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## **Franchisor Environmental, Social, Governance (ESG) Plans and Brand Standards**

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**Patty Cousins, Global Officer, Human Resources Business Operations**  
Marriott  
Bethesda, Maryland

**Maral Kilejian, Partner**  
Haynes and Boone, LLP  
Dallas, Texas

**Laura Roberts, Chief Legal Officer, Corporate Secretary and Compliance Officer**  
Bojangles  
Charlotte, North Carolina

**Carlos L. White, Partner and Franchise Impact Ambassador for City of Dallas**  
Lathrop GPM LLP  
Dallas, Texas

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## **I. INTRODUCTION<sup>1</sup>**

There are many factors driving environmental, social, and governance (ESG) issues to the top of a franchisor's sustainability agenda. Customers make choices based on a franchise system's values and ethics, investors consider a franchisor's management of ESG risks in investment decision-making, and even franchisees have begun evaluating franchise opportunities based on a franchise system's ability to implement viable sustainability-conscious practices that generate profitable and sustainable long-term performance. By now, most every major company has begun its ESG journey, and many large franchisors have significant ESG programs under way. In today's environment, considering and implementing ESG in a thoughtful way is more pressing than ever before to franchisors large and small, public and non-public.

Not all elements of an ESG strategy may be equally important for all franchisors. Forward-looking franchisors approach ESG in a strategy-driven, socially-aware way by focusing on what matters most to their business model, specifically, where they can excel and differentiate themselves. Successful franchisors are also able to measure their ESG performance and respond quickly to change.

Accordingly, this paper provides a brief overview of what ESG is, why it matters, and how to build and integrate ESG standards into a franchise system, including crafting a franchisor's ESG strategy, implementing this strategy, and current franchisor and franchisee examples of franchise system implementation of ESG standards as publicly disclosed by certain systems. While criticisms and doubts about the causal link between ESG and financial performance do exist, a measurable ESG strategy, focused-driven, and consistent with preferences and sentiments of a franchisor's customer base and a franchisor's business model can build measurable brand equity, generate profits, and create significant long-term value.

## **II. What is ESG?**

### **A. General Overview and Definitions**

Most franchisors are familiar with the acronym "ESG", commonly used to incorporate three broad categories of interest for stakeholders: Environmental, Social, and Governance. The rising attention of ESG initiatives has been evident in the sudden rise in ESG-focused investing. Major franchisors have made significant progress towards

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ESG implementation, but challenges still remain for understanding what exactly ESG is and why it matters.

“ESG” has been used for a broad array of environmental, social and governance factors that affect businesses. ESG performance is the measurement of a company's environmental, social, and governance practices. On the one hand, these factors are used to measure the sustainability and ethical impact of a particular business, while on the other, ESG criteria measure a company's progress toward achieving social goals and creating shareholder value.

Broadly speaking, the “E”, “S”, and “G” criteria can each be described and defined as follows:

- Environmental criteria includes the energy a business consumes, the waste it discharges, the resources it needs, and the consequences for living beings as a result. This element encompasses carbon emissions and climate change. Every company uses and takes in energy and resources, so every company affects, and is affected by, the environment.<sup>2</sup> With the ability a company now has to measure their environmental impact and their environmental efficiencies, this element is widely targeted and increasingly better understood.
- Social criteria addresses the relationships a business has and the reputation it fosters with people and institutions in the communities where it operates. This element includes labor relations and diversity and inclusion. Every company operates within a broader, diverse society.<sup>3</sup> The social aspect of a company is not an easy one to measure because it focuses on people and their opinions, which are constantly changing and evolving. However, if a company's behavior can maintain a positive effect on society while positively impacting its employees, stakeholders, and investors, this will increase interest and promote the social criteria of a business.
- Governance is the internal system of practices, controls, and procedures an entity adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders. Every company requires governance.<sup>4</sup> Good governance practices include actions that are ethical, decision-making that is transparent, and goals that are in-line with those of a company's employees, shareholders, and investors.

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<sup>2</sup> Witold Henisz, Tim Koller, and Robin Nuttall, *Five ways that ESG creates value*, McKinsey Quarterly, Nov. 2019, at 1.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

Some use the term ESG interchangeably with “corporate social responsibility/CSR.” Although CSR, ESG, and sustainability all address environmental and social issues, ESG refers to an *investment* strategy based on the understanding that ESG factors present short and long-term risks to the financial viability of public companies. Therefore, the ESG investment strategy understands that an ESG commitment isn’t only best for society, it is best for business.

Therefore, it’s important for *public* franchisors to develop an ESG strategy because investors review a franchisor’s ESG performance to evaluate their investment and to understand if the franchisor is complying with ESG reporting requirements, in particular, those most important to them as well as to the long-term sustainability of the business. Furthermore, as discussed in more detail below, private franchisors should consider integrating a strong ESG strategy to remain competitive, match the reporting requirements, and to prepare for the future.

Although relevant ESG criteria varies depending on the franchisor’s industry and needs, the following ESG factors are often frequently identified:<sup>5</sup>

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>
Climate change and greenhouse emissions	Diversity, equity and inclusion	Board diversity
Energy efficiency	Supply chain labor standards	Director independence
Waste management	Human rights	Accident and safety management
Biodiversity	Workplace health and safety	Bribery and corruption
Renewable energy	Community relations	Executive compensation
Water conservation	Customer satisfaction	Shareholder rights
Recycling and packaging		Data privacy and cybersecurity

These factors are quite broad, so it’s imperative to determine which ones currently apply to a particular organization and which ones have the ability to affect future financial performance.

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<sup>5</sup> U.S GOV’T ACCOUNTABILITY OFF., GAO-20-530, PUBLIC COMPANIES DISCLOSURE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE FACTORS AND OPTIONS TO ENHANCE THEM 5 (2020).

## B. The Value of ESG Initiatives

### 1. Why ESG Matters

ESG is not just a “development,” it’s the new standard upon which the corporate world is currently, and will continue to be, evaluated. A strong ESG strategy not only focuses on sustainability efforts, but creates long-term value for brands by implementing top-line growth, cost reductions, regulatory relief, productivity uplift, and investment and asset optimization. A company’s ESG strategy determines the success, growth, and ability to gain investor confidence and improve overall performance. To achieve value creation, a company requires the understanding of how and why ESG leads to better business performance, as summarized below.<sup>6</sup>

ESG Strategy Focus	Strong ESG proposition	Weak ESG proposition
<b>Top-line growth</b>	<p>Attract customers with more sustainable products</p> <p>Achieve better access to resources through stronger community and government relations</p>	<p>Lose customers through poor sustainability practices or a perception of unsustainable/unsafe products</p> <p>Lose access to resources as a result of poor community and labor relations</p>
<b>Cost reductions</b>	<p>Lower energy consumption</p> <p>Reduce water intake</p>	<p>Generate unnecessary waste and pay correspondingly higher waste-disposal costs</p> <p>Expend more in packaging costs</p>
<b>Regulatory and legal interventions</b>	<p>Achieve greater strategic freedom through deregulation</p> <p>Earn subsidies and government support</p>	<p>Suffer restrictions on advertising and point of sale</p> <p>Incur fines, penalties, and enforcement actions</p>
<b>Productivity uplift</b>	<p>Boost employee motivation</p> <p>Attract talent through greater</p>	<p>Deal with “social stigma,” which restricts talent pool</p>

<sup>6</sup> Witold Henisz, Tim Koller, and Robin Nuttall, *Five ways that ESG creates value*, McKinsey Quarterly, Nov. 2019, at 4.

ESG Strategy Focus	Strong ESG proposition	Weak ESG proposition
	social credibility	Lose talent as a result of weak purpose
<b>Investment and asset optimization</b>	Enhance investment returns by better allocating capital for the long term  Avoid investments that may not pay off because of longer-term environmental issues	Suffer stranded assets as a result of premature write-downs  Fail behind competitors that have invested to be less “energy hungry”

While certain focus areas are more likely to arise in certain industries or sectors and others will be more frequent in given geographies, all five areas, however, should always be considered regardless of a company’s business model or location.<sup>7</sup>

2. *Investment in ESG can lead to higher profits*

Investors and executives realize that a strong ESG proposition is heavily correlated to a company’s financial performance and long-term success. Today, investors are interested in understanding company value and long-term sustainability. Sustainability initiatives allow companies to benefit financially given increased innovation and improved risk management. Better performance in ESG can lead to increased profits, lower risks, and higher stock returns. While ESG disclosure on its own does not affect financial performance, ESG proactivity is the driving force for increased cash flow. For example, more efficient operations can result in higher profits. New research shows that “Companies that focus on ESG factors have reported an increase in profits and growth in revenue, with it becoming significantly easier to do so. For those companies that regard ESG as important, the regional differentiation was comparatively small from 10.4% in the US to 9.3% in Europe and 9.1% in Australia. The differences were more marked for those that did not rate the importance of ESG. It slipped from revenue growth of 4.9% in both the US and Europe to 2.6% in Australia.”<sup>8</sup>

<sup>7</sup> *Id.*

<sup>8</sup> Capital Monitor, Adrian Murdoch, *Link between ESG and profitability exists: New research*, Sep. 23, 2022, [Link between ESG and investment exists: New research \(capitalmonitor.ai\)](https://www.capitalmonitor.ai/).

### 3. *ESG can improve brand reputation*

During COVID-19, ESG and sustainability became mainstream. Investors, customers, governments, and leadership all now view ESG as an integral part of business.

First, ESG investing is a fast-growing field. The magnitude of investment flow suggests that ESG is much more than a global trend, but a necessity. While investors are evaluating a company's financial data as part of their investment review, they are increasingly applying environmental, social, and governance factors as part of their decision-making process to identify material risks and growth opportunities.

