RBC Capital Markets

Looking at Restaurants Through an ESG Lens

ESG Stratify™

Separating the signal from the noise

EQUITY RESEARCH | JANUARY 5, 2021

For Required Conflicts Disclosures, please see page 41.

EQUITY RESEARCH

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RBC ESG Stratify: Restaurants

In this report, we present our initial findings upon examining our restaurants coverage through an ESG lens, which we expect to be of growing importance for restaurant investors—and consumers—in 2021 and beyond. Together with our RBC Strategy colleague Sara Mahaffy, we explore recent ESG investment trends, and provide detail of our coverage universe's sustainability efforts and goals across key restaurant-specific ESG categories, as identified by the Sustainability Accounting Standards Board (SASB).

The growing importance of sustainable investing: By our estimate, we've identified $476 billion in dedicated sustainable equity funds (with meaningful assets invested in the US), up from just $182 billion at the end of 2018. Net inflows into these funds have accelerated in recent years, with 4Q inflows on pace to hit another new record. In terms of how these funds are positioned in S&P 500 Restaurants, **SBUX** is the only name that ranks relatively high in the actively managed funds within our universe. The other names (**MCD, YUM, DRI, CMG, DPZ**) either rank in the middle tiers or lower tiers of ownership. Further improvements in their ESG profiles could allow them to tap into more funds.

We believe labor practices will be an area of increasing focus for ESG investors in a post-COVID world: While energy usage, waste reduction and supply chain practices remain obvious ESG focus areas for restaurants, we see human capital management—encompassing labor practices and employee engagement, diversity and inclusion—as an increasingly important topic moving forward, particularly as the industry continues to navigate the pandemic. Our belief is that human capital management not only impacts brand perception, but is also of paramount importance to restaurants' fundamental business performance. The brands in our coverage are responsible for approximately *18 billion* transactions annually in the US alone (representing nearly a quarter of domestic restaurant sales), with the vast majority still involving face-to-face interaction between company or franchisee employees and customers, despite the rise of digital ordering. As such, service quality and operational efficiency—which we view as closely linked to labor practices and employee engagement—can be a top-line driver for restaurants, rather than another expense line item. Although external pressures (e.g. government-mandated wage increases) likely continue to place upward pressure on labor expense longer term, we encourage investors to consider the offsetting benefits of continued investment in restaurants' workforces.

Scale matters as the restaurant industry consolidates and large brands gain share—but scale also highlights the importance of sustainability efforts: A core tenet of our restaurant investment framework is that scale matters, particularly as COVID-19 has only accelerated share consolidation by the largest brands. Scale benefits restaurants in areas such as product innovation and marketing, but also in resources dedicated to sustainability, and we would highlight Outperform-rated **MCD** and **SBUX** as companies within our coverage with significant scale, and among those with the most sophisticated and detailed sustainability goals and disclosure. In spite of the larger spotlight drawn upon the biggest brands, we believe our restaurants coverage has largely embraced the challenge and complexity of crafting and executing upon sustainability strategies.

ESG factors have outperformed within the S&P 500 in recent years: We've noticed the following key ESG trends in recent years: (1) top S&P 500 holdings in dedicated, actively managed sustainable funds have outperformed, including those stocks that are uniquely popular to sustainable funds; (2) S&P 500 companies with better ESG risk profiles have outperformed those with worse ESG risk profiles; (3) S&P 500 companies with the most improvement in ESG risk scores have outperformed those with the least improvement on a sector neutral basis. Within the S&P 500 Consumer Discretionary specifically, one trend that jumped out to us is that companies with stronger workforce ESG scores have outperformed those with weaker scores since 2011.

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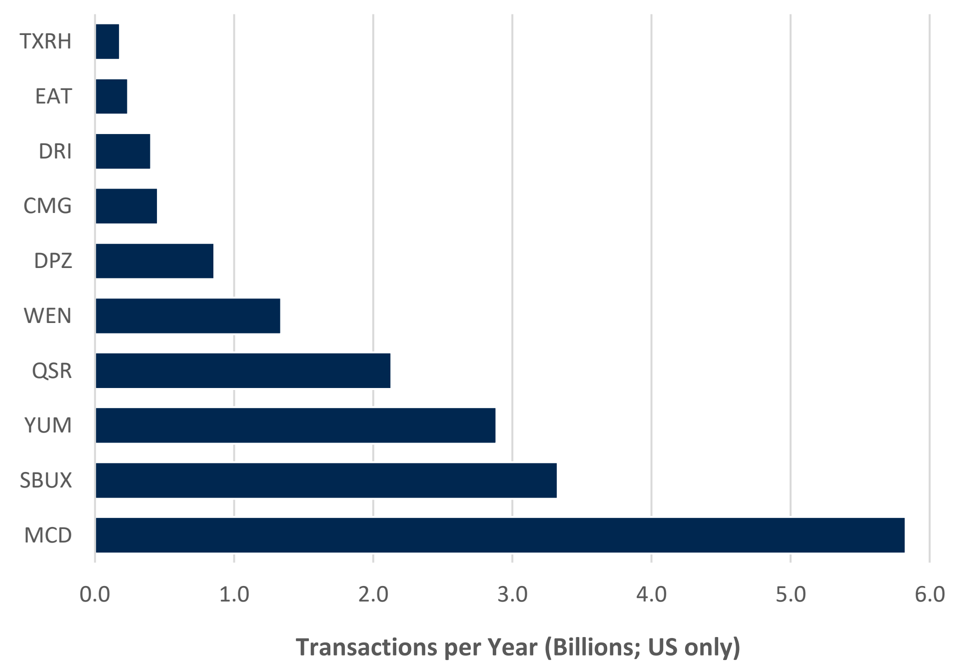
Introduction: Why ESG Matters in Restaurants

The brands within our restaurants coverage universe in 2019 generated **global sales of approximately $275B**, of which over **$135B were in the US**, representing nearly 25% of domestic restaurant industry sales. Given their presence in the fragmented restaurant industry, the largest chain brands have drawn attention for their impact on the environment—specifically around food and packaging waste—as well as for supply chain practices and focus on customer safety. These factors can have a meaningful impact on brand perception, particularly customer safety.

However, we believe there are also ESG focus topics where the close relationship with top and bottom-line performance is potentially underappreciated. In a typical year—that is, not 2020—the brands within our coverage universe, between the corporate-owned restaurants and franchisees, complete approximately **18 billion transactions** in the US alone. And while growth of the number of digital transactions—including those for delivery—may drive fewer face-to-face interactions between customers and company or franchisee employees over time, we believe there are few other companies and/or industries which own brands that generate as many direct, face-to-face customer interactions on a daily basis. Given this, we believe that labor practices is a potentially underappreciated category within ESG-restaurant investment frameworks. We believe that while labor costs have generally been viewed as a headwind, it is important to continue to highlight the link between restaurant companies providing competitive wages and benefits, and better overall service levels, which should ultimately result in consistently stronger top line and stock outperformance.

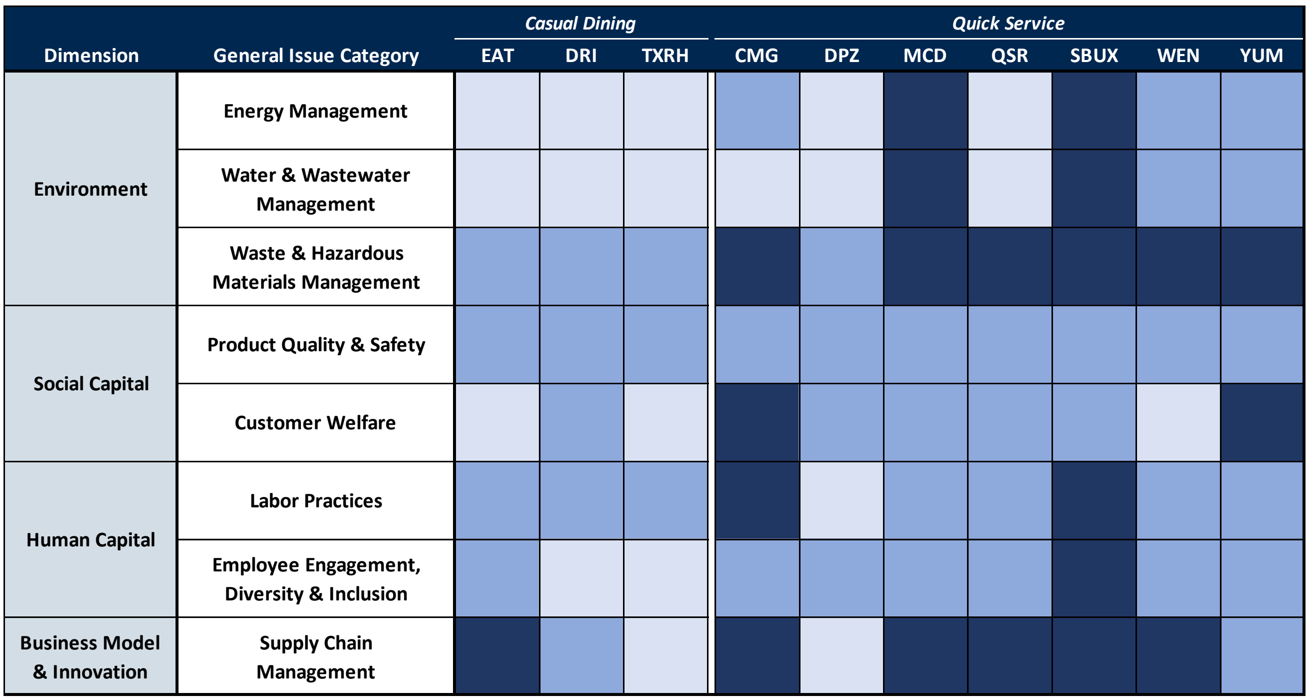
Exhibit 1: Number of Annual Transactions (US, 2019) by Company



Source: Technomic, RBC Capital Markets

The companies in our coverage have largely responded to greater demand for transparency and the development of more sustainable business practices. Many of these large restaurant companies have launched formal initiatives to reduce waste, foster stronger relationships with and create more opportunities for employees, and improve supply chain practices. In some cases, companies have published quantifiable targets related to sustainability practices. In Exhibit 2 below, we highlight the level of disclosure provided by the companies in our coverage as it relates to each of the ESG issue categories deemed material for restaurants by the Sustainability Accounting Standard Board (SASB). While we would note that we did not come across any companies that were falling short of initiatives across all or most dimensions, there does remain room for improvement across the investable restaurant universe. In this report, we explore each of our covered company's disclosures on key ESG issues, as well as relevant focus topics (e.g. COVID-19; plant-based foods).

Exhibit 2: RBC Restaurants Universe SASB Heat Map (Darker Blue Indicates More Disclosure, incl. Quantified Targets)



Source: SASB, company reports and websites, RBC Capital Markets

Regarding COVID-19, specifically, we believe it is worth noting that the global pandemic has likely sharpened restaurant companies' focus on key ESG issues. One of these issues is labor practices, which has been demonstrated through companies' support for hourly and corporate employees, as well as franchisees. While companies pledged support, so did company managements (e.g. TXRH CEO Kent Taylor pledged over $5M to an employee relief fund). And while the pandemic has created opportunities for companies to highlight support for and commitment to restaurant employees—in particular lower-wage employees working in the restaurants—we do note that timelines around certain sustainability objectives (which we detail in this report) may be impacted by the pandemic.

ESG Investing & Performance Trends

Growing Importance of Sustainable Investing

Defining the universe of sustainable equity funds can be difficult, as funds are incorporating responsible investing practices into their process to varying degrees. Data from the US SIF indicates that total US domiciled assets (across asset classes – equity, fixed income, public, private, etc.) incorporating ESG factors to some degree totaled $17 trillion as of the start of 2020 (up 42% from the start of 2018). Digging down further, we've identified $476 billion AUM in dedicated sustainable equity funds globally that have a clear, heavy emphasis on sustainable investing practices in their process, and have meaningful assets invested in US stocks. Inflows into the dedicated sustainable equity funds have been on the rise since early 2019 and so far net inflows are on track to hit another quarterly record in 4Q (based on the pace of inflows in October & November data, note we will not have final 4Q flows data until mid-January).

Exhibit 3: AUM in Dedicated Sustainable Funds ($ bn)

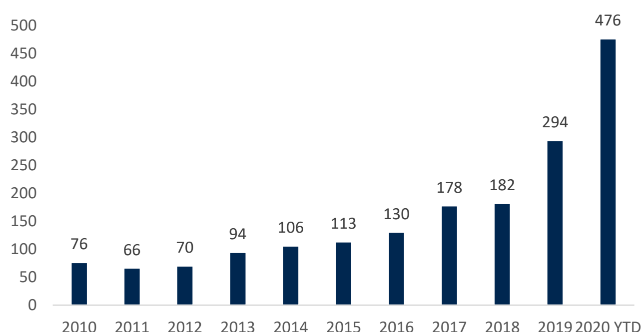
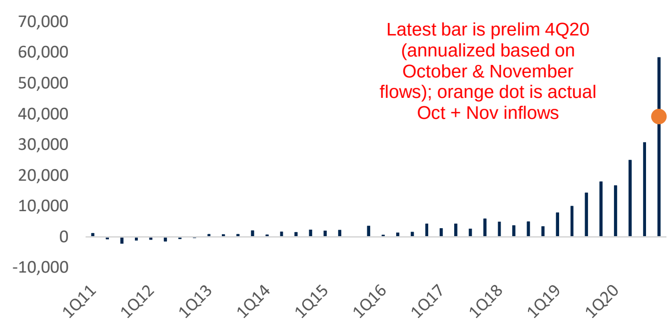


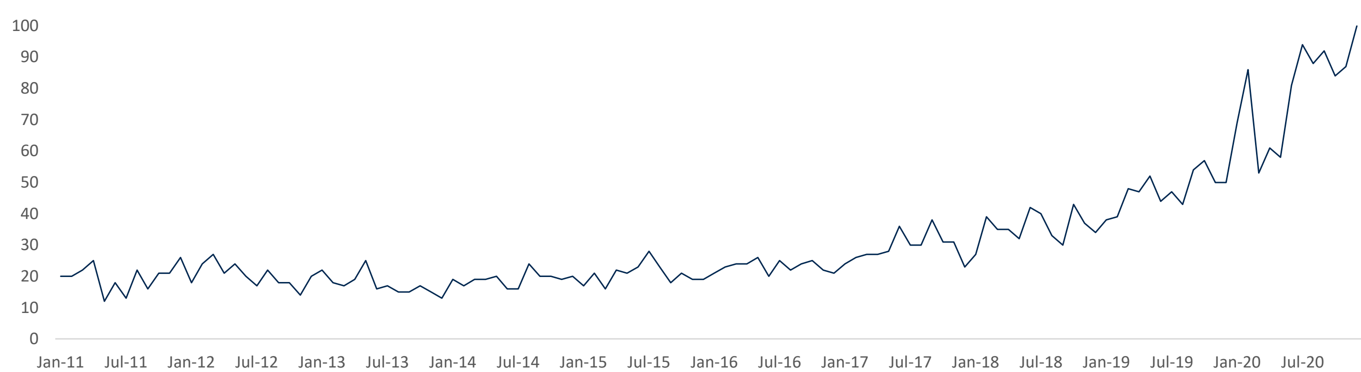
Exhibit 4: Net Flows For Dedicated Sustainable Funds ($ mn)



Source: RBC US Equity Strategy, Morningstar, AUM and net flows are as of November 2020, based on our universe of dedicated sustainable equity funds (funds that have a clear & heavy emphasis on sustainable investing practices, see appendix for more details on our methodology) that have meaningful assets invested in the US (greater than 20% of AUM)

We expect focus on ESG and sustainability to remain high in 2021 with the incoming Biden administration having vowed to make certain ESG related issues a priority and key regulatory elements of the EU Sustainable Finance Action Plan coming into focus (including the SFDR, which will require asset managers in the EU to disclose on ESG issues).

