Position Paper

ESG: how to reconnect with value creation?

Introducing Blunomy "ESG to value" Framework

When ESG lost its way

What began as a necessary effort to improve transparency and discipline has, in many cases, **hardened into a compliance-driven exercise**. Frameworks have multiplied, reporting has intensified and ESG has progressively drifted away from the core of investment decision-making. Too often, it operates **alongside the investment case rather than shaping it.**

The current "ESG backlash" is partly ideological and political, but also economic, rooted in a contradiction **where sustainability is only managed as a cost, while being expected to protect and create value.**

we believe the issue lies in technical complexity and organisational silos. Bridging sustainability and value creation requires a rare combination of capabilities: **impact, sectoral and financial expertise**.

Financial quantification is often the missing link. A growing number of data providers and sustainability advisors deliver ever more granular indicators, yet few translate them into concrete trade-offs that can inform real investment decisions.

This is why ESG in private capital is at an inflection point. Either it is reduced to a cost line to be optimised (a trend reinforced by the rapid proliferation of AI-driven solutions) or it evolves into a **true partner to investment teams, fully embedded in value creation plans.**

The private capital market is increasingly shifting towards this logic. The recent UN PRI report [1]lays out its theoretical foundations. We see, in practice, how effectively this approach can be applied on the ground.

Reconnecting ESG with value, in practice

When approached through the lens of value creation, ESG consistently reconnects with **four fundamental dimensions** of investment performance. These dimensions are not theoretical. They reflect how sustainability-related factors materially influence business models and risk profiles. Their relevance, weight and expression vary significantly across sectors, asset classes and business models. Materiality is inherently sector-specific, shaped by operating characteristics, regulatory exposure and market dynamics.

1. How sustainability contributes to topline

At the strategic level, ESG connects to the topline when sustainability reshapes the structure of the offer itself. This is **not about incremental "green" features, but about redefining which capabilities are monetisable**, which markets become accessible, and how revenues are contracted over time.

Two broad dynamics are already at work:

- **ESG now directly conditions *access* to revenue**, as sustainability requirements are embedded in client procurement processes, framework agreements and long-term contracts.

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[1] PRI publishes framework for private markets sustainability value creation

- **Transition-driven markets are no longer peripheral**: companies exposed to energy efficiency, adaptation or transition-enabling services increasingly address demand that is structured and budgeted.

CASE STUDY

A useful illustration is a company specialised in infrastructure diagnostics and asset analysis (small cap) that Blunomy accompanies, for a French PE asset manager. Historically active in inspection and compliance work for public authorities and large private operators, it could broaden its role as climate adaptation becomes a practical planning issue. The same expertise can support assessments of climate exposure and resilience, opening access to markets and geographies increasingly affected by climate hazards, and feeding directly into investment and long-term infrastructure decisions. Over time, this would support more strategic client relationships and a more predictable revenue base.

In practice, this comes down to strategic know-how. It hinges on the ability to identify adjacence opportunities, redeploying existing capabilities into nearby markets where core skills, value chains, client interlocutors or regulatory contexts overlap. That means understanding market dynamics in detail, from segment maturity and growth potential (CAGR) to margin structures and shifts in competitive positioning.

This logic applies across multiple sectors, where we increasingly observe clear adjacency plays unlocking new growth paths:

- **In technical services, infrastructure specialists are expanding into high-demand segments such as data centers by developing integrated design offerings that address regulatory constraints, environmental impacts, and local acceptability. Those capabilities are now becoming critical differentiators as developers, investors, and public authorities raise their expectations.**
- **In industrial equipment, manufacturers of piping systems are exploring geothermal applications by leveraging their materials expertise and established relationships in the utilities sector.**
- **In the healthcare sector, medical device producers are assessing adjacent opportunities in rehabilitation and home care through rental or product-as-a-service models that extend product lifecycles while supporting both decarbonization objectives and affordability for end users.**

2. How sustainability contributes to bottomline

At the operational level, ESG links to value in a much more prosaic way: through costs, margins and cash generation. For many companies, the most immediate ESG question is about how to **reduce exposure to energy, carbon and input price volatility** without impairing operations.

Here, **the economics are no longer theoretical**. Many decarbonisation levers are mature and deliver returns within a typical holding period. Energy efficiency measures, electrification of processes or on-site generation can reduce operating costs while lowering regulatory exposure.

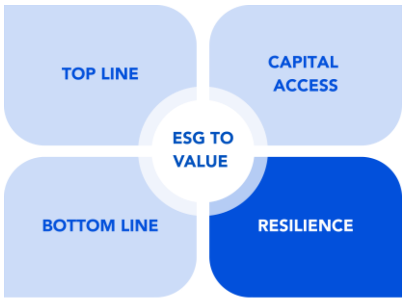
CASE STUDY

A concrete case of contribution to bottomline is that of a flooring and surface solutions manufacturer (large cap) Blunomy has worked with: Exposed to energy price volatility and the EU Emissions Trading System (EU-ETS), the company implemented a limited set of measures (including heat pumps and on-site solar) all with payback periods below five years. This reduced annual EBITDA costs by around €2 million and cut emissions by approximately 90 kt of CO_2. Power sourcing was secured through contractual structures materially less volatile than traditional guarantees of origin, reducing earnings variability rather than adding to it.

