



IDFA

**International
Dairy Foods Association**

Sustainability Survey Results Summary Deck | September 2022

The information reported is from an optional survey of IDFA Members conducted in Fall 2022 in partnership with McKinsey & Company.

Definitions: Sustainability strategy and ESG strategy

Sustainability strategy

Strategy focuses primarily on environmental issues such as greenhouse gas emissions, water and land use, energy use, waste reduction. Strategy is sometimes part of a company's regulatory compliance program. Other elements (S or G) may or may not be part of the strategy.

ESG strategy

Strategy includes all three elements -Environment, Social and Governance.

E: Greenhouse gas emissions, water use, land use, biodiversity, energy use, waste reduction

S: Fair labor practices, human rights, workplace diversity, workplace safety, pay equity, access to healthcare, data security, racial justice, and DEI

G: Board and management structure, executive compensation, company's policies, compliance with ESG accounting, information disclosure, and auditing



Executive Summary: IDFA Member ESG Survey September 2022

Commitment Most processors report that sustainability is a priority and are committing accordingly:



- 75% have a sustainability and/or ESG strategy, and of these companies:
 - 67% have allocated funds or set specific targets, 72% have board/leadership actively conducting oversight
 - 44% have a sustainability lead on staff, 46% have conducted a Materiality Assessment

Focus is shifting from energy efficiency to packaging/circular economy:

- 90% of processors have made energy efficiency investments
 - In the future, 72% plan to invest in packaging/circular economy while 62% plan to invest in energy efficiency
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Drivers and Challenges



The primary drivers of sustainability agendas are demand-side pressure and desire to maintain corporate culture, outweighing investor or regulatory pressure:

- 70% of processors report customer requirements and 68% report consistency with culture/mission to be a motivation
- 28% report investors demands and 23% report regulatory pressure to be a top motivation

Although a top motivator for investment, perceived consumer sentiment is a top roadblock for processors to reach goals

- 68% report lack of consumer and/or customer interest as a challenge to monetize and meet sustainability/ESG goals
- Consumer/customer lack of interest is one of three challenges that most processors agree is a top challenge
- 77% of companies report a lack of capabilities and resources and 72% other strategic priorities are more pressing

Larger processors appear to be further along in the sustainability reporting journey than smaller processors

- 38% of processors with less than \$100M annual revenue have a sustainability and/or ESG strategy
 - 85% with \$100M-\$500M annual revenue and 100% with over \$7.5B annual revenue have a strategy
 - Of the 15 processors that do not have either strategy, 40% earn less than \$500M/yr and 93% earn less than \$3B/yr
 - 80% of these comparatively smaller processors without a strategy prioritize cost reduction and efficiency measures
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Executive Summary: IDFA Member ESG Survey September 2022

Top and Low Quartiles



Top Quartile processors make sustainability a strategic priority while Low Quartile prioritize cost reduction:

- ~25% are classified as Top Quartile based on their reporting of Scope I, II and III metrics, and 50% of these companies report that sustainability transformation is a top 3 strategic priority compared to 31% of all processors
- ~20% are classified as Low Quartile based on either not knowing or not reporting any Scope I, II or III metrics, and 86% of these companies report that cost reduction is a top 3 strategic priority compared to 56% of all processors

Top Quartile processors set targets, incorporate sustainability into financial reporting and proactively invest in emerging sustainability best-practices; some Low Quartile have set targets but few to none report ambitious investments:

- 86% of Top Quartile and 33% of Low Quartile have set specific metrics to assess sustainability progress
- 90% of Top Quartile work with farmers to promote on-farm GHG emission reduction while no Low Quartile processors do so
- 23% of Top Quartile but no Low Quartile processors incorporate ESG Materiality into financial reporting
- Top Quartile processors are engaging in carbon markets with 20% purchasing and 29% generating offsets
- No Low Quartile processors purchase offsets and 7% generate carbon offsets

What next



Processors recognize the imperative to act with the support of IDFA:

- Processors without a sustainability/ESG report and Low Quartile players are playing catch up and asking IDFA for guidance, education and support to balance regulations
- Top Quartile is looking to IDFA to shape the industry through resource alignment and leadership aimed at pushing the industry forward

75% of processors have a sustainability and/or ESG report and are taking initiative to implement their strategies

Does your company have a sustainability and/or an ESG strategy? N = 76



75% of processors have a sustainability and/or ESG strategy and of these companies and 34% have both strategies

Of the processors with a sustainability/ESG strategy:

72%

board/leadership actively conducts oversight over sustainability programs

67%

have **allocated funds** to implement the sustainability/ESG strategy

65%

Have set specific ESG/sustainability **targets/goals**

46%

Have conducted a **Materiality Assessment**

44%

Currently have a **sustainability lead** on staff

Processors are shifting their sustainability focus from energy efficiency related investments to packaging/circular economy

N = 47

	What initiatives has your company <u>implemented thus far</u> to reduce its carbon footprint/ reduce GHG emissions?	Does your company <u>plan to invest</u> in or implement any of the following strategies in the future?
Energy efficiency and related investments (e.g., HFC replacement)	87%	62%
Transportation improvements	62%	57%
Packaging/circular economy	49%	72%
Organic waste management	30%	30%
Support for other regenerative agricultural practices	30%	43%
Sourcing sustainably-grown/ Regeneratively-grown animal feed	23%	23%
Tree planting	19%	15%
Financial support for anaerobic digesters	17%	19%
Other ¹	9%	15%

1. Responses include: renewable energy, carbon reduction / neutrality, enteric methane reduction, wastewater investments, recyclable materials
 2. Of the 47 processors that responded to the question and have a sustainability strategy and/or ESG strategy

85% of processors have made **energy efficiency investment**²

Fewer processors plan to invest in energy efficiency and transportation improvements than have made such investments historically

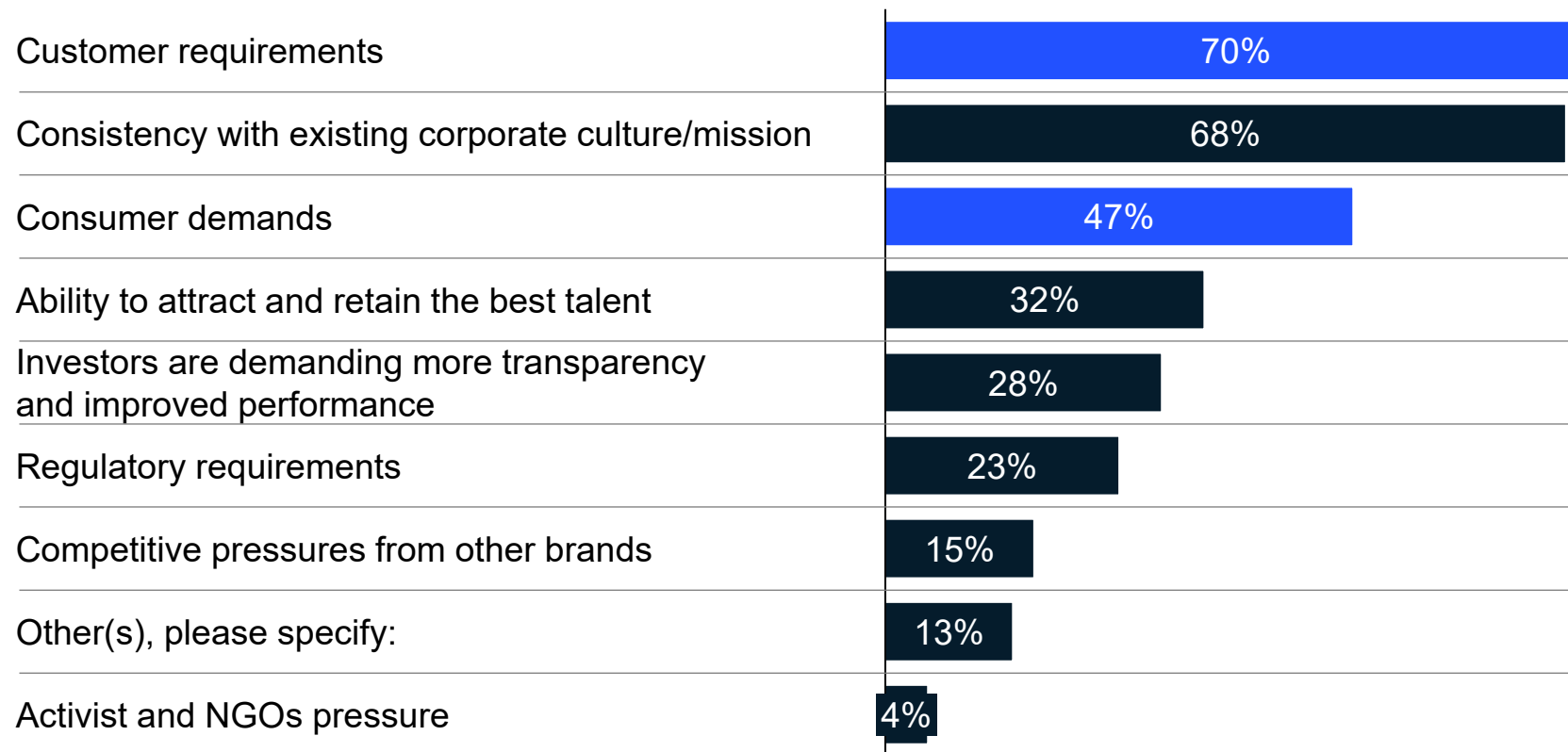
Packaging/circular economy is the top planned investment²

Support for regenerative agricultural practices is also an investment that processors plan on investing in at levels significantly higher than historic investment levels

Processors are motivated to pursue sustainability goals by demand-side pressure...

N = 47

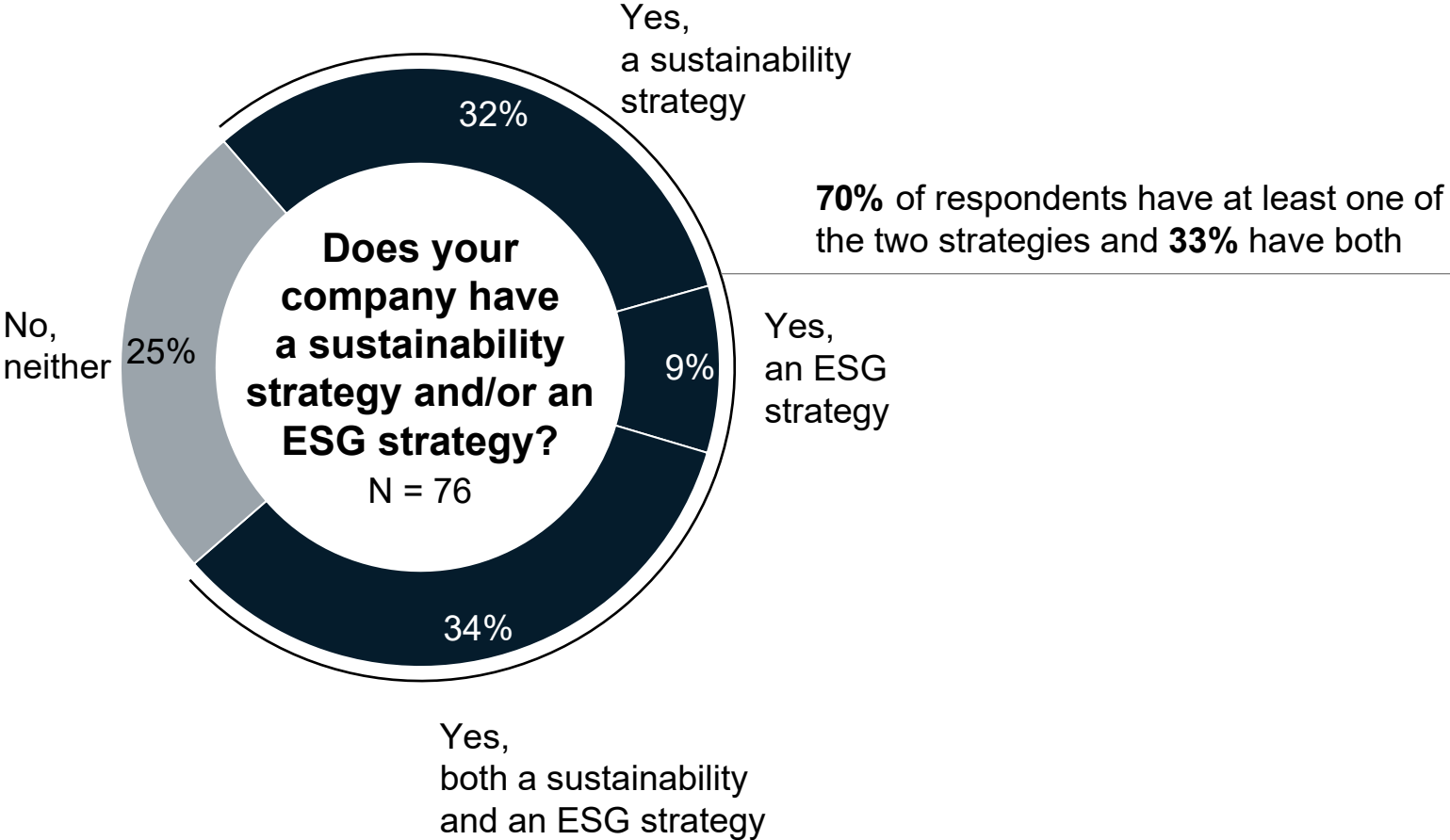
What are the top three motivations for your company to pursue its sustainability/ESG strategy?



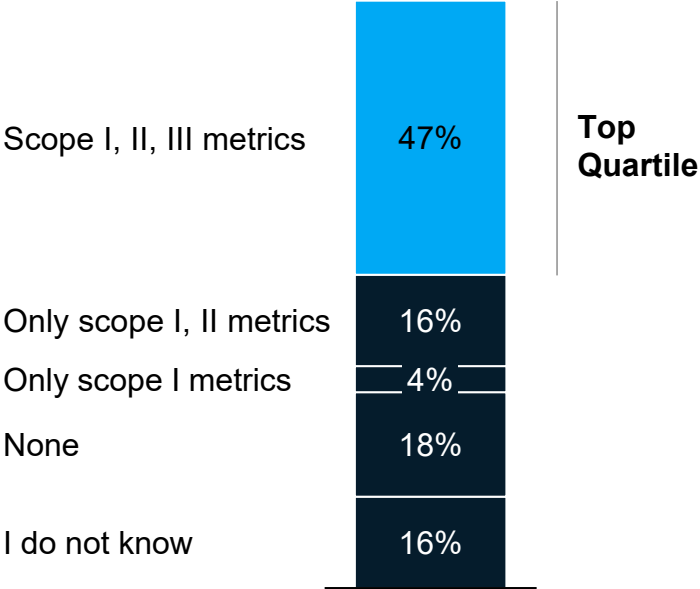
70% of processors report customer requirements and 68% report consistency with culture/mission to be a top three motivation for the company to pursue its sustainability/ESG strategy¹

1. Of the 47 processors that responded to the question and have a sustainability strategy and/or ESG strategy

The Top Quartile not only commit to sustainability/ESG strategies, they hold themselves to ambitious Scope I,II, and III targets



Does your company actively measure any of the following?
N = 45¹

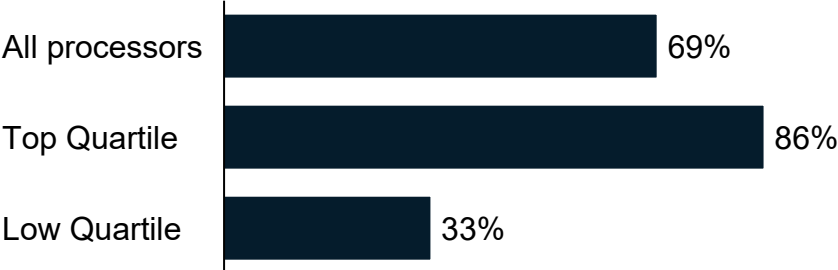


67% of processors measure Scope I and **47% measure Scope I, II and II emissions**
34% do not know or their companies do not measure these emissions

1. Of the respondents that have an ESG and/or sustainability strategy did not answer this question

Top Quartile set goals and engage with farmers; 23% incorporate Materiality into accounting

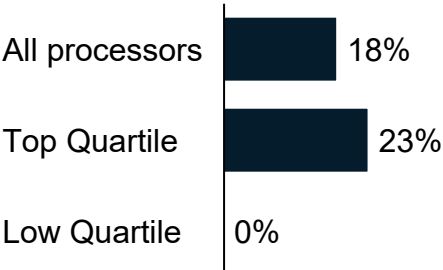
Does your company have specific metrics to assess progress towards Sustainability/ESG targets/goals?
N=55/Top Quartile N=21/Low Quartile N=15



Does your company actively work with its farmer supply chain to promote the measurement, reporting and reduction of on-farm GHG emissions?
N=46/Top Quartile N=21/Low Quartile N=15



Does your company currently incorporate ESG Materiality into your financial accounting and reporting?
N=33/Top Quartile N=13/Low Quartile N=8