Exhibit 5: Google Trends (US): ESG



Source: RBC US Equity Strategy, Google Trends, Bloomberg, as of late December 2020

Actively Managed Sustainable Funds Have Outperformed In Recent Years

We think one important pillar of support for inflows has been the performance track record of these funds. In 2019 we found that actively managed, dedicated sustainable equity funds had stronger track records (both in terms of their ability to beat the benchmark and absolute returns) than traditional actively managed equity funds and this trend persisted in 2020. While some of the outperformance can be attributed to the outperformance of Tech and underperformance of Energy & Financials (as we highlight in Exhibit 15, these funds tend to be relatively overweight Tech and relatively underweight the Energy and Financials sectors), we have also seen key ESG factors outperform.

Exhibit 6: % Funds Beating The Benchmark: Actively Managed Sustainable Funds vs. Traditional Funds

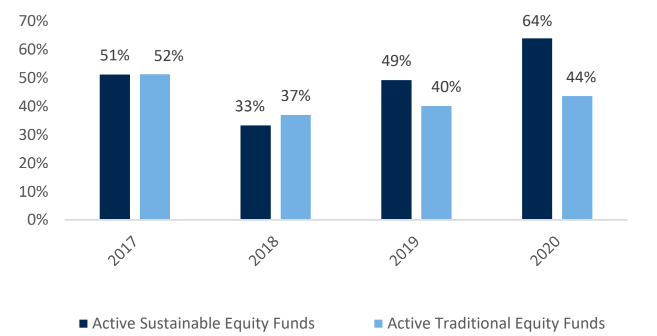
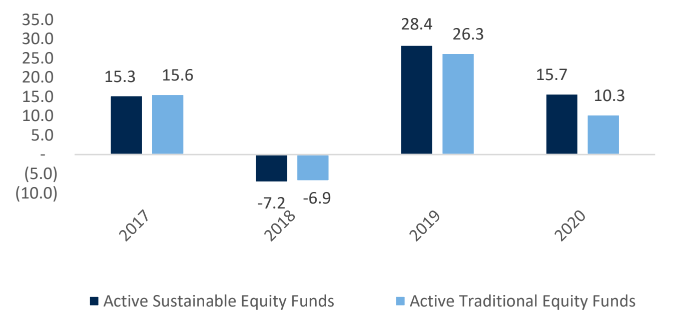


Exhibit 7: Median Annual Returns: Actively Managed Sustainable Funds vs. Traditional Funds



Source: RBC US Equity Strategy, Morningstar; % beating statistics are relative to funds prospective benchmark; sustainable fund universe is based on the fundamental, actively managed funds within our dedicated sustainable fund universe (Morningstar tracked global, US & sector focused equity funds that have a clear, heavy emphasis on sustainable investing practices and have meaningful US assets); traditional fund universe includes all other Morningstar tracked global, US & sector focused equity funds that are not included in our sustainable fund universe

The charts below highlight some the key trends we've seen within the S&P 500 index: (1) top S&P 500 holdings in dedicated, actively managed sustainable funds have outperformed in recent years, including those stocks that are uniquely popular to sustainable funds (names like XYL, AWK, see pages 44-46 in our latest *ESG Scoop* for the full list of names that fell in each basket as of 2Q20), which are captured in the grey line in Exhibit 8, (2) S&P 500 companies with better ESG risk profiles (leveraging ESG risk scores from Sustainalytics) have outperformed those with worse ESG risk profiles, including when we look at the data on a sector neutral basis, and (3) S&P 500 companies with the most improvement in their ESG risk scores (leveraging ESG momentum scores from Sustainalytics) have outperformed those with the least improvement / deteriorating ESG risk scores on a sector neutral basis.

Exhibit 8: Relative Performance (vs. S&P 500 Index) of Top Holdings In Actively Managed Sustainable Equity Funds

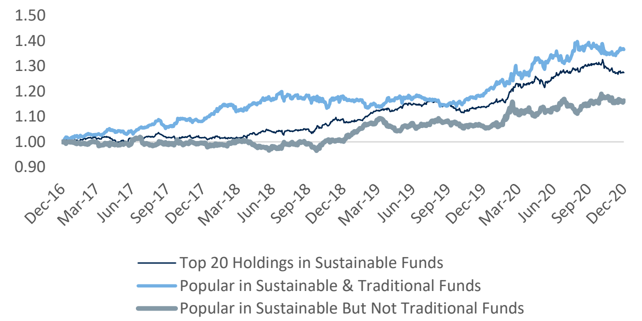
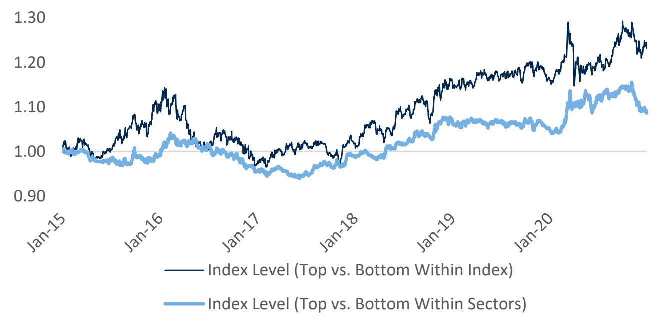


Exhibit 9: S&P 500 Performance By ESG Risk Score (Sustainalytics)



Source: RBC US Equity Strategy, S&P Capital IQ / ClariFi, Morningstar, Sustainalytics, performance as of December 30th, 2020

Exhibit 10: S&P 500 Performance By ESG Momentum Score (Sustainalytics)

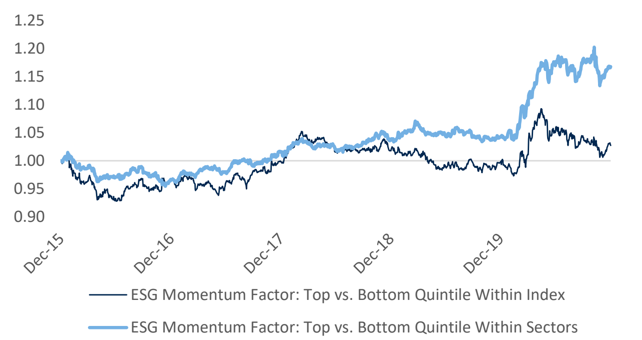
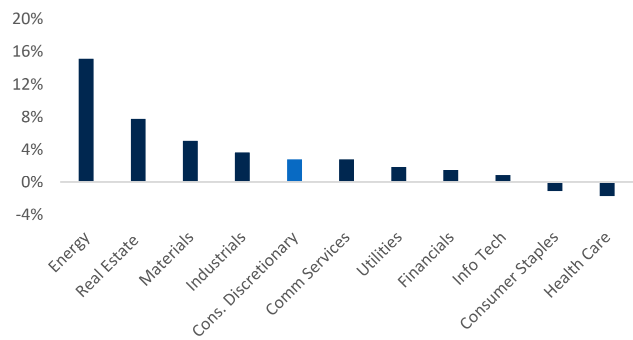


Exhibit 11: S&P 500 Sector Annualized Relative Return By ESG Momentum Score (Top vs. Bottom Quintile, Since 2011)



Source: RBC US Equity Strategy, S&P Capital IQ / ClariFi, Sustainalytics, performance as of December 30th, 2020

ESG Factor Performance within Consumer Discretionary

The following table highlights key performance and valuation trends within major S&P 500 GICS sectors. From a performance perspective, we've looked at how companies with stronger ESG assessments (both based on companies' popularity in actively managed dedicated sustainable funds and based on third party ESG ratings) and how companies with improving ESG profiles (leveraging ESG momentum scores from Sustainalytics) have performed. From a valuation perspective, we've looked at relative valuation premiums for popular names in sustainable funds.

For the Consumer Discretionary sector specifically, while performance of ESG leaders based on 3rd party ratings assessments has been more mixed, we have found that the most popular Consumer Discretionary names in actively managed sustainable funds have outperformed. They also tend to trade at valuation premiums to the least popular names. In addition, we've found that companies within the Consumer Discretionary that have seen yr/yr improvement in their ESG risk scores have outperformed.

Exhibit 12: S&P 500 ESG Sector Heat Map: ESG Factor Performance & Valuations by Major GICS Sector

	Factor Performance Within Sectors			Valuation Premium / Discount Within Sectors
	Popularity in Actively Managed Dedicated ESG Funds	ESG Ratings (Sustainalytics & Refinitiv)	ESG Momentum Scores (Sustainalytics)	Popularity in Actively Managed Dedicated ESG Funds
Consumer Staples	Outperformed	Mixed	Underperformed	Premium / Above Average
Utilities	Outperformed	Outperformed	Outperformed	Premium / Above Average
REITs	Outperformed	Underperformed	Outperformed	Premium / Above Average
Health Care	Outperformed	Outperformed	Underperformed	Premium / In-line
Energy	Outperformed	Mixed	Outperformed	Premium / Above Average
Materials	Underperformed	Outperformed	Outperformed	Premium / Above Average
Financials	Mixed	Outperformed	Outperformed	Premium / Above Average
Industrials	Outperformed	Outperformed	Outperformed	Premium / In-line
Consumer Discretionary	Outperformed	Mixed	Outperformed	Premium / Above Average
Comm Services	Outperformed	Underperformed	Outperformed	Premium / Above Average
Technology	Outperformed	Outperformed	Mixed	Premium / Above Average

Source: RBC US Equity Strategy; factor performance and valuations are based on top vs. bottom quintile within each sector; relative performance by ownership factor is since Dec 2016; relative performance by ESG ratings is since Dec 2014; relative performance by ESG momentum score is since Dec 2015; historical valuations by ownership factor are since Dec 2016

Digging down within the overall ESG rating, one trend we found particularly interesting as it relates to the Consumer Discretionary sector is the performance of companies by their workforce ESG score. Here we leverage workforce ESG scores from Refinitiv (where we have longer data history on the component scores), which take into account qualitative (policies) and quantitative inputs related to employee engagement & turnover, employee health & safety, and diversity & inclusion. While performance trends vary considerably by S&P 500 sector, we have found that companies with stronger workforce ESG scores have outperformed those with weaker workforce ESG scores within the S&P 500 Consumer Discretionary sector.

Exhibit 13: S&P 500 Sector Performance: Annualized Relative Returns By Refinitiv Workforce ESG Scores (Since 2013)

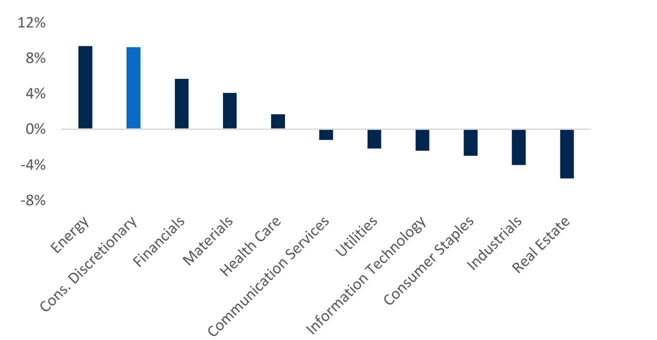
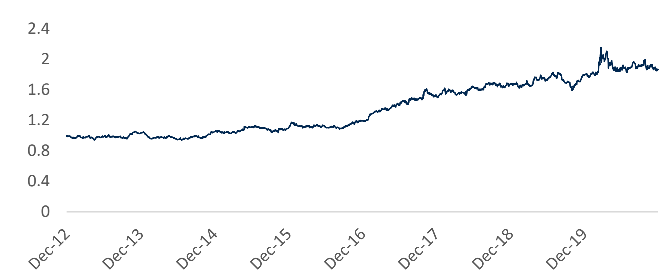


Exhibit 14: S&P 500 Consumer Discretionary Performance By Workforce ESG Scores Over Time (Refinitiv)



Source: RBC US Equity Strategy, S&P Capital IQ / ClariFi, Refinitiv, performance data is through December 30th, 2020; relative performance is based on top vs. bottom quintile within sectors; constituents are rebalanced annually

Sustainable Fund Positioning Within Restaurants

In the following section we examine how actively managed sustainable equity funds are positioned within the Restaurants industry, as well the broader Consumer Discretionary sector. Here, we've compared average sector weightings among the dedicated actively managed sustainable funds in our universe (Morningstar tracked global & US funds with meaningful US assets that have a clear & heavy emphasis on sustainable investing practices) to traditional actively managed equity funds.

Exhibit 15: Relative Sector Overweights / Underweights: Sustainable Funds Less Traditional Funds

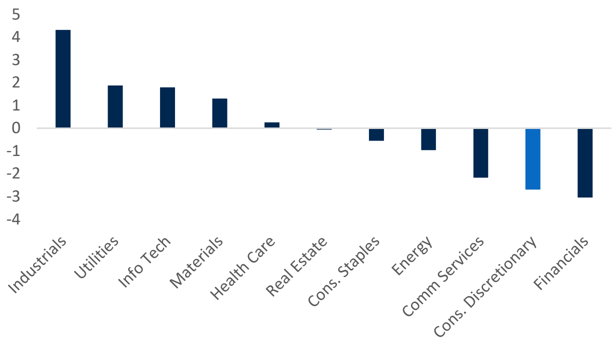
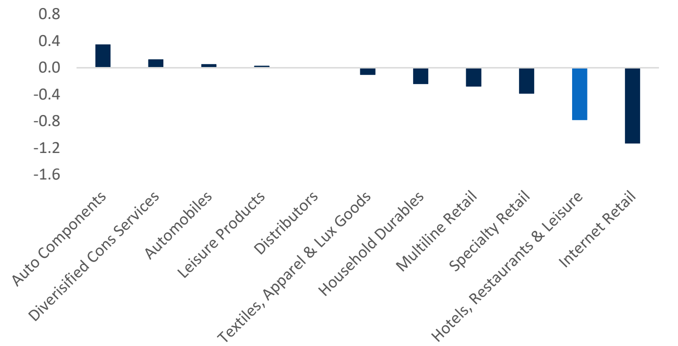


Exhibit 16: Relative Industry Overweights / Underweights: Consumer Discretionary



Source: RBC US Equity Strategy, Morningstar. Includes only fundamental / actively managed sustainable equity funds; excludes sector-focused funds; as of 3Q20

We've found that the sustainable funds tend to be relatively underweight the Consumer Discretionary sector, primarily driven by Internet Retail (where anti-competitive behavior and data privacy & security are two key ESG risk factors) and the Hotels, Restaurants & Leisure GICS industries (where human capital management and product governance are among the key ESG risk factors facing the industry). While we are not able to carve out the Hotels, Restaurants & Leisure industry underweight by subindustry, we suspect that the underweight is more driven by Hotels, Resorts & Cruise Lines and Casinos & Gaming subindustries than Restaurants. As we highlight in Exhibit 19, generally the Restaurants names rank ahead of names in the Hotels, Resorts & Cruise Lines and Casinos & Gaming subindustries, in terms of their popularity in these funds.