In practice, this comes down to industrial know-how. It means knowing which levers reduce which emissions, what they cost to implement and operate, whether they are technically feasible on site, and how subsidies or regulatory schemes affect the economics. It also means understanding solution providers and their business models (notably **third-party financing**) so that savings actually flow through to cash and EBITDA.

3. How sustainability contributes to resilience

Resilience is where ESG most clearly meets downside protection. Companies today face several layers of climate-related risk. Some are familiar (regulatory change, technological shifts…). Others are increasingly harder to ignore. **Heat, water stress and extreme events are already shaping operations, costs and, in some sectors, demand**. And this is not about extreme or catastrophic climate assumptions. Even under business-as-usual trajectories, closer to a 2.5–3°C world, material impacts are already visible in certain sectors well before 2035, making climate risk a near-term issue for value preservation.



Much of the current response remains at a distance from these realities. Climate data has become abundant, often sophisticated. Yet it **frequently stops at generic exposure or scoring**. What ultimately matters is not where a risk appears on a map, but how it affects topline, bottom-line, asset value and whether it is worth investing to adapt.

CASE STUDY

Climate risks resilience was the question at the heart of the work carried out with an international tourism group (large cap) supported by Blunomy: Rather than adding another layer of indicators, the focus was on understanding how transition and physical risks translated into demand shifts, operating pressure and long-term value across destinations. From there, adaptation ceased to be abstract and became a matter of **comparison between the cost of acting and the cost of doing nothing**. Those trade-offs have then been reintegrated into geographic deployment, partnerships, and new offers/solutions

Looked at this way, resilience is not an ESG add-on. It is a way of restoring judgment where data alone falls short, and of reconnecting climate risk with the economics of the business.

4. How sustainability contributes to capital access

Access to capital is increasingly shaped by how investors, lenders and buyers assess sustainability. In private markets, ESG increasingly influences **who is willing to provide capital, under what conditions, and with what degree of confidence** over time. Three mechanisms matter.

The first relates to **financing conditions**. Sustainability-linked instruments are now common, but pricing effects are usually limited. Where ESG truly matters is upstream, in credit committees and refinancing discussions. Credible ESG trajectories **reduce friction with lenders, broaden bank appetite and preserve flexibility on tenor, covenants and refinancing assumptions**. In practice, this affects the robustness of financing more than a few basis points.

The second, and often more material, effect is **liquidity**. ESG increasingly shapes who can own an asset. By repositioning a company toward transition-aligned activities, investors can **widen the pool of potential buyers**, including funds with explicit sustainability mandates, where capital is often available but suitable assets are scarce. **This is less about being "green" than about remaining investable across a broader set of strategies, which directly affects exit optionality.**

The third lever is sector-specific: how the company is **profiled by the market**. This is not about claiming a green premium, but about valuation reference points. As sectors split between declining, transitional and enabling models, ESG increasingly determines which peer group a company is compared against. In that sense, the issue is fundamentally one of how the asset is framed. That shift in positioning can have a greater impact on valuation than marginal changes in financial performance. This presupposes the emergence of shared market reference points. While still evolving, these benchmarks are progressively taking shape across sectors as investors, lenders and buyers **converge on common ways of assessing transition risk and resilience**.

CASE STUDY

Blunomy carried out the vendor due diligence for a company manufacturing scientific measurement equipment.
Historically closely tied to the oil and gas sector, the company has genuinely evolved over the years as its client portfolio has shifted toward activities relying on fundamentally similar capabilities, notably geothermal energy and hydrogen. What was once perceived as a neutral industrial supplier can increasingly be understood as an enabler of the transition, with tangible implications for how the business is framed and benchmarked by the market.

How we work: an operating partner approach with investors

We apply this logic using a term borrowed from private markets themselves: **operating partner**. We work alongside investment teams and management, with a focus on execution and value creation across the investment lifecycle.

- **Investment thesis development**: structuring of investment theses, either around transition-enabling ("green") activities or brown-to-green transformation paths.

- **ESG to Value due diligence**: integrated analysis of ESG risks and opportunities, focused on business model interaction, value impact and execution priorities.

- **Portfolio analysis and value creation**: asset-level ESG assessment translated into prioritised value creation plans and operational execution with management and operational teams.

- **Vendor due diligence and exit preparation**: evidence-based positioning of ESG performance and de-risking to support a credible equity story at exit.

About Blunomy

For the past 18 years, Blunomy has built its work on the following pillars:

Tailored intervention capabilities adapted to each client and need:

- Expertise
- Strategic advisory
- Operating Partner
- Development of advanced tools and methodologies

A proven track record:

- **With corporates:** TotalEnergies, Heineken, Air Liquide, Rio Tinto, Nestlé, Tarkett, Veolia, Danone, Bouygues, …

- **Within the financial sector:** KKR, Tikehau, Goldman Sachs Asset Management, Eurazeo, Société Générale, HSBC, …

Above all, a team of 120 professionals and a global network of experts, spread across five countries and three continents, with backgrounds primarily in industry and finance.

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