Global investors identify a firm's management of ESG risks and opportunities as a crucial factor in their investment decision-making. According to a recent survey, 42% of institutional investors say they consider ESG factors when making an investment decision.<sup>9</sup> Another survey of professional fund selectors and institutional investors indicated that 75% and 77% respectively believe that the consideration of ESG factors is integral to investment decision making.<sup>10</sup>

Investors often have differing priorities when it comes to ESG investment and the analysis of whether they should invest, so it's important for corporations to know their investors and understand their priorities and expectations.

Second, consumers expect franchisors to play a role in ESG progress and 76% of consumers say they "will discontinue [their] relationship with companies that treat the environment, employees, or the community in which they operate poorly."<sup>11</sup> Fifty-seven percent of consumers say that companies should do more for environmental issues, 48% would like companies to do more for social issues, and 54% expect more on governance.

Third, governments and regulators require certain disclosures for public companies. And on the state level, dozens of states have enacted requirements to enhance diversity on boards and advance ESG investment in their pensions. And some states on the other side of the political coin have adopted prohibitions on doing business with investors that have adopted ESG-based investment strategies.

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<sup>9</sup> See Whyte, Amy, "More Institutions than Ever are Considering ESG. Will they Follow Through?", Institutional Investor (Oct. 6, 2020), <https://www.institutionalinvestor.com/article/b1npm5yq50b024/More-Institutions-Than-Ever-Are-Considering-ESG-Will-They-Follow-Through>.

<sup>10</sup> See Goodsell, Dave, 2021 ESG Investor Insight Report ESG Investing: Everyone's on the bandwagon, Natixis Investment Managers (2021), <https://www.im.natixis.com/us/research/esg-investing-survey-insight-report>.

<sup>11</sup> PwC Consumer Intelligence Series June 2, 2023.

Fourth, company leadership now believes that ESG is critical, with 92% of CEOs believing that integration of sustainability is critical to business success.<sup>12</sup>

#### 4. *Criticisms of ESG*

Understanding public perception of ESG is critical to gaining public support and having a successful ESG strategy. Franchisors can find it difficult to market and communicate ESG efforts due to the risk of being perceived as greenwashing. ESG has become politicized, with a challenging implementation as franchisors that report and communicate can be viewed as “greenwashing” or having a “do” vs. “say gap”. The term “greenwashing” is used to convey that a company is misleading or outright deceiving the public or its investors as to the environmental impact of its products or operations or is disseminating false or misleading commercial messages in order to present an environmentally responsible image. Certain state governments are taking anti-ESG stances in opposition to the public enforcement by investors and businesses. These negative sentiments should be reviewed to help franchisors structure an effective ESG communication strategy.

Larry Fink, the chairman and CEO of BlackRock, one of the world’s largest asset managers, defended the push for ESG in corporate policies in what he describes as “[s]takeholder capitalism,” which is “not about politics. It is not a social or ideological agenda, It is not ‘woke.’ It is capitalism, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and the communities your company relies on to prosper.”<sup>13</sup> With employees, shareholders, and investors now focused on companies’ commitment to ESG concerns, brands around the globe are naturally seeking ways to communicate their ESG efforts to consumers.

### **C. Stakeholder Engagement**

An ESG approach should be inclusive of external and internal stakeholders and respond to key areas of greatest concern and opportunity. A franchisor should aim to be as inclusive as possible and listen to the different points of view. In the materiality assessment discussed below, internal and external stakeholders are interviewed to understand perspectives. But first, stakeholders must be identified and engaged with. Franchisor stakeholders include the following:

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<sup>12</sup> UNEPFI, 2021.

<sup>13</sup> Larry Fink's 2022 Letter to CEOs: The Power of Capitalism, BlackRock, <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>.

## **Franchisees**

Franchisees are the key stakeholder that will determine the success of any ESG strategy in a franchise system. Engaged franchisees, and franchisees who believe that the chosen ESG strategy is generally a positive one, are more likely to fully-adopt the ESG strategy, advocate for it, and provide a franchise system the ability to implement a coherent and strong ESG strategy. Franchisors rely on its franchisees for the successful implementation of ESG practices most directly because of their relationship with the end consumer.

For many brands, franchisees are required to follow ESG practices as part of the operational practices stipulated by the franchisor in the manuals (such as, for example, requirements to purchase certain key offering components from sustainable sources). Franchisees, however, are individual businesses who make many decisions for their own day-to-day operations, while maintaining core standards, and franchisors have a delicate balance to play when both requiring the implementation of ESG-related strategies and minimizing vicarious liability risk concerns.

Franchisors should seek to listen to franchisees, and to promote ESG strategies that benefit them as well as also provide ongoing training and educational opportunities to share best practices. Franchisee-led groups can also connect directly with a franchisor's leadership to advocate for a franchisee's ESG priorities. Franchisors should also consider recognizing franchisees that excel in this area and celebrate their successes.

## **Customers**

Customers are powerful stakeholders who have proven to make choices based on what brands meet their expectations for ESG practices. It is the economic power of customers that are often the key motivation between brand practices. For example, customers who are focused on a brand's waste sorting/recycling practices will seek out more sustainable products or services. They will also spend more on brands that are identified as sustainable. Customers are also more likely to support companies that are committed to environmental or social causes, and/or choose brands that share their own personal values. Not all franchise systems, however, have the same type of end customer, but by providing a platform for customer concerns and feedback, and conducting additional data-driven research, a system may better customer their ESG strategy to their customers. In a franchise system, franchisors are reliant on their franchisees to communicate their ESG

strategy to customers even to encourage their customers to engage with and contribute to these efforts.

### **Suppliers**

Particularly in the area of green waste practices and sustainable sourcing of products, suppliers can be leaders in the development of more ecological choices and can make suggestions to help brands implement and achieve their ESG goals. Suppliers can be experts in developing new materials and new sourcing solutions. Franchisors should consider engage with suppliers to identify local and sustainable sourcing options and drive ESG action across the supply chain.

### **Investors and Shareholders**

Investors are increasingly focused on ESG. ESG disclosures allow investors to evaluate and understand core issues that aren't identifiable on a traditional balance sheet, but that have a crucial impact on a company's risks and opportunities. Franchisors can regularly meet with investors to discuss risks, opportunities, goals, and progress. The more a franchisor knows about its investors and shareholders concerns, the more it can align itself with their expectations. Once an ESG strategy is implemented, however, franchisors are likely to face demands from investors regarding increased transparency and disclosure to demonstrate that their ESG strategy and actions are driving increased returns and contributing to long-term success. Public franchisors, of course, will also have required disclosure filings.

### **Franchisor employees**

Franchisor's corporate employees can often be the face of the brand. Employees are at the forefront of every relationship that makes ESG a success, including the relationship with other corporate employees, suppliers, franchisees, customers, and the local community. These relationships play a crucial role in increasing profitability and overall financial success. Without employee buy-in, developing and implementing a core ESG strategy can be a near impossible task. A strong ESG strategy should include high levels of engagement with employees at all levels of the organization. Whether such a strategy begins at a principal officer level and works its way through the organization, obtaining buy-in from as much of the organization as possible may include a concerted effort to discuss the company's ESG strategy with employees at an individual level. Some employees may be concerned, for example, as to what the company's new ESG strategy may mean for their continued employment, or whether their current skillset can support the new strategy. Communicating a company's ESG strategy to employees and

determining what it means for them moving forward, can bring a sense of purpose and increase motivation and overall productivity. Employees are not only concerned about a purpose-led business, but heavily rely on loyalty and trust from their employer. Aligning ESG priorities with employee expectations can add value in both the short and long term.

Part of an organization's ESG strategy in the "social" category can include providing safe workplace conditions, offering fair and equitable opportunities, and caring for the well-being of employees. Obtaining buy-in from employees on these issues may be less fraught, and can lead to increased employee satisfaction and attract valuable prospective employees.

### **Community**

ESG issues also encourage companies to strive not only to win over investors, but the community in which they operate. The community is the determining factor for a company's ability to excel in their social efforts. At times, it's challenging for franchisors to understand the current needs and desires of their community and where they should be focusing their efforts, so an open line of communication is key. It's crucial to focus attention on socially responsible investing and a positive impact. Implementing ESG practices is important, but communicating those practices builds culture and instills purpose, which could prevent criticism and negative reactions.

The community is more likely to be accepting of companies that support issues they care about and that make informed decisions that are in their best interest. This can be done by enhancing public relations and promoting engagement. Examples include donating a percentage of profits to the local community, sponsoring local events, encouraging employees to volunteer, or giving back to the community by providing resources or services.

### **III. Individual Elements of ESG**

ESG is not a one-size-fits all formula. ESG issues and strategies will look very different from one franchise system to the next. As discussed below, franchisors may want to focus their ESG efforts on those aspects that have the greatest impact on the business and are of greatest importance to its particular stakeholders.