Exhibit 17: S&P 500 GICS Sectors Ranked By Their Weighted Median Aggregate ESG Risk Score (Higher Score = Higher ESG Risk)

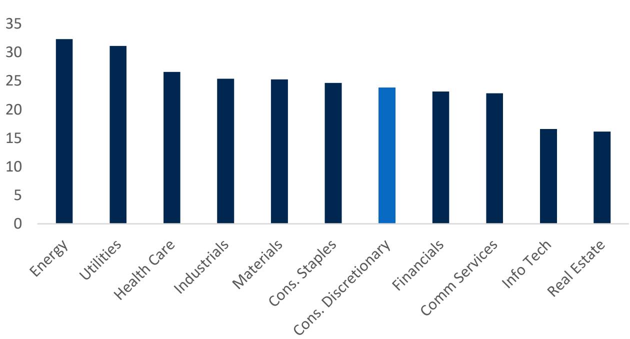
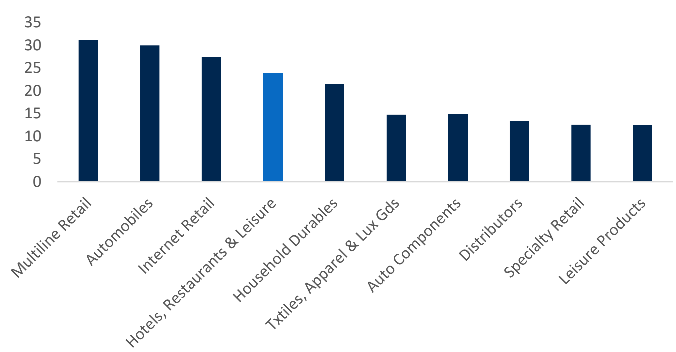


Exhibit 18: S&P 500 Consumer Discretionary Industries Ranked By Their Weighted Median Aggregate ESG Risk Score (Higher Score = Higher ESG Risk)



Source: RBC US Equity Strategy, S&P Capital IQ / ClariFi, Sustainalytics, the Diversified Consumer Services industry has been excluded from the chart on the right due to lack of data

Looking specifically at ownership of S&P 500 Restaurants, SBUX ranks highest in terms of its popularity within actively managed dedicated sustainable funds, falling within the top decile of ownership among all S&P 500 stocks. It also ranks a little higher in sustainable funds than what we see for traditional active managers (long only funds and hedge funds).

The other S&P 500 restaurants (MCD, CMG, DPZ, YUM, and DRI) rank a little lower, falling within the middle or lower deciles of sustainable fund ownership within the S&P 500. They also generally rank a little lower in sustainable funds than what we see in other active manager camps. For example, CMG ranks in decile 6 within the S&P 500 in terms of its popularity in sustainable funds, but ranks in deciles 4 and 3 in terms of its popularity in traditional long only funds and hedge funds, respectively.

Exhibit 19: S&P 500 Hotels, Restaurants & Leisure – Popularity in Actively Managed Sustainable Funds

Ticker	Company Name	Sub Industry	Popularity In Actively Managed Dedicated ESG Funds: % Own	Decile Ranking Within Entire S&P 500: Popularity in Actively Managed ESG Funds	Decile Ranking Within Entire S&P 500: Popularity in Traditional Large Cap Long Only Funds	Decile Ranking Within Entire S&P 500: Popularity in Hedge Funds
SBUX	STARBUCKS CORP	Restaurants	18%	1	2	2
MCD	MCDONALD'S CORP	Restaurants	6%	4	2	2
HLT	HILTON WORLDWIDE HOLDINGS	Hotels, Resorts & Cruise Lines	4%	6	4	1
CMG	CHIPOTLE MEXICAN GRILL INC	Restaurants	4%	6	4	3
DPZ	DOMINO'S PIZZA INC	Restaurants	4%	6	5	5
MAR	MARRIOTT INTL INC	Hotels, Resorts & Cruise Lines	3%	7	6	2
YUM	YUM BRANDS INC	Restaurants	3%	7	6	3
DRI	DARDEN RESTAURANTS INC	Restaurants	3%	7	5	3
RCL	ROYAL CARIBBEAN GROUP	Hotels, Resorts & Cruise Lines	2%	8	9	6
MGM	MGM RESORTS INTERNATIONAL	Casinos & Gaming	1%	10	9	7
LVS	LAS VEGAS SANDS CORP	Casinos & Gaming	1%	10	4	2
CCL	CARNIVAL CORPORATION & PLC	Hotels, Resorts & Cruise Lines	0%	10	10	4
WYNN	WYNN RESORTS LTD	Casinos & Gaming	0%	10	7	4
NCLH	NORWEGIAN CRUISE LINE HLDGS	Hotels, Resorts & Cruise Lines	0%	10	10	9

Source: RBC US Equity Strategy, Morningstar, S&P Capital IQ / ClariFi, as of 3Q20

Inflows into "E" Focused Thematic Funds Surged Around the US Election

We estimate that there is roughly $159 billion AUM globally that is managed by thematic funds that are exclusively focused on environmental themes, investing in companies whose products and services positively benefit the environment and / or companies with superior management of environmental risks and opportunities. Recently we have seen net inflows and new fund launches accelerate with the incoming Biden administration having vowed to make climate change a priority for the US. Already we have seen Biden commit to rejoining the Paris Agreement in January. One thing in particular we will be watching for is if the SEC will mandate climate risk disclosures under the new administration, something that has been gaining momentum globally in recent months (the UK and Hong Kong mandating TCFD disclosures by 2025 and New Zealand mandating TCFD disclosures for Banks, Asset Managers and Insurance companies by 2023 to name a few recent examples).

Investor engagement on these issues has also intensified. Investors with $52 trillion in AUM have signed on to the Climate Action 100+ (an initiative where investors commit to engaging with at least one of the 167 focus companies that are strategically important to the net zero emissions transition) and investors with $9 trillion in AUM part of the Net Zero Asset Managers Initiative (an investor group committed to supporting investing aligned with net zero emissions by 2050 or sooner). We expect investor attention on these issues to stay strong in 2021.

Exhibit 20: Environmental Focused Thematic Funds: Quarterly Net Inflows

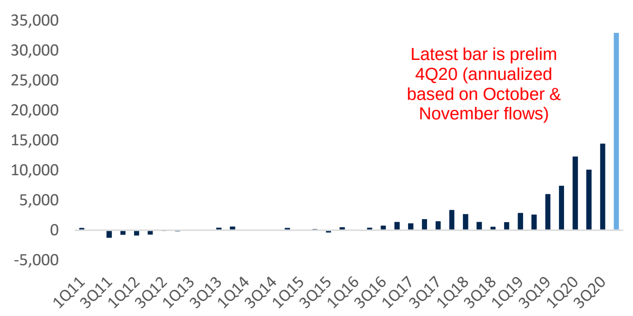
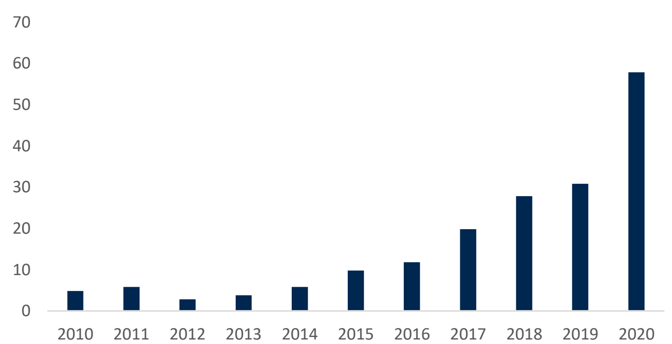


Exhibit 21: Fund Inception Date By Year: Environmental Focused Thematic Funds (Since 2010)



Source: RBC US Equity Strategy, Morningstar, as of November 2020; data is based on universe of dedicated sustainable funds that are exclusively focused on environmental ESG themes (which we've categorized based on our own review of investment strategies and fund descriptions; we are including funds focused on broad environmental themes, clean energy, water, waste & circular economy, sustainable materials / resources, sustainable transportation, biodiversity, sustainable infrastructure, sustainable agriculture as well as passive funds that have a low carbon / carbon reduction focus. Includes all fund domiciles and all investment focuses (including international equity funds).

In terms of company's management of climate risks, we have seen a growing number of US companies across sectors setting emission and / or energy reduction targets in recent years (though they still generally lag behind their European peers in setting targets). We are also seeing more companies set policies around their management of environmental risks in the supply chain, which is particularly relevant for Restaurants, with the USDA estimating that Agriculture accounts for 80% of US consumptive water use and the EPA estimating that Agriculture accounted for 10% of US GHG emissions in 2018.

Exhibit 22: % S&P 500 Companies Disclosing Emissions Reduction Target or Resource Reduction Target Over Time

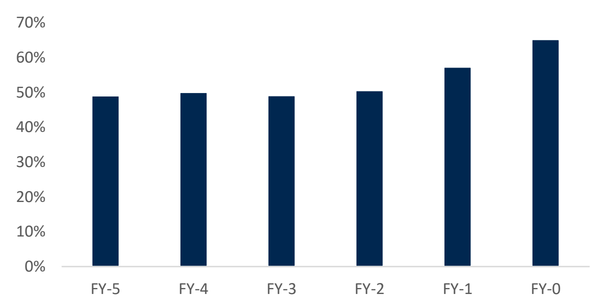
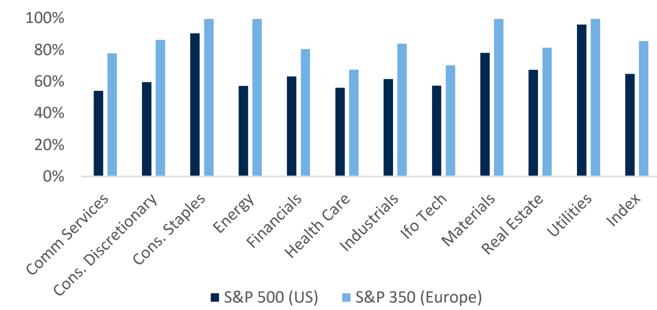


Exhibit 23: % of Companies Disclosing Emissions Reduction Target or Resource Reduction Target By Sector (FY0)



Source: RBC US Equity Strategy, S&P Capital IQ / ClariFi, Refinitiv, data is frozen as of December 30th, 2020; resource reduction target includes energy efficiency or water use target

Exhibit 24: % of S&P 500 Companies With Environmental Supply Chain Management or Termination Programs

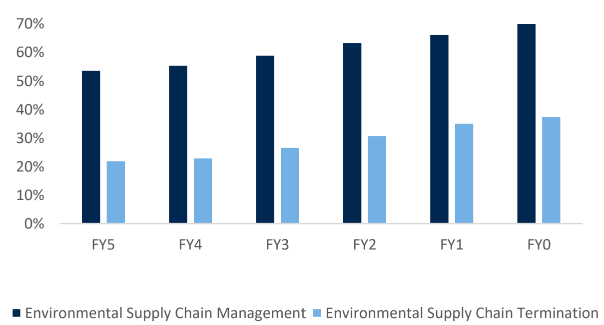
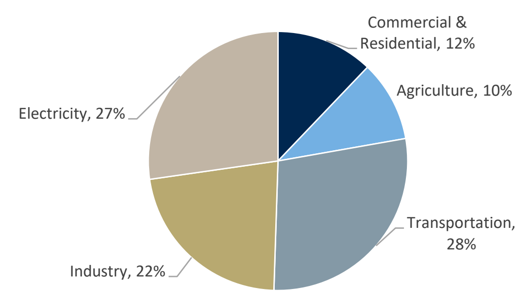


Exhibit 25: Total US GHG Emissions by Economic Sector in 2018 (US)



Source: RBC US Equity Strategy, EPA, S&P Capital IQ / ClariFi, Refinitiv, data is frozen as of December 30th, 2020; environmental supply chain management is capturing companies that use environmental criteria in the selection process of its suppliers; supply chain termination programs is capturing companies that report or show readiness to end a partnership with a sourcing partner if environmental criteria are not met.

Interestingly, from a performance perspective, we've found that S&P 500 companies with the most improvement in their emissions intensity have outperformed those with the least improvement in recent years on a sector neutral basis. This outperformance has been seen within most S&P 500 sectors, including the S&P 500 Consumer Discretionary sector.

Exhibit 26: S&P 500 Performance By Yr/Yr Emissions Intensity Improvement (Sector Neutral)

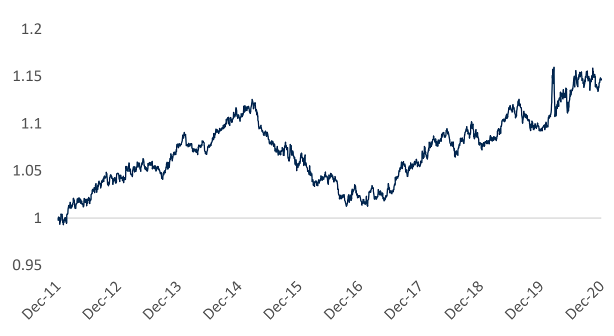
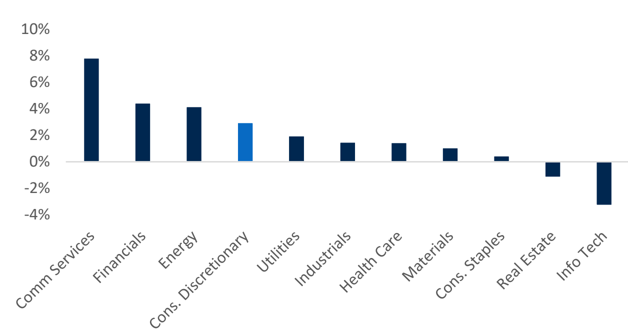


Exhibit 27: S&P 500 Sector Performance: Annualized Relative Return By Yr/Yr Emissions Intensity Improvement (Since 2011)



Source: RBC US Equity Strategy, S&P Capital IQ / ClariFi, Trucost, based on company disclosures and estimates (where companies only partially disclose Scope 1 & 2 emissions intensity); relative performance is capturing the top vs. bottom quartile within sectors and constituents are rebalanced annually; performance is as of December 30th, 2020

Developing an ESG Framework for Restaurants

Using the SASB Materiality Map as a Starting Point

The purpose of this report is to review and assess the sustainability goals and achievements for our restaurants coverage universe. Across our coverage—which includes limited-service and full-service restaurants—we are seeing commonalities in the disclosures being made within the human capital, social capital, environmental, and business model & innovation dimensions. Our assessment of material disclosures is in accordance with Sustainability Accounting Standard Board (SASB) Materiality Map.

