SEISMIC
Value Lab

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The Unclaimed Premium: How to Ensure Sustainability Drives Value Creation

Five Findings from Phase One of the Seismic Value Lab

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This report sets out the interim findings following Phase One of the **Seismic Value Lab**, our ongoing research programme exploring the relationship between sustainability inputs and financial outcomes in Private Equity backed businesses.

Phase One of the programme included workshops with nine private equity firms* holding £170bn in assets, along with conversations and interviews with 75 CEOs.

Introduction

When sustainability stalls in a private equity backed business, the usual explanation is that the CEO and Board simply don't see it as a priority.

When this happens, we often hear: "We'll focus on what we have to. Anything beyond that won't get approved." So, the work continues on compliance and mandatory reporting. Performance improvements and the opportunities to add material value to the business are shelved.

The findings from our programme explain why CEO resistance to sustainability is usually a framing problem, not a reality problem - and importantly, what you can do about it, whatever your role.

There are two sides of the sustainability coin in every business: sustainable business is a moral and ethical imperative, and sustainability done properly will make a business a more resilient and valuable asset. Same actions, two different reasons to do them.

Based on my interviews and conversations with 75+ CEOs over the past year, 90% of CEOs will only act in the context of sustainability if there is a compelling short and medium-term business reason to do so: where it improves the EBITDA or valuation of their business.

This word: Value. It means so much, but it is often used as a throwaway comment. When we say a business is more valuable, we mean it literally: the valuation is higher. When we consider sustainability, we should consider it in the same sentence as value. For example, when I spoke to a new CEO of a £750m private equity-backed client, she said:

> **"I need you to show me how sustainability will make my business at least 2% more valuable. To be honest, anything that is less than that is not worth my time right now."**
>
> CEO, £750m PE-backed business

We launched the Seismic Value Lab with the explicit purpose of understanding more closely the relationship between sustainability inputs and value protection & creation outcomes in private equity backed businesses.

The five key findings from Phase One teach and reinforce that there are significant value opportunities through sustainability inputs, but only when they are executed in the right way at the right time.

Together these findings build a comprehensive, cohesive and pragmatic opportunity for Private Equity backed businesses that is, on the whole, not captured despite the best intent and capability of the sustainability professionals connected with those businesses.

Finding 01

If the CEO is not focused on sustainability, then it is a framing problem, not a value problem.

The idea that mid-market CEOs can be sceptical or even "anti" sustainability is most often driven by poor commercial understanding and framing, not from the CEO themselves. When a CEO pushes back, they are rarely rejecting the goal; they are rejecting the friction, the jargon, and an unclear commercial return.

When we change the framing, then the response changes. If we anchor the case on business priorities such as revenue, customer contract retention, brand value, employee attrition or lender questions, we are speaking about topics that every CEO cares about and that translates directly into enhanced EBITDA or the valuation multiple.

One Value Lab participant described a conversation with the CEO of a services business with a large contact centre. The chief executive didn't feel he could evidence the value of running a sustainability-minded business, despite having achieved a substantial sustainability accreditation.

However, when asked about improvement metrics within the business, he shared that since launching an employee engagement initiative as part of the accreditation, attrition in the contact centre had fallen from around 44% to 9%, having previously sat above 40% for years. The number was already in his own reporting; it had simply never been framed as a sustainability result, and so had never been counted as one. A great example of a sustainable and profitable business initiative in action.

Finding 02

Timing is Everything.

We all know from bitter experience that sound commercial ideas routinely fail, despite the strength of the idea, if they arrive at the wrong point in the ownership cycle and get turned down on timing that nobody names out loud.

Private equity ownership has a rhythm that needs to be understood and worked with, not against. For a business that needs remedial work, there is little good, and in fact some harm, in talking about value creation through sustainability in the first 6 or even 12 months of a hold period. The management team simply does not have the capacity to effectively execute. Likewise, if a business is 6 to 12 months from exit, the ship has sailed and the opportunity to make a commercial difference has hugely diminished.

For most businesses, the substantive "value" work is in years 2, 3 and 4 of a hold period. You know your starting numbers, and there is enough time to execute on commercial improvements and for the results to flow positively into the P&L.

> **Many CEOs cite something akin to a "sliding doors" moment. The first time sustainability is framed strategically is important. It will make a huge difference to the journey that follows.**

Finding 03

Sustainability value preservation is understood. Sustainability value creation is new ground for Boards and Investors.

Most PE backed businesses have the value protection conversation covered. Closing governance gaps, holding the terms your lenders set, getting cleanly through due diligence. The commercial case is accepted, nobody argues with it, and it’s a relatively well trodden path for a board of directors to navigate.

Value Creation is different. There is more scepticism, so more work is needed to persuade an investor, CFO or CEO that sustainability can measurably deliver more profit or a higher multiple. One participant of the Value Lab, responsible for sustainability across dozens of mid-market businesses, described the split: "protection is a live, ongoing conversation with nearly all of them, while genuine value creation comes up with perhaps three or four". For most PE backed businesses, the sustainability value creation conversation hasn't even started, but has huge untapped potential.

The seeds are so often already sown within the core growth strategy. Every Private Equity backed business has a core strategy, and it needs interrogating, analysing and amplifying to bring the sustainability elements to life.

