

## Case study

# ESG engagement in public transport



Funded by



## Avanza Group

Spain's largest urban bus operator

Doughty Hanson acquired Avanza, Spain's largest urban bus operation, in February 2007. Doughty Hanson believed that the group presented an attractive opportunity to develop a regional network as the Spanish bus industry continued to consolidate. Its stable cash flows and recession-resistant business model as well as the long-term nature of its concessions meant that Avanza was an attractive leverage buyout candidate.

Doughty Hanson prides itself on being a leading practitioner of ESG engagement in private equity. The firm was one of the first private equity groups to sign up to the PRI in June 2007 and was the first to appoint an in-house head of sustainability to coordinate ESG implementation across its portfolio in June 2008.

### Relevance of ESG issues to the investment

Avanza's business model is an attractive investment from an ESG standpoint: public transport is an essential part of the solution to combat climate change and local air pollution. ESG issues have long been important for the company (e.g. the pilot use of alternative fuels and engines meeting strict emission requirements), and managing them well can contribute to reducing costs and growing the business. Direct cost savings are associated with fuel efficiency (reduced fuel use and carbon footprint) and with improved safety (reduced maintenance, lost time and injuries).

Prior to acquisition ESG issues were addressed at due diligence by the Doughty Hanson deal team as well as external consultants. A comprehensive ESG review of the business was performed by Doughty's in-house head of sustainability shortly after his arrival in June 2008. The review involved discussions with senior investee company management and comprehensive site visits to a representative number of locations. It also considered the views of various key stakeholders including local municipalities, customers and regulators.

Throughout the process Doughty Hanson considered a range of ESG issues from the perspective of both risk and opportunity for the business. These included: fuel storage, fuel efficiency, fuel type and use, climate change impacts, water conservation, land impacts, health and safety and service efficiency.

### How ESG improvements were achieved

Together with management Doughty Hanson developed an action plan to address the findings of the review and sought specialist external support to address specific initiatives such as advanced fuel management (telematics). Enhanced governance of environmental and social issues includes formal arrangements to manage ESG issues and resulted in systems being certified to international standards of good practice.

Doughty Hanson established fuel reduction policies and targets, arranged driver training and piloted a live driver and fuel use (telematics) system. These initiatives are expected to reduce fuel use by 2.5% to 5% over two years and save €0.7m to €1.4m (2,000 to 4,000 t CO<sub>2</sub>e) a year. Doughty Hanson are also investigating the potential for solar power at suitable locations to help secure concessions and generate additional income (€150k a year). Health and safety initiatives in streamlining systems and the greater efficiencies achieved to date have resulted in savings of €200k a year.

### Outcomes

The business is now better placed to manage risk and better positioned to secure future concessions. A number of municipalities have commented upon the ESG improvements made by the company and Doughty Hanson believes that Avanza's ESG credentials helped the group win the competitive tender for the Zaragoza Tramway concession in June 2009. The ESG initiatives being implemented at Avanza continue to evolve and Doughty Hanson are currently evaluating studies on several topics including water conservation, waste reduction, alternative fuels and engine efficiency.

Investor:	Doughty Hanson
Location:	Spain
Sector:	Public Transport
Stage:	Leverage buyout
Company website:	<a href="http://www.avanzagrupo.com">www.avanzagrupo.com</a>
Investor website:	<a href="http://www.doughtyhanson.com">www.doughtyhanson.com</a>

“ESG engagement is central to Avanza's strategy of becoming a leading operator in our market sector. Doughty Hanson's emphasis on sustainable business practices has already produced results and is helping us to generate earnings, cut costs and manage risks in areas which might otherwise have been overlooked.”

Jesus Lopez Torralba CEO, Avanza