Exhibit 28: SASB Materiality Map – Restaurants

Dimension	General Issue Category	Restuarants
Environment	GHG Emissions	
	Air Quality	
	Energy Management	
	Water & Wastewater Management	
	Waste & Hazardous Materials Management	
	Ecological Impacts	
Social Capital	Human Rights & Community Relations	
	Customer Privacy	
	Data Security	
	Access & Affordability	
	Product Quality & Safety	
	Customer Welfare	
	Selling Practices & Product Labeling	
Human Capital	Labor Practices	
	Employee Health & Safety	
	Employee Engagement, Diversity & Inclusion	
Business Model & Innovation	Product Design & Lifecycle Management	
	Business Model Resilience	
	Supply Chain Management	
	Materials Sourcing & Efficiency	
	Physical Impacts of Climate Change	
Leadership & Governance	Business Ethics	
	Competitive Behavior	
	Management of the Legal & Regulatory Environment	
	Critical Incident Risk Management	
	Systemic Risk Management	

Dark blue shading indicates material issues for restaurants
Source: SASB, RBC Capital Markets

According to SASB, the category identified as "Employee Engagement, Diversity & Inclusion" is not considered to be of material significance in the restaurants industry. Our report, however, considers this general issue category as material. We believe that strong company performance within the restaurant industry is driven by good product and service. With that being said, companies able to differentiate themselves in the human capital dimension are likely to retain top talent and optimal performance. We recognize a company's effort to engage its workforce, through diversity & inclusion initiatives, as an essential factor for employee retention and top performance.

Why Differences Across Restaurant Business Models Matters in ESG Assessment

In assessing restaurant companies from an ESG perspective, it is worth noting that restaurant business models vary widely across our coverage—see Exhibit 29 for additional detail. We have observed that the largest companies (based on global footprint, market capitalization, etc.) generally have more defined sustainability practices and targets, which intuitively makes sense to us given relative sizes of the businesses in our coverage universe, and ability to allocate more resources to sustainability efforts.

Exhibit 29: RBC Restaurants Universe Key Metrics

Company	Ticker	Segment	Market Capitalization ($MM)	Total Global System Restaurants	Global Franchised/ Licensed %	Global System Sales ($B)*	US System Sales ($B)*	Total Company Revenue ($B)
McDonald's Corporation	MCD	Quick Service	157.5	38,695	93%	100.2	40.4	21.1
Starbucks Corporation	SBUX	Fast Casual	119.7	31,795	49%	39.2	21.4	27.0
Chipotle Mexican Grill, Inc.	CMG	Fast Casual	39.5	2,622	0%	5.6	5.5	5.6
Yum! Brands, Inc.	YUM	Quick Service	32.4	50,170	98%	52.6	21.4	5.6
Restaurant Brands International Inc.	QSR	Quick Service	18.4	27,086	100%	34.0	14.7	5.6
Domino's Pizza Inc.	DPZ	Quick Service	15.6	17,020	98%	14.3	7.0	3.6
Darden Restaurants, Inc.	DRI	Casual Dining	15.3	1,799	0%	8.7	8.6	8.7
Texas Roadhouse, Inc.	TXRH	Casual Dining	5.6	611	16%	3.3	3.3	2.8
The Wendy's Company	WEN	Quick Service	5.0	6,788	95%	10.9	9.8	1.7
Brinker International, Inc.	EAT	Casual Dining	2.1	1,675	33%	4.4	4.0	3.3

** Global system sales equals the sum of restaurant sales from company-owned and franchised/licensed restaurants.*

Source: FactSet, company data, RBC Capital Markets; all figures as of Dec. 2019, except market capitalization

Beyond company size, we would also point out other factors impacting companies' abilities to implement and execute against sustainability goals, including geographic footprint and franchised mix. Regarding the latter, specifically, some of our covered companies with higher franchised mix (e.g. MCD, YUM) ultimately cede some control to franchisees with respect to certain ESG initiatives at the restaurant level, including practices around waste and energy management, labor, etc.

Finally, we would highlight other nuances around business models that could ultimately influence companies' ability to effect change. For instance, a significant portion of **MCD**'s revenue (~36% in 2019) is generated through rental income, given its substantial real estate ownership, and this may provide the company with relatively more control over certain ESG practices (e.g. energy management) than other restaurant companies with less real estate ownership. Another business model nuance worth highlighting is that **QSR** and **DPZ** each operate ingredient and packaging distribution business segments which serve their respective franchisees. As a result, the greater degree of control at the supply chain level for these companies should warrant additional consideration.

Corporate Governance

While SASB has not identified any Leadership & Governance category issues as material for restaurant companies, we see corporate governance coming into greater focus. As shown in Exhibit 30, most of the companies in our coverage have in place non-executive Board

Chairpersons, with many requiring separation of the Chair and CEO roles. Furthermore, we are beginning to see companies take steps to link executive compensation with certain sustainability and other related targets. For instance, **SBUX** executive compensation, beginning in FY21, will be linked to diversity and inclusion goals.

Exhibit 30: RBC Restaurants Coverage Corporate Governance Snapshot

Company	Ticker	Non-Executive Chair	Separation of Chair/CEO Required	Board Diversity
Chipotle Mexican Grill, Inc.	**CMG**			33% female
Domino's Pizza Inc.	**DPZ**	✓	✓	33% female
Darden Restaurants, Inc.	**DRI**	✓	✓	25% female
Brinker International, Inc.	**EAT**	✓	✓	30% female
McDonald's Corporation	**MCD**	✓	✓	50% women or minorities
Restaurant Brands International Inc.	**QSR**	✓		9% female
Starbucks Corporation	**SBUX**	✓	✓	38% female, 46% ethnic diversity, 23% national diversity
Texas Roadhouse, Inc.	**TXRH**			
The Wendy's Company	**WEN**	✓	✓	18% female
Yum! Brands, Inc.	**YUM**	✓		33% female

Source: Company reports, RBC Capital Markets

What We Did

In the following sections, we have organized detailed company data and goals by ESG subject matter. In creating this report, we examined and utilized a number of publicly available company resources including, but not limited to:

- sustainability reports;
- proxy statements;
- press releases; and
- company websites.

Please note that in the Appendix, we include links to key company sources, including companies' latest sustainability reports (where applicable).

SASB Dimension: Environment

Restaurant companies are reducing energy and water consumption through the adoption of green building (i.e. sustainable building design) strategies for new unit construction, or by installing energy management systems. These efforts are reducing, and in certain cases eliminating, impact on the environment, while also generating cost savings (e.g. utility and maintenance costs). Though most of our quick service restaurants are seeking to reduce environmental footprint with green building design, highly franchised business models presents an added hurdle, given the sometimes necessary additional investment by franchisees. Similarly, for companies that offer recycling programs to divert waste, participation for franchisees may be optional. Opportunities also exist to reduce costs associated with certain packaging, as various restaurant brands are making progress or committing to reusable solutions, though execution may depend consumer acceptance.

SASB Issue Category: Energy Management

Brinker International, Inc. (EAT)

EAT invests in restaurant technology that identifies ways to reduce energy costs. Since implementing the technology, EAT has been able to train restaurant operators to minimize energy usage.

Chipotle Mexican Grill, Inc. (CMG)

CMG installed energy management systems—which allow energy usage to be monitored and controlled—in all compatible restaurants during 2019 (resulting in a **7.7%** reduction in average energy usage). These systems are also installed in newly built restaurants. Regarding renewable energy, CMG increased the amount sourced to **21.33%** (against a **20%** baseline set in 2018).

Darden Restaurants, Inc. (DRI)

DRI has focused on modifying existing and new restaurants to be more ecofriendly by adding LED light fixtures, efficient HVAC systems and promoting daylight harvesting. All new restaurant prototypes are designed to align with LEED (Leadership in Energy and Environmental Design) standards.

Domino’s Pizza Inc. (DPZ)

DPZ has reduced energy at supply chain centers across the US, via the conversion of trucks to more fuel efficient vehicles and new ecofriendly kitchen appliance designs. Stores that are reimaged in the Pizza Theater design (introduced in 2012, with the majority of US and international stores converted to the design by **2019**) conserve energy via the incorporation of LED signs.

McDonald’s Corporation (MCD)

MCD’s energy management strategy includes investing in renewable energy, LED lighting, solar structures and energy efficient equipment. In 2019, MCD committed to two renewable energy projects in Texas (virtual power purchase agreements or “VPPAs”) to expand the amount of available renewable energy in the US. In 2020, MCD completed three new VPPAs related to projects across four states (Illinois, Oklahoma, North Carolina and Ohio). In aggregate, the energy produced by the five total VPPA projects would be enough to operate approximately **8,000** McDonald’s restaurants. Once these five renewable energy projects are operational, the emissions reductions from the deals will bring MCD roughly halfway toward completing its goal of reducing GHG emissions **36%** by **2030**. MCD is also collaborating with its franchisees globally, designing ecofriendly buildings (some of which are LEED certified).

Restaurant Brands International Inc. (QSR)

As a part of its green building strategy, QSR has committed to designing, building and operating restaurants to be more ecofriendly and reduce the amount of energy consumed. Some examples of the sustainable designs include LED lighting, solar panels, daylight harvesting and high efficiency HVAC systems.

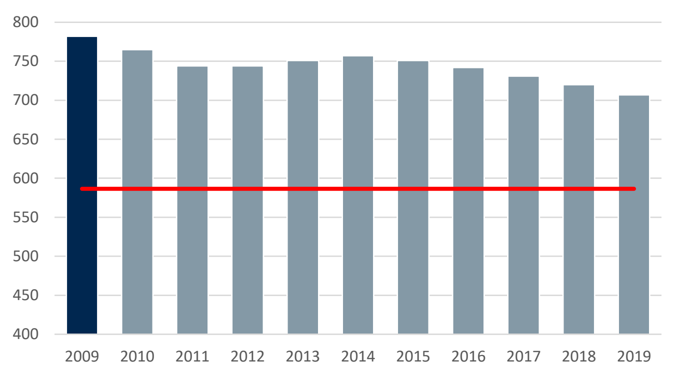
Starbucks Corporation (SBUX)

SBUX has opened more than **1,600** LEED (Leadership in Energy and Environmental Design) certified stores globally and has developed the Greener Stores framework (a new store verification program) to exceed LEED standards and further reduce environmental footprint. Additionally, SBUX buys sufficient renewable energy to power **100%** of its company-owned stores in North America and the UK. To enhance these efforts, SBUX has committed to:

- building and operating **10,000** "Greener Stores" (incl. existing stores, new builds and renovations) globally by **2025**; and
- investing in **100%** renewable energy to power global operations globally by the end of **2020**.

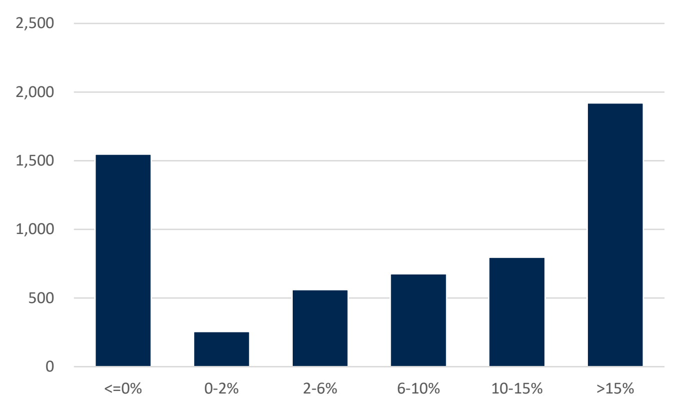
SBUX is also a partner in the U.S. Department of Energy's Better Buildings initiative. As noted on the initiatives website, the energy used to power SBUX stores, offices and roasting plants accounts for more than 80% of the company's direct carbon footprint, and as a result, SBUX has committed to reducing its energy use via LED lighting retrofits, energy management systems, proactive asset replacement and new store improvements. Through SBUX's portfolio in 6,500 buildings (~12MM sq. ft.), SBUX has improved energy performance by 10% from its 2009 baseline, and continues to work toward its goal of a 25% reduction.

Exhibit 31: Starbucks Energy Use Intensity (vs. 2019 Baseline and Goal)



Source: Better Buildings – US Department of Energy, RBC Capital Markets

Exhibit 32: Number of Starbucks Properties by Cumulative % Improvement



Source: Better Buildings – US Department of Energy, RBC Capital Markets

Texas Roadhouse, Inc. (TXRH)

TXRH has committed to reducing energy consumption by incorporating LED light fixtures, energy efficient kitchen equipment, solar panels (in two Arizona restaurants) and optimal HVAC performance across its restaurants. Additionally, TXRH's Support Center offices were renovated to include design concepts that reduce electricity use.

The Wendy's Company (WEN)

WEN's Squarely Sustainable approach to ecofriendly practices considers energy efficiency in the selection of equipment, building construction and transportation methods for delivery services. WEN has made progress by implementing the use of LED light fixtures for new and remodeled units, high efficiency HVAC equipment in new units and high efficiency cooler motors. WEN has committed to reducing energy consumption in company-owned restaurants by **20%** per transaction by **2025**. More than **1,500** restaurant locations are participating, including **17** franchise owners.

Yum! Brands, Inc. (YUM)

YUM has a green building strategy in place to reduce energy consumption in newly developed company-owned restaurants and participating franchisees. A combination of new technologies and ecofriendly operating practices are employed globally in restaurants, such as LED light fixtures, solar energy systems and energy monitoring tools. YUM has committed to reducing their average restaurant energy use by an additional **10%** by the end of **2025**.

SASB Issue Category: Water & Wastewater Management

Brinker International, Inc. (EAT)

EAT has installed low water urinals in new restaurants and in existing units where maintenance is essential.

Chipotle Mexican Grill, Inc. (CMG)

CMG sources some ingredients from farmers who make efforts to mitigate water usage via drip irrigation.

