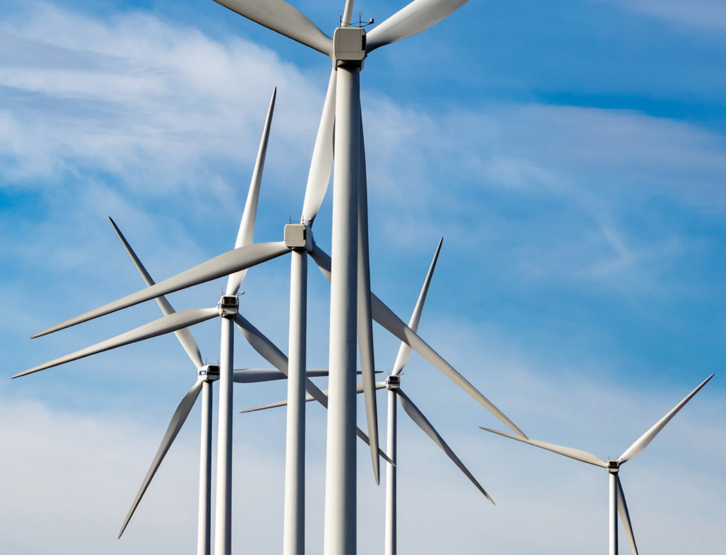


SPAC insights:

ESG and SPACs

Investors are driving the convergence of two market trends with the most buzz—SPACs and ESG (environmental, social, and governance). Share prices show that SPACs with strong ESG-related programs and operations often perform better than non-ESG SPAC combinations. As sustainability goals continue to be a major focus of the business agenda, ESG-driven mergers will likely become a strong feature of the SPAC market for the long term.

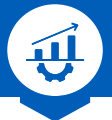
ESG in deal making

In recent years, investors have been paying greater attention to ESG factors when making investment decisions. They either look for companies with superior climate-, labor-, and board-related track records, or avoid those with poor performances in these areas. The big idea is that ESG initiatives create tangible value for businesses, whether by attracting more, increasingly sustainability-conscious customers or by preempting disciplinary government interventions as policymakers pressure companies to become more socially responsible. On the assumption that they will outperform the broader market, money has been pouring into ESG-focused funds.[1]

This year, ESG considerations moved to the mainstream of the M&A market, and SPAC deals have been no exception. A December 2020 report in the Financial Times set the tone: "A staggering 83 percent of business leaders say that ESG factors will be increasingly critical to M&A decision making in the next 12-24 months."[2] Indeed, for some transactions, "improving a company's ESG profile may be the primary driver behind the strategic rationale for the transaction," affirmed Avinash Mehrotra, Goldman Sachs' global head of the activism and shareholder advisory and takeover defense practices. "Understanding differences in buyer and seller ESG profiles often cuts to the heart of the social and cultural norms of the organizations and those norms have always been essential to successful M&A."[3]

[1] MSCI, "Is ESG Investing a Price Bubble? Probably Not." December 9, 2020.
[2] Financial Times, "ESG and the rise of sustainable dealmaking," December 17, 2020.
[3] Goldman Sachs, "ESG's Role in Deal-Making," January 28, 2021.

Superior performance of ESG-focused SPACs



Most SPAC deals are not ESG-focused. Between January 1, 2020 and August 27, 2021, there have been 292 announced SPAC mergers; of those, only 65 had an ESG theme, according to KPMG analysis. However, the ESG-focused SPAC combinations' share prices outperformed those of non-ESG ones by a big margin (Exhibit 1). The average return on ESG-themed SPAC mergers that have closed was almost 18 times that of non-ESG SPAC mergers (19.3 percent versus -1.1 percent). Many of the ESG-oriented SPACs' targets were climate-change plays: electric vehicle (EV) and battery makers, and renewable energy companies.

Exhibit 1. SPAC mergers with ESG themes outperformed their non-ESG counterparts (Jan. 1, 2020 – Aug. 27, 2021)

Average of % change from listing date to Aug. 27, 2021

Transaction status	ESG	Non-ESG
Overall % change	11.9%	-0.7%
Announced	-0.8%	-0.1%
Closed	19.3%	-1.1%

Note: For closed deals, the percentage change is calculated by comparing the share price of the SPAC on the date of listing and the share price of the merged entity on August 27, 2021. The overall percentage change is based on the average of the percentage changes for announced and closed deals.

Source: Capital IQ, KPMG research.

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Value in the ESG agenda

When ESG-focused SPACs and private companies come together, they can not only accelerate breakthrough business innovations but also help further sustainability goals of the larger society. SPACs can be a good vehicle for ESG targets because SPAC mergers can rely on future projections (unlike traditional IPOs), which is crucial for industry disruptors focused on environmental and social change.

As they search for the right partner, SPACs and target companies should consider:

Do the vision and values of the SPAC and target company shareholders align?

It's important for both parties to come to a common understanding of the vision and values for the merged company, but those navigating the ever-changing ESG landscape are bound to hit a bumpier road than other merger candidates.

Are the SPAC and target company ready for diligence?

As the diligence period can often be accelerated under a SPAC timeline, it's important to consider if the SPAC has appropriate and specialized experience evaluating the target. As for the target, it must be prepared for not only the traditional diligence questions around finance, tax, and accounting but also the broader strategic questions on its business and operating models, including ESG elements.

What are the definitions of success for the SPAC and target company?

Setting up the merged company for success will require a clear understanding of the go-to-market model, the growth narrative, the value creation plan and roadmap for long-term success. The negotiating parties should perform a series of scenario planning sessions to help the merged company prepare for potential challenges, business shocks, and other unknowns as it navigates an ESG-themed growth trajectory.

Do their expectations on the transparency of governance and the level of board oversight align?

Aligning up front on the governance and controls to be put in place around ESG issues will help all players stay informed and make rapid decisions as regulations and stakeholder expectations evolve.

Bottom line

ESG-focused deals are likely to become a permanent feature of the SPAC market. But to ensure that a merger helps advance tangible sustainability goals, both the SPAC and target company will need to rigorously vet potential partners. Working with an external team of advisers with specialized experience navigating SPACs and the technical side of ESG can help you with the selection process.

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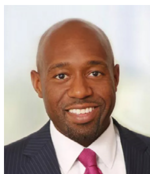

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SPAC transaction lifecycle

A SPAC has a typical lifespan of 18-24 months, but completing a merger with a SPAC can take as little as six months after the signing of an initial agreement. This paper focuses on the post-close phase of strategy growth. But across the lifecycle of a SPAC transaction, many other issues will arise. For more on these, visit the KPMG SPAC Intel Hub.

Pre-deal | **Pre-close** | **Post-close**

Milestones: LOI Signed · Merger Agreement signed · Proxy statement signed · Proxy statement effective · Vote · Deal close · Super 8-K Filed

- Liquidity options
- SPAC diligence
- Contingent Consideration
- Tax structuring
- Financing – debt
- Financing – PIPE
- Marketing / roadshow
- Proxy and SEC registration statement
- SEC comments
- Super 8-K
- Public company readiness assessment
- Public company execution
- Public company ongoing operations
- Strategy growth

KPMG cross-functional support (tax, diligence, accounting advisory, modeling, IT systems, SOX)

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