

# Support Services | Insights

*January 2021*

Decarbonisation of commercial fleets



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# 1. Highlights this quarter

## Topic of the quarter

The support services and wider logistics sectors operate significant fleets of vehicles ranging from passenger cars and vans through to light and heavy trucks. Hence, the UK government's recently published '10 point plan' to support a 'green industrial revolution', including bringing forward the ban on sales of cars with an internal combustion engine from 2040 to 2030 and announcing a consultation on the phase-out of new diesel HGVs, is important, representing a material change in the future make-up of these fleets.

Electric car and light van development has accelerated significantly in recent years but alternative solutions for heavier trucks appear further behind. While fleet operators cannot progress faster than technology allows,

this is likely to create a short-term tension with investors who are increasingly focused on ESG policies and data in their investment decisions.

The sector will need to increasingly signal its intentions, willingness to change and ability to embrace new technologies long before the alternatives to petrol and diesel are available alongside any new infrastructure that is needed to support them. This last point will create a new opportunity for some players in the sector. Whether the source of power is electric, hydrogen or something else, infrastructure needs to be created to generate, distribute and store it. Investors will see the opportunity in companies exposed to these areas but with an increasingly keen eye on how the solution and other activities are delivered.



## Economic indicators

The UK and EU Services PMI contracted in November due to second lockdowns and tighter restrictions but to a lesser extent than expected. UK service sector output remained severely impacted by widespread business closures among consumer-facing service providers, but many firms in other areas were able to successfully adapt to the new lockdown restrictions and saw a lower impact on client spending than initially expected.

The US Services PMI indicated the steepest expansion in sector output since Mar 2015, boosted by a strong increase in new orders and the strongest employment growth since records began as firms took on extra staff as pressure on capacity accumulated.

## Sector news flow

Takeover activity in the sector continues with G4S agreeing a £3.8bn bid from its US-based rival Allied Universal after months of being targeted by Canada's GardaWorld in a hostile campaign.

The estate agency market is also active with Countrywide receiving a bid from Connells and a revised bid from Alchemy Partners to inject capital and give shareholders the option to sell. TPGF is in talks to buy Hunters.

## 2. Decarbonisation of commercial fleets

Greenhouse gas (GHG) emissions in the UK have been steadily decreasing since the 1990s largely due to efficiency improvements and investment in renewable energy. However further reduction is needed for the Government to reach its emissions targets and carbon neutral date of 2050.

Numerous sectors will have to cut emissions further if those targets are to be reached, including the transport sector, which has seen dramatic cuts in the most harmful pollutants (carbon monoxide, NOX etc.) but largely unsuccessful efforts to reduce more common GHGs like CO<sub>2</sub>.

HGVs account for an estimated 20% of transport sector emissions. Transitioning these vehicles to zero emission will have a significant impact on the UK's carbon emissions and air quality.

The Government recently published a new '10 point plan' to support a 'green industrial revolution', which included bringing forward the ban on sales of cars with an internal combustion engine (ICE) from 2040 to 2030 and announcing a consultation on the phase-out of new diesel HGVs. This was followed up with a commitment to



£20m of investment to establish zero-emission road freight trials in 2021-22 in the recent National Infrastructure Strategy.

Several companies have already started to lead the way, electrifying the smaller vehicles in their fleets and forming groups such as the UK Electric Fleets Coalition. With the Government and market leaders actively encouraging change in the sector we look at the scale of the problem, and the possible solutions.

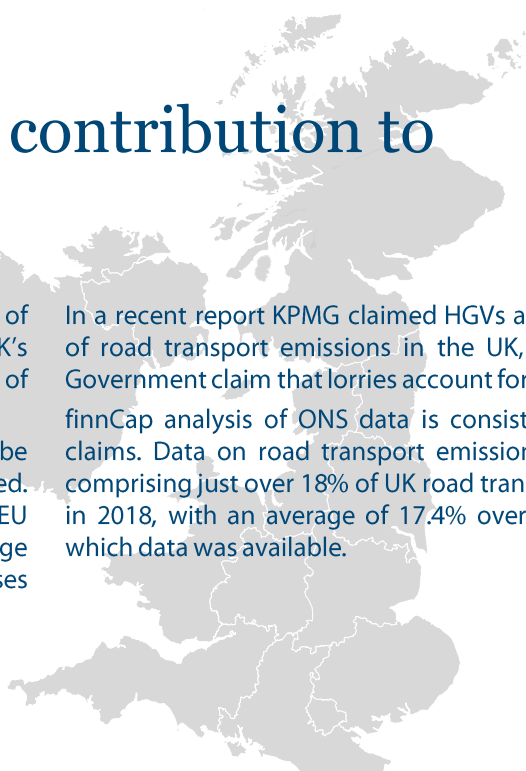
## 3. Commercial fleets' contribution to UK emissions