Darden Restaurants, Inc. (DRI)

DRI has a wide range of water saving initiatives, some of which include low-flow sinks, low-flow flush valves, drip irrigation systems and hands-free faucets.

Domino's Pizza Inc. (DPZ)

New refrigeration equipment designs have helped to reduce the consumption of water.

McDonald's Corporation (MCD)

MCD prioritizes water saving in the following areas: water management, irrigation, public and staff amenities, and cleaning and beverage services. Surveys are conducted to identify and prioritize water saving opportunities. Initiatives such as low-flow urinals, high-efficiency faucets and water-efficient fixtures have all attributed to conservation. MCD has targeted a **20%** reduction in water usage in the US by **2020**.

Restaurant Brands International Inc. (QSR)

As part of QSR's green building initiative, water systems (such as low volume faucets) have been added in some new and existing restaurants.

Starbucks Corporation (SBUX)

SBUX's Greener Stores framework aims to implement practices that deliver **30%** water savings. In terms of water usage from suppliers, SBUX follows C.A.F.E. (Coffee and Farmer Equity) Practices verification program and measures farmers against their ability to conserve water and protect its quality. SBUX made a commitment to conserve or replenish **50%** of all the water drawn (for operations and coffee production) by **2030**, with a focus on communities and basins with high water risk.

Texas Roadhouse, Inc. (TXRH)

Through a utility management system, some TXRH locations are working on ways to cut back on water usage. In 2019, TXRH collaborated with WaterStep, a non-profit organization that aims to provide developing countries with clean water supplies. Working with WaterStep, TXRH has invested in solutions that help women and children gather water for their families.

The Wendy's Company (WEN)

Two WEN franchisees (Wendium of Florida and Carlisle Corporation) joined the Better Buildings Water Challenge and committed to reduce water usage by **20%** (from 2018 levels over a ten year period). Additionally, WEN is sourcing tomatoes served in its in North American restaurants from indoor greenhouses and hydroponic farms.

Yum! Brands, Inc. (YUM)

Water usage in YUM restaurants is mitigated with low-flow fixtures, high-efficiency kitchen equipment and improved irrigation techniques. YUM is targeting an additional **10%** reduction in average restaurant water consumption by the end of **2025**, with a focus on high water-stress areas.

SASB Issue Category: Waste & Hazardous Materials Management

Brinker International, Inc. (EAT)

EAT reduces waste through various packaging and recycling efforts. **100%** of EAT’s packaging falls into one of the following eco-friendly categories: sustainably sourced raw materials; made from recycled materials; or recyclable/reusable/compostable.

Chipotle Mexican Grill, Inc. (CMG)

CMG has invested in a full-time Diversion Coordinator that leads diversion program efforts in restaurants. Waste audits are also performed on an annual basis to gather insight on sources of waste. CMG’s diversion rate was **47%** in 2019 (up 5% from the previous year). CMG has also committed to the following goals:

- divert **50%** of waste from landfills by the end of **2020**, against a **37%** baseline in **2016** (**42%** at the end of **2018**);
- ensure **100%** of restaurants are participating in a landfill diversion program by **2020**, against a baseline of **81%** at the end of **2016** (**88%** at the end of **2018**);
- set up and maintain a recycling program at **95%** of all restaurants by **2020**, against a baseline of **80%** at the end of **2016** (**87%** at the end of **2018**);
- reduce overall average waste per restaurant per week by **30%** (to **22** cubic yards) by **2020**, from a baseline of **32** cubic yards per week in **2016**; and
- set up and maintain a composting program at **25%** of all restaurants by **2020**, against a baseline of **10%** at the end of **2016** (**18%** at the end of **2018**).

Darden Restaurants, Inc. (DRI)

DRI manages food waste via its forecasting system that aligns food distribution with expected demand, and by donating any excess food through the company’s Harvest Food Donation Program. Additionally, DRI is working to integrate organic composting and participates in the Food Waste Reduction Alliance to further reduce discarded food.

Domino’s Pizza Inc. (DPZ)

DPZ’s pizza boxes are made from ethically sourced materials, and are incorporated into the operations of franchised restaurants. Earlier this year, DPZ worked with its primary supplier on increasing the recycled content in its pizza boxes from **40%** to **72%**. More recently, DPZ launched a new feature on its website that allows customers to enter their zip code and learn more about local guidelines for pizza box recycling.

McDonald's Corporation (MCD)

MCD has four main strategies to reduce the amount of paper and plastic packaging used and encourage recycling. These strategies include:

1) eliminating packaging via reusable solutions (reusable cups, straw-less lids, fiber based product packaging, etc.);
2) shifting material to use 100% renewable, recycled or certified content;
3) recovering and recycling by improving current systems making it more convenient; and
4) closing the loop by increasing usage of recycled materials in packaging.

MCD has also made the following commitments:

- **100%** of guest packaging will come from renewable, recycled or certified sources by 2025; and
- recycling of guest packaging in **100%** of restaurants by 2025.

Restaurant Brands International Inc. (QSR)

QSR aims to increase recycling and utilization of reusable packaging alternatives across its business, and this past October Burger King and Tim Hortons announced a partnership to pilot a reusable packaging system for food and beverages on the go (see more detail below). QSR has committed to the following goals:

- to phase out expanded polystyrene (EPS) foam in all guest packaging globally by **2021**;
- **100%** of approved guest packaging will come from renewable, recycled, or certified sources by **2025**;
- to recycle guest packaging in **100%** of Burger King and Tim Hortons restaurants in Canada and the US by **2025**; and
- to phase out non-biodegradable plastic toys from Burger King globally by **2025**.

Regarding the commitment to source 100% of guest packaging from renewable, recycled or certified sources (by 2025), Burger King and Tim Hortons Canada have partnered with Loop, a reusable packaging startup, to pilot reusable packaging in select restaurants starting in **2021**.

Starbucks Corporation (SBUX)

In an effort to increase the recyclability of cups, SBUX introduced a new hot cup prototype, which is compostable and recyclable (in markets where allowed). Patrons are encouraged to reuse non-single-use cups of their own or those purchased in-store (though this is currently not an option due to the pandemic), and are offered discounts for doing so. Straw-less lids and other sustainable alternatives to straws are an ongoing effort for SBUX. The company had targeted eliminating its use of plastic straws globally by the end of 2020, however due to COVID-19, the new anticipated target date is **spring 2021**. SBUX has set the following goals:

- **double** the recyclability of cups from **2016** to **2022**;
- develop **100%** compostable and recyclable hot cups by **2022**;
- to use **20%** recycled content in hot cups by **2022**;
- **double** the use of reusable cups from **2016** to **2022**;
- eliminate single-use plastic straws globally by **2021**; and
- a **50%** reduction in waste sent to landfill from stores and manufacturing.

Texas Roadhouse, Inc. (TXRH)

Food waste is minimized through the Made from Scratch Model, which allows excess ingredients to be incorporated into other menu items. Additionally, many TXRH restaurants are transitioning from plastic to **100%** recyclable to-go bags and recycling fryer oil for biofuel.

The Wendy's Company (WEN)

- WEN's food is made to order every day, which aligns distribution with demand and reduces left over ingredients. To reduce its packaging footprint, WEN offers **100%** recyclable cup carriers, **100%** recyclable plastic & paper carryout bags, **50%** recyclable unbleached napkins. WEN also collects used cooking oil so it can be refined and used as an ingredient. WEN has also committed to reducing food loss and waste by **50%** by **2030** as part of the USDA and EPA program US Food Loss and Waste 2030 Champions.

Yum! Brands, Inc. (YUM)

As it relates to waste and hazardous materials management, YUM has set goals to:

1) divert **50%** of back-of-house operational waste (measured by weight) generated in US restaurants by the end of **2020**; and
2) reduce food loss and waste by **50%** by **2030**, as part of the US Department of Agriculture (USDA) and the US Environmental Protection Agency (EPA) program US Food Loss and Waste 2030 Champions.

To achieve these goals, efforts to use sustainable packaging, promote reusable containers and reduce food waste are being made across all brands. KFC, in particular, made a pledge that all plastic-based, consumer-facing packaging will be recoverable or reusable by **2025**. Taco Bell (US), meanwhile, has begun using recyclable lids and cold cups.

Separately, YUM's Harvest program, in partnership with Food Donation Connection, is responsible for donating surplus food to food banks, soup kitchens and other nonprofit organizations. Since 1992, YUM's three largest brands (KFC, Pizza Hut and Taco Bell) have collectively donated nearly 200 million pounds of food (at a total value of over $1B).

Focus Topic: Science-Based Targets

The US election has put more focus on how companies are managing environmental risks, with the incoming Biden administration vowing to make climate change a priority. We are also seeing more attention paid to how meaningful the goals that companies are setting are.

On this point, we have seen a growing number of companies commit to and/or officially set science-based targets. These targets follow the criteria set forth by the SBTi, a partnership between CDP, WRI, WWF, and UN Global Compact that aims to mobilize the private sector to take the lead on climate action. Emissions targets are considered to be science-based if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. Targets are also validated, giving them additional credibility.

In addition to setting targets around a company's emissions through their own operations, the initiative also requires companies to have a Scope Level 3 target (addressing emissions through the supply chain), depending on the sector.

Exhibit 33: Number of Public US Companies Committing or Setting Science-Based Targets By Sector

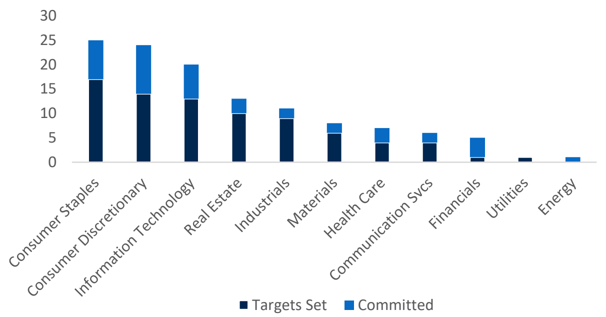
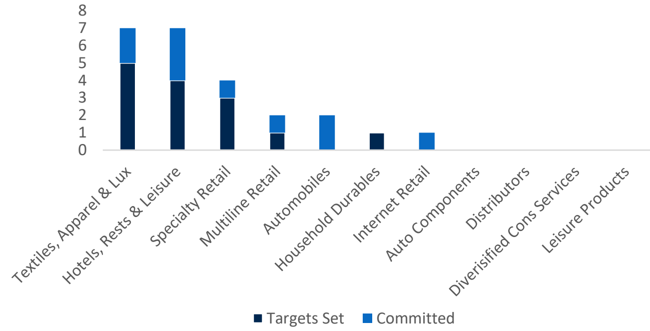


Exhibit 34: Number of Public US Companies Committing or Setting Science-Based Targets By Cons. Discretionary Industry



Source: RBC US Equity Strategy, SBTi, charts only include US companies and exclude private companies

Looking at the US Restaurants under RBC's coverage, MCD is the only company that has set a science-based target, though SBUX and CMG have committed to setting one (note that companies have 24 months from signing their commitment letter to develop, validate and set their target).

Exhibit 35: RBC Restaurants Coverage: Companies Committing or Setting Science-Based Targets

Ticker	Company Name	Status	Date	Target
MCD	McDonald's Corporation	Targets Set	03/01/2018	American multi-national fast food company McDonald's Corporation will partner with franchisees to cut greenhouse gas emissions to McDonald's restaurants and offices by 36% by 2030 from a 2015 base year. Through collaboration and partnership with our suppliers and producers, McDonald's also commits to a 31% reduction in emissions intensity (per metric ton of food and packaging) across our supply chain by 2030 from 2015 levels.
SBUX	Starbucks Coffee Company	Committed	01/01/2020	N/A
CMG	Chipotle Mexican Grill, Inc.	Committed	03/31/2020	N/A

Source: SBTi, Company reports, RBC Capital Markets

SASB Dimension: Social Capital

Though restaurants have outlined commitment to extensive measures in place to ensure food safety and quality, the significant number of points of distribution—both company-owned and franchised—and transaction frequency present challenges in monitoring food safety practices, including within supply chains. With regard to supply chains, specifically, many restaurant brands have sought to improve the quality of ingredients, including targeting the removal of antibiotics from various ingredients. CMG and SBUX, however, have improved menu transparency even further by allowing customers to explore ingredient sourcing via digital traceability.

SASB Issue Category: Product Quality & Safety

Brinker International, Inc. (EAT)

EAT has trained food safety professionals that establish procedures to ensure food safety and quality. Restaurants are audited at least four times per year by third parties against these standards. Suppliers are required to follow a code of conduct, and are also audited by food safety agencies.

Chipotle Mexican Grill, Inc. (CMG)

CMG has implemented a more comprehensive food safety program following the occurrence of illnesses related to the brand's restaurants. CMG's Food Safety Advisory Council and Board of Directors oversee the internal policies and procedures put in place to ensure food safety. Employees are also given wellness checks before each shift, to reduce the risk of exposing ingredients to sick staff members. CMG requires their restaurant management teams to be trained and certified in food safety by ServSafe, a third-party program that covers areas such as food safety, cross-contamination control, etc. ***Please see the CMG case study in the following section for more detail.***

Darden Restaurants, Inc. (DRI)

DRI implements food safety and total quality programs in restaurants and with suppliers, on a daily basis. Suppliers that produce high-risk products are subject to evaluation by DRI personnel at least annually. DRI's total quality managers, as well as third-party auditors, visit each restaurant throughout the year, to review food handling procedures and provide food safety training.

Domino's Pizza Inc. (DPZ)

DPZ requires suppliers to meet strict quality standards to ensure food safety. Suppliers' quality assurance programs are examined through third-party audits, on-site examinations and product evaluations. DPZ has the right to terminate arrangements with its US meat and cheese suppliers for any quality failures.

McDonald's Corporation (MCD)

MCD implements food safety standards at all restaurants and conducts annual food safety audits with suppliers, distribution centers and restaurant locations. Food safety standards and procedure checks are conducted on a daily basis in the restaurants. Restaurant employees and operators are provided food safety training on a regular basis, and corporate staff members may receive food safety training through e-learning modules. MCD is on the board of the Global Food Safety Initiative. MCD plans to implement a digital food safety system in all markets by **2021**, making it easier for employees and managers to implement food safety procedures more efficiently.

Restaurant Brands International Inc. (QSR)

QSR's vendors are required to have certification under the Global Food Safety Initiative system. Routine restaurant and vendor audits are conducted under QSR's food quality assurance program to ensure compliance with preventative food safety measures. All QSR restaurants are subject to regular food safety inspections. New menu items that receive approval are also assessed for compliance by food safety experts, and these experts work with QSR's operations teams on developing effective food safety practices for restaurants. Franchisees are required to conduct comprehensive food handling training with all employees.

