

Browne Jacobson seeing a change of approach with sustainable finance in the mid-market

18 February 2025  Paul Ray and Chereta Edmeade

Browne Jacobson's **banking and finance** team are seeing a change in how mid-market businesses approach sustainable finance and the commitment to the sustainability agenda. This shift is because medium-sized enterprises are increasingly recognising the strategic value that a commitment to sustainability brings to accessing funding, maintaining positions in supply chains - and for business owners how it can increase the value of their businesses.

Browne Jacobson hosted seminars on sustainable finance at the end of 2023 and then 2024, alongside the LMA, HSBC, BGF, Palatine Private Equity and Anthesis and in this intervening period has seen this shift in engagement relating to sustainability in the mid-market.

Developing range of finance products on offer

For medium-sized businesses, embracing ESG is becoming increasingly important. Banks and debt providers are also continuing to develop their sustainable finance offerings.

There are two main facilities that lenders offer; Sustainability Linked Loans and Green Loans.

1. Sustainability-Linked Loans

These facilities incentivise companies to meet KPIs set around sustainability targets for an interest rate reduction (if the targets are met). Also by virtue of having a SLL, businesses can then promote to stakeholders their clear commitment to sustainability.

Further banks/lenders are innovating in this area and an example is HSBC's introduction of a Sustainability Improvement Loan which simplifies the KPI verification process. There is one metric (an EcoVadis rating) which gets reviewed annually – and this gives a considerable benefit to businesses because EcoVadis charges a small fee to give this rating, compared to the typical ESG audit fees.

2. Use of Proceeds Facilities (“Green Loans”)

Unlike SLLs, which can be used for general purposes, these are facilities where the funds are ring-fenced specifically for a project with a specific environmental benefit. That funding is also often offered at lower rates than usual finance.

What is my company worth? The ‘greenium’

Browne Jacobson are seeing investors (including private equity houses) applying a ‘greenium’ – a premium to equity values - to businesses that demonstrate a credible sustainability commitment. Such commitment is important to investors for various reasons including ensuring that their investee businesses can retain access to mainstream finance.

For many mid-sized enterprises, enhancing sustainability/ESG standards can present a real opportunity for growth within the supply chains of the large corporates/Original Equipment Manufacturers (“OEMs”). By meeting or exceeding the sustainability/ESG thresholds set by these corporates, medium-sized businesses can strengthen their position as preferred suppliers – and conversely if these standards are not met that then increases the risk of being delisted as a supplier.

There is a further advantage of sustainable finance for energy-intensive businesses – for example, manufacturers and data centres. These businesses can leverage Green Loans to invest in renewable energy sources. Not only do these investments then reduce costs, but they also cultivate resilience against market volatility – such as the energy price shocks seen as a result of the Russia-Ukraine conflict. By securing finance to create a more stable and cost-effective energy source, these businesses can protect their operations – and in a way that is EBITDA-enhancing.

ESG is about people and not just the environment

While it is true that the environmental component of ESG often receives the most attention from funders and corporates, the social dimension is gaining more traction. For example, in the mid-market a number of business professional services (“BPS”) firms have taken on SLLs. BPS firms are often very people focussed businesses and so SLLs with KPIs focused on gender and diversity balance within their workforce can help in taking these businesses forward.

In summary Browne Jacobson have observed a shift in focus towards sustainable finance, with mid-market businesses increasingly recognising the financial value of the commitment to sustainability/ESG. That also means that businesses demonstrating this commitment can attract premium valuations on exit. It will now be interesting to observe whether the awareness continues to grow with mid-market businesses that sustainable finance supporting a sustainability commitment can be an important factor in driving long-term financial success.

Key contacts

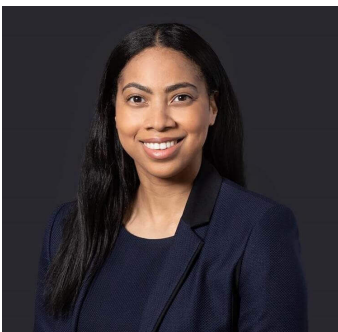


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