Transport as a whole is the single biggest source of carbon emissions in the UK, comprising 28% of the UK's total emissions in 2018 according to the Department of Business, Energy and Industrial Strategy.

The proportion of road transport emissions that can be attributed to HGVs and other large vehicles is disputed. Reuters have suggested that up to 70% of all EU emissions are caused by HGVs, whilst the Road Haulage Association have estimated that lorries and buses account for just 7.6% of NOX emissions in the UK.

In a recent report KPMG claimed HGVs account for 18% of road transport emissions in the UK, in line with a Government claim that lorries account for c20%.

finnCap analysis of ONS data is consistent with these claims. Data on road transport emissions shows HGVs comprising just over 18% of UK road transport emissions in 2018, with an average of 17.4% over the period for which data was available.



### 3. Commercial fleets' contribution to UK emissions cont.

The International Renewable Energy Agency (IRENA) highlighted road freight as one sector in the industrial and transport bracket that would make up an increasingly large proportion of emissions over the next 30 years unless major changes are pursued. According to IRENA road freight consumed 32.3EJ of energy in 2017 (more than 2x aviation and 3x shipping) with only 1.5% of that coming from renewable energy sources, and emitted 2.3Gt of CO<sub>2</sub> (more than 2x both aviation and shipping).

Whilst the exact emissions levels might be disputed, it is widely accepted that current emissions from HGVs and commercial fleets are incompatible with the Government reaching its target of net zero by 2050. As such, there is an ongoing push from within the industry, and through legislation, to decarbonise HGVs, commercial fleets, and the wider transport sector.

#### Rise in online retail over 2020

The increasing proportion of retail sales being made online accelerated over 2020, largely due to national lockdowns and the resultant shop closures, which deterred consumers from leaving their homes. This shift was particularly noticeable in grocery sales with online supermarket orders rising 102.7% year-on-year. Online clothing also increased substantially, growing 24.3% year-on-year.

Whilst the extent to which this shift will be maintained is uncertain, especially as the UK looks like it will move back towards normality next year, it seems inevitable that online retail will continue to grow relative to physical, in line with the long-term trend seen in 2019 and prior.

Emissions are widely accepted to have fallen significantly over the lockdown period as businesses closed down and individuals stopped travelling; however, it is likely that emissions from deliveries and freight will have increased with the growth in online retail. As emissions from other industries return to more normal levels, a sustained shift to online shopping will mean emissions from deliveries and freight are likely to remain elevated until there are technologies available to decarbonise these vehicles.



## 4. What is going to force change?

*Primary drivers behind movement to decarbonisation in the transport sector include Government legislation and targets, pre-emptive investment and development from players in the sector, and pressure from investors.*

### Government action

The Government recently published a new 10 point plan for a 'Green Industrial Revolution'. Key initiatives were i) bringing forward the ban on the sale of new petrol and diesel cars and vans from 2040 to 2030 and ii) plans to launch a consultation on the phase out of new diesel HGVs. Also included were more general pledges on accelerating the transition to electric vehicles and a target of generating 5GW of low carbon hydrogen production capacity by 2030.



**Point 1**  
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**Point 2**  
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**Point 3**  
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**Point 4**  
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**Point 5**  
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**Point 6**  
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**Point 7**  
Greener Buildings



**Point 8**  
Investing in Carbon Capture, Usage and Storage



**Point 9**  
Protecting Our Natural Environment



**Point 10**  
Green Finance and Innovation

The Government had set 2040 as the date from which sales of new petrol and diesel cars would be banned, before proposing 2035, and then recently bringing it forward to 2030 as part of the 10 point plan. The plan will mobilise £12bn in Government investment and will support up to 250,000 high-skilled green jobs.