Starbucks Corporation (SBUX)

SBUX's Supplier Guidance Global Requirements outlines the minimum amount of operational standards that suppliers must comply with to ensure food safety and quality. In short, suppliers are expected to provide transparency into their operations, policies and processes. SBUX's food suppliers should be able to share audit reports benchmarked to Global Food Safety Initiative standards or other safety audit reports deemed acceptable. SBUX has the right to conduct product quality and food safety tests along with audits on any company facility that supplies products (branded, non-branded or custom-made). Audits and inspections that are onsite can be unannounced or announced.

Texas Roadhouse, Inc. (TXRH)

TXRH has a product coach team that aids kitchen staff at all restaurants system-wide, with food safety and quality training. Product coaches and food team members are certified professionals with designations from the National Environmental Health Association. TXRH has food safety and sanitation audits conducted regularly by third-party teams and product coaches.

The Wendy's Company (WEN)

WEN has established a Code of Conduct that holds suppliers to food safety and quality assurance standards. Quality assurance audits are conducted regularly by WEN at farms, facilities, plants and other supplier locations. To maintain product quality and safety, WEN and its suppliers agree to adhere to strict food safety testing programs, retain products suspected to be unsafe until a food safety review is completed and monitor and improve procedures.

Yum! Brands, Inc. (YUM)

YUM has a quality assurance team in place for each division, managing food safety and monitoring suppliers. Suppliers are subject to quality system audits that verify compliance with food safety standards. YUM conducts approximately 3,000 food safety supplier audits annually. Third-party food safety professionals conduct food standards compliance check audits at restaurants a minimum of two times per year. Food safety training is required for all employees globally as part of onboarding and on a regular basis. YUM's Supplier Tracking Assessment and Recognition system allows for the exchange of food safety information among suppliers, distributors and franchisees, offering performance transparency.

Product Quality & Safety Case Study: Chipotle Mexican Grill

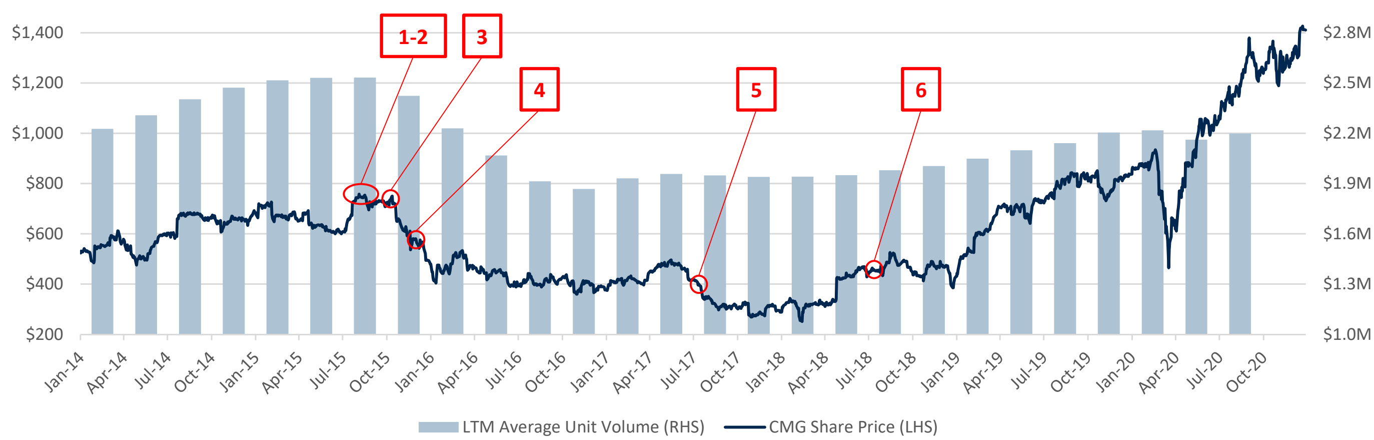
As noted earlier, CMG has implemented a more comprehensive food safety program following the occurrence of illnesses related to its restaurants. Below, we show how acute food safety issues can have a meaningful impact on brand trust and sales, highlighting the direct link between a key ESG topic and stock performance.

Timeline of Events (see Exhibit 36 below)

1) In July 2015, CMG experienced an E.coli outbreak at a restaurant located in Seattle, Washington. Of the five cases, three people had to be hospitalized.

2) From early August through late September 2015, an outbreak of salmonella caused by contaminated tomatoes led to 115 illnesses (81 confirmed and 34 probable; 17 hospitalizations) at 17 different restaurants located in Minnesota. During the week of August 18th, there was a norovirus outbreak at a restaurant located in Simi Valley, California, resulting in illnesses of 98 people (80 customers and 18 employees).
3) From late October through early December 2015, an E.coli outbreak infected 55 people across 11 states. Out of the 55 infected people, 21 of them were hospitalized.
4) In December 2015, another outbreak of E.coli was reported across three states (with illness onset dates ranging from November 18th through November 26th). Only one person was hospitalized. Another norovirus outbreak also occurred in December, infecting 136 people who ate at a restaurant located in Boston, Massachusetts. Of the 136 cases, more than 120 cases were from Boston College students.
5) In July 2017, more than 135 people became ill after eating food from a Chipotle located in Virginia.
6) In July 2018, an outbreak of Clostridium perfringens, led to more than 600 people becoming ill, after eating in restaurants located in Ohio.

Exhibit 36: CMG Stock Price and Average Unit Volume/Sales



Source: FactSet, company data, press reports, RBC Capital Markets

Chipotle's Response

As a result of the outbreaks, CMG enhanced its food safety program for its restaurants and suppliers in order to prevent future incidents and earn back the trust of the brand's guests. The program has restaurant policies in place that are overseen by CMG's Board of Directors and a Food Safety Advisory Council, consisting of independent food safety experts, and then implemented by an internal food safety team. CMG's restaurants operate under the US Food and Drug Administration's (FDA) Hazard Analysis and Critical Control Points (HACCP) systems, which allow the company to detect food safety threats and administer preventative measures. The company's sanitation and HACCP systems intended to maintain cleansing and food prep protocols were further improved in 2018, with efforts aimed at eliminating pathogens and preventing restaurants from becoming contaminated. Each restaurant has a food safety leader who keeps track of daily HACCP logs and confirms that all food safety protocols are followed. To reduce the risk of employees working while sick, Chipotle has a policy in place that permits three days of sick leave from the first day of employment, in addition to wellness checks required at the beginning of every shift. Restaurant managers and crew members are incentivized to prioritize food safety measures in order to receive quarterly bonuses.

With regard to its supply chain, CMG's suppliers are required to implement preventative measures of their own, comprised of advanced technologies and HACCP procedures, to verify the efficacy of food safety control measures on a routine basis and to document the effectiveness of food safety procedures within certain operations. Advanced technologies are also utilized in all restaurants for raw ingredients, consisting of a vacuum-sealed packaging process for meats with temperature monitoring, a blanching process for jalapenos and inhibitors in beans and corn. Chipotle's Supplier Food Safety Team routinely visits suppliers' operations (often unannounced) to ensure processes are being adhered to. Local growers are provided financial aid and training through Chipotle's Local Grower Support Initiative, which covers the cost of facility upgrades needed to ensure measures are in place to comply with food safety and quality regulations. To mitigate the risk of defective ingredients reaching restaurants, Chipotle developed a traceability program that tracks food ingredients from supply chains to restaurants (via an electronic system) by marking them with unique identifiers. This eliminates the time once allotted to identifying the source of bad ingredients and allows CMG to swiftly address food safety and quality issues.

SASB Issue Category: Customer Welfare

Brinker International, Inc. (EAT)

EAT brands provide customers with transparency regarding nutritional information and allergens, available online or in restaurants. EAT also offers menu diversity with vegan and vegetarian options.

Chipotle Mexican Grill, Inc. (CMG)

CMG's menu offers transparency into its ingredients and nutrition information, available in-store, via mobile app or online (including a nutrition calculator). In late **2020**, the company launched Real Foodprint, a sustainability impact tracker, made available with digital orders on the mobile app or website. This feature allows customers to explore CMG's sourcing efforts by comparing ingredients and sourcing standards to an industry average. Real Foodprint compares values for each of the brand's ingredients to conventional counterparts against the following metrics:

1. less carbon in the atmosphere (measured in grams);
2. gallons of water saved;
3. improved soil health (measured in square feet);
4. organic land supported (measured in square feet); and
5. antibiotics avoided (measured in milligrams).

Darden Restaurants, Inc. (DRI)

DRI provides its customers across all brands with transparency regarding nutritional content, dietary restrictions or allergens. Regarding antibiotics, DRI is committed to purchasing chicken raised without the use of medically important antibiotics by **2023**.

Domino's Pizza Inc. (DPZ)

DPZ has gradually reduced the amount of sodium in pizza sauce and eliminated MSG, along with all artificial food coloring, from products in the US. **100%** of the chicken used for menu items is free of antibiotics that are medically important to human beings. In addition, BHA/BHT, PHOs and trans-fat were removed from core products. DPZ provides its entire ingredient list for customers online, for nutritional transparency in addition to allergen information.

McDonald's Corporation (MCD)

MCD offers transparency to customers with its nutritional analysis of menu items to help customers balance their diet (via website or mobile app). MCD will be testing plant-based menu items through its McPlant rollout (contingent upon consumer demand) in **2021**. MCD's Happy Meals offer balanced menu options for kids, including fruits, vegetables and low-fat dairy options. MCD has committed to five Global Happy Meal Goals to be achieved by **2022**, centered on offering balanced meals, transparency, simplified ingredients and marketing.

Restaurant Brands International Inc. (QSR)

QSR provides consumers transparency about nutritional, ingredient and allergen information within restaurants, online or via mobile device. QSR is aiming to remove artificial sources, artificial flavors and artificial preservatives across all brands in the US and Canada by **2021**. This past September, Burger King announced the removal of colors, flavors and preservatives from artificial sources from one of its core products (the Whopper) in all markets across the US.

Starbucks Corporation (SBUX)

SBUX provides transparency with nutritional information via menu labeling (available in store, online or through the mobile app). On menu innovation, SBUX plans to expand its plant-based options globally. A digital traceability tool was launched to allow customers to meet farmers, roasters and baristas virtually and learn more about regions around the world that produce coffee.

Texas Roadhouse, Inc. (TXRH)

TXRH provides consumers with gluten-free menu options, as well as detailed nutritional information at all restaurants and online.

The Wendy's Company (WEN)

WEN offers consumers nutritional and food allergen information in restaurants, online and via mobile app. Menu innovation efforts from the Fast Food Done Right initiative have led to the testing of plant-based burgers and chicken products in North America and select international markets.

Yum! Brands, Inc. (YUM)

YUM has a team of nutritionists and food innovation professionals responsible for implementing menu nutrition strategy. YUM also conducts market research on trends in consumer lifestyles and preferences on a regular basis. Nutritional and allergen information is provided on each of its brands' websites. Nutrition brochures can be found in restaurants with menu items tailored toward a balanced diet. YUM has also committed to the following:

- to remove artificial colors and flavors and preservatives, where possible, from core food ingredients by **2020**;
- Pizza Hut US plans to remove antibiotics important to human medicine from chicken used for wings by **2022**;
- Taco Bell plans to reduce antibiotics important to human health in its U.S and Canada beef supply chain by **25%** by **2025**; and
- by **2030**, **50%** of menu offerings will be consistent with YUM global nutrition criteria for meal options.

Focus Topic: Plant-Based Menu Items

Plant-based menu items have come into greater focus for restaurants in recent years as demand has grown for meat and dairy alternatives across different categories (burger, coffee, etc.). The current environment, impacted by the COVID-19 pandemic, may also serve as a tailwind for plant-based food demand, as consumers reexamine eating habits, particularly as they may relate to immunity. With that said, we see long-term growth potential for plant-based alternatives within our investment universe, particularly limited-service restaurants. Factors such as cost effectiveness and availability (versus other ingredient sources), however, may be near-term hurdles. And while we acknowledge that recent short-term gains from new plant-based product introductions don't necessarily guarantee long-term demand, shifting consumer behaviors as a result of the current environment may provide a larger tailwind than previously thought.

A number of companies within our coverage have made recent efforts to expand their plant-based menu options, including:

Chipotle Mexican Grill, Inc. (CMG)

One of CMG's key plant-based menu additions—and the brand's first protein addition in many years—occurred in 2014, with its launch of Sofritas (a vegan protein alternative). Later, in 2019, CMG extended its Lifestyle Bowls menu platform with two "Plant-Powered" options (vegan and vegetarian bowls).

McDonald's Corporation (MCD)

In November 2020, MCD announced that it will be introducing a new plant-based food menu line ("McPlant"), which will be a flexible platform, based on geography and market demand. The first menu item to be introduced as part of the McPlant lineup will be a burger, with other menu items (e.g. chicken substitutes and breakfast sandwiches) to potentially follow.

Restaurant Brands International Inc. (QSR)

In 2019, Burger King notably expanded its menu with the Impossible Whopper in the US and the Rebel Whopper (which features a vegan patty) in certain European markets. In 2019, QSR's Tim Hortons brand had offered Beyond Meat items, though by early 2020 had eliminated them from menus.

Starbucks Corporation (SBUX)

SBUX continues to focus on and innovate around non-dairy milk alternatives (soy milk, almond milk, etc.), and more recently expanded its food menu with the Impossible Breakfast Sandwich (US; June 2020) and the Beyond Meat, Cheddar and Egg Breakfast Sandwich (Canada; February 2020).

The Wendy's Company (WEN)

In early 2020, WEN added the plant-based Plantiful Burger to its menu in Canada locations. Previously, WEN had tested a black bean burger, as well as a plant-based chicken sandwich, and opportunities to add plant-based menu options have been noted in the recent past.

Yum! Brands, Inc. (YUM):

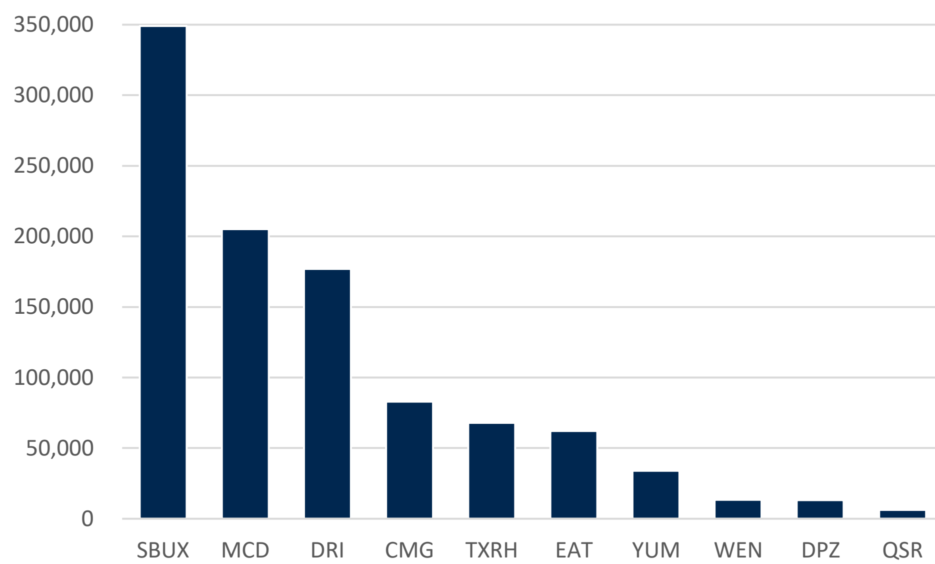
KFC's Beyond Fried Chicken—the first plant-based protein to be offered at a national chicken chain in the US—was first introduced last year in Atlanta and has since been tested in select markets (e.g. Nashville, Charlotte, Southern California). YUM recently partnered with Beyond Meat to add plant-based protein alternatives to the menus of KFC, Pizza Hut and Taco Bell, with tests in international markets prior to US introduction.

