

Samsonite:

engagement commentary



Federated Hermes SDG Engagement Equity Fund
Q3 2021

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International

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ENGAGEMENT COMMENTARY: Samsonite

Samsonite is the world's number one travel luggage manufacturer. The company designs, manufactures and sells luggage, outdoor and casual bags, business and computer bags and travel accessories. Besides its Samsonite brand, the company makes and markets the Tumi, American Tourister and a number of smaller brands including Gregory. Samsonite, Tumi and American Tourister together account for roughly 88% of Samsonite's sales.

The company sells its products through wholesale and retail channels in more than 100 countries including through over 1,000 self-operated retail stores. It has a global manufacturing footprint, with three primary owned manufacturing sites in Belgium, Hungary and India, as well as predominantly outsourced manufacturing in Asia. The company's sales are distributed across North America (44.2%), Asia, (34.1%) Europe (18.0%) and Latin America. (3.6%)¹.

The company is listed on the Hong Kong exchange and is jointly headquartered in the US and Luxembourg.

\$3bn 
market cap

9,000 
employees, of which
54% are female

Significant manufacturing (direct and outsourced) presence in Asia, alongside
36% of sales 

Headline progress

- At the end of 2020, the company launched its sustainability strategy to 2030. Entitled, 'Our Responsible Journey', the strategy looks to position Samsonite as the 'most sustainable travel luggage company in the world'.
- The company plans to use 100% renewable energy and achieve operational carbon neutrality by 2025. It has also committed to measuring and reducing its scope 3 emissions.
- In the first half of 2021, approximately 15% of global sales across the company's Samsonite, Tumi, American Tourister, and Gregory brands were from products with a "sustainable attribute", compared to approximately 7% for FY 2019².
- On supply chain human rights, the company will expand existing social compliance programmes to identify, mitigate and remediate possible negative human rights impacts.

Investment case

- The management team has a long-term vision for Samsonite, investing in retail network and ecommerce platforms.
- The company takes a proactive and focused approach to new product development.
- Covid-19 disruption to the industry and its supply chain offers an opportunity to further gain market share.

The company is well positioned to raise standards across the market, while at the same time gaining market share.

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¹ Bloomberg, as at Q2 2021

² Company sustainability report, 2020

Theory of change

Our threefold impact thesis is summarised below. We delve into each proponent in the next section:

1. Product innovation and circularity

As the world's best known and largest travel luggage company – with a premium brand reputation – the company is well positioned to raise standards across the market, while at the same time gaining market share by developing products that are high quality, functional, durable, aesthetically pleasing and sustainable.

With its own manufacturing facilities and a network of long-standing, stable suppliers, Samsonite also has the opportunity to be a leader in circular economy models of design, production, product use and end of life. As such, the company reduces resource use and avoids waste generation.

2. Climate change

The company stands to make a net positive contribution to climate change mitigation, by investing to reduce its emissions footprint and increase its use of renewable energy. Most importantly, the Samsonite has a framework in place to define, measure and support suppliers in reducing their CO₂ output, in turn reducing the company's own scope 3 emissions.

3. Supply chain human rights

As the world's largest travel luggage company, Samsonite can use its influence over suppliers and peers to affect positive impact in relation to human rights.



While there remains scope for further progress, the company has delivered meaningful improvements and made clear sustainability commitments for the decade ahead.

The company has its own manufacturing, but this represents just over 10% of its overall production and sourcing. The remainder is sourced from third party suppliers. In recent years, production has shifted from being about 75% China, to about 60% China. Today, the remaining 40% of the company's manufacturing takes place across India, Vietnam, Cambodia and Thailand, as well as the Philippines and Indonesia³. There are also companies further down the chain that provide components and raw materials.

Practice of change

Over the period of our investment and engagement, we have met extensively with management, including the chair, CEO, sustainability director, research and innovation director and others. We have discussed a range of issues and have been encouraged at the progress made and ambition to do more.

