

ESG Diagnostic

Sample loop

DRAFT

BAIN & COMPANY 

Materiality | Identification of material ESG themes for Target's industry

ESG

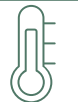
MATERIALITY

/ OUTSIDE-IN VIEW


E



Environment
Living within our planetary boundaries

 **GHG emissions** Medium

Reducing & offsetting GHG emissions contributing to climate change

 **Water stewardship** Medium

Sensible water use, water quality, and watershed management

 **Packaging, waste & circularity** High

Responsible sourcing and use of resources, incl. product, packaging, and food lifecycles

 **Hazardous substances**

Sensitively using and treating toxic products and waste, incl. chemical and technology pollutants

 **Animal product testing** High

Protecting and enhancing natural ecosystems and living organisms; upholding animal welfare

 **Land and ocean use**

Ensuring long-term sustainable land and ocean use, sound utilization practices

 **Air quality**

Lowering pollutants impacting air quality and atmospheric integrity


S



Social
Committing to equitable outcomes

 **Human rights**


Upholding the corporate responsibility to respect universal rights (e.g., freedom of expression, no forced/child labour)

 **Labour practices** Medium

Decent and safe work, incl. equitable pay / benefits, upskilling / development, and hiring practices

 **Diversity, equity & inclusion**

Practices and culture promoting diversity, equity, accessibility and inclusion inside company and beyond

 **Customer safety and engagement**

Safe offerings, clear labeling and non-abusive in marketing and pricing

 **Customer health & wellness** High

Products, services, and technologies that enhance customer / patient well-being

 **Digital rights and responsibilities**

Secure and ethical technology systems, infrastructure, and data practices; duty of care to customer privacy; responsiveness to law enforcement

 **Community partnership**

Aware and/or engaged members of the communities and broader society


G



Governance
Demonstrating responsible conduct

 **Governance foundation**

Norms and practices related to good governance, e.g., ownership & control, board diversity, accountability

 **Business ethics**

Sound decision-making, ethical conduct; no anti-competitive practices, bribery, or corruption

 **National and intl. policy**


Appropriately navigating complex domestic and international issues, incl. policy and lobbying stances

 **Transparency & risk management**

Accurate accounting; appropriate risk disclosure and management; ESG transparency

 **Supplier practices** Medium

Clear practices embedded in sourcing activities and investment and partnership decisions

 **Tax practices**

Fair tax payment and practice

 **Indirect economic impacts**

Sensitivity to indirect impacts on external populations of firm's economic activity

Topics with a high degree of materiality are of extreme importance to industry players to retain a license-to-operate from governmental and public standpoint, but are equally important to capture full commercial value from consumers and stay relevant vs. competitors

Topics with a medium degree of materiality are important as they receive attention from regulation and the public, and provide opportunities to enhance commercial success, however they are not essential to retain license-to-operate

Materiality | Identification of material ESG themes for Target's industry

/ PRELIMINARY

ESG dimension	Materiality	Rationale
E Packaging, waste & circularity Animal product testing GHG emissions Water stewardship	High	<p>As per a 2020 British Beauty council report, ~70% of the cosmetics & beauty industry's waste is created from product packaging that includes plastic, paper, glass, and metals, most of which end up in landfills (120 billion units of packaging used every year). Waste is also generated from formula testers, unsold products and items that expire in warehouses/store shelves</p> <ul style="list-style-type: none"> • EU Directive on Packaging & Packaging Wastes (amended 2022) requires EU manufacturers to minimize their packaging and sets targets for packaging to be recovered or recycled • Peers like Peer 1 have ~90% recycled packaging content with 100% post-consumer recycled plastic and paper usage in bottles and carrier bags; while Peer 3 has refillables for top products and Recycle & Be Rewarded program to bring back empty product packaging for recycling
	High	<p>Personal care product companies have been known to use animals to assess the safety and efficacy of new products and their heavy reliance on natural ingredients like rare animal and plant extracts, essential oils and minerals exert strain on natural resources making sustainable sourcing practices and cruelty-free formulations essential to preserve ecosystems</p> <ul style="list-style-type: none"> • EU Cosmetics Regulation (amended 2023) bans animal testing or marketing of products tested on animals. In the US, the Public Health Service Policies on Humane Care and Use of Laboratory Animals set guidelines for humane treatment of animals for lab testing with penalties of up to \$10K (per animal per day) for non-compliance • Increasing pressure from organizations such as PETA and Leaping Bunny which certify products as cruelty-free or vegan • Peers like Peer 1 is committed to cruelty-free testing and has 100% vegan formulations certified by The Vegan Society
	Med.	<p>Personal care product manufacturing produces significant amounts of greenhouse gases during sourcing of raw materials, manufacturing process, distribution, and use. Additionally, high energy usage in corporate offices and manufacturing sites also contributes towards high GHG emissions</p> <ul style="list-style-type: none"> • Peers like Aesop source 100% renewable electricity and purchase renewable energy certificates (RECs) for its stores and offices; while Peer 2 is committed to reducing air-freight of products and ingredients and use of green transport for its distribution to stores
	Med.	<p>Water is used extensively in the industry during formulation, processing and production phases. An average beauty product contains 60-95% of water and ~45% of European personal care products launched in 2018 contained water. In 2022, European Commission claimed that 92% of toxic micropollutants in water came from pharmaceutical & personal care products</p> <ul style="list-style-type: none"> • EU is planning to introduce a new regulation by 2024, which would require cosmetics manufacturers to cover ~25% of the cost of wastewater treatment • Peer 3 introduced some solid products like shampoo bars, avoiding water usage (~450,000 liters a year) globally
S Health & Wellness/ Customer safety	High	<p>Chemical ingredients such as parabens, formaldehyde, etc. used in personal care products can have an adverse impact on human health. ~1-3% of the European population has developed allergies due to exposure to fragrance ingredients. Additionally, there is a risk of product recalls, regulatory action, and reputational damage due to consumer safety issues</p> <ul style="list-style-type: none"> • EU Cosmetics Regulation (amended 2023) mandates proper labelling of products; FDA prohibits use of certain chemicals (e.g., bithionol, mercury, etc.) in cosmetic products • In 2022, Peer 2 recalled its bathroom deodorizing drops and oil burner blends due to failure to meet child resistant packaging requirements by omitting labeling requirements • Kiehl's is committed to customer safety via dedicated internal testing teams for its ingredients and safety screening mechanisms for its formulations
	Med.	<p>Personal care products manufacturing exposes employees to several health & safety hazards, such as exposure to toxic chemicals and risks of injury while operating machinery etc. Additionally, inclusive workplace is essential for attracting top talent and mitigating reputational and financial risks associated with evolving societal expectations</p> <ul style="list-style-type: none"> • In the US, OSHA outlines regulations concerning worker training, provides permissible exposure limits for hazardous materials; ISO 45001:2018 specifies requirements for an occupational health and safety (OH&S) management system • The Peer 1's Open Hiring programme omits background checks and unnecessary interview questions, helping marginalized people to overcome barriers to recruitment
G Supplier practices	Med.	<p>The personal care product industry uses raw materials like essential oils, palm oil, mica, etc. which can have severe environmental impacts if not sourced sustainably. There is also a risk of unethical ESG practices along the value chain due to procurement from global suppliers. ~60% of the environmental impact of the cosmetic industry occurs upstream in the supply chain¹</p> <ul style="list-style-type: none"> • EU Cosmetics Regulation requires suppliers of cosmetic ingredients from developing countries to provide buyers with information on the properties and attributes of the ingredients • Peer 2's Ethical Sourcing Program aims at environmentally responsible supplier practices and uses Sedex platform² to assess and monitor ethical performance of its suppliers