## A. Environmental

For a long time, the major focus of ESG has been on climate change. When franchisors think about their ESG goals, they generally consider reducing carbon emissions, reducing waste, recycling, and reducing water usage. Climate action is one of the most pressing issues today, with consequences affecting a franchisor’s customers, employees, suppliers, and other stakeholders. Given the global reach of many franchising systems, franchisors can be a leader in addressing climate change. Below is a summary of ESG elements, actions, and goals of the environmental aspects of ESG:

Element	General Goals	Examples of Specific and Measurable Goals
<b>Climate Change Management</b>	Reduce greenhouse emissions in company-owned and franchised locations Engage suppliers to reduce emissions	Cut GHGs generated by company-owned and headquarters (Scope 1 and 2) by 50% by 2030 Cut GHGs generated by franchisee locations by 50% by 2030 Net-zero by 2050
<b>Energy Conservation</b>	Invest in renewable energy like LED lighting, energy-management systems and energy-efficient equipment at both corporate and franchised locations	Procure renewable energy for 100% of electricity in company and corporate locations Procure 50% of electricity in franchised restaurants from renewable energy source in 10 years
<b>Sustainability</b>	Reduce Packaging Recover and Recycle	Implement straw-less beverage lids and paper straws Use 100% fiber lids for hot beverages Reusable and returnable takeout packaging
<b>Waste Management</b>	Decrease the overall waste produced and divert wastes from landfills through recycling and composting Reduce use of single-use plastics	Divert 25% of waste by weight generated in company-owned and franchised locations
<b>Water Stewardship</b>	Cut water use at company-owned and franchised locations	Reduce water usage by 20% per square foot in the next five years Require equipment upgrades that reduce consumption of water and operating costs
<b>Biodiversity</b>	Reduced pesticides and fertilizer requirements for suppliers Purchase organic foods	Maintain zero annual deforestation controversies. Engage 50% of employees in

Element	General Goals	Examples of Specific and Measurable Goals
	Decrease the number of deforestation controversies in the supply chain Increase number of dollars contributed to conservation organizations	conservation initiatives by 2026

## B. Social

Although environment and climate change have long been the focus, there has been an emerging focus on the “S”. A focus on diversity, equity, and inclusion in corporate America has led companies to speak out about these social concerns. As a result, the public expects franchisors to take actions to advance diversity among employees, franchise owners, board members, and its external stakeholders. Likewise, the COVID-19 pandemic has increased attention to worker health and safety.

The Nasdaq Stock Exchange Board Diversity Rule, adopted in August 2021, requires exchange companies to publicly disclose board diversity and whether the company has at least two diverse directors, and explain why they do not.<sup>14</sup> Some states have passed ESG regulation governing board diversity, including, California, New York, Illinois, and Maryland.<sup>15</sup> Investors have also put pressure on corporations to select diverse directors as a way to address institutional racism.

Investors and customers are interested in companies that pay attention to social issues and are committed to making a positive and lasting impact. Although all ESG issues are not easily measurable, it’s important for franchisors to be aware of the social issues that often can be measured and ones that investors often consider in their investment making decision. The CFA Institute has broken them down as follows:<sup>16</sup>

<sup>14</sup> Nasdaq’s Board Diversity Rule, What Companies Should Know, last Updated January 26, 2023 <https://listingcenter.nasdaq.com/assets/Board%20Diversity%20Disclosure%20Five%20Things.pdf>.

<sup>15</sup> See Cal. Corp. Code §§ 301.3, 2115.5; Cal. Corp. Code § 301.3(A)-(B); Cal. Corp. Code § 301.3(E)(1). See 805 Ill. Comp. Stat. Ann. 5/8.12 (requires companies to publish data regarding female, minority and LGBTQ directors); N.Y. Bus. Corp. Law § 408 (requiring corporation’s biennial statement to disclose the total number of directors and the total number of female directors and requiring that the state prepare a study from this data looking at the change in board gender composition from prior years and the aggregate percentage of women directors on all boards); Md. Code Ann., Tax-Prop. § 11-101(c) (requiring that domestic stock corporations with total sales exceeding \$5,000,000 and tax-exempt domestic nonstock corporations with operating budgets exceeding \$5,000,000 must comply with a gender diversity reporting requirement to state’s Department of Assessments and Taxation).

<sup>16</sup> CFA Institute. "Environmental, Social, and Governance Issues in Investing."

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

Given the profound impact these social issues can have on a company's brand name, reputation, and its stakeholders, it's important for companies to remain vigilant and maintain ethical relationships with their stakeholders and investors. A company with a stronger social performance can instill greater confidence in its investors and the community that it serves.

### **C. Governance**

With ESG being such an inextricable part of how companies do business, good governance is key to building trust between the company and its various stakeholders. Good governance also ensures that a company's practices and procedures are ethical, accountable, and transparent. Investors want to know that a company's leadership and its actions are ethical and that the company, as a whole, can be trusted. It's also important to establish and maintain standards that are in line with stakeholder expectations. Investors are interested in the company's shareholder engagement, accounting practices, reporting systems, and overall conduct, and are more likely to finance companies committed to safe practices.

According to RobecoSAM, there are eight categories and criteria that define good governance. The governance score is referred to as the economic dimension score (EDS), which evaluates the corporate governance performance of a company while also providing additional key measurements that evaluate the quality of a company's management systems and its ability to manage long-term risks and opportunities.<sup>17</sup> These scoring elements identify and define good governance, above and beyond the traditional methods. These criteria are defined in more detail below.

**Corporate Governance.** This criterion evaluates the systems that are put into place to ensure that a company is being managed in the interests of its shareholders.<sup>18</sup> Evaluated factors include the structure, diversity, effectiveness, experience, and tenure of a company's board of directors, executive compensation, and management ownership requirements.

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<sup>17</sup> S&P Global, Kelly Tang, *Exploring the G in ESG: Governance in Greater Detail – Part I*, Mar. 22, 2019, <https://www.spglobal.com/en/research-insights/articles/exploring-the-g-in-esg-governance-in-greater-detail-part-i>.

<sup>18</sup> *Id.*

**Codes of Business Conduct.** This criterion focuses on a company's ethics and if the company's code of conduct and compliance practices are intended to prevent bribery and corruption within the business.<sup>19</sup> Evaluated items in this category includes the codes of conduct implemented, corruption and bribery policies, related systems and procedures, and reporting on cybersecurity breaches.

**Risk and Crisis Management.** This criterion evaluates the effectiveness of a company's risk management practices, including the identification of long-term risks, their potential impact, and the company's mitigation efforts.<sup>20</sup> Evaluated factors include risk governance and culture, sensitivity analysis and stress testing, focus on emerging risks.

**Supply Chain Management.** This criterion is crucial to a company's ability to expand and operate on a global level. In part, it focuses on a company's implementation of strategies that can manage the associated risks and opportunities posed by their supply chain. Company should maintain awareness that outsourcing production, services, or business processes, also outsources corporate responsibilities and reputation.<sup>21</sup> Evaluated factors include supply chain awareness and risk exposure, supplier codes of conduct, EST integration into a company's supply chain.

**Tax Strategy.** This criterion examines a company's policy when it comes to taxation issues and a company's awareness of the financial risks associated with the company's tax practices.<sup>22</sup> Evaluated factors include tax strategy, tax reporting, and tax governance.

**Materiality.** This criterion assesses a company's ability to identify the sources of long-term value creation, understand the link between long-term issues and the business case, develop long-term measures, and clearly report these items to the public.<sup>23</sup>

**Policy Influence.** This criterion looks at the allocation of funds, if any, to organizations that create or influence public policy, legislation, and regulations. It's important to disclose large contributions to these groups.<sup>24</sup>

**Impact Measurement.** This criterion evaluates any programs a company may have in place for social needs, such as social investments, and if they are monitoring and valuing their broader impacts on society. It's important to account

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<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

for impacts of any areas that are not already reflected in financial accounting, but which may need to be in the future.<sup>25</sup>

Strong governance is important because, without it, companies will inevitably struggle to meet their environmental and social goals.

#### **IV. Crafting an ESG Strategy**

A successful ESG strategy requires commitment and ongoing involvement from stakeholders. To be successful, an ESG strategy must include two key components in each category, or pillar, selected: (1) measurable action and (2) measurable results. There are numerous ESG reporting and disclosure frameworks available, each of which apply different methodology and provide different focuses.<sup>26</sup> Frameworks help companies quantify results and prepare reports and disclosures, however, and should therefore be carefully selected. Each ESG strategy must start somewhere, though. The following are basic steps involved in the development of an ESG strategy and monitoring its success:

1. Conduct Materiality Assessment and Select Pillars Underlying the Organizations ESG Strategy
2. Explore and Select Frameworks
3. Collect Data to Establish Baseline
4. Set Goals
5. Prepare Initial Reports
6. Update Reports and Continue Monitoring<sup>27</sup>

##### **A. Step 1: Conduct Materiality Assessment to Select 3 to 5 Pillars of ESG**

The creation of an ESG strategy is a process. To obtain buy-in, stakeholders must be engaged at the onset to define what parts of ESG are important to them. Crafting this strategy involves considering who the important stakeholders are and what these stakeholders value. The materiality assessment will serve as a blueprint for the ESG strategy and make the business case for implementation. This assessment also will help franchisors illustrate the benefits and rank ESG topics by relative importance.

ESGs matters should be prioritized based on: (1) where franchisors can differentiate themselves and where they can have the highest impact—as viewed by internal stakeholders, and (2) which are of the highest importance to external

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<sup>25</sup> *Id.*

<sup>26</sup> There are currently more than a dozen popular frameworks, but many more used by smaller organizations that are specific to certain industries and/or geographic regions. Some of the more prevalent ESG frameworks are listed in Section IV.B. of this paper.

<sup>27</sup> FigBytes, “What is an Effective ESG Strategy & How Do I Develop One?”, <https://figbytes.com/blog/how-to-build-an-esg-strategy> (last visited March 21, 2023).

stakeholders. Ultimately, a materiality assessment helps provide focused areas for an ESG strategy and includes relevant areas for consideration.

1. *What ESG factors are relevant to a franchisor's business model and can have the greatest impact?*

To persuade its stakeholders, including its franchisees, and bring them on board an ESG strategy, franchisors must first do the hard work of linking ESG priorities to values and determine which areas of ESG have the most impact for their system. One recommended path is to start with realistic ESG parameters. Broad ESG strategies to “save the planet” are more distracting than helpful, and rarely lead to focused goals with measurable results.