While there remains scope for further progress, the company has delivered meaningful improvements and made clear of sustainability commitments for the decade ahead.

Timeline



³ Company report and accounts, 2020

1. Product innovation and circularity

We began discussions with the company about waste, product innovation and circular design and production in 2018 when we spoke with the newly appointed CEO. The plan at the time was focused on use of sustainable materials, while remaining true to Samsonite's heritage of quality and durability which is an important and longstanding sustainability attribute. When we enquired about end of life and the recyclability of products, the CEO explained that a Director of Sustainability would soon to be appointed to review the strategy across all material sustainability issues.

Our introductory call with the new and inaugural Director of Sustainability in 2018 gave us the opportunity to share our view of the company's material sustainability risks and opportunities, hear about their priorities and discuss next steps. We also met with the Research and Innovation Director of Samsonite Europe, who explained how sustainability and circular economy issues are incorporated into the company's product development process, without compromising on Samsonite's commitment to quality, functionality and durability. We were pleased to hear how the company's entrepreneurial culture provided space for a focus on identifying mid to longer term materials solutions. We discussed the opportunities and challenges of scaling the company's recent eco-range of suitcases, made using production waste.

As of H1 2021, approximately

15%

of global sales across Samsonite, Tumi, American Tourister, and Gregory brands were from products with a "sustainable attribute", compared to

~7% for FY 2019⁴.

After more conversations with a variety of senior management about this in 2018 and 2019, we were pleased to see the commitment to the circular economy as one of the key pillars of the company's sustainability strategy in 2020. The company committed to 'innovative products: creating the best products using the most sustainable and innovative materials, methods and models.' This includes increasing materials with sustainable credentials, but also developing end of life solutions to divert as many products as possible from landfill.

We spoke with the CEO after the strategy was launched in late 2020 and it was heartening to hear him give his full support, despite the challenges of the pandemic. His view, one that we share, is that it is inevitable that the industry will innovate in this field. His goal is to implement circular design and innovation on products across a wide range of price points and not to focus just on premium products.

Examples of the progress the company has made towards these commitments⁵ include:

-  In 2020, Samsonite launched its Proxix travel collection, using a patented material known as Roxkin. Roxkin is strong, light enough for luggage and also recyclable. Made in-house, the collection has a ten-year warranty and Samsonite will collect and recycle products for up to 20 years post-purchase.
-  In 2020, the company launched its first ever range of backpacks made entirely from recycled fabrics. After carrying out a full lifecycle assessment, the company calculated that the carbon footprint of the backpack is less than half that of a conventional backpack, avoiding 8kg of carbon emissions per bag.
-  Since 2018, it has diverted 68 million 500ml recycled PET bottles from landfill using its Recyclex materials.
-  Samsonite Europe's S'Cure ECO suitcase uses post-consumer polypropylene waste and won a 2020 Plastics Recycling Award in Europe. In 2021, Samsonite launched MAGNUM ECO, a further improved version of this waste material from Lyondell Basell OCP.
-  In Asia, the company offers a discount if an old suitcase that can no longer be repaired is traded in for a new one.
-  The company provides global repair warranties and access to more than 200 repair centres in over 65 countries.

In future, we hope to see the company develop and report against metrics demonstrating the scale of its progress in implementing circular production and innovation, allowing it to target even greater integration into its product offerings. The company is ambitious to truly 'close the loop' by using more of its own end of life products to provide raw materials for production.

As described above, a key challenge will be scaling these innovations and production processes, given that much of the progress to date has been due to having owned manufacturing sites (the company has also worked closely with its third party suppliers to incorporate sustainable materials such as Recyclex in its products). Nonetheless, we believe that Samsonite has an opportunity to develop partnerships with key suppliers in this regard, many of whom they have partnered with long-term.