ESG DD approach | Key questions to consider to drive ESG DD

/ OUTSIDE IN

Recommendation for ESG DD

- Level of ESG DD: **Standard DD**
- Price: **£75K**
- Rationale:
 - **Multiple highly material environmental and social topics** that require analysis (both sector-level and target performance)
 - **Commercial opportunities** to expand sustainable **product offerings** (cruelty-free, vegan) given increasing consumer preference on sustainable personal care products
- **Value creation opportunities:**
 - **Increase market access** by expanding the range of products that use natural ingredients and/ or organic based product formulations
 - **Invest in R&D of packaging-free** 'naked' products (can be sold without requiring any additional packaging) and **recyclable/ reusable** packaging (e.g., glass/ stainless steel vs. plastic bottles)
 - **Provide transparency** in production processes/ traceability of ingredients and **gain certifications** (e.g., Leaping Bunny), enhancing brand value and trust
 - **Continue to undertake initiatives** to reduce GHG emissions (e.g., improving energy efficiency, increased use of renewable energy)

Key ESG topics

Potential DD questions – High Material Issues

E	Overall	<ul style="list-style-type: none"> • How much does Target's stakeholders (incl. consumers and regulators) value ESG and how is this expected to evolve? What are the most important topics and why? • What are the implications of the growing importance of sustainability in the cosmetics industry on the Target? • What value creation opportunities does ESG present for the Target and how sizeable are they?
	Decarbonization	<ul style="list-style-type: none"> • What is Target's decarbonization approach? Does Target have a carbon baseline, a decarbonization strategy and targets? How are their competitors approaching decarbonization? • Scope 3 emissions account for 99% of Target's GHG emissions in 2022, what measures are in place to reduce the impact of scope 3 emissions (e.g., Target's Green Supply Chain Policy)? How does this compare against peers? • How ready is Target for CSRD and TCFD, and what are the implications from an investment perspective?
	Packaging, waste & circularity	<ul style="list-style-type: none"> • What are Target's key initiatives to reduce their overall wastage from packaging, including residuary waste from formula testers, unsold products and expired items? What is the total amount of waste recycled/reused? What are the waste reduction targets set by Luxe? • What percentage of packaging materials are comprised of reused, recycled, or compostable materials in total? What is Target doing to reduce the use of single use plastic and is there a push to differentiate with sustainable packaging? • Does Target undertake other circular initiatives (promoting re-use, refills etc.) to minimize waste? How does it perform on circular initiatives in comparison with its peers?
	Animal product testing	<ul style="list-style-type: none"> • What policies does Target have in place to ensure animal welfare? Does it have measures in place to regain its Leaping Bunny (cruelty-free) certification? What plans are in place to increase its cruelty-free portfolio beyond LimeLife products? • What proportion of Target's current product portfolio is vegan? How does this compare against peers? What other initiatives does Target have to promote biodiversity and animal welfare?
	Health & Wellness/ Customer safety	<ul style="list-style-type: none"> • What measures does Target take to ensure its products are 'safe and sustainable'? Target as a group has received B Corp certification in August 2023, what measures are in place to help its brands (LimeLife, Sol de Janeiro, Grown Alchemist) become B Corp certified by 2026? • What initiatives is Target undertaking to increase the proportion of products with above 90% natural origin ingredients (~39% in leave-on formula products in 2022)? How does this compare against its peers? • Has Target been involved in any controversies or product recalls for its products in relation to product safety?
	Labour practices	<ul style="list-style-type: none"> • Given Target's end-to-end production and operation for their key brands in France, are there any key social risks associated with it? What is Target's historical record on employee practices over the last 5 years? How does Target and its peers ensure fair treatment of their staff?