This was followed up by a commitment in the recently published National Infrastructure Strategy for the Government to invest £20m in 2021-22 to establish zero-emission road freight trials to assess the most effective and commercial path to decarbonising HGVs.

OEMs had largely already scaled up EV development and production; e.g. Bentley announced plans in early November to go completely electric by 2030, and every new Volvo launched now has an electric variant. The UK Electric Fleets Coalition campaign had already been calling for the 2030 ban. In general, OEMs and fleet operators seem to view the plan positively, either anticipating or actively encouraging the move.

Low emissions zones (LEZ) coming into force around the UK will also put more localised pressure on fleets. Some (but not all) charge specific vehicles, including HGVs, to enter city centres. Currently there are LEZs in London, Brighton, Glasgow, Norwich and Oxford, although only London charges vehicles other than buses. The Government have asked Birmingham, Derby, Nottingham, and Southampton to introduce clean air zones by 2021, which could feature LEZs.

As LEZs proliferate, cost of delivery using HGVs in city centres is likely to increase, opening the door to either further advancement of clean HGV technology, or replacing the final leg of HGV deliveries with additional, more efficient smaller vehicles.

As world leaders look to ensure global temperature rises are kept within 1.5°C of pre-industrial levels as outlined in the Paris Agreement, further legislative pressure, both in the UK and abroad, looks inevitable.

## 4. What is going to force change? cont.

### Pressure from fleet operators

There are a number of fleet operators and other logistics companies leading the drive to ban the sale of petrol/diesel cars. The UK Electric Fleets Coalition campaign, which counts the four biggest vehicle fleet operators – Centrica, DPD UK, Royal Mail, and BT and Openreach – as members, had already been calling for such a ban.

The UK Electric Fleets Coalition was formed to advocate for accelerating the transition to EVs in the UK. As a founding member, BT has already been using its purchasing power to demand change from OEMs and has committed to supporting the energy transition, providing easy-access charging points for employees and customers across the UK.

Smaller companies will largely be ‘technology takers’ as they shift fleets away from ICE, however there are a number of larger companies that have already begun their own research and development into new technologies:

#### John Lewis

**John Lewis:** The John Lewis Partnership has opted for bio-methane as a low carbon alternative to diesel. This is expected to reduce the fleet’s carbon dioxide emissions by 80% and forms part of the partnership’s strategy to phase out fossil fuels by 2030. The partnership is building its own bio-methane gas filling station at its head office, expected to open December 2020.



**Mitie:** Recently named ‘green fleet of the year’, Mitie has continued towards its goal of a having a fully zero-emission fleet by 2025. The company exceeded its target of switching 20% of cars and small vans to EV by 2020 and now has c800 EVs in its fleet with 900 expected by the end of 2020. The company has also continued to reduce emissions from its diesel vehicles that have yet to be switched, with initiatives including real-time ‘performance traffic lights’ on dashboards and vehicle idling buzzers contributing to annual fuel savings of £88k.



**DAF:** Alongside developing EVs and hybrids, DAF is also looking at hydrogen as an option for powering trucks and heavier vehicles. Initial trials have been completed with Toyota and Shell. DAF notes challenges relating to sourcing hydrogen and storing it, and ensuring that the hydrogen they utilise is from renewable energy-powered sources. The company note that it could be at least 5-10 years until the technology can be used on a large scale.



**MAN:** Noting that ceasing production of fossil fuels completely is not feasible in the short term, MAN Energy Solutions have invested in cleaner, more efficient fossil fuel production. The company has also converted an old fossil fuel refinery into a bio-refinery which is set to produce 500,000 metric tons of biodiesel per year, resulting in 50% lower carbon emissions relative to the fossil fuels previously produced at the site.



**DHL:** DHL run a number of initiatives across warehousing, waste recycling, packaging and transport, all contributing towards the company’s stated target of zero emissions by 2050. DHL Freight now offer fully climate neutral shipping, partly through continued efficiency optimisation in the fleet and carbon offsetting. The service offsets emissions produced during handling and transport, and upstream emissions from energy provision.

## 4. What is going to force change? cont.

### Investor pressure

Investors are playing a prominent role in putting ESG policies at the top of corporate agendas (highlighted in finnCap's recent report on ESG investing). Going forward ESG is expected to play an ever increasing role in investment decisions, with a key consideration being efforts companies have made to reduce emissions.

