decarbonisation action plan and in the establishment of realistic but ambitious targets.

Andera Partners is a pioneer among private equity players having in-depth knowledge of

all of its components, with a solid support and transformation roadmap for all of its portfolio, regardless of the initial investment strategies.

As for the companies, they must increase their efforts, beyond reporting obligations, and establish a trajectory, incorporate SBT methodologies and decarbonise all aspects of their business.

BEYOND CARBON, A BROADER CHALLENGE OF SUSTAINABLE TRANSFORMATION

Support initiatives such as the Andera Climate Solutions programme, based on the Science Based Targets approach, are among the transformative initiatives that guide all economic players towards a common goal, using appropriate tools and methodologies.

For Andera Partners, which specialises in helping companies to transform and scale up, the commitment to this approach is particularly meaningful. The management company will help its companies to become not only French or European champions in their fields, but also champions of decarbonisation, by bringing these two ambitions together.

It is in the interests of the private equity world to seize this initiative quickly, as it will help to align the expectations and understandings of the various players involved, and provide essential validation for companies' sustainable transformation ambitions.

This sustainable transformation goes far beyond the carbon issue, which is the focus of most initiatives today. Andera Partners' Sustainability strategy is based on three pillars:

- Driving and promoting responsible investment
- Accelerating the action of the company against climate change and for the preservation of biodiversity

- Contributing to an inclusive and shared economy

Andera Partners is paying increasing attention to biodiversity issues. Since 2022, all the companies in Andera's portfolio have undergone in-depth analysis of their potential impacts and dependence on ecosystem services. These approaches will become more systematic and the subject of biodiversity will grow in importance, as methodological frameworks progress, to become as robust as those now available to companies in understanding the risks and opportunities associated with climate change.

Decarbonisation, circular economy, preserving and restoring biodiversity, sharing the creation of value, diversity... All of these environmental and social stakes are destined to be firmly anchored in all companies' strategic plans, in an approach that will need to be increasingly unified. Private equity players must therefore play a pivotal role, putting their expertise at

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