Impact of ESG on M&A activity and investment decisions • ESG credentials of a business or a company can nowadays be a make-or-break factor in M&A deals and VC/PE investments.

In recent years, ESG criteria have prevailed in most economic fields in order to drive social and environmental challenges to build a sustainable society, also considering the interests of all stakeholders. In particular, they are an increasing source of attraction for investors, as they emphasize the challenges that society has high on its agenda. **As it can only be the case, ESG criteria are increasingly being considered by investors when it comes to investing in a company.**

Such is the relevance of this phenomenon that the ESG credentials of a business or a company can nowadays be a make-or-break factor in M&A deals, even more so when in comparison with similar potential investments. That is the reason why, regarding due diligence and valuation processes, ESG issues are becoming a primary focus of review at the earliest stages of a deal.

This may be due to several reasons. First, the influence of millennials. The next generation wants to be consumers of companies, work for companies and invest in companies that embrace ESG. This leads to the fact that we are entering an era where companies will not want to do business with a firm that does not have high ESG standards.

Another important reason is the pressure from institutional investors. Even before the Covid-19 pandemic, the ESG investment movement showed strong momentum. However, the pandemic has accelerated the focus on ESG criteria. Moreover, most of European governments have imposed ESG conditions, by means of directly linking financing rescue operations due to the Covid-19 crisis to compliance with the aforementioned criteria.

Despite it could be motivated by the two aforementioned ones, a third reason could be the most important: obtaining further profits. **'ESG criteria' is not a concept with an altruistic basis, but rather aspires to be a tool for analysis through which companies can obtain a reputation based on ethical and socially responsible behavior that can be the cornerstone of new competitive advantages.**

The main strategic drivers that lead companies' managers to focus on ESG in the context of an M&A transaction are: reducing the risk of potential litigation, improving reputation and brand image, seeking a higher return on investment or attracting new talent, among others.

As a matter of fact, focusing on ESG criteria may be attractive as they may bring additional value to the company and, therefore, to the investment and its return. This wave can be seen as an opportunity for the development of M&A deals and VC/PE investments, by both companies and investors.

Dealmakers cannot be unaware of this trend. They will have to broaden the focus of their review, hitherto focused mainly on financial and legal issues, and incorporate compliance with ESG criteria into their analysis. For that purpose, given the speed at which deals are being completed and the pressure to achieve strategic acquisitions, the incorporation of ESG analysis will need to be approached intelligently as M&A professionals turn their attention to the key value and risk factors associated with the deal.

It is clear that ESG is here to stay, and that it is not a minor change nor a fad. For the M&A community, these are not issues that can be left until after the deal closes.

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