⁴ Company sustainability report, 2020

⁵ See Samsonite ESG reports: 2019 (pp.11-18) and 2020 (pp.10-15)

2. Climate change commitments

During discussions with the company's senior management, improved climate change commitments have been one of the key aspects of our engagements and expectations – as they are for all global companies of this scale.

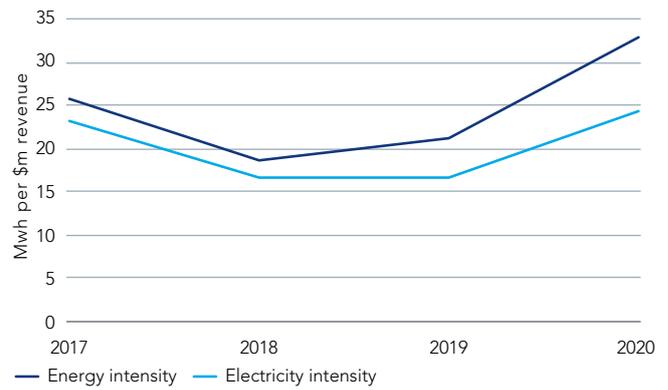
Prior to 2020, the company did not have any clear public targets or commitments. When the company launched its sustainability strategy in 2020, we were pleased to see the company detail specific carbon management commitments and quantitative targets. These include⁶:

- 1 Use 100% renewable energy.
- 2 Achieve operational carbon neutrality by 2025.
- 3 Reduce carbon intensity of operations 15% by 2025 (compared with 2017).
- 4 Estimate, track and support actions to reduce scope 3 emissions.

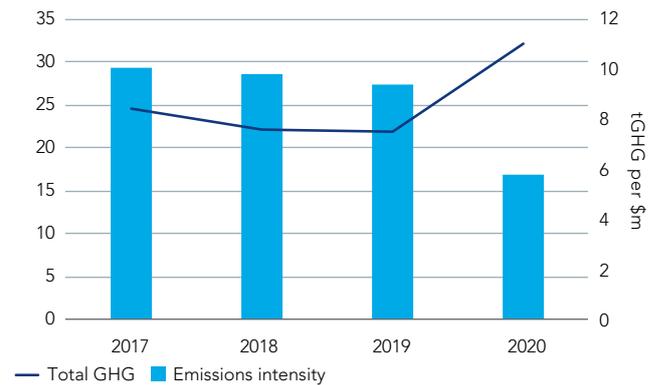
During 2020, absolute emissions decreased significantly alongside production, as a result of the Covid-19 pandemic. More importantly, however, was the group's recognition that their principal carbon footprint is upstream in their supply chain – unsurprising, given that the vast majority of their production is outsourced. It is positive that in 2021, the company is conducting a pilot effort to estimate, track, and reduce their scope 3 emissions through engagement with key suppliers.

We will continue to engage with the company on the challenge of scope 3 upstream in the supply chain, as well as how it might begin to consider the use of its products within scope 3. We would also like to see the company

Energy and Electricity intensity per \$m of revenue



GHG Emissions: Absolute and Intensity



Source: Federated Hermes, using Bloomberg data

consider science-based targets for its climate change commitments.

3. Supply chain human rights

During our discussions with management since 2018, we have consistently raised the question of respecting human rights, particularly as they relate to working conditions in the outsourced, global value chain. We have had useful discussions about changes to the company's supply base and how best to approach risk management and due diligence once this has stabilised.

We are pleased that the company has made a clear commitment to supply chain human rights in its sustainability strategy. Under 'thriving supply chain', it commits to expand the existing social compliance programme to identify, mitigate and remediate possible negative human rights impacts of the business⁷. This will include enhanced due diligence processes, starting with a human rights country risk assessment, now that the supplier and country diversification work has been completed.

In 2020, the company updated its Ethical Charter to be more comprehensive, and align with new regulation and the International Labor Organisation's principles. The company also plans to expand due diligence to its top 100 tier two suppliers (i.e. companies that provide components to first tