

CASE STUDY:

Adidas

Adidas has achieved certification from the Science-Based Targets initiative (SBTi), affirming that its emissions reduction targets are aligned with a 1.5°C scenario. EOS continue to engage with the company on its circularity strategy. Technological and business model innovation is urgently needed to address climate change and environmental impacts of apparel and footwear. We will continue to engage on how the company can make transformational changes to reduce its impact.

Background and company overview

According to latest estimates of the United Nations Environmental Programme, the global fashion industry accounts for around 2-8% of global carbon emissions, which is more than international flights and maritime shipping combined. Urgent action is needed from companies in the apparel sector to address this. Adidas is a company focused on the design, distribution, and marketing of athletic and sporting lifestyle products. As a key player in the apparel sector, its approach to managing its environmental impacts is key to its competitive advantage.

Our engagement

Following an ongoing dialogue on corporate governance issues, we intensified our engagement in September 2018, travelling to the company headquarters in Herzogenaurach, Germany. We had an informative meeting with the company's sustainability team focused on the historic development and future trajectory of the company's sustainability strategy. We challenged the company on the environmental impact of its product range and the company shared information on internal programmes focused on circular approaches. At the

Sustainable Development Goals:



Engagement objective:



Environmental:

Set science-based emissions reduction target; Develop circular strategy, including setting targets for use of recycled content and demonstrate progress

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We believe that great performance shouldn't come at the cost of the environment, that's why we're committed to establishing a circular future for sportswear.

– Katja Schreiber,
SVP Sustainability at Adidas

time, the company had begun work on developing its 2025 sustainability strategy and we stressed that ambitious, science-based climate targets need to be central to this.

We returned to these discussions in March 2020 after its 2019 results announcement. We welcomed a public commitment from the company to address climate change but urged it to set a science-based emissions reduction target to demonstrate that its ambitions are in-line with the 1.5°C trajectory of the

We pushed the company to go further and to set specific, timebound targets for recycled materials in its products, as well as publishing a plastics footprint.

Paris Agreement. On resource use and circularity, we welcomed some positive steps: an improvement to its CDP water score and achieving 100% cotton sourced through the Better Cotton Initiative, as part of its commitment to steadily increase the use of more sustainable materials in its production, products, and stores. We pushed the company to go further and to set specific, timebound targets for recycled materials in its products, as well as publishing a plastics footprint.

In July 2020, we discussed its "Three Loop Strategy" to end plastic waste and scale circular efforts, which has critical links to the climate crisis. Following its shoe range made from recycled ocean plastic the launch of a first fully-recyclable running shoe was planned for 2021. We welcomed Adidas' commitment to use only recycled polyester in every product where a solution exists from 2024 onward, but also stressed the importance of setting further ambitious targets linked to the scalability of circular solutions and certifying its emissions reduction targets as science based.

At the virtual investor day in March 2021, the company presented its new "Own the game" 2025 strategy. We were pleased to hear from the CEO that Adidas sees sustainability as a key driver and a way to engage with consumers. Following this, we had a call with the sustainability lead on climate and circularity ambitions, in which we gained better insights into materials the company considers more sustainable, including "Better Cotton," recycled polyester, recycled nylon, recycled rubber, algae-based EVA, Tencel, water-based polyurethane (PU), and recycled thermoplastic polyurethane (TPU). The company reported that it was on track to replace all virgin

polyester with recycled polyester in all Adidas and Reebok products where a solution exists by 2024. Furthermore, the company stated its ambition to achieve climate neutrality in its own operations by 2025 and overall climate neutrality by 2050. Here, we again reiterated the benefit of science-based targets to give investors the assurance that these targets are aligned with a 1.5°C scenario.

In April 2021 we shared our freshly published white paper on the environmental impacts of the clothing and footwear industry, "Fixing Fast Fashion"¹, with the company, as well as inquiring again about its progress regarding the development of science-based emission reduction targets.

Changes at the company

In early 2021, Adidas achieved certification from the SBTi, affirming that its emissions reduction targets are aligned with a 1.5°C scenario, in-line with our engagement objective.

The company is committed to reduce absolute Scope 1, 2 and 3 emissions by

30% by 2030 from a 2017 base year

Within that target, Adidas commits to reduce absolute scope 1 and 2 greenhouse gas emissions by 90% by 2025 from a 2017 base year. Furthermore, the company states that it is working closely with its partners in the global supply chain to reduce energy and material consumption and make greater use of green energy sources. In March 2021, the company announced the ambition for nine out of 10 of its articles to be more sustainable by 2025.

Next steps

We continue to engage with the company on its circularity strategy, including monitoring progress made in significantly increasing the proportion of recycled content used in its products, in-line with its targets. We are encouraged that that company states that it will intensify its communication and marketing for products made from sustainable materials and roll out product takeback programs at a large scale. Technological and business model innovation is urgently needed to address climate change and environmental impacts of apparel and footwear. We will continue to engage on how the company can make transformational changes to reduce its impact.



This case study has been fact-checked by Adidas AG to ensure a fair representation of EOS work carried out and changes made at the company.



Lisa Lange
Engagement
EOS



¹ Fixing Fast Fashion | UK Wholesale (hermes-investment.com)

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