A franchisor should think about how to best use its strengths, consider how it is different, and determine how that difference can be used to make strong ESG contributions. Direct engagement with internal and external experts and an analysis of economic trends and conversations around ESG will help franchisors prioritize what is important to their business.

Franchisors may choose to present multiple topics to external stakeholders to rank. The ranking process should include listening sessions with those key external stakeholders identified above. Franchisors can then map ESG topics with a view to balancing the greatest impact on the business with the greatest importance to its shareholders. In addition, a materiality matrix can be completed to plot ESG topics important to external stakeholders against those important to internal stakeholders.<sup>28</sup> After the equity assessment is completed, the multiple topics initially considered can be narrowed to, for example, five or less areas of focus. Currently, diversity equity and inclusion and climate impact are included as ESG areas of focus for most franchisors that perform a materiality assessment. For restaurant franchisors, food safety is also judged as highly important. Hotels often see the protection of human rights/human trafficking as an additional important topic.

Below are the topics most material to, and frameworks used by, some large franchisors as disclosed in their latest ESG reports:

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<sup>28</sup> For a good example of a materiality matrix, see page 10 of Yum! Brands, Inc.'s 2021 Global Citizenship & Sustainability Report. Available at Yum! Brands, Inc., *2021 Global Citizenship & Sustainability Report*, 2022, at 10, <https://www.yum.com/wps/portal/yumbrands/Yumbrands/citizenship-and-sustainability/esg-library>.

Franchisor	Report Title	ESG Strategy	ESG Priority Topics	Frameworks <sup>29</sup>
<b>Yum! Brands (KFC, Pizza Hut, Taco Bell, the Habit Burger Grill)</b>	2021 Global Citizenship & Sustainability Report <sup>30</sup>	Recipe for Good	<ol style="list-style-type: none"> <li>1. Climate Impact</li> <li>2. Equity, Inclusion &amp; Belonging</li> <li>3. Food Safety</li> <li>4. Packaging</li> <li>5. Operational Waste &amp; Recycling</li> </ol>	GRI SASB TCFD
<b>Restaurant Brands International (RBI) (Tim Hortons, Burger King, Popeyes, Firehouse Sub)</b>	Restaurant Brands for Good: 2021 Year in Review	Restaurant Brands for Good	<ol style="list-style-type: none"> <li>1. Food</li> <li>2. Planet</li> <li>3. People &amp; Communities</li> </ol>	GRI SASB CDP
<b>Hilton</b>	Travel with Purpose: Hilton 2021 ESG Report <sup>31</sup>	Travel with Purpose	<ol style="list-style-type: none"> <li>1. E-Paving Way to Net Zero (Climate Action Destination Stewardship)</li> <li>2. S-Creating an Engine of Opportunity (Human Rights and Diversity, Equity &amp; Inclusion)</li> <li>3. G-Advancing and Measuring our Goals (Integrity and Transparency)</li> </ol>	SBTi GRI
<b>Wyndham</b>	2022 Environmental, Social and Governance Report		<ol style="list-style-type: none"> <li>1. Culture of Diversity, Equity &amp; Inclusion</li> <li>2. Supporting our Communities</li> <li>3. Leadership in Sustainability</li> <li>4. Protecting Human Rights</li> </ol>	GRI SASB TCFD

<sup>29</sup> The abbreviations used in this column refer to the following frameworks: (1) Global Reporting Initiatives (GRI) Standards Core Option, which is currently the most widely recognized framework for sustainability reporting, (2) Sustainability Accounting Standards Board (SASB) Response, which identifies the subset of sustainability issues most relevant to financial performance, (3) Task Force on Climate-related Financial Disclosures (TCFD) which aims to improve and increase reporting of climate-related financial information; (4) Carbon Disclosure Project (CDP) which provides a disclosure system for managing an organization's environmental impacts; and (5) Science Based Targets Initiative (sBTi), which promotes best practices in science-based target setting for cutting emissions use.

<sup>30</sup> Yum! Brands, Inc., *2021 Global Citizenship & Sustainability Report*, 2022, available at <https://www.yum.com/wps/portal/yumbrands/Yumbrands/citizenship-and-sustainability/esg-library>.

<sup>31</sup> Hilton, *Hilton 2021 ESG Report*, Apr. 8, 2022, <https://stories.hilton.com/uploads/2022/05/2021-ESG-Report-Updated.pdf>.

Although an initial materiality assessment will help franchisors identify key issues that are most important to the brand as they start on their ESG strategy creation journey, a franchisor should conduct an updated assessment every two to three years to include updated topics and confirm or redirect focus on those issues material to the brand.

## **B. Step 2: Explore Frameworks for Reporting**

After pairing down and identifying its areas of focus through the materiality assessment, a franchisor must determine *how* to measure and report performance. While securities regulators in the U.S. and abroad have taken steps towards issuing ESG reporting standards, and have gone so far as to issue corporate reporting proposals in order to provide more reliable information, none have yet been adopted.<sup>32</sup> The necessary caveat here, however, is that such reporting standards are inevitable, if not imminent. Currently, however, most organizations use various voluntary reporting frameworks, many of which emphasize themselves that they can be used cooperatively and in conjunction with each other.

ESG frameworks are used for ESG reporting purposes, allowing a franchisor to track, document, and disclose its progress towards meeting ESG goals. There are currently more than a dozen popular frameworks, but many more used by smaller organizations that are specific to certain industries and/or geographic regions. Some of the more prevalent ESG frameworks used by the world's largest organizations include the following:

- Global Reporting Initiative (GRI)
- Climate Disclosure Standards Board (CDSB)
- UN Principles for Responsible Investment (PRI)
- Sustainability Accounting Standards Board (SASB)
- United National Global Compact (UNGC)
- Task Force on Climate related Financial Disclosures (TCFD)
- Carbon Disclosure Project (CDP)
- Science Based Targets initiative (SBTi)
- World Economic Forum (WEF) Stakeholder Capitalism Metrics
- Greenhouse Gas Protocol (GHG Protocol)

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<sup>32</sup> On March 21, 2022, the Securities and Exchange Commission (SEC) proposed rule amendments that would require public companies to include certain climate-related information in their public disclosure filings, including, among other information, business impacts and risk management progress, as well as information relating to greenhouse gas emissions and climate-related metrics, planning, and goals. This is likely to have an impact on private companies as well, in particular those from which public companies rely for the information necessary for the required disclosures, including vendors, suppliers, and even large customers.

GRI is the most used framework, with 82% of the world's largest 250 corporations using GRI.<sup>33</sup> For environmental pillars, the GHG Protocol is the universal measurement standard for greenhouse gas measurement.

For most franchisors, the key to selecting what framework to use stems from that franchisors' particular ESG objectives and audience for disclosures. The framework selected can help determine what issues to disclose, the form the disclosure takes, the information included, and can also facilitate verification of the information included in the franchisor's disclosures.

### **C. Selection of Metrics, Baseline Data, and Goals**

Assume a restaurant franchisor that has recently gone public has, perhaps at the insistence of its external stakeholders, elected to implement an ESG strategy. The company has performed a materiality assessment and identified the following three pillars of its ESG policy: Energy and Carbon and Human Capital Management. It has also elected to use GRI and SASB frameworks for reporting.

The next step for this franchisor, then, would be to define ESG metrics for each pillar identified. More plainly: what is franchisor going to measure? Once the "what" is determined, the franchisor will need to gather baseline data to document its current performance—more specifically, how the franchisor is currently performing based on its chosen metrics.

Once data reflecting the organizations' baseline performance is gathered, realistic, attainable, goals can be set, and a roadmap prepared with the objective of meeting the set goals.

#### *1. Environmental Example: Decrease GHGs and Carbon Footprint*

Many organizations, including franchisors, that perform a materiality assessment will focus on reducing greenhouse gas (GHG) emissions and carbon footprint.

Assuming a franchisor has selected Climate Change and Greenhouse Gas Emissions as an important pillar for its ESG policy, what does this mean? What are typical goals set in this area? What framework should this be measured against? How will a franchisor know if it is successful?

First, the current carbon footprint should be measured to determine the quantity of GHGs produced as a result of the franchise systems' operations. The GHG Protocol, the most common framework for the measure of GHG emissions, had developed the "scopes" system, in which three types of emissions are defined:

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<sup>33</sup> Bloomberg Law Practical Guidance, *Comparison of ESG Reporting Frameworks*, August 11, 2022, available at <https://pro.bloomberglaw.com/brief/comparison-of-esg-reporting-frameworks>.

- Scope 1: direct emissions from sources that are owned and controlled by an organization. For example, fuel and refrigerants used by a franchisor at corporate locations, including restaurants and corporate offices, company vehicles, direct manufacturing, support centers.
- Scope 2: indirect emissions from purchase of electricity consumed by franchisor directly. This would include any electricity consumed by corporate manufacturing, offices, restaurants, other facilities, even vehicles if electric vehicles are used, as long as the electricity is directly consumed by the franchisor.
- Scope 3: Indirect emissions resulting from activities within the corporate value chain. Here, GHG Protocols include an entire chapter on franchises, under which it clarifies that a franchisor should include in its Scope 3 emissions what a franchisee would consider its own Scope 1 or Scope 2 emissions, and how to calculate the same for reporting purposes.<sup>34</sup>

For franchisors, the majority of emissions are likely to fall under Scope 3 category of emissions, which includes purchased goods and services from suppliers, among other emissions, but, most importantly, it includes franchisee operations. Specifically, a franchisor's Scope 3 emissions, include the Scope 1 and Scope 2 emissions of its franchisees. Therefore, in order for a franchisor to understand its GHG emissions, franchisee data must be gathered. Therefore, in order to establish a baseline, a system will need to be built to track all franchised locations' environmental performance.

Next, a franchisor should establish a baseline for its GHG footprint. The GHG Protocol provides formula and guidance on measuring GHG emissions. It is unlikely, however, that a franchisor will have the internal expertise to undertake the specific analysis and calculations themselves, in particular when an organization is still in the beginning stages of its ESG planning process and has not yet hired the individuals with the necessary expertise to assist the organization in this area. ESG consultants, however, can provide the needed guidance when matters such as GHG emissions calculations become highly technical.

Once a baseline of data has been obtained, a franchisor may then look to establishing clear emissions goals and targets. The SBTi framework, for example, enables businesses to set ambitious emissions reductions targets that halve emissions before 2030 and achieve net-zero emission before 2050. Emission reduction targets are considered "science-based" if they meet the goals of the Paris Agreement—limiting global warming to below 2 degrees Celsius below preindustrial levels and efforts to limit to 1.5. The amount of both public and private organizations setting net zero emission targets is

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<sup>34</sup> World Resources Institute & World Business Council for Sustainable Development, *Technical Guidance for Calculating Scope 3 Emissions (Version 1.0)*, Greenhouse Gas Protocol, 2013, at Ctgy. 14: Franchises, [https://ghgprotocol.org/sites/default/files/standards\\_supporting/Chapter14.pdf](https://ghgprotocol.org/sites/default/files/standards_supporting/Chapter14.pdf).

on the rise. Setting “Net Zero” targets means reducing GHG emissions and/or balance any ongoing emissions with emission removals.

Finally, the franchisor will need to prepare a plan for how to attain the set goals by the desired dates, to continuously monitor and reassess its progress, to continue to educate its system on its ongoing initiatives and goals, and to hire the necessary human capital to ensure the company’s ESG initiative continues to be strong, reactive to new developments, and on track.

## 2. *Social and Governance Example: Human Capital Management*

Advancing societal issues, including diversity, equity, and inclusion, hiring practices, and fair pay, can strengthen all three aspects of ESG and lead to long-term sustainability. A franchisor’s workforce representation data will be a critical measure for how a franchisor assesses its performance in attracting, retaining, and building a diverse workforce, however, companies struggle to set metrics for human capital management disclosures. Compared to other ESG metrics, human capital disclosures simply aren’t as easy to define, but with continued and higher demand for transparency in this area, organizations, including franchisors, can no longer simply publish a vague “diversity and inclusion program.” Hard, verifiable, tech-enabled, investor-grade data is now the expectation set by stakeholders, and companies must begin to respond.

In 2020, the SEC adopted reforms to modernize disclosure rules in Regulation S-K and require companies to disclose human capital resources.<sup>35</sup> Not two years, later, however, there is still unease about even these latest revisions being grossly insufficient in providing investors, and the public, with the information necessary to value the company’s valuable intangible human assets and better understand one of its largest cost centers. In September of 2022, the SEC advisory committee discussed a change in human capital disclosures resulting from the disconnect between the disclosures made under the current regulations and the information the committee considered decision-useful to investors.<sup>36</sup> Even while the SEC advisory committee did note that its research showed a relationship between labor data and future returns, without a new rule to require the disclosure of specific metrics related to the workforce, it’s up to organizations to determine what metrics to measure and set goals on. Some of these possible metrics include:

- Diversity, equity, and inclusion statistics (including ethnicity and gender)
- Wages (potentially benchmarked against an average “living wage”) and compensation
- Turnover percentage
- Hours worked

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<sup>35</sup> “SEC Adopts Rule Amendments to Modernize Disclosures of Business, Legal Proceedings, and Risk Factors Under Regulation S-K.” U.S. Securities and Exchange Commission, Aug. 26, 2020, <https://www.sec.gov/news/press-release/2020-192>. Press Release.

<sup>36</sup> U.S. Securities and Exchange Commission Investor Advisory Committee, *Meeting Agenda*, Sep. 21, 2022, <https://www.sec.gov/spotlight/investor-advisory-committee/iac092122-agenda.htm>.

- Investment in training

For franchisors, selecting and measuring metrics are likely to be limited to corporate employees, and with respect to diversity, to franchise owners, however, they should not extend to franchisee employees as the franchisor is not likely to have—and, in fact, is likely actively avoiding even the appearance of—any kind of control over franchisees human resource management practices due to vicarious liability risk concerns.

## V. CURRENT FRANCHISE EXAMPLES OF ESG STRATEGY IMPLEMENTATION

Speaking in abstract terms and vague definitions is almost inevitable in an area as broad and as sparsely regulated as ESG matters. To this end, in order to provide further insight into the real-world adoption of ESG strategies, the following examples outline key components of each identified franchisor and its ESG strategy, including summaries of relevant portions of ESG reports, 10K SEC filings, and franchise disclosure documents (“FDDs”) for five publicly traded franchise companies (“Companies”).<sup>37</sup> Given the massive economic scope and impact of the retail sector, we decided to focus on Companies operating within this sector.<sup>38</sup> Summaries of these reviews follows.

### A. Avis Budget Group (“Avis”)

Avis is in the business of renting, on a temporary basis, automobiles to the general public.

#### 1. *ESG Report*<sup>39</sup>

##### *i. Environment Focus Areas*

Avis acknowledges that they must do their part as a transportation solutions provider to support global efforts in the transition to a low-carbon economy. Avis disclosed that consumer use of their vehicles comprises 99% of their combined emissions, so they believe leading the way in sustainable transportation gas emissions from vehicles is key, and their plan do so is by offering a fleet that is greener, smarter and safer. Avis has committed to a greenhouse gas emissions reduction target of 30% by 2030. They plan to achieve this target by (1) ensuring electric and hybrid vehicles are available to rent, (2) optimizing their fleet by leveraging connected vehicle technology, (3) making sustainable transportation central to the company by expanding car-sharing

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<sup>37</sup> We reviewed the ESG reports and 10Ks posted on the websites of the Companies (as of February 28, 2023) and the Companies’ 2022 FDDs.

<sup>38</sup> According to the National Retail Federation, in the U.S. the retail sector employs more than 52 million workers, accounts for 4.2 million retail establishments, and contributes \$3.9 trillion annually to the U.S. GDP. Additionally, from an anecdotal perspective, retail businesses must navigate through immense competition from their retailers as well as the socio-political leanings of the U.S. customer base.

<sup>39</sup> Avis Budget Group, *ESG Report 2021*, Apr. 10, 2021, [https://avisbudgetgroup.com/wp-content/uploads/2021/10/ESG2021\\_Report-04.10.21.pdf](https://avisbudgetgroup.com/wp-content/uploads/2021/10/ESG2021_Report-04.10.21.pdf).

solutions through their Zipcar brand, and (4) expanding transportation accessibility through a partnership with Via, a micro-transit company.

In addition to targeting their fleet and transportation technology, Avis describes their commitment to having “green buildings” through increasing energy efficiency by implementing LED lighting retrofits and clean-burning furnaces built to run on used motor oil in certain locations. Avis is also targeting a reduction in water consumption, primarily through improvement of its vehicle cleaning and maintenance processes, and by adding efficiency and reduction measures at its operating locations. Avis installed 35 water-saving car wash systems across its facilities. Avis disclosed that it conducts water risk assessments across the U.S. locations with the highest level of water stress and scarcity risks, where it is prioritizing water reduction efforts. Waste is another environmental area that Avis claims to be focusing on, with efforts to generate less and recycle more through measures like recycling or repurposing tires, car batteries, and windshields, and consistent repair and maintenance to make products last longer.

## *ii. Social Focus Areas*

Avis disclosed that they are committed to advancing equity and inclusion within their workforce, consumer base, communities, and that they supply and promote a culture of shared value to strengthen relationships and create inclusive growth. Avis plans to accomplish this by leveraging innovation to develop transportation solutions that will improve people’s lives, cultivating a safe, supportive, and inclusive environment where workers bring their “whole selves” to work, partnering with government agencies and non-profit organizations to strengthen community resilience and improve community prosperity, and maintaining an industry-leading supplier diversity program that promotes the growth and development of suppliers who are disadvantaged, minority-owned or women-owned business enterprises.

To help substantiate Avis’s commitment in the DE&I space, Avis highlighted the launch of their Power of COLOR program, which is a program made up of employees from diverse backgrounds, that advocates equality, opportunities for advancement, and facilitates discussions around best practices and resources to promote more targeted racial understanding and diversity, and supply chain diversity.

Avis stated that increasing purchases from diverse suppliers enhances their supply chain and assists them in meeting and exceeding their customer’s expectations at on-airport locations and for major corporate customers. Avis believes that helping these entrepreneurs move quickly into the mainstream of the economy strengthens the diverse business community economically and contributes to the overall economic growth of the communities where Avis does business. Avis has established a Disadvantaged, Minority and Women Owned Business Enterprise Program (“Program”) to promote the growth and development of diversified suppliers and assure that disadvantaged, minority, and women-owned business enterprises will have the maximum practicable opportunity to participate in Avis’s contract awards. Within the scope of this Program, employees should channel business opportunities to minority and women-

owned business enterprises whenever the opportunity arises to procure goods and services from an outside supplier. In 2020, Avis spent \$1.7 billion with certified diverse suppliers.

### *iii. Governance Focus Area*

The corporate board of directors of Avis (“Board”) monitors ESG matters. For its Board, Avis seeks members from diverse professional and personal backgrounds who combine a broad spectrum of experience and expertise. As part of the assessment process for evaluating Board candidates, the Corporate Governance Committee (“Governance Committee”) considers the background, diversity, age, skills, and experience of candidates.