Data from Morningstar shows the global sustainable fund universe brought in \$46bn in Q1 2020 (compared with outflows of \$385bn for the overall fund universe) and a further \$71bn in Q2. finnCap's smaller company fund manager survey found that a minority considered ESG factors three years ago, two out of three consider ESG in the investment process today, but nearly all expect to use these factors to make portfolio decisions in the future.

Evidently ESG is growing in popularity as an investment screening and risk management method. Companies that lead the shift to zero emission will be at lower risk of regulatory/consumer pressure in the future, with the added benefit of not being sensitive to oil price fluctuations, and making ongoing cost savings by shifting to EVs/hydrogen.

Pressure is also being added from a regulatory perspective. The Chancellor recently confirmed that the FCA would be introducing stricter rules on climate disclosure, in line with guidelines developed by the globally-recognised Taskforce on Climate related Financial Disclosures (TCFD). All UK companies with a premium listing will be required to disclose the risks they face from climate change and the net zero transition by 2023. From 2025 the rules will be tightened further to make TCFD guidelines fully mandatory.



*ESG is expected to play an ever increasing role in investment decisions, with a key consideration being efforts companies have made to reduce emissions.*



## 5. Alternatives to petrol and diesel

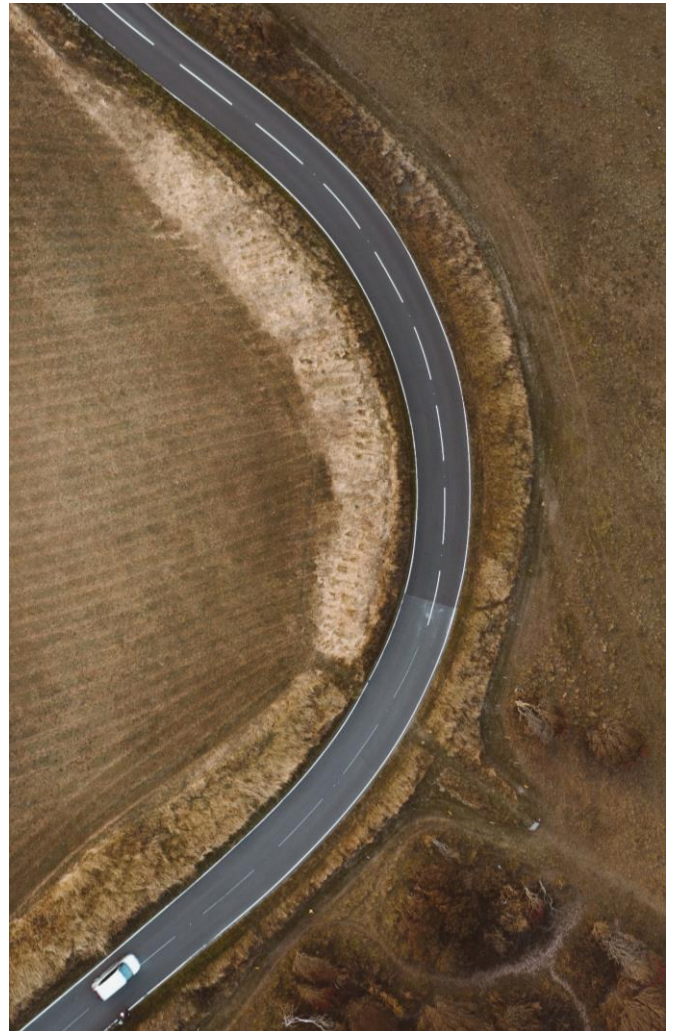
For passenger cars and other light-duty vehicles, electrification now appears inevitable, even if still relatively early stage. In 2020 YTD only 5.4% of new car sales have been battery EVs (up from 1.3% in 2019), but as new EV models continue to be released, cost reaches parity with ICE vehicles and charging infrastructure is stepped up demand for EVs relative to petrol/diesel is expected to reach an inflection point.

As range and charging time become less of an issue, EVs become relatively more desirable. Relatively low loads and short journey times make them ideal candidates for electrification. This is not necessarily the case for larger vehicles like buses and HGVs.

