# Highlights & Holdings

## Case Studies in ESG

SAGE ESG
INVEST WELL, DO GOOD

Highlights & Holdings provides a thoughtful analysis for some of the holdings in Sage's Environmental, Social, and Governance (ESG) portfolios. We provide a Sage ESG Leaf Score for each holding and an analysis from an E, S, and G perspective. Our goal for our ESG portfolios is to choose well-run companies (governance) that care about their employees and customers (social), and have policies in place to create a net positive effect on their environment. Sage's ESG holdings are all best-in-class companies that are leaders within their sectors.

4/5

Sage ESG Leaf Score

Neutral Outlook

NASDAQ: SBUX

Market Cap: $93 B

Bond Rating: Baa1/BBB+

## Starbucks Corporation

Since its beginnings as a Seattle coffee shop in 1971, Starbucks has changed the way people drink coffee and, becoming part of the daily routine of millions of people globally (in over 78 countries). With a brand value estimated to be worth about $40 billion (almost half of its market value), Starbucks is one of the largest and most well-recognized companies in the world. As such, it is an example of a company where there is a clear link between brand strength and financial performance. While brand value takes time to build, it can easily disintegrate when exposed to controversy—making ESG management crucial to brand success.

### Governance

Starbucks' board structure is an area of strength, with strong independence for both members and committees; however, the company struggles in other governance areas. In 2012, Starbucks found itself in a major public relations scandal when news broke that in the company's 15 years of operating in the U.K., it only paid U.K. corporate income taxes one time. Starbucks' tax structure allows it to avoid paying taxes in the U.K. despite reporting high profits in the U.S. Tax avoidance policies create governance risk. Not only did this scandal undermine Starbucks' commitment to social responsibility and being a good citizen of the communities in which it operates—it damaged the company's brand. In addition to increasing tax disclosures, there are other governance areas where we believe Starbucks can improve its transparency. The company's Corporate Social Responsibility (CSR) report does not follow any sustainability framework guidelines and would benefit from a third-party audit. Starbucks also does not disclose greenhouse gas emissions, energy, or water management targets, but we believe it should.

### Social

As the world's fourth-largest coffee roaster, Starbucks has significant influence in the coffee supply chain and is responsible for 3% of global coffee sourcing. A leader in supply chain management, Starbucks has robust policies, including standards on labor rights, initiatives to ensure compliance, supplier audits, and training for supply chain workers. Starbucks has supported the training of nearly 25,000 coffee farmers globally and has committed to providing $50 million in loans to farmers by 2020. The company is approaching its goal to purchase 100% of its coffee through Coffee and Farmer Equity Practices (C.A.F.E.) or other ethically sourced certification systems such as Fairtrade. C.A.F.E is a sustainable sourcing program developed by Starbucks in 2004 in collaboration with Conservation International to ensure coffee quality while promoting social, economic, and environmental standards. However, this standard has faced criticism for not guaranteeing farmers a fair minimum price, and despite strong management of the program, Starbucks has been involved in multiple controversies. Most recently, the company is facing allegations of forced labor on a supplier's farm in Brazil, despite the supplier having received the C.A.F.E. certification. Starbucks has the ability to improve supplier audits to ensure humane conditions; however, risks associated with operating an agricultural supply chain in the Global South mean strong company management is not always enough to combat the reality of potential human rights abuses, especially in a historically problematic area like coffee farming. Overall, Starbucks has been successful in building a strong relationship with its customers and incidents are rarely reported. One incident that garnered national attention happened in 2018 when two men, who were black, were waiting for a friend inside of a Philadelphia retail store and were arrested after a manager called the police. Starbucks responded by closing 8,000 stores to conduct anti-bias training for 175,000 U.S. employees, showing commitment to diversity and inclusion. Starbucks created a Third Place Policy, which holds that every person who visits a Starbucks store is a customer, whether they make a purchase or not. This event could have caused long-term damage to the company's brand image; however, Starbucks' CEO said the company did not lose sales as a result of the incident but did lose revenue from store closures for anti-bias training.

In terms of employee relations, Starbucks does not call its labor force 'employees,' but instead calls them 'partners,' emphasizing the company's commitment to welfare, training, and benefits. Restaurant workers earn notoriously low wages, and as the average age of restaurant workers rises, the industry has a responsibility to ensure living wages and good working conditions. Starbucks was one of the first U.S. companies to offer health benefits to part-time workers, covering 70% of premiums and 100% of preventative-care costs. In 2014, the company began the Starbucks College Achievement Plan (SCAP), an online bachelor's degree program through Arizona State University offering nearly full tuition coverage for employees working 20 hours per week or more. Starbucks has a rating of 3.8/5 on Glassdoor, making it one of the top 100 employers on the site. Overall, Starbucks is an ESG leader in managing its social and human capital, and we find its policies to be best practice.

### Environmental

Improving operational efficiency by reducing energy and water intensity drives competitiveness within the restaurant industry. Starbucks currently operates over 1,500 LEED certified stores and is working to transition to 100% renewable energy powered stores, supply chains, and operating centers. In May2019 Starbucks issued its third sustainability bond. ESG data provider Sustainalytics offered a second opinion on the bond framework, calling it "credible and impactful." The $1 billion in funds will go toward supporting ethically sourced coffee and the company's Greener Retail initiative, which aims to operate 10,000 greener stores by 2025. The Greener Stores framework was developed in partnership with the World Wildlife Fund and focuses on commitments to energy efficiency, water stewardship, and waste reduction. Starbucks invests in a North Carolina solar farm and plans to expand its holdings to include multiple wind turbine and solar farms across the U.S. to facilitate local sourcing of renewable energy. As Starbucks is reliant on single-use goods to sell its products, packaging remains one of Starbucks' biggest environmental challenges. Since 1985, the company has offered customers discounts for bringing their own cup, and recently developed a recyclable lid to replace a billion plastic straws per year. Starbucks is also working to develop recyclable and compostable packaging by 2022.

## Risk

The Starbucks brand is associated with responsible practices and is a top ESG leader in the restaurant industry regarding its environmental and social management. However, we believe that without strength in the governance component of ESG, the other components are not able to achieve their full potential. Starbucks' governance controversies regarding tax evasion and lack of transparency on ESG policies expose the company to risks and can cause financial damage to the company's brand. If Starbucks can strengthen its governance policies, we believe it will financially benefit, and until then, we give it a Sage Leaf Score of 4 out of 5 with a neutral outlook.

## Sage ESG Leaf Score Methodology

No two companies are alike. This is exceptionally apparent from an ESG perspective, where the challenge lies not only in assessing the differences between companies, but also in the differences across industries. Although a company may be a leader among its peer group, the industry in which it operates may expose it to risks that cannot be mitigated through company management. By combining an ESG macro industry risk analysis with a company-level sustainability evaluation, the Sage Leaf Score bridges this gap, enabling investors to quickly assess companies across industries. Our Sage Leaf Score, which is based on a 1 to 5 scale (with 5 leaves representing ESG leaders), makes it easy for investors to compare a company in, for example, the energy industry to a company in the technology industry, and to understand that all 5-leaf companies are leaders based on their individual company management and the level of industry risk that they face.

Industry Level Analysis + Company Level Analysis + Exclusions = Sage Leaf Score

*For more information on Sage's Leaf Score, click here.*



5900 Southwest Parkway, Building 1 • Austin, TX 78735 • Phone | 512.327.5530 Fax | 512.327.5702 | www.sageadvisory.com