The Board delegates oversight responsibilities of ESG matters to the Governance Committee. The Governance Committee is charged with overseeing Avis’s strategy, governance, risks, and disclosures related to ESG, the annual ESG reporting on environment, human rights, labor, health and safety, workforce diversity, supply chain, and governance, briefing and advising the Board on ESG matters, reviewing and discussing emerging best practices, trends, and key issues related to ESG matters, and conducting periodic reviews to assess the progress of key objectives and metrics of ESG matters.

## *2. 10K Filing*

In its 10K filing, Avis discloses that it is committed to offering safe and low-carbon transportation solutions through the following target areas:

- Greenhouse Gas Emissions – Aiming to provide sustainable transportation solutions by leveraging connected vehicle technology and introducing more fuel efficient and low emission vehicles.
- Sustainable Operations – Making improvements in vehicle preventive maintenance, the incorporation of green building practices and by complying with environmental regulations.
- Carbon Offset Program – Working with corporate customers to help them achieve their environmental impact reduction targets through Avis’s carbon offset program.
- Sustainable Fleet – Building on the core experience, data intelligence and technology to develop entirely new lines of business and extend its offering and capabilities for customers, businesses and cities, including:
  - Car Sharing through Zipcar
  - Connected Vehicles
  - Fleet Efficiency (including hybrids, electric or fuel-efficient vehicles and newer models with the highest possible standards of air emissions control).

Avis believes that embracing and promoting diversity is a critical component of their success, and they are committed to creating a safe, supportive, and inclusive

environment. Avis further believes that their success has its foundation in how they treat their employees. Avis seeks to support the well-being and development of the people they employ and the communities in which they work.

### 3. *ESG Focus Areas in the FDD*

Given the importance of the Program to Avis' business model, Avis disclosed to prospects in Item 1 of their FDD federal disadvantaged businesses enterprise laws that regulate participation for airport contacts. No related disclosures relating to environmental and governance concerns.

## **B. Carrols Restaurant Group (“CRG”)**

CRG is a franchisee of RBI that operates Burger King and Popeyes franchises.

### 1. *ESG Report*<sup>40</sup>

#### *i. Environment Focus Areas*

CRG is committed to working to decrease its carbon footprint through reduced energy use while supporting franchisor RBI's sustainability policies in areas such as the responsible sourcing of the food the business serves. CRG aims to reduce its energy use and carbon footprint by installing LED lighting and more energy efficient heating, cooling and cooking equipment. CRG states it is actively working on electric vehicle (EV) charging and community solar pilot programs that can help reduce emissions in the communities served. CRG also supports sustainability practices led by its franchisor RBI in areas including responsible sourcing, packaging and recycling, and waste reduction.

#### *ii. Social Focus Areas*

CRG highlighted their commitment to creating an inclusive culture for their diverse workforce. As of June 30, 2022, approximately 55% of their employees were female and approximately 50% of their employees self-identified as being a member of a racial or ethnic minority group. In addition, 45% of their Company's 11-member leadership team and 40% of the members of their Board of Directors are women or a member of a racial or ethnic minority group.

#### *iii. Governance Focus Areas*

CRG has four pillars to their sustainability program. Their pillars are food, environment, people and communities. CRG builds upon these four pillars by serving high-quality food, striving to reduce their environmental footprint, supporting their employees, and giving back to the local communities in which CRG serves. The

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<sup>40</sup> <https://www.carrols.com/pdf/Carrols-2021-Sustainability-Overview.pdf>.

Corporate Governance and Nominating Committee of CRG's board of directors oversees CRG's policies, goals and initiatives relating to sustainability and ESG.

## 2. *ESG Disclosures in 10K Filings*

CRG discloses that it is subject to a variety of federal, state and local environmental regulations, including those relating to the use, storage, discharge, emission and disposal of hazardous substances or other regulated materials, release of pollutants into the air, soil and water, and the remediation of contaminated sites. Failure to comply with such regulations could result in the imposition of fines or penalties, restrictions on operations by governmental agencies or courts of law, as well as investigatory or remedial liabilities and claims for alleged personal injury or damages to property or natural resources. CRG discloses that it cannot assure that it has been or will be at all times in complete compliance with such laws, regulations and permits, and thus, its costs of complying with current and future environmental, health and safety laws could have a material adverse effect on its results of operations and financial condition.

CRG is committed to fostering a culture that encourages diversity and inclusion and having diverse representation in their workforce. CRG disclosed that as of January 2, 2022, 51% of our employees were female and approximately 55% of our employees self-identified as belonging to a racial or ethnic minority group.

## 3. *ESG Focus Areas in the FDD*

Not applicable as CRG is a franchisee of RBI and does not offer or sell franchises, therefore, CRG does not have an FDD.

### **C. European Wax Center ("EWC")**

EWC is in the business of offering high-end facial and body waxing and related skin care products and services to the general public.

#### 1. *ESG Report*<sup>41</sup>

##### *i. Environment Focus Areas*

EWC says it is focusing on environmental sustainability because it is increasingly important for consumers, but also to help mitigate risk and for competitive differentiation. EWC disclosed that in 2021 it redesigned its packaging to be more sustainable, including removing metallization and lacquer coating to caps to create fully recyclable bottles and redesigning product shells to reduce raw materials used in production. EWC also highlights its 100% natural beeswax used at its centers, and says it is piloting a program to replace physical signage with digital signage to reduce paper waste.

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<sup>41</sup> <https://investors.waxcenter.com/static-files/ff49fb1f-e1fc-420d-ad00-a4bf0bc60f17>.

*ii. Social Focus Areas*

EWC disclosed that they are committed to building a culture of inclusion and belonging. In recent years, EWC's Diversity & Inclusion Council has sought to cultivate a safe and supportive space for all associates, and to create stronger awareness around important topics such as racial equity and allyship. EWC has launched an internal podcast that invites associates to discuss issues such as how culture has shaped their identity, viewpoints, and beliefs; weekly corporate forums and quarterly town hall meetings with executive members to build connections and discuss issues of importance to EWC's corporate community; educational training around diversity and inclusion issues. EWC has also established an Allies Committee, which aims to develop an inclusive workplace culture by building supportive connections across gender, race, and cultural backgrounds.

*iii. Governance Focus Areas*

EWC stated that they focus on creating an environment that helps guests feel comfortable and confident, while building a thriving and sustainable business that is welcoming to all of their associates. To achieve these goals, EWC prioritizes its people, its processes, and the planet. EWC focuses on efforts ranging from community building and cybersecurity to environmental sustainability. EWC believes that this body of work will help them to deliver a first-class experience for guests and a thriving business for their stakeholders.

EWC develops, implements, and periodically reviews their policies and practices regarding ESG and sustainability strategies. In EWC's review process, EWC evaluates their reporting on ESG, and sustainability and risks related to EWC. ESG strategy strongly emphasizes environmental sustainability, including their products and ingredients (including new and relaunched washes, lotions, and exfoliating gels), how their products are packaged and sourced, and helping to build an eco-friendlier company.

*2. ESG Disclosures in 10K Filing*

No related disclosures.

*3. ESG-Related FDD Disclosures*

No related disclosures.

## D. McDonald's

McDonalds is in the business of owning and operating quick service restaurants.

### 1. *ESG Report*<sup>42</sup>

#### i. *Environment Focus Areas*

McDonald's Purpose & Impact section of its website highlights three environmental categories that are part of its ESG strategy: climate action, packaging, toys and waste, and nature, forests and water.

Under climate action, McDonald's describes its impact reduction measures across the business, and describes its climate targets and net zero pledge: McDonald's is committed to reducing greenhouse gas emissions related to its restaurants and offices by 36% by 2030 from a 2015 base year, a 31% reduction in emissions intensity across its supply chain, and to achieve net zero emissions by 2050. McDonald's is focusing on restaurant energy, supply chain and packaging and waste to meet these goals.

Under packaging, toys and waste, McDonald's says it is accelerating waste reduction strategies and transitioning to more sustainable packaging and toy materials. McDonald's is aiming for 100% certified, recycled or renewable materials by the end of 2025. As of 2021, it disclosed that approximately 82.7% of primary packaging materials, and 96.8% of primary fiber packaging comes from recycled or certified sources. There are five focus areas for these efforts:

1. Eliminating unnecessary packaging and streamlining materials for easier recovery.
2. Transitioning away from virgin fossil fuel-based plastics.
3. Advancing a circular economy through the implementation of many tools to improve recycling and repurposing of materials.
4. Increasing the use of recycled materials throughout the System.
5. Partnering to increase scale and impact of a circular economy approach to packaging and waste.

Under nature, forests and water, McDonald's describes its commitment to sustainable food production and conserving forests, as well as water stewardship practices that are embedded in its sourcing requirements. McDonald's discloses that it reached a milestone in 2020 by substantially achieving its responsible sourcing goals and supporting deforestation-free supply chains for the raw materials we buy in the greatest volumes with the greatest impact – beef, soy (for chicken feed), palm

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<sup>42</sup> <https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/impact-strategy-and-reporting/governance-and-stakeholder-engagement.html>; and <https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/jobs-inclusion-and-empowerment/diversity-and-inclusion.html>.

oil, coffee and fiber (used in primary guest packaging). McDonald's has committed to eliminating deforestation from its global supply chains by 2030.

*ii. Social Focus Areas*

General. McDonald's disclosed their commitment to becoming better allies, better sponsors, and better leaders – helping to empower the people and communities they serve. McDonald's stated that they are committed to actively fostering an inclusive environment, where diversity is embraced as an advantage. McDonald's believes inclusion is everyone's responsibility. McDonald's has incorporated quantitative human capital metrics into their executives' annual incentive compensation to hold leadership accountable. By the end of 2025, McDonald's expects to increase representation of underrepresented groups in leadership roles (Senior Director and above) located in the U.S. to 35%. As of the end of 2021, 30% of leadership roles (Senior Director and above) located in the U.S. are held by individuals in underrepresented groups.