Electrification of LCVs (vans etc. under 3.5t) has been slower but, similarly to passenger cars, looks like it could hit an inflection point imminently. Whilst the number of passenger cars on the road is expected to decrease by 2030, this is not true for LCVs which will continue to be relied on as online shopping, deliveries and supermarket digitisation proliferate.

Due to the slightly heavier loads and longer hours of continuous usage LCVs are likely to be required for, other alternative clean power sources could make more sense for LCVs (hydrogen, biofuel etc.). However, since none of these alternatives are anywhere as near to commercialisation as electrification, electric LCVs seems to be the widely accepted direction of travel at present.

KPMG predict that by 2030 70% of passenger car sales will be EVs, stepping up to 67% by 2040. For LCVs the estimated figure is 67% and 90% respectively.



~2.0M

Annual addressable market volume by 2025<sup>1</sup>

10k

UPS vehicle orders (with an option for an additional 10k)

5k

Vehicles in late stage sales discussions (3k subject to LOIs)

### Arrival fundraising and IPO

One company working on electrification of LCVs and buses is UK-based start-up Arrival. The group recently announced that it would be listing in the US via a SPAC (special purpose acquisition company) at a valuation of circa \$5.4bn, following pre-IPO investment from Blackrock, Hyundai and others.

Arrival has developed a battery system for custom-designed buses and vans, capable of travelling up to 200 miles on a single charge. The group has already announced a significant contract to supply 10,000 vehicles to UPS with an option for a further 10,000, as well as an active trial with the Post Office for postal delivery vans.

## 5. Alternatives to petrol and diesel cont.

### What is the solution for heavier vehicles?

As vehicle weight increases, battery power becomes less feasible due to the sheer amount of energy required to move such a vehicle any significant distance. However, since other green alternatives (hydrogen, biofuel etc.) are much further behind in terms of proof of concept and cost, it appears inevitable that buses and types of medium commercial vehicles (MCV) will see some benefit from electrification.

Companies including Yutong and BYD are already launching fully electric buses in the UK, with potential also evident for other shorter-range urban vehicles such as refuse collection vehicles.

Given the scale of the challenge for buses, coaches and other similarly sized vehicles, the shift away from ICE is likely to take much longer than for passenger cars. KPMG estimate that 80% of new bus and coach sales will still be petrol/diesel in 2030, dropping to 60% in 2040. The equivalent figures for MCVs (3.5t – 16.0t) are similar at 78% and 60%.

HGVs (defined as 16.0t+) pose even greater challenges. The even heavier load weights and longer distances they have to travel mean that battery technology in its current form is not feasible. Consequently, alternatives including

hydrogen fuel cells and biofuels are at similar stages of development to electric when it comes to powering HGVs.

At present, hydrogen appears the most promising due to the potential for longer-range, compact on-board storage and relatively quick refuel time. The main obstacles are i) a lack of hydrogen refuelling infrastructure, and ii) insufficient hydrogen production. The second obstacle is being addressed as part of the Government's '10 point plan', however significant investment on refuelling infrastructure will be required for the technology to go mainstream.

Due to the more competitive mix of potential technologies for powering HGVs, estimates still put 2030 sales at 80% ICE, but with more of a spread amongst the alternatives, in 2040 55% sales are expected to be ICE with hydrogen fuel cells beginning to dominate.

As LCVs decarbonise faster than other vehicle classes there is potential for fleet owners to replace HGVs with a number of LCVs for 'final mile' journeys in city centres. As LEZs expand and become more restrictive, HGVs could become the target of stringent charges or complete restrictions.

### Low Emission Freight and Logistics Trial (LEFT)

The recently published LEFT report details a number of industry-led trials into a range of alternative propulsion technologies for commercial fleets in the UK. The technologies were implemented in operating fleets, across 120 different vehicles including HGVs, vans, refuse collection vehicles and road sweepers. The technologies trailed include natural gas, hydrogen-diesel dual fuel and battery electric.

#### The trial found a range of benefits across all technologies used:

- Battery electric vehicle trials reported significant reductions (60%+) in vehicle running costs compared to diesel, and resulted in significant expansion of EV fleets as a result of LEFT project experiences.
- Strong business case made for gas-powered biofuel vehicles using bio-methane for long-haul operations, again with significant orders placed alongside planned expansion in refuelling infrastructure and bio-methane supply.
- Hydrogen combustion worked efficiently in dual fuel systems to displace diesel use but the report notes that more reliable, cost-effective hydrogen refuelling infrastructure is required, utilising renewably sourced hydrogen.

## 6. Cost implications for fleet operators

The 2030 ban and mainstream shift to electric/other alternative methods of propulsion are still relatively far out, therefore there is unlikely to be any significant impact on overall cost in the near term.


Mainstream adoption of electric vehicles at the passenger car/LCV level is expected to be triggered in part by EVs reaching cost parity with ICE vehicles (estimated by mid-2020s) as battery costs continue to fall. At that point upfront vehicle cost should not change, but since electric charging generally costs an estimated 60% less (source: EDF) than filling up with petrol/diesel alongside lower expected maintenance costs, ongoing costs from running an electric fleet of small vehicles should be lower, meaning overall cost should be lower.

HGVs could pose a more complex cost picture. Hydrogen technology, expected to eventually be the leading propulsion technology for HGVs, is currently much more expensive than the traditional petrol/diesel technology. The key challenges relate to storing the fuel safely during transit, and scaling the refuelling infrastructure

As more is invested in hydrogen technology research, in terms of propulsion and other areas, with the support of the government, eventual cost parity looks inevitable. To ensure upfront vehicle cost is relatively unchanged, this point will have to come before any proposed ban on the sale of diesel HGVs which might come out of the government's recently announced consultation.



Photo by Possessed Photography

A photograph of a multi-lane highway during the day. On the left, a large white HGV is driving away from the camera. On the right, a dark blue sedan is driving towards the camera. In the distance, other vehicles and a bridge are visible under a clear sky.

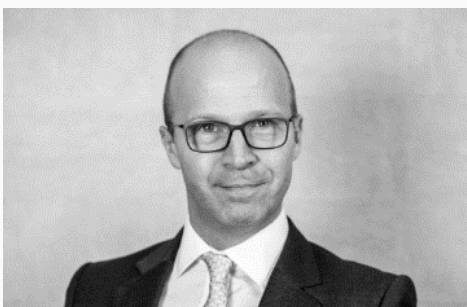
*HGVs account for an estimated 20% of transport sector emissions.*

*Transitioning these vehicles to zero emission will have a significant impact on the UK's carbon emissions and air quality.*

## Selected Support Services transactions

<p><b>ROCKPOOL..</b></p> <p>secured senior debt facilities from</p> <p><b>Clydesdale Bank</b></p> <p>to acquire</p> <p><b>CAMBRIDGE Maintenance Services</b></p> <p><b>ACQUISITION FINANCING</b></p> <p>Business Services</p>	<p><b>BELVOIR!</b></p> <p><b>£3m Sell-Down</b></p> <p>£59m Market Cap</p> <p><b>BROKER</b></p> <p>September 2020</p>	<p><b>HML</b></p> <p>£19m takeover by</p> <p><b>HARWOOD CAPITAL MANAGEMENT LTD</b></p> <p><b>RULE 3 ADVISER</b></p> <p>September 2020</p>	<p><b>CANVAS</b></p> <p>secured senior debt facilities from</p> <p><b>HSBC</b></p> <p><b>COVID-19 FINANCING</b></p> <p>Business Services</p>	<p><b>ELIXIRR</b></p> <p><b>AIM IPO and £25m Placing</b></p> <p>£98m Market Cap</p> <p><b>NOMAD AND SOLE BROKER</b></p> <p>July 2020</p>
<p><b>Gateley Plc</b></p> <p><b>£11m Block Trade</b></p> <p><b>NOMAD AND JOINT BROKER</b></p> <p>February 2020</p>	<p><b>universe group plc</b></p> <p>secured senior debt facilities from</p> <p><b>HSBC</b></p> <p>to acquire</p> <p><b>Celtech.</b></p> <p><b>ACQUISITION FINANCING</b></p> <p>Technology/ Business Services</p>	<p><b>nasstar</b></p> <p>£79.4m Takeover by</p> <p><b>MAYFAIR EQUITY PARTNERS</b></p> <p><b>RULE 3 ADVISER</b></p> <p>January 2020</p>	<p><b>Barkby Group Plc.</b></p> <p><b>Reverse Takeover and £5m Placing</b></p> <p>£40.6m Market Cap</p> <p><b>NOMAD AND BROKER</b></p> <p>January 2020</p>	<p><b>BELVOIR!</b></p> <p><b>Sell-down</b></p> <p>£2.3m Block-Trade</p> <p><b>BROKER</b></p> <p>September 2019</p>
<p><b>FFI FIN FINANCES INC.</b></p> <p>£39.5m Takeover by</p> <p><b>777 PARTNERS</b></p> <p><b>RULE 3 ADVISER</b></p> <p>July 2019</p>	<p><b>SCISYS</b></p> <p>£79m Takeover by</p> <p><b>CGI</b></p> <p><b>RULE 3 ADVISER</b></p> <p>June 2019</p>	<p><b>Taptica</b></p> <p><b>£20m Block-trade</b></p> <p>£179m Market Cap</p> <p><b>NOMAD AND JOINT BROKER</b></p> <p>April 2019</p>	<p><b>TAX SYSTEMS</b></p> <p>Takeover by</p> <p><b>BOWMARK CAPITAL</b></p> <p><b>RULE 3 ADVISER</b></p> <p>March 2019</p>	<p><b>Taptica</b></p> <p>Takeover by</p> <p><b>RHYTHMONE</b></p> <p><b>BUY-SIDE ADVISER</b></p> <p>March 2019</p>
<p><b>pphe HOTEL GROUP</b></p> <p><b>£149m Placing</b></p> <p>£700m Market Cap</p> <p><b>SPONSOR AND BROKER</b></p> <p>March 2019</p>	<p><b>UNIVERSITY OF SHEFFIELD</b></p> <p>Rule 9 Offer</p> <p><b>FINANCIAL ADVISER</b></p> <p>February 2019</p>	<p><b>Gateley Plc</b></p> <p><b>£6m Director Sell-Down</b></p> <p>£181 m Market Cap</p> <p><b>NOMAD AND JOINT BROKER</b></p> <p>February 2019</p>	<p><b>flybe.</b></p> <p>Complex competitive situation / consortium bid from</p> <p><b>REVERSE TAKEOVER</b></p> <p>January 2019</p>	

## Support Services contact:



**Guy Hewett**  
Director, Research

+44 (0)20 7220 0549  
+44 (0)7961 062 931  
ghewett@finncap.com

# Measuring your sustainability? There's an app for that

For businesses today, the smart investment increasingly favours companies committed to sustainability and ESG. Indeed, it is only a matter of time before this becomes obligatory.

More and more, companies have a need to understand their ESG impact and be able to report on it to investors.



*Delivering ambition for a sustainable future*

## Our partnership with WWG

finnCap Group is partnered with leading sustainability fintech World Wide Generation (WWG), combining the powers of our ESG Scorecard with WWG's new digital sustainability monitoring and measurement app, Company Tracker, to create a sustainability reporting tool.

finnCap's recently launched ESG Scorecard provides small and mid-cap quoted companies with an objective means of measuring their ESG performance against key policies, standards, and frameworks. These metrics are incorporated into Company Tracker.

## About the WWG Company Tracker app

- Company Tracker is an App on a global multi-stakeholder platform, G17Eco
- Empowers companies to monitor and measure their sustainability risks and opportunities
- Enhances credentials with investors who increasingly demand companies prove their impact on society, the economy, and the environment
- These impacts are mapped to Sustainable Development Goals (SDGs)

The launch of Company Tracker follows new research highlighting that SMEs' recognition of the importance of ESG has not translated into action. This new partnership between finnCap and WWG aims to close this gap, facilitating the coherent and evidence-based reporting of ESG activities that investors want from firms.

### **To find out more about implementing WWG Company Tracker, please contact:**

John Paul (JP) Hamilton at WWG, [jp.hamilton@worldwidegeneration.co](mailto:jp.hamilton@worldwidegeneration.co), T: +44 (0) 20 8103 2030



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We always put clients first delivering your business ambition, whether that is to raise growth capital, IPO, refinance, raise debt for your business, execute an acquisition or sell your business.

Our specialist sector knowledge and entrepreneurial approach helps companies to achieve their ambition.

finnCap is listed on AIM and has a team of over 140 people based in London and a strong global reach as a member of Oaklins.



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finnCap Ltd  
1 Bartholomew Close  
London, EC1A 7BL  
T: 0207 220 0500