Ask where sustainability makes each line cheaper, faster or more likely. One participant shared the response when a management team saw it framed that way: "You're going to help me accelerate what we're already planning to do. Brilliant!"

Finding 04

The evidence bar is lower than you think.

Ask a sustainability lead what "proof" looks like, and they'll typically demand scientific rigour, academic control groups, and defensible causation. They set a high evidence bar for themselves. However, value creation disciplines outside of sustainability such as AI, talent, finance, do not require this level of evidence and depth of proof.

> **The Value Lab's finding was clear: chasing causation stalls value creation, and no other value creation team in a private equity firm is held to that standard. Sustainability teams are applying it to themselves unnecessarily.**

Investment Committees do not require academic proof; they rely on conviction driven by expert views and a clear direction of travel, backed by a plausible commercial story.

This was echoed when Value Lab participants evaluated their own Private Equity investments: trying to prove 100% causation wastes precious time and airtime; demonstrating correlation alongside a clear operational narrative is entirely sufficient to justify investment. So what does this look like? Identifying a commercial baseline that already exists in the business, a plausible mechanism for how a sustainability outcome moves that number, and a conservative assumption that is supported by those closest to it.

The risk of demanding perfect proof is clear. One participant described a facilities management business whose board rejected a new climate services offer because scientific levels of evidence were expected but difficult to provide. The team persisted, confident in the commercial opportunity. Three years later, it had become a major revenue driver, with higher margins than the core business.

Finding 05

Buyers will see the value when you force the "So what"

Exit due diligence on sustainability is asymmetric when comparing risk and value.

On risk, buyers will naturally dig. KPMG found that **63% of dealmakers** in Europe, the Middle East and Africa had encountered an ESG finding that stopped a deal.[1] One participant's firm held a business for longer than they wanted to, six years, because of an ESG issue that predated their investment, one that no buyer would take on. Once it was resolved, it sold quickly, nobody needs persuading to look for the downside.

> **However, on value creation, buyers will not naturally ask - they need to be shown.**

Unless in an Article 9 fund, no line in a due diligence questionnaire says, "What has sustainability earned you?" If the seller doesn't volunteer it, it doesn't exist.

Which makes the other half of that same study the more interesting half. 59% of respondents said they would pay a premium for a target demonstrating a high level of ESG maturity, and of those willing to pay one, around eight in ten put it in the 1% to 5% range.

So, returning to the CEO who wants 2% value premium through sustainability. She was not naming an ambitious number. She was naming a number that sits in the middle of the range the market has already said it will pay. However, the premium is only available to a seller who can evidence it, and that is rare.

The Value Lab explored an exit where the business had earned a sustainability certification that its clients rate highly, which translated to higher revenue. At exit, the pitch was simply "we got the badge." The connection to the contracts that this certification had helped win and retain was not clearly communicated and therefore left money off the table in the sale.

> **This is a common occurrence: when sustainability work succeeds, it gets relabelled as commercial and loses the sustainability angle. The sustainability opportunity is to claim it, while that connection is still obvious to everyone involved.**

So, practically speaking, we need to avoid these pitfalls by systematically gathering the evidence, track how the sustainability levers should be best captured in the commercial figures, and ensure the full breadth of sustainability has its place within the value creation strategy.

Summary

You have the opportunity to move from just defending risk to also driving returns.

Private Equity backed businesses are sitting on untapped commercial momentum disguised as sustainability. The friction seen today is not caused by resistant CEOs or sceptical Investment Committees; it is driven by outdated framing, poor timing, and an unnecessary demand for scientific perfection.

To move from defending risk to driving EBITDA and valuation multiples, leadership teams should execute the following five actions:

1. **Reframe the pitch:** Frame every sustainability initiative around core business levers CEOs already track and care about.
2. **Time the execution:** Align sustainability value creation initiatives when there is the capacity to execute, typically in years 2, 3 or 4 of a hold period.
3. **Amplify the core strategy:** Interrogate your existing growth plan and demonstrate where sustainability makes existing operational targets faster, cheaper, or more achievable.
4. **Lower the evidence bar:** Present the Board with plausible operational correlation and conservative assumptions - the same standard used for AI, talent, and finance bets.
5. **Force the "so what" at exit:** Proactively quantify and package how sustainability credentials directly protected margin or landed revenue to capture the 1–5% exit premium.

> **The playbook is clear, the market is ready, and the commercial advantage belongs entirely to those who act now, and execute well.**

With thanks to the Private Equity contributors to the Value Lab Phase One, including:

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*Phase One Private Equity workshops were run under The Chatham House Rule. Individual examples are therefore anonymised.

Citations

1 KPMG International, Global ESG due diligence+ study 2024, June 2024. 600+ active dealmakers plus 50 in-depth interviews across EMA, ASPAC and the Americas. assets.kpmg.com

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How Seismic unlocks value

The Seismic Value Creation & Private Equity team works with GPs, CEOs and others inside portfolio companies, diagnosing where sustainability protects and creates commercial value, then partnering with leadership and operational teams to convert that potential into measurable impact and commercial improvements through the Embedded Sustainability Model.

If you would like to be kept up to date with the Value Lab findings or participate in future Value Lab activities, sign up below.

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