McDonald's DE&I Strategy focuses on three areas: (1) how they can best represent the diverse communities in which we operate? (2) how can they accelerate cultures of inclusion and belonging in their operations globally? and (3) how they can use their scale to help dismantle barriers to economic opportunity? McDonald's states that these are expectations from the brand that everyone, everywhere, should be able to count on – in their restaurants and in the communities that they serve:

*Represent the Diverse Communities:* McDonald's disclosed that they promote a bias-aware and inclusive workplace that enhances and supports a diverse talent pipeline, by combining technology with the latest strategic thinking and recruitment practices to attract, retain and promote, which include among other things using artificial intelligence tools to create gender-neutral, inclusive job descriptions; driving University Talent Attraction strategy, with a focus on attracting talent from Historically Black Colleges and Universities and other minority-serving institutions through job postings, messaging campaigns, career fairs and career development workshops; embedding and encouraging diverse candidate slates and interview panels; harnessing technology platforms to broaden the number candidates McDonald's screen; and structuring interviews and interview guides to help support equity and fairness throughout the selection, interview, and offer process.

*Accelerate Cultures of Inclusion and Belonging:* McDonald's employee business networks ("EBNs") are employee-led, volunteer business-focused forums. McDonald's believes that EBNs support an inclusive work environment, foster relationships, support career development opportunities, and help grow McDonald's business. They provide members with the opportunity to network, learn from one another and grow their careers together. EBNs also provide a source of mentors, role models and sponsors, and give members access to senior leadership, information on career strategies and opportunities for advancement. McDonald's stated that EBNs bring McDonald's values to life every day and share important and timely cultural insights when situations arise within and outside of McDonald's. McDonald's mentioned that they have leveraged their perspectives in real time to create meaningful and overdue change by standing in solidarity

with partnering organizations that challenged anti-hate movements and advocated for social justice – in support of members of impacted business networks – to promote inclusion and belonging.

McDonald's also works with the Center for Creative Leadership to design an Inclusive Leadership course for their employees in Director-level positions and above. The course focuses on ways to identify Relevant Opportunities, Elevate Equity, Activate Diversity and Lead Inclusively ("REAL"). McDonald's leaders reflect on their own understanding of DE&I and have the opportunity to develop plans relevant to their teams that activate the three drivers of inclusion – Connection, Vulnerability & Courage, and Investment & Resources. The program also encourages their leaders to examine policies, practices, actions, circles of influence and connections that contribute to strengthening a culture of inclusion at McDonald's.

*Dismantle Barriers to Economic Opportunity:* McDonalds disclosed that they choose to work with a diverse range of suppliers who share their values, and that they welcome new businesses into their supplier network because they believe understand a chance for a supplier to work with McDonald's is one that can change the trajectory of a business. McDonald's success is thanks to a network of the world's best small business owners – their franchisees. McDonald's offer resources to current owner/operators to support them in making their own spaces more welcoming for everyone and to continue their businesses into the next generation.

Franchisee Recruitment Initiative. McDonald's launched a Franchisee Recruitment Initiative to help increase the number of new franchisees from all backgrounds, including underrepresented groups, with a five-year, \$250 million commitment in the U.S. McDonald's states that diversity of their franchisees is a source of pride and a point of importance. In 2021, McDonald's announced a franchisee recruitment initiative to help increase the number of franchisees from all backgrounds, including underrepresented groups in McDonald's U.S. and all McDonald's international operated markets. This initiative is tailored for each market and seeks to increase ownership opportunities for new talent from all backgrounds, both in terms of the number of individual restaurants owned as well as the number of qualified franchisees overall.

As of 2021, individuals from underrepresented groups, including those that identify as Asian, Black, or Hispanic, accounted for nearly 30% of all U.S. franchisees. Women accounted for 30% of all U.S. franchisees. We have committed \$250 million in the U.S. over five years to provide alternatives to traditional financing, helping candidates who may face socio-economic barriers join McDonald's System. McDonalds has sought to reduce upfront equity requirements for eligible Franchisee candidates and plan to leverage their network of banking partners to increase access to financing solutions that will reduce the barrier to entry for candidates. Additionally, over 2,600 independent, local U.S. owners have access to five Franchisee Association Groups: The National Black McDonald's Operator Association, The McDonald's Hispanic Operator Association, The Women's Operator Network, The Asian McDonald's Operator Association, and The McDonald's Owner Operator Pride Network.

Supplier Diversity. McDonald recognizes that they have an opportunity to help accelerate impact, not just in their own business but also for their suppliers. McDonald's believes that they have a responsibility and a unique opportunity to help drive change in their business and beyond, and McDonald's stated that collaborating with their suppliers gives them incredible scope to achieve the more equitable and inclusive future we want to see. Of the approximately \$14 billion that McDonald's and their U.S. franchisees spent throughout their U.S. supply chain in 2020, an industry-leading 24% was with diverse-owned suppliers – businesses 51% owned and controlled by women and/or Black, Hispanic, Asian, Indigenous, Veteran, LGBTQ+ and people with disabilities. McDonald's stated that its Marketing Department has been working to advance investments in, and partnerships with, diverse-owned production and media companies and content creators to enable deeper, more inclusive storytelling. McDonald's has established an advisory board of external marketing and advertising subject-matter experts to help identify the biggest barriers to economic opportunity for these suppliers. McDonald's expects to increase U.S. systemwide spend with diverse-owned suppliers to 25% by the end of 2025. As of the end of 2021, McDonald's achieved its goal of increasing U.S. systemwide spend with diverse-owned suppliers to 25%, reaching 25.4%. McDonald's states that they will continue to focus on their engagement with diverse-owned suppliers in support of their goal to attain 25% U.S. systemwide spend with diverse-owned suppliers at the end of 2025.

To further advance efforts in McDonald's supply chain, McDonald's encourages suppliers to share their commitment to supporting representation, inclusion and equity and U.S.-based suppliers to McDonald's are invited to sign a Mutual Commitment to DEI, through which they commit to taking action, such as: implementing an overall DEI strategy, including annual training and/or education for employees to develop as better DEI practitioners and leaders; increasing representation of underrepresented talent in leadership and in staffing of McDonald's business, as well as increasing their use of diverse suppliers; investing in innovation with new partnerships and programs designed to make a measurable difference; implementing accountability systems to track and measure progress and share updates and best practices on effective programs and measurement. By the end of 2021, 275 suppliers had signed the commitment.

Other DE&I Efforts. Among other efforts, McDonald's aim to increase national investments in diverse-owned media and production companies and content creators for McDonald's USA and its U.S. franchisees to 15% by the end of 2024. As of the end of 2021, McDonald's USA and its U.S. franchisees increased such investments to 7.7%. McDonald's is a supporting partner of Diversity Lab's Move the Needle Fund – participating in innovative programs to create a more diverse and inclusive legal profession.

Finally, McDonald's legal department is seeking to achieve certification under the Mansfield Rule 2.0. Per McDonald's to be Mansfield-certified, legal departments are asked to consider at least 50% underrepresented lawyers for the opportunities identified below and achieve at least 70% of activities identified below during the Mansfield qualifying period; external hiring and/or promotions for top role(s);

- external hiring, internal transitions and/or promotions for senior-tier management;
- external hiring, internal transitions and/or promotions for mid-tier management;
- external hiring, internal transitions and/or promotions for other lawyer positions;
- hiring for interns or temporary lawyer positions;
- discretionary high-visibility opportunities that provide skills building and exposure to internal and external business leaders;
- written and transparent job responsibilities for all senior and mid-tier management roles;
- written and transparent processes for advancement opportunities and promotions within the legal department; and
- hiring new outside counsel for new or existing matters.

### *iii. Governance Focus Areas*

McDonald's believes that they have a responsibility to ensure long-term, sustainable value creation for shareholders while acting on some of the world's most pressing environmental and social challenges important to their stakeholders. Franchisees, suppliers, employees, and key nongovernmental organizations ("NGO") stakeholders expect them to proactively manage the ESG issues most relevant to their business operations.

McDonald's prioritizes ESG issues that are of the highest importance to their stakeholders and customers, and where the business can have the greatest impact. McDonald's Global Sustainability & ESG team provides corporate staff leadership, coordination and support for their global sustainability policies, programs, and reporting. This includes partnership with global cross-functional teams, such as Global Supply Chain and Customer Experience, and support for country-level sustainability staff for localized execution relevant to their markets. McDonald's Global Sustainability & ESG Strategy team gathers internal and external insights to help them understand where to prioritize efforts, evolve strategy, and tailor reporting. This includes tracking customer insights globally and engaging regularly with shareholders, suppliers, employees, communities, and key NGO stakeholders to discuss the evolution of key issues and transparency expectations.

In connection with ESG strategy and to manage performance of achieving ESG goals, McDonald's has implemented their Impact Strategy, centered around the four impact areas of Our Planet, Food Quality & Sourcing, Jobs, Inclusion & Empowerment and Community Connection. Each of the Impact Areas are substantiated through leadership from local franchisees, investments in local community partnerships, engagement in farmer and supplier communities, and through the experiences of customers in their local McDonald's restaurants. McDonald's disclosed that the commitment to achieve these ESG goals is designed in partnership with, and based on feedback from, customers and trusted external organizations, so that they can help make

a difference at scale and drive industry-wide change across McDonald's and within communities.