SASB Dimension: Human Capital

In addition to various health and retirement benefits, a number of companies within our coverage have begun to offer educational benefits, with a focus on hourly restaurant employees. Through various partnerships, some companies are providing employees opportunities to earn higher education degrees at limited or no cost. With regard to diversity and inclusion, restaurant companies typically offer employee-led resource groups, allowing members to build a community through common identity, while also providing opportunities for professional development. Some restaurants are holding themselves accountable via diversity hiring targets, and in some cases benchmarking executive pay to such targets. Finally, some restaurant companies have also donated money to fund or launch initiatives aimed at improving inequality in areas such as education, entrepreneurship, etc., as well as to support employees experiencing certain hardships.

Given different sizes and business models, the number of employees varies widely across restaurants companies, with the vast majority hourly employees

Exhibit 37: Number of Employees by Restaurant Company



Source: Company reports, RBC Capital Markets

SASB Issue Category: Labor Practices

Brinker International, Inc. (EAT)

EAT offers employees competitive wages (with potential for an annual bonus); healthcare coverage; 401(k) matching; paid time off; and other benefits. Employees (who work at least 24 hours/week for a minimum of 90 days) have access to the Best You EDU educational program, which provides bilingual coaching, GED opportunities and Associate's programs at no cost. Additionally, EAT created the Brinker Family Fund to help employees support each other when dealing with unexpected challenges such as death, illnesses or natural disasters. The voluntary donations have helped more than 100K employees across the US, assisting them with ~$1M in funding annually. Employees who complete up to 40 hours of unpaid volunteer work are eligible to receive $500 per year through EAT's Passion Points program.

Chipotle Mexican Grill, Inc. (CMG)

CMG offers benefits to crew members and restaurant managers, including but not limited to: 401(k) matching (after 1 year of employment); paid time off; healthcare; paid breaks; quarterly bonuses; and annual bonuses (after 1 year of employment). CMG has also provided all employees with the opportunity to participate in its debt-free degrees and GED/ESL tuition reimbursement programs. Through its partnership with Guild Education, CMG covers 100% of upfront tuition costs for degrees in business and technology.

As it relates to employee turnover, CMG has targeted less than **25%** general manager turnover by **2020**. In **2019**, general manager turnover was **32.9%**.

Darden Restaurants, Inc. (DRI)

DRI offers its employees a wide range of benefits such as: competitive pay; dental and vision coverage; wireless phone service discounts; and matching 401k contributions after 1 year of employment. The company also provides restaurant management internships to employees that are college students pursuing hospitality degrees, along with a Manager in Training program for recent college graduates. DRI is also focused on promoting from within the organization, noting that: approximately half of DRI managers are promoted from hourly positions; ~1,000 team members are promoted into management annually; and 99% of all general managers and managing partners are promoted from within DRI.

Domino's Pizza Inc. (DPZ)

Full-time employees of DPZ's company-operated restaurants are offered a wide range of insurance program benefits. DPZ also offers the Blueprint for Wellness program, which focuses on the overall health of employees, and those who participate receive credits toward their medical plan premiums. DPZ offers an Educational Assistance Program that reimburses a portion of tuition expenses for full-time corporate employees with at least one year of service.

McDonald's Corporation (MCD)

MCD employees receive benefits such as: healthcare; 401(k) matching; performance bonuses; and tuition assistance (at eligible/approved schools). Archways to Opportunity, MCD's global education program, offers eligible employees system-wide the opportunity to earn a college degree or high school diploma. In the US, Archways to Opportunity has awarded $100M in high school and college tuition assistance and provided over 54,000 people with access to education. MCD's Hamburger University, meanwhile, provides training for company-owned restaurant employees and eligible franchisee employees, consisting of a five-day course covering education in management, leadership and company culture.

Restaurant Brands International Inc. (QSR)

QSR provides employees with professional development programs, formal education and on-demand resources. QSR's Restaurant Support Centers offer several talent development programs, one of which is a leadership development program that provides new graduates the opportunity to gain hands-on experience and develop skills in a multi-functional rotational program. QSR has committed to following the guidelines provided in their Code of Business Ethics and Conduct for their employees and vendors. The Vendor Code guidelines include wages, benefits and working hours in compliance with laws, no forced labor, no child labor, freedom of association, and a safe working environment.

Starbucks Corporation (SBUX)

SBUX offers its employees benefits such as: comprehensive healthcare coverage; 401(k) matching; mental health support; and paid time off. In November 2020, media reports noted that SBUX will be implementing wage increases of: **at least 10%** for baristas, supervisors and café attendants; **at least 11%** for partners (i.e. employees) with 3 years of continuous service; and **at least 5%** to starting rates. SBUX has also established the Starbucks College Achievement Plan, an online partnership with Arizona State University, which provides all eligible US employees (who work an average of 20+ hours/week) an opportunity to earn a bachelor's degree, with full tuition coverage. SBUX's goal is to graduate **25,000** employees by the end of

2025. The company also offers the Starbucks Global Academy, which similarly offers access to courses for personal and professional development at no cost. SBUX's Global Human Rights Standard outlines its commitment to human rights due diligence among other commitments.

Texas Roadhouse, Inc. (TXRH)

TXRH offers eligible employees (incl. support center staff) benefits such as: dental and vision insurance; paid vacation time; an annual bonus; tuition reimbursements up to $5.25k/year, 100% paid maternity leave, and medical coverage. TXRH also has a restaurant profit sharing program in place for its employees, with thousands of employees receiving TXRH stock on a quarterly basis. Both managing and market partners receive annual compensation consisting of a base salary and a percentage of pre-tax income generated from each restaurant they operate. TXRH has also created The Andy's Outreach Fund, to assist employees that are struggling financially due to unexpected challenges such as death, natural disasters, personal injury, etc. The fund has helped over 10,000 employees, assisting them with >$15M of funding.

The Wendy's Company (WEN)

WEN offers eligible employees benefits such as health care, flexible schedules, and 401(k) matching in addition to the Employee Assistance Program, that provides employees and their families access to free 24/7 counseling support that is confidential. WEN has a biannual survey that allows company-owned restaurant employees to provide confidential feedback about their job and work environment. Franchisees are also given access to this survey for a fee. On an annual basis, WEN rewards its employees by acknowledging the top 200 general managers selected from over 6,700 restaurants worldwide.

Yum! Brands, Inc. (YUM)

YUM employees receive a range of including, but not limited to: medical benefits; education scholarships; tuition reimbursement. In March 2020, YUM acquired Heartstyles, a company that offers hands-on leadership and development programs, in order to strengthen its talent base. The company plans on offering the program across all brands, to more than 2,000 franchisees. YUM's Leading Culture to Fuel Results program aims to instill leadership qualities in all of its employees and franchisees. Within its brand portfolio, Taco Bell has several leadership programs in place to develop general managers, while KFC's Leading With Heart program aims to build more authentic work cultures. Additionally, Pizza Hut formed Life Unboxed EDU, an educational partnership allowing all employees and their immediate family members to earn college degrees with financial support.

SASB Issue Category: Diversity and Inclusion

Brinker International, Inc. (EAT)

EAT has benchmarked diversity within its organization via its Diversity Composite (defined as females and underrepresented males, as a % of overall population), which most recently reached over **60%**. Additionally, EAT offers Communities of Interest, resource groups designed to support and promote inclusion for groups such as the LGBTQ community, women and multicultural employees. EAT is committed to ongoing inclusion training for all, consisting of leadership workshops and/or unconscious bias training.

Chipotle Mexican Grill, Inc. (CMG)

CMG's Culture Committee has established Employee Resource Groups that support the LGBTQ community and women. More recently, CMG introduced UNIFIED (United Network of Influencers Furthering Inclusion and Ethnic Diversity), a new multicultural ERG, to raise diversity and inclusion awareness across the organization. CMG also expanded its debt-free degree program to include Paul Quinn College (its first HBCU) and cover 100% of tuition costs up front (for business and technology degrees).

Darden Restaurants, Inc. (DRI)

In addition to diversity and inclusion training, DRI aims to seek diverse talent and source from diverse supplier communities. ERGs are also available to employees.

Domino's Pizza Inc. (DPZ)

DPZ has expressed its commitment to diversity and inclusion via its Diversity Mission Statement, highlighting the contributions of customers, employees and suppliers. In June 2020, DPZ donated $1M to create a Black Franchise Opportunity Fund and Program, aimed at supporting current and future black team members. The goal of the program is to increase the number of Black-owned franchisees in DPZ's system.

McDonald's Corporation (MCD)

MCD's efforts around diversity and inclusion include creating diverse talent pipelines, advancing and retaining diverse talent and its commitment to black future leaders. In 2019, MCD launched its Black & Positively Golden campaign, designed to uplift communities and provide resources in areas such as education, empowerment and entrepreneurship. In June 2020, MCD US launched the $500,000 Black & Positively Golden Scholarship Fund to help students continue their educations at historically black colleges and universities, despite the impact of COVID-19. As an extension to this, MCD recently launched the Black & Positively Golden Mentors Program, pairing industry leaders with mentees in the same fields. MCD has, through its Better Together: Gender Balance & Diversity strategy (launched in 2019), committed to improving the representation of women at all levels, achieving gender equality in career advancement and championing the impact of women on the business by 2023.

Restaurant Brands International Inc. (QSR)

QSR's diversity and inclusion commitments are provided on the company website, including but not limited to: recurring implicit bias training; zero tolerance policies; and hiring and rewarding diverse talent. QSR made a commitment to having at least **50%** diverse final round candidates for any role. Since making the commitment, QSR has hired diverse candidates for **>50%** of all open positions.

Starbucks Corporation (SBUX)

In 2019, SBUX commissioned a Civil Rights Assessment—conducted by Covington & Burling, and led by former Attorney General Eric Holder—to evaluate its efforts related to diversity, equity and inclusion. SBUX also hired its first Chief Inclusion and Diversity Officer in November 2019, to guide practices including hiring and leadership across the company. To increase its diverse talent base, SBUX committed to introducing an improved applicant tracking system. The company is targeting the following female and BIPOC (Black, Indigenous and People of Color) partner representation by **2025**: **40%** representation in retail; **40%** representation in manufacturing; and **30%** representation in corporate. SBUX has also committed to 100% gender pay equity globally, and has achieved its goal of 100% for US employees.

SBUX has also aimed to cultivate inclusion and diversity awareness through its anti-bias employee training. In September 2019, SBUX launched To Be Welcoming, a 15-part curriculum program designed to address implicit bias, in partnership with Arizona State University. More recently in October 2020, SBUX announced that it would mandate anti-bias training for executives, and tie executive compensation to increasing minority representation in the workforce.

Texas Roadhouse, Inc. (TXRH)

TXRH has committed to providing opportunities to all employees and applicants. As a part of its open-door culture, employees are encouraged to use their voice and raise any concerns that they may have.

The Wendy's Company (WEN)

WEN focuses on diversity and inclusion through ERGs in support of the LGBTQ community, women and multicultural employees, all of which provide opportunities for learning, inclusion, and career development. In 2019, WEN implemented implicit bias awareness training in its hiring programs. In June 2020, WEN also pledged to donate $500K to support social justice, youth and education in Black communities, including continued support for the Thurgood Marshall College Fund (which provides HBCU students with professional development and training opportunities).

Yum! Brands, Inc. (YUM)

YUM works to increase diversity and inclusion awareness through efforts such as unconscious bias training and employee engagement in ERGs for women, the LGBTQ community and YUM's multicultural community. Top management oversees diversity and inclusion initiatives through the Leading Inclusion for Today & Tomorrow (LIFT2) council, held two times per year. In 2018, YUM committed to achieving gender parity in leadership roles by **2030**. This year, YUM launched Unlocking Opportunity Initiative, committing $100M over the next five years to address inequality in the areas of equity & inclusion, education and entrepreneurship.

Focus Topic: COVID-19

Brinker International, Inc. (EAT)

EAT pivoted its business model to off-premise in response to the pandemic to protect customers and employees. In addition to safety protocols (e.g. requiring employees to wear face masks; dining rooms reconfigured to ensure social distancing; disinfectant stations), EAT also provided support to employees affected by COVID-19 through an emergency relief fund.

Chipotle Mexican Grill, Inc. (CMG)

CMG developed new protocols to keep its employees and customers safe, including, but not limited to: hand sanitizer stations; face mask requirements (for employees and guests); handwashing procedures (for employees); and staffing of employees dedicated to cleaning and sanitizing dining rooms. For employees directly affected by COVID-19, CMG has offered pay equal to their upcoming two-week schedule or the average of hours worked. CMG also paid discretionary bonuses (equivalent to $9M), to support employees and their families.

Darden Restaurants, Inc. (DRI)

DRI brands pivoted to no contact and limited contact curbside pickup at the start of the pandemic, to protect its employees and customers. For restaurants operating with indoor capacity, employees are required to wear masks, dining rooms were reconfigured to ensure proper distancing and there is ongoing sanitation of customer and employee touchpoints. DRI furloughed hourly employees unable to work due to dining room closures and introduced a three-week emergency pay program. For those contributing to DRI's medical insurance, 100% of weekly medical insurance plan premiums are covered for those unable to work, until they are asked back to work. Hourly employees working in restaurants received additional pay to help cover unexpected costs resulting from the pandemic, such as transportation and childcare.

Domino's Pizza Inc. (DPZ)

DPZ increased pay in the form of regular "Thank You" bonuses for all hourly corporate store and supply chain employees, from March through the end of May. Paid sick leave was also expanded for full and part-time hourly employees working in the corporate stores and supply chain centers. Hourly employees that were required to quarantine were paid, as well. All US stores and supply chain centers received thermometers, gloves and masks. DPZ recently announced in December 2020, that more than 11,500 hourly employees at company-owned stores and supply chains (including drivers), will receive frontline worker bonuses up to $1,200 (an aggregate commitment of nearly $10M). For its customers, DPZ updated its ordering and delivery procedures to reduce the amount of interaction between customers and employees.

