Bringing Sustainability to the Bottom Line

Moderator
Bruce A. Keyes
Foley & Lardner LLP
Bringing Sustainability to the Bottom Line

Why and How to Internalize Sustainability

Kim Marotta, MillerCoors Inc.

Bringing Sustainability to the Bottom Line

The Business Model

Clay G. Nesler, Johnson Controls Inc.
Bringing Sustainability to the Bottom Line

Impacts of Sustainability on Economics & Finance

Christopher Park, Deloitte Consulting LLP

Bringing Sustainability to the Bottom Line

Monetizing Sustainability in a Push-Pull World

Bruce A. Keyes, Foley & Lardner LLP
Background: The Push-Pull of Climate Change

- **Push**
  - Obama administration environmental enforcement and regulatory priorities
    - Cap and Trade
    - Closer regulation of greenwashing
    - Multi-media enforcement (air/water)
  - National Association of Insurance Commissioners (NAIC) approves climate risk disclosure requirements for insurers

- **Pull** – the “Green Collar Economy”
  - $32.80 billion: clean energy projects
  - $26.86 billion: energy efficiency initiatives
  - $18.95 billion: green transportation
Climate change and our dependence on foreign oil, if left unaddressed, will continue to weaken our economy and threaten our national security.

My presidency will mark a new chapter in America’s leadership on climate change that will strengthen our security and create millions of new jobs in the process.

with great beer comes great responsibility.
Bulletproof Bernie: Gov’t Effort to Revoke Madoff Bail Again Bounces Off

Court Sent Madoff Back to $7 Mil Penthouse; Calls Chance of Him Fleeing "Close to Nil"
By RICHARD ESPOSITO and AARON KATERSKY
Jan. 14, 2009

“Few challenges facing America and the world are more urgent than climate change.”

President Barack Obama
Water is Material Issue for Business

Two *most critical and potentially material issues* from a financial perspective:

- Water scarcity in agriculture
- Water scarcity for production

New Corporate Responsibility Trend

- 91% of Americans have a more positive image of a company when it is environmentally responsible
- 83% of Americans are likely to switch from one brand to another, if the brand is associated with a good cause
- 74% increase in actual sales for a product associated with a cause

Source: The 2008 Cone Citizenship Study and 2008 Cone 25th Anniversary Cause Marketing Report
Retailers are Pushing the Agenda

- Voluntary carbon labelling
- Packaging reductions
- Supplier scorecards

Miller geographic skew
Coors geographic skew
Strategic and Focused Approach

Sustainability Assessment Matrix (SAM)

1. Minimum Standard
2. Being Ready
3. Creating Opportunity
4. Being Admired

- A four step ‘stairway’ is used to measure current performance in each priority
- GRI (G3) guidelines
GREAT BEER
GREAT RESPONSIBILITY

VISION:
Become America's Best Beer Company

MISSION:
Grow our business the right way as we become America's Best Beer Company

OUR RESPONSIBILITIES:

ALCOHOL RESPONSIBILITY

ENVIRONMENTAL SUSTAINABILITY

SUSTAINABLE SUPPLY CHAIN

PEOPLE AND COMMUNITY INVESTMENT

ETHICS AND TRANSPARENCY

OUR COMMITMENTS:

- Helping prevent drunk driving
- Working to reduce underage drinking
- Partnering to address college campus issues
- Working to reduce our direct marketing standards

- Ensuring a secure future through water stewardship
- Reducing our energy and carbon footprint
-Driving packaging sustainability
- Moving towards zero waste operations

- Ensuring adherence to our Responsible Sourcing Principles
- Supporting local enterprise development
- Reducing our environmental footprint
- Investing in our people
- Supporting multiculturalism, inclusion and our multicultural stakeholders
- Engaging employees in volunteerism
- Investing in our communities
- Building a world-class safety culture
- Maintaining transparency in reporting our progress
- Utilizing best in class ethical practices in managing our business
- Measuring our progress