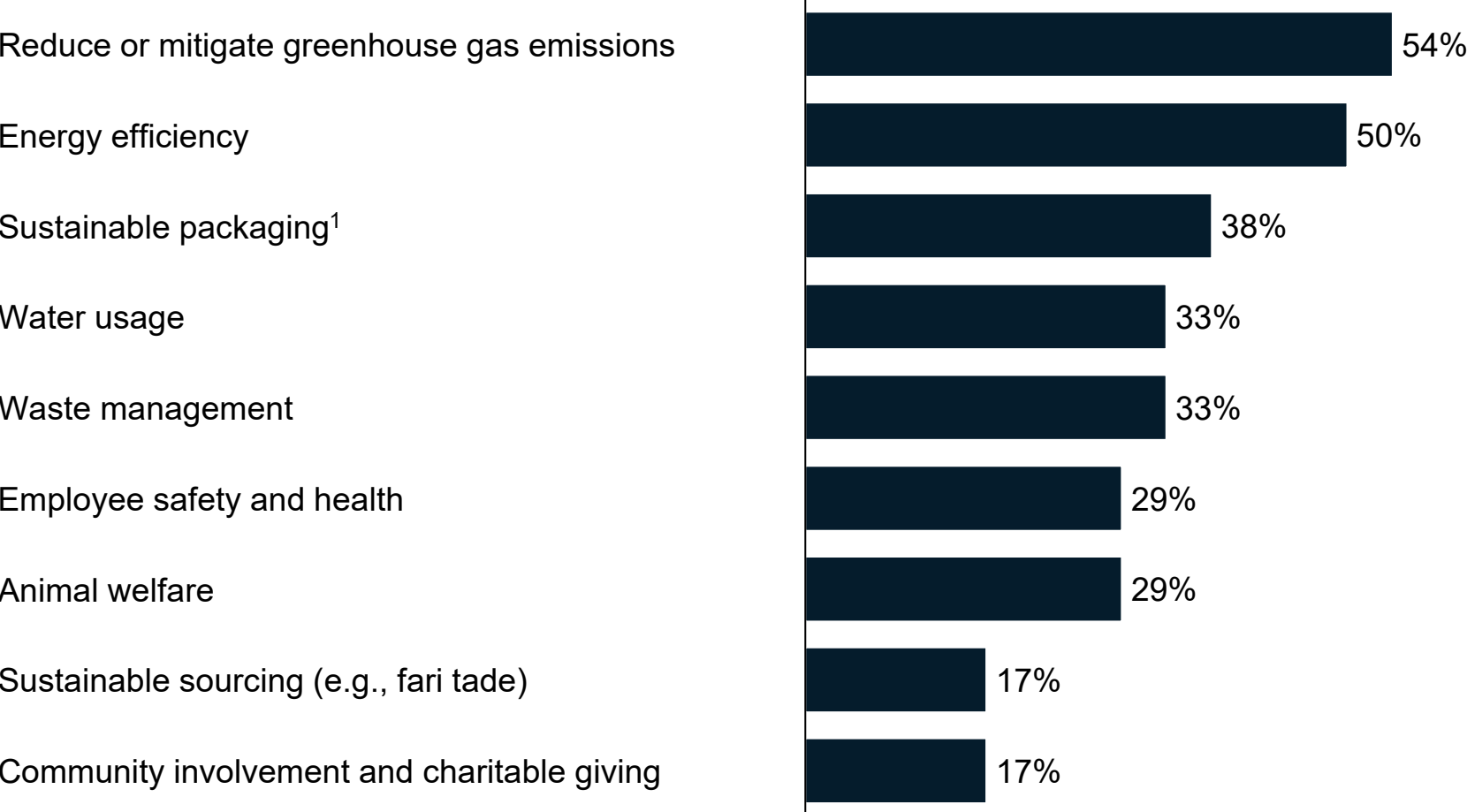
86% of Top Quartile report their company to have specific metrics compared to 33% of Low Quartile

90% report actively working with their farmer supply chain compared to 0% of Low Quartile

23% of Top Quartile report incorporating ESG Materiality into financial accounting, a best practice is less commonly implemented across all processors

What are the top three priorities of your company's sustainability strategy?

N = 24



1. Sustainable materials, source reduction, recyclability, post-consumer recycled content
2. Of the respondents who have a sustainability strategy but not an ESG strategy

Company priorities differ with no single driver being a top 3 priority for more than 54% of companies

Reducing or mitigating greenhouse gas emissions and/or improving energy efficiency are the top two perceived priorities²



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The complete survey is available to IDFA Members only via the
IDFA Knowledge Center,

www.idfa.org/knowledgecenter/research.