McDonald's Corporation (MCD)

MCD implemented new safety measures including: protective barriers; wellness checks; gloves and masks. Employees are offered paid sick leave (for those affected by COVID-19), 24/7 access to the Blue Cross Blue Shield nurses hotline (extended to family) and emotional support counseling (extended to family). Additionally, MCD US offered bonuses to corporate-owned restaurant employees (equivalent to 10% of pay earned in May) and doubled incentive bonuses received in the first quarter (for qualifying restaurant managers). Franchisees have also provided compensation programs to employees consisting of appreciation pay and bonuses.

Restaurant Brands International Inc. (QSR)

QSR enhanced its restaurant cleaning measures across all restaurants and made hand sanitizer available to its guests and employees. QSR also deployed thermometers to its restaurants for employee use prior to shifts. To support employees, Tim Hortons Canada established a $40M CAD support fund to pay employees affected by COVID-19 (for up to 14 days). Burger King US and Popeyes US provided paid sick leave (for up to 14 days) to corporate-owned restaurant employees affected by COVID-19. In April, QSR also paid bonuses to employees at North American corporate stores. To support franchisees, QSR provided cash advances and rebates, while also temporarily converting its rent expense structure from fixed to variable for eligible locations for Tim Hortons (Canada) and Burger King (US and Canada). Additionally, QSR deferred rent payments for up to 45 days.

Starbucks Corporation (SBUX)

SBUX has mandated facial coverings and social distancing while visiting store locations. Enhanced cleaning measures, Plexiglas shields and bar guards are in place to protect employees and customers. Numerous contactless pay methods are available such as drive-thru, curbside pickup and grab and go. SBUX expanded its catastrophe pay and compensated all employees, whether they chose to come to work or not, for a period of time (through May 3rd). Catastrophe pay was also extended through the balance of May for those diagnosed or exposed to the virus. SBUX also offers compensation for two rounds of isolation. Other notable benefits include hardship grants and the temporary expansion of Care@Work (childcare program) to assist employees dealing with school closures.

Texas Roadhouse, Inc. (TXRH)

At the onset of the pandemic, TXRH shifted its service from dine-in to a to-go/curbside method. To ensure the safety of its employees and guests, TXRH ordered PPE gear and began conducting symptom surveys of employees. In March, TXRH provided its front-line employees with a stimulus package, which included early vacation use and paid health insurance premiums. Shortly after, TXRH provided its employees another stimulus package in April. CEO Kent Taylor also pledged his salary ($800K), as well as another $5M, to an employee relief fund.

The Wendy's Company (WEN)

WEN closed dining rooms and shifted focus to delivery and drive-thru service at the onset of the pandemic. Enhanced safety protocols were put in place across the system to protect customers and employees. For hourly employees of company-owned restaurants, WEN implemented a new emergency sick leave policy providing 14 days of paid leave (for COVID-19-related matters) and a 10% hourly pay increase over a five week period. WEN also applied travel restrictions for company employees and shifted to work-from-home arrangements for those working in offices. To support its franchisees, WEN deferred base rent payments by 50% (over a 3-month period) and extended payment terms for marketing and royalty fees by 45 days (over a 3-month period).

Yum! Brands, Inc. (YUM)

YUM's brands enhanced safety measures by requiring PPE gear and providing thermometers. Restaurants across all brands shifted to curbside pickup, contactless delivery and minimum drive-thru contact to protect employees and customers. YUM also made available to company-owned restaurant employees: pay for those required to stay home; a global employee medical relief fund to assist those diagnosed with or are caring for someone diagnosed with COVID-19 (at company and franchised-owned stores); and one-time bonuses for general managers. KFC US franchisees also created a grocery assistance fund to support US employees.

SASB Dimension: Business Model & Innovation

The majority of our companies have animal welfare policies in place, with goals to source from suppliers that provide better living conditions for animals. Restaurants with global supply chains implement their animal welfare policies as regions outside of the US allow. Some restaurants are also supporting their supply chains through funding/donations, as well as educational opportunities.

SASB Issue Category: Supply Chain Management

Brinker International, Inc. (EAT)

EAT has mandates to serve sustainably sourced ingredients and works with its suppliers to ensure all food ingredients can be traced back to their source.

EAT is targeting the following goals:

- to source exclusively cage-free eggs across supply chain by **2025**;
- to work with suppliers to implement group housing systems for all pork products by the end of **2025**; and
- to work with suppliers, farmers and animal welfare experts to enhance broiler welfare in the following key areas by **2024**: responsible broiler breeding; improved living conditions; lighting and litter; additional space per bird; and improved humane processing methods.

Chipotle Mexican Grill, Inc. (CMG)

CMG's Food With Integrity commitment requires its suppliers to certify that: animals are responsibly raised; cows are free of rBGH (Recombinant Bovine Growth Hormone); dairy cows are outdoor-raised; and all ingredients are GMO-free. Ingredients are required to be traceable in areas such as point of origin, growing, handling and harvesting practices. CMG supports farmers in various ways, including a local produce program, commitment to young farmers via the Chipotle Cultivate Foundation and efforts to ensure fair compensation.

CMG has committed to the following goals:

- increase both the total pounds and total percentage of organic rice, beans and tortillas purchased, by **2021**;
- increase non-GMO feed given to chickens in their supply chain to **45%**, by **2020**; and
- expand its Local Growers Program beyond produce to include meat, dairy and other applicable ingredients, by **2020**.

Darden Restaurants, Inc. (DRI)

DRI has an animal welfare policy committed to the Five Freedoms framework (defined above), and also announced its intention to form an external Animal Welfare Advisory Council to ensure effectiveness. The policy is overseen by senior executives and implemented by DRI's Animal Welfare Working Group. This group addresses the non-compliance of suppliers and measures DRI's progress against its commitments. Protein suppliers are monitored and require third-party audit verification. Non-compliance may result in a temporary suspension or termination of business.

DRI has committed to sourcing only gestation-crate free pork by **2025**.

Domino's Pizza Inc. (DPZ)

DPZ is a purchaser of meat (pork, beef and poultry) products, and sources from farmers that abide by local, state and federal guidelines and industry best practices. Suppliers outside of the US and Canada meet the requirements of the market in which they operate. As a member of the Roundtable on Sustainable Palm Oil (RSPO), DPZ sources 100% certified sustainable palm oil product (used for pan pizza dough).

McDonald's Corporation (MCD)

MCD's animal welfare policy standards are global, and are integrated into the various geographic regions in which they operate. As a significant purchaser of beef, MCD has committed to supporting the beef industry's sustainability efforts via its involvement in the Global Roundtable of Sustainable Beef (GRSB). Slaughterhouses are also subject to third-party verification audits (on an annual basis) to confirm humane practices. To ensure supply chain compliance, MCD has a global and market quality systems team that reviews supplier performance and affirms whether policies are adhered to on a consistent basis.

MCD is targeting the following goals:

- to phase out the use of gestation stalls (small enclosed pens) for housing pregnant sows by **2022**;
- to source **100%** cage-free eggs by **2025**; and
- to source chickens raised with improved welfare outcomes on or before **2024**.

Restaurant Brands International Inc. (QSR)

QSR has an animal welfare focus in place for its global supply chain, centered on the Five Freedoms defined as the following: freedom from hunger and thirst; freedom from discomfort; freedom from pain, injury or disease; freedom to express normal behavior; and freedom from fear and distress. Globally, all Burger King beef and poultry raw material vendors submit third-party audits annually (including animal welfare standards).

QSR is targeting the following goals for Tim Hortons and Burger King restaurants:

- transitioning to **100%** cage-free eggs globally, with the aim to accomplish this goal in Canada, Mexico, Latin America and the United States by **2025**;
- sourcing pork globally only from vendors that do not use gestation stalls in North America by **2022** and in Latin America by **2025**; and
- for broiler chickens, to make improvements in areas of breed, stocking density and environment in Canada and the United States by **2024**.

Starbucks Corporation (SBUX)

SBUX follows the standards of C.A.F.E. Practices, a verification program that measures farms against sustainability criteria, to certify that the brand's coffee ingredients are ethically sourced. In addition to this, SBUX launched Cocoa Practices, and partnered with Ethical Tea Partnership, to ensure that its tea and cocoa are sustainably sourced. Currently, SBUX uses **99%** ethically sourced coffee and tea. The company also supports its coffee farmers in various ways, such as donating coffee trees, investing in its Global Farmer Fund and offering open source agronomy through its nine farmer support centers. The farmer support centers are available to all farmers in coffee communities around the world (whether they supply SBUX or not).

SBUX has committed to the following goals:

- **100%** ethically sourced coffee;
- **100%** ethically sourced cocoa by **2020**, for all Starbucks cocoa based beverages;
- **100%** ethically sourced tea by **2020**;
- to invest **$50 million** in farmer loans by the end of **2020**; and
- to provide **100 million** coffee trees to farmers by **2025**.

Texas Roadhouse, Inc. (TXRH)

TXRH's beef suppliers follow North American Meat Institute and National Cattlemen's Beef Association's Beef Quality Assurance animal handling standards. For its poultry, TXRH is working toward sourcing from suppliers that offer farm-raised and cage-free chickens. Egg suppliers participate in United Egg Producers certification, which measures and audits egg suppliers on animal care.

The Wendy's Company (WEN)

WEN improved its animal welfare policy with the launch of its Animal Care Standards Program (ACSP), an evaluation tool for its ingredients (beef, pork, chicken and eggs) that provides in-depth accounting of animal welfare practices within its supply chain. An Animal Welfare Council established by WEN evaluates suppliers in order to ensure compliance with its animal welfare policy.

WEN is targeting the following goals:

- to have at least **50%** of beef supply participating in Progressive Beef (or a similar program) by **2021**;
- to source **100%** of pork supply from group housing environments by **2022**; and
- to ensure that at least **75%** of pork supply chain is traced and monitored by **2022**.

Yum! Brands, Inc. (YUM)

YUM's animal welfare policy standards are centered on the Five Freedoms (defined above) and implemented globally, as regions allow. YUM guides supplier production practices through its five Sustainable Animal Protein Principles: food safety and quality; animal health and well-being; environmental stewardship; food security; and responsible suppliers. Suppliers are offered third-party consultation and science-based education programs. YUM has begun to develop unified auditing systems and policies for production of all meat used (i.e. pork, beef and poultry).

Appendix

Key Company Resources

Brinker International, Inc.
Link to sustainability section of company site

Chipotle Mexican Grill, Inc.
Link to sustainability section of company website, including sustainability report

Darden Restaurants, Inc.
Link to sustainability section of company website

Domino's Pizza Inc.
Link to sustainability report

McDonald's Corporation
Link to sustainability section of company website, including sustainability reports

Restaurant Brands International Inc.
Link to sustainability section of company website

Starbucks Corporation
Link to sustainability report

Texas Roadhouse, Inc.
Link to sustainability report

The Wendy's Company
Link to sustainability report

Yum! Brands, Inc.
Link to sustainability section of company website, including sustainability report

SASB Definitions

The SASB Materiality Map defines and identifies the following general issue categories, as likely to affect operating performance or financial conditions within the restaurants industry:

- **Energy Management:** The category addresses environmental impact associated with energy consumption. It addresses the company's management of energy in manufacturing and/or provision of products and services derived from utility providers (grid energy) not owned or controlled by the company. More specifically, it includes management of energy efficiency and intensity, energy mix, as well as grid reliance. Upstream (e.g., suppliers) and downstream (e.g., product use) energy use is not included in the scope.
- **Waste & Wastewater Management:** The category addresses a company's water use, water consumption, wastewater generation, and other impacts of operations on water resources, which may be influenced by regional differences in the availability and quality of and competition for water resources. More specifically, it addresses management strategies including, but not limited to, water efficiency, intensity, and recycling. Lastly, the category also addresses management of wastewater treatment and discharge, including groundwater and aquifer pollution.

- **Waste & Hazardous Materials Management:** The category addresses environmental issues associated with hazardous and non-hazardous waste generated by companies. It addresses a company's management of solid wastes in manufacturing, agriculture, and other industrial processes. It covers treatment, handling, storage, disposal, and regulatory compliance. The category does not cover emissions to air or wastewater nor does it cover waste from end-of life of products, which are addressed in separate categories.
- **Product Quality & Safety:** The category addresses issues involving unintended characteristics of products sold or services provided that may create health or safety risks to end-users. It addresses a company's ability to offer manufactured products and/or services that meet customer expectations with respect to their health and safety characteristics. It includes, but is not limited to, issues involving liability, management of recalls and market withdrawals, product testing, and chemicals/content/ingredient management in products.
- **Customer Welfare:** The category addresses customer welfare concerns over issues including, but not limited to, health and nutrition of foods and beverages, antibiotic use in animal production, and management of controlled substances. The category addresses the company's ability to provide customers with manufactured products and services that are aligned with societal expectations. It does not include issues directly related to quality and safety malfunctions of manufactured products and services, but instead addresses qualities inherent to the design and delivery of products and services where customer welfare may be in question. The scope of the category also captures companies' ability to prevent counterfeit products.
- **Labor Practices:** The category addresses the company's ability to uphold commonly accepted labor standards in the workplace, including compliance with labor laws and internationally accepted norms and standards. This includes, but is not limited to, ensuring basic human rights related to child labor, forced or bonded labor, forced or bonded labor, exploitative labor, fair wages and overtime pay, and other basic workers' rights. It also includes minimum wage policies and provision of benefits, which may influence how a workforce is attracted, retained, and motivated. The category further address a company's relationship with organized labor and freedom of association.
- **Employee Engagement, Diversity & Inclusion:** The category addresses a company's ability to ensure that its culture and hiring and promotion practices embrace the building of a diverse and inclusive workforce that reflects the makeup of local talent pools and its customer base. It addresses the issue of discriminatory practices on the bases of race, gender, ethnicity, religion, sexual orientation, and other factors.

Companies mentioned

Brinker International, Inc. (NYSE: EAT US; $53.58; Sector Perform)
Chipotle Mexican Grill, Inc. (NYSE: CMG US; $1,319.12; Sector Perform)
Darden Restaurants, Inc. (NYSE: DRI US; $116.24; Outperform)
Domino's Pizza, Inc. (NYSE: DPZ US; $379.50; Outperform)
McDonald's Corporation (NYSE: MCD US; $210.22; Outperform)
Restaurant Brands International Inc. (NYSE: QSR US; $59.39; Outperform)
Starbucks Corporation (NASDAQ: SBUX US; $103.10; Outperform)
Texas Roadhouse, Inc. (NASDAQ: TXRH US; $74.26; Sector Perform)
The Wendy's Company (NASDAQ: WEN US; $21.38; Sector Perform)
Yum! Brands, Inc. (NYSE: YUM US; $105.82; Sector Perform)

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Conflicts disclosures

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