Water

Make More Beer, Use Less Water

Leaders on Water Efficiency

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**Water**

**Make Every Drop Count**

- Watershed protection plan
- Focused on barley farmers
- Increase efficiency of irrigation system
- Conserve water and improve water quality
- Increase in yields and decrease in energy

**Energy and Carbon**

**Energy and Carbon Footprint**

Reduced the average miles per beer shipment by almost 20%

- 45 million miles less traveled
- 325 thousand barrels of crude oil saved
- 75,000 tons of CO2 reduced
- $160 million in savings
Energy and Carbon

Alternative Energy

Anaerobic waste water treatment

- Fort Worth and Irwindale
- Turn wastewater into renewable energy
- One megawatt of electricity each hour

Packaging

Driving Packaging Sustainability

- 2015 target of 5% reduction in retail packaging
- Environmental impact analysis
- Packaging scorecards
- Reduction in corrugated cardboard used for in-store pallet displays
Packaging

_Driving Packaging Sustainability_

Converted can ends
Estimated Annual savings:
- $10.1 million
- 10.4 million pounds of aluminum

Brewery Waste

_Moving Toward Zero Waste Operations_

- 98% of our brewery waste is recycled or reused
- Leftover barley malt sold to farmers for cattle feed and spent grain’s used to produce ethanol
- Plastic from barrels used in the brewing process is shredded for use in garden and lawn applications
- Pallets are made of 100% recycled plastic
Johnson Controls
Creating a more comfortable, safe and sustainable world
Three Global Businesses focused on Efficiency and Sustainability

**Building Efficiency**
Commercial/residential systems & equipment
Technical, workplace & energy services
Energy efficiency, comfort and security

**Power Solutions**
Starting batteries – new & replacement
Hybrid batteries (lead acid, NiMH, Li-Ion)
Battery recycling, reliability and safety

**Automotive Experience**
Seating, interiors and electronics
Light-weighting, bio-materials and recycling
Fuel efficiency, comfort and safety

Efficiency in Buildings and Vehicles is the Smart Approach to Reducing Carbon Emissions

Green actions have a positive net present value while avoiding GHG emissions ($/ton)
Brown actions have a negative net present value while avoiding GHG emissions ($/ton)
Blue values describe how many GHGs are avoided in billions of tons per block

Source: Natural Resource Defense Council (NRDC); extrapolations from McKinsey Global Institute

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Carbon Efficiency through Energy & Emissions Management

Carbon Emission Planning
University Example

Grid Efficiency through Smart Building Technology Integration

Net Zero Energy Buildings
Integrated Design Associates
San Jose, CA
Energy Efficiency and Renewable Energy through Performance Contracting

Vehicle Efficiency through Drive-train Electrification

- Strong R&D focus on improving cost, performance, reliability and safety
- First production Li-Ion battery systems for the Mercedes-Benz and BMW
- Partnerships in Li-Ion battery systems:
  - Dodge Sprinter PHEV vans (road test)
  - Ford Escape PHEV development contract
Sustainability Efforts are focused on the Triple Bottom Line

Sustainability

Through our actions and offerings, we embrace environmental, social and economic practices that benefit our customers, employees, shareholders and society.

Environmental Strategies

- Reduce our environmental footprint
- Improve the eco-efficiency of our supply chain
- Increase sales of environmentally-responsible products and services

30% GHG intensity reduction goal by 2012

- Energy efficiency improvements
- On-site renewable energy generation
- Process improvements in manufacturing
- Fleet efficiency improvements
- LEED certification – new and existing buildings

Sustainability and Potential Impacts on Economics & Finance

Chris Park
Deloitte Consulting LLP
April 2009
Despite the economic downturn, sustainability remains top-of-mind