To help achieve McDonald's goals and fulfill their ESG goals, McDonald's engages members of this board of Directors ("Board") across ESG topics and look for members to possess the specialized ESG expertise needed to guide their ESG efforts. The Sustainability & Corporate Responsibility Committee ("Responsibility Committee"), one of McDonald's six standing Board committees, monitors and oversees McDonald's strategies and management of environmental and social issues. The Responsibility Committee also monitors McDonald's development and achievement of sustainability goals and metrics. The Responsibility Committee reports to the full Board and other Board committees from time to time on McDonald's management of ESG issues. The leaders of each McDonald's market have responsibility for working with their teams to engage local franchisees with respect to McDonald's initiatives and programs.

#### *iv. ESG Disclosures in 10K Filing*

McDonald's describes its prioritization of action and progress across a range of environmental matters, and endeavors to improve its long-term sustainability and resiliency, benefiting the System and the communities served. McDonald's discloses that it monitors environmental regulations to be well-positioned to respond in a timely and appropriate manner to ever-present changes, and to anticipate related increased costs and/or operational complexity for the company.

McDonald's says it has developed informed goals and commitments, including a TCFD. These include initiatives to reduce Systemwide greenhouse gas emissions, support deforestation free sourcing throughout the company's global supply chain, efficiently manage natural resources and support biodiversity, responsibly source ingredients and packaging and increase the availability of recycling in restaurants to reduce waste. McDonald's says that further information can be found on its website and in the company's annual Climate Change, Forests and Water reports submitted to CDP, an organization that helps companies manage their environmental impacts.

McDonald's disclosed that it monitors and manages the evolving environmental landscape to understand potential risks and opportunities. The company believes taking action on these issues will drive long-term business value by managing operational costs in its energy supply, improving the security of its raw material supply, stewarding the environment in its surrounding communities and reducing its exposure to increasing environmental risks, regulation and costs.

McDonald's disclosed their commitment to deliver equitable treatment for all people and includes ongoing efforts to improve the representation of women and underrepresented groups at all levels at McDonalds; a franchisee recruitment initiative to increase the number of new franchisees from all backgrounds, including underrepresented groups, particularly for those who may face socio-economic barriers to entry; and best practice sharing with franchisees and suppliers to support them in

furthering DEI progress within their own organizations. McDonald's also disclosed their committed to accelerate representation, inclusion, and opportunity for underrepresented groups, not only within McDonald's but across their franchise system.

*v. ESG- Related FDD Disclosures*

No related disclosures.

**E. Planet Fitness ("PF")**

PF is a fitness training concept that offers exercise machines and free weights, fitness training services, and tanning services to the general public.

*1. ESG Report<sup>43</sup>*

*i. Environment Focus Areas*

PF describes its environmental approach as focused on measuring and maintaining sustainable operations with water, waste and recycling, and addressing energy use and greenhouse gas emissions:

- Water use – PF is improving efficiency in its facilities by requiring stores to install low flow, high-pressure shower heads and flush-o-meters (estimated to save around 20,000 gallons per year). 85% of corporate clubs also have high efficiency washing machines on-site.
- Waste & recycling – PF has added hand dryers and water re-fill stations, increased resale of equipment, and has increased recycling efforts at its stores and headquarters.
- Materials & equipment – PF is working to source eco-friendly products (including paper towels, cleaning supplies and rubber flooring), and to track end-of-life corporate club equipment for sustainable disposal of aged equipment.
- Energy & GHG emissions – PF is focused on reducing energy use by requiring energy efficient lighting requirements and tankless water heaters.

*ii. Social Focus Areas*

Judgement Free Zone® embodies PF's commitment to DE&I and fuels their actions within their clubs and with their employees, franchisees, and the communities that PF serves. PF has enacted policies in their clubs to ensure the

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<sup>43</sup><https://assets.ctfassets.net/nhduxlsunsu5/7ELIFj6U7YRBpRyVHAQIUk/60d7a6d8f0c196c826980532b954e2a8/PlanetFitness-ESG-versionB-805c.pdf>.

judgement free philosophy extends to all members. To advance PF's vision, PF formed a cross functional DE&I Task Force made up of team members from their corporate headquarters and franchisees to create a strategic DE&I Roadmap.

The DE&I Roadmap focuses on four key pillars as well as established their priorities and commitments across these four areas, against which they will measure their progress and hold themselves accountable. The four DE&I Pillars are: (1) build and attract a diverse workforce that reflects the communities where we live, work, and workout, (2) empower their teams with tools and resources for education and engagement, (3) foster an inclusive culture that provides a sense of belonging for their team members, franchisees, and club members, and (4) invest in partners and programs that drive progress and impact.

Build and Attract a Diverse Workforce. PF's key efforts included implementing intentional recruitment and career pathing processes at their corporate headquarters to attract and promote diverse talent, as well as ensuring a diverse slate of candidates for every role. PF regularly reviews best practices to ensure they provide transparent reporting and disclosures on their workforce demographics. PF believes that their workforce representation data is a critical measure for how they assess their performance in building and attracting a diverse workforce. PF reviewed their workforce diversity, analyzing data on gender and Black, Indigenous, and People of color ("BIPOC") representation amongst their employee base at their headquarters to help inform them of their DE&I commitments and actions. From this exercise, PF outlined specific strategic actions to increase the diverse representation across their headquarters' workforce to ensure that the teams and leaders setting strategy and making brand-wide decisions are more reflective of the communities that we serve.

Empower Team with Tools and Resources. PF offered a Cultural Competency & Unconscious Bias training to all their executives, headquarters team members, and franchisees. The goals of those sessions were to increase cultural awareness and foundational knowledge of DE&I terminology; understand unconscious bias and microaggressions and how they present themselves around us; and to walk through scenarios and tools to put learning into practice. PF is evaluating opportunities to provide ongoing DE&I education and engagement, including inclusion trainings for new hires and updated learning opportunities to help strengthen cultural competency across their workforce and they plan to launch Employee Resource Groups ("ERGs") at headquarters to enable employees and allies to unite in representation and perspective sharing.

Foster An Inclusive Culture. To ensure PF is fostering a culture of inclusion and belonging, PF engages its DE&I Task Force throughout the year to solicit feedback on efforts, pressure test ideas and identify areas of opportunity. PF also collaborates internally, with partnerships between their Talent Development and Recruitment teams to identify specialized programs to focus on inclusion throughout the employee lifecycle. In PF's clubs, they have added non-binary gender options to the member join process to more accurately reflect their diverse member base. PF plans to

expand access to fitness in diverse communities, among first-time gym-goers and for persons with disabilities and track employee sentiment around inclusivity and belonging in their engagement surveys. PF is also evaluating their existing policies and practices, including looking for opportunities to strengthen or update policy language to ensure it reflects the current needs of their diverse communities.

Invest in Partners & Programs. PF has ongoing partnership with the Boys & Girls Clubs of America to support youth through the Judgement Free Generation® to commit to drive long-term, generational progress in the communities in which PF serves. As part of their \$7 million+ Judgement Free Generation® initiative, PF has set a goal to invest \$1 million directly in scholarships for diverse youth by 2025. PF focuses on creating deeper team member engagement in their communities by exploring tools to measure and incentivize volunteerism and giving. In addition to their Judgement Free Generation® partnerships, PF is accelerating equity in communities through partnering with the Coalition for Inclusive Fitness.

*iii. Governance Focus Areas*

PF disclosed that that they would increase accessibility to fitness and wellness and provide an environment where everyone feels like they belong. The three focus areas to PF's ESG strategy are physical health, emotional health, and planet health. PF's Nominating and Corporate Governance Committee ("Nominating and Governance Committee") oversees PF's ESG Strategy. In connection with the oversight of the ESG strategy, PF has created a CSR team that regularly meets to review and discuss progress on the ESG strategy and provide updates to the Nominating and Governance Committee.

*iv. ESG-Related Disclosures in 10K Filing*

PF believes that an engaged, diverse, and inclusive culture is essential for the success of their business. PF identified three critical areas of focus: Employee Engagement and Workplace Culture, Employee Health and Safety, and DE&I. PF believes that focus and investment in these three areas will, in turn, generate long-term value. Additionally, PF disclosed that given their core mission is centered on improving people's lives and keeping people healthy and the customer-facing nature of PF's business, the overall health and safety of PF's team members and PF's members has been a longstanding priority for PF.

*v. ESG-Related Disclosures in the FDD*

No related disclosures.

**F. Summary**

Based on the review of the materials outlined above for each Company, the following observations bore further emphasis:

- As expected, and as discussed above, each Company developed an ESG strategy based on priorities that are relevant to their respective investors, customer base, and industry.
- In order to help monitor and report on ESG matters as well as prove-up adherence to corporate fiduciary requirements, each Company has created cross-functional teams to monitor and report ESG matters to the Board.
- Also as expected, the disclosures of ESG matters for each Company were far more detailed in the ESG reports and 10K filings than in their respective FDDs. This is likely due, in part, to the broad latitude that organizations have to include aspirational and forward-looking statements in their ESG reports and 10Ks, whereas franchisors have more limited options to disclose ESG-specific information in their respective FDDs.

## **VI. CONCLUSION**

Addressing ESG issues is no longer an ivory tower fad or a box to be checked to appease investors. It is a dynamic and increasingly pressing mix of risks and opportunities that companies, regardless of size, must understand, evaluate, and continuously account for in their respective operations. Franchise companies are not immune to these same risks and opportunities, but must consider different and additional business and regulatory factors in ESG strategy creation, implementation, evaluation, and compliance. Such factors to consider include, for example, soliciting and obtaining franchisee buy-in, corporate and franchisee education, impact on system-wide changes such as supply chain and purchasing standards and vicarious liability risks. Although challenging, it is a challenge that, as we have outlined above, many franchise companies have already taken on and found solutions for and many more can, and will, continue to embrace this increasingly pervasive business standard.