<table>
<thead>
<tr>
<th>Trend</th>
<th>Impact</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Substantial change in existing and pending</td>
<td></td>
<td>• In addition to existing regulations, anticipated environmental and climate change regulations and guidelines will present new opportunities and challenges in innovation in products and services</td>
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<tr>
<td>regulation</td>
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<tr>
<td>Emergence of &quot;environmental capital&quot;</td>
<td></td>
<td>• Many U.S. states are participating in regional Cap and Trade programs to incentivize organizations to reduce carbon emissions</td>
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<td></td>
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<td>• Value of water as an asset is increasing as population grows</td>
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<td></td>
<td>• Emerging trading programs, taxes and incentives created to reduce and revalue waste</td>
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<td>Rapid growth of sustainability as a</td>
<td></td>
<td>• Differentiation based on sustainability strategy is becoming accepted as a key driver of value</td>
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<td>business imperative</td>
<td></td>
<td>• Corporate Responsibility &amp; Sustainability is an emerging dimension of overall health and stability of an organization</td>
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<td>Consumer demand for greater responsibility</td>
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<td>• Increasing importance of operating at a level &quot;beyond compliance&quot;</td>
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<td>and transparency</td>
<td></td>
<td>• Pressure to answer sustainability questions from vendors, buyers, investors</td>
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<td></td>
<td></td>
<td>• Business strategy change to reflect global economic slowdown (e.g., cost reduction, efficiency)</td>
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<tr>
<td>Advances in environmental technologies</td>
<td></td>
<td>• Advances in environmental technologies are making renewable energy more financially attractive relative to traditional energy like coal</td>
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<tr>
<td></td>
<td></td>
<td>• Significant developments achieved in water desalination and hazardous waste disposal</td>
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<td>Financial turmoil impacting investment</td>
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<td>• Recent financial turmoil will temper spending against high risk sustainability projects, but initiatives with clear benefits will still receive approval/funding</td>
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<td>decisions</td>
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Economic and Financial Impacts: Five Main Issues

• Strategic Business Decisions Based on Varying Levels of Carbon Emissions Trading and Core Energy Costs
• Capital Investment Decisions Balanced Against Long-term Operating Cost Reduction and Reduced Impact Footprint
• Convergence of Financial and Non-Financial Reporting
  • Mandatory- Regulatory Reporting, Compliance
  • Voluntary- Stakeholder Expectations
• Full Value Chain Transformation- making the Most Sustainable Products in the Most Sustainable Way
• Costs (and Opportunities) Associated with New Regulation and Oversight
Strategy based on varying levels of energy and carbon trading costs

- EU experience and potential US legislation provides some guidance on scenario planning for potential carbon ‘tax’ and energy futures
- Global recession has dampened energy prices but consensus is that recovery will drive increases in demand and associated costs
- Carbon offset trading ranges ($5/ton-$100/ton) and core energy costs ($30/barrel-$200/barrel) must be modeled to address the “true cost” of operating globally
- The public is increasingly aware of the “true cost” of water and other externalities; markets may demand that those costs are accounted for
- We’ll see more use of “incentive-based rehabilitative economics”
  - Policy that gives carbon credits, financial grants or subsidies, expertise, or other types of aid as an incentive to rehabilitate and protect, in perpetuity, habitats that have been or have the possibility to be compromised by human activity

Considering capital investment for long-term cost savings and reduced impact footprint

- The definition of “return on investment” can be extended to include non-financial metrics
  - Reduction in risk exposure (regulatory, physical, raw materials/supply chain including energy costs)
  - Increase/improve public opinion
  - Minimize exposure to market fluctuations
  - Consider the cost of inaction
- Payback period should be increased in cases where the investment is a long-term platform or risk-avoidance initiative
- Investments should lie on the “Efficient Frontier” of return on investment and prioritized accordingly
Convergence of financial and non-financial reporting

- Corporations are increasingly reporting non-financial indicators
- As sustainability considerations are incorporated into operating strategy, transparency through reporting is becoming more common
- Reporting on non-financial indicators and sustainability activities provides an organization the opportunity to highlight their achievements and progress, inform stakeholders and manage risk
- Improved transparency on key sustainability issues has improved credibility
  - Growing trend for third-party assurance of non-financial information and sustainability reports
  - Unverified claims of social and environmental performance is considered “greenwashing”- market and brand risk
- Controls and processes for tracking and reporting non-financial indicators may ultimately require the same level of infrastructure as those for financial reporting

Transparency, credibility, assurance, and verification are key to stakeholder communication

Changing economics of making most sustainable products in the most sustainable ways

- “Best” production method might not be ‘least cost’ or ‘fastest’ anymore
  - As carbon emissions are monetized, decision making will change
- Design of products & services will include consideration of organics, waste minimization & pollution elimination, resource availability & replenishment, closed loop cycles, etc.
  - New competencies around carbon product lifecycle analysis, carbon footprinting, may be required
- Focus on environmental footprint and trading costs will drive new strategies around production, sourcing and distribution
  - Offshore manufacturing choices may be reconsidered (capacity repatriation)
  - Massively centralized production ➔ massively decentralized (standardized) production
  - ‘localized’ sourcing
- Core product and service strategies may shift
  - Full lifecycle: design through ‘first use’ through ‘last use’ through ‘recapture’
  - Service model may replace product model (selling units of activity)
Monetizing Sustainability

Bruce A. Keyes
Foley & Lardner LLP

Monetizing Sustainability - Capturing Value in Carbon

This graph attempts to show costs and benefits of various measures for greenhouse gas reductions with both abatement (in CO2 equivalent) and economic benefits. The shaded areas show the cost, and bars ending with a number show the economic benefit. Read from left to right across the whole range of strategies options ranging from low hanging fruit, such as building insulation, in green (coming with economic savings) to the increasingly higher hanging ones, such as afforestation, wind energy, in red.

McKinsey & Co.
Monetizing Sustainability

- Capturing Value in Carbon
  - Existing trade systems create confusion
  - Cap and trade already in place for other air pollutants (Volatile Organic Compounds)
  - Future cap and trade system likely to be efficient
  - But...Carbon contracting is on the increase and there will be challenging issues for 2-4 years

Monetizing Sustainability – Funding and Financing

- Energy Improvement and Extension Act of 2008 (TARP) (10/3/2008);
- American Recovery and Reinvestment Act (ARRA) (2/17/2009);
- 2009 Omnibus Spending Bill (3/11/2009);
- 2010 Omnibus Spending Bill (April, 2009);

And...

- A Second Stimulus done smarter?
  - Spending side was reduced to accommodate tax cuts;
  - Perceived urgency won over deliberation
Federal Spending Principles
Recovery….. and ……Reinvestment

- Categorical
  - Program or priority related
  - Little flexibility
  - E.g., Weatherization, Brownfields

- Economic Foundations
  - Infrastructure
  - R&D

- Programs and priorities cut across agency boundaries
- You have already missed a funding deadline

American Recovery and Reinvestment Act — Common Principles

- 40% of spending in 2009;
- 90% completed through 2011
- “Extraordinary times require extraordinary measures”
  - Agencies will be doing everything they can to see that the funds are deployed;
  - May waive match and program requirements?
American Recovery and Reinvestment Act — Common Principles

- Four basic forms of stimulus:
  - Cheap or subsidized financing
  - Government (local) administered opportunities
  - Opportunities to sell goods and services
  - Direct grants

- Complex overlay of regulations
  - Buy American provisions
    - Work is being bid now
    - Array of existing requirements
      - NAFTA
      - Trade Agreements Act
      - Buy American Act, etc.
  - New regulations have not yet been promulgated.
  - Failure to comply can result in False Claims Act and other penalties.
Is there anything in it for me?

- Projects already underway
  - e.g., can refinance using tax credits or bonds
  - Can free up capital
- Projects on hold
  - e.g., low/no-interest Revolving Loan Funds
- Decommissioning/plant closing
  - Neighborhood Stabilization Funds
  - Remember shutdown credits for air permits

Where to Look for Stimulus

- [http://www.recovery.gov](http://www.recovery.gov)
  - State sites
  - Agency sites
- [http://www.grants.gov](http://www.grants.gov)
- [http://www.foley.com](http://www.foley.com)
- [www.USMayors.org](http://www.USMayors.org)
- Trade Group web sites
Monetizing Sustainability - Avoiding Cost

- Tax treatment
- Low cost financing
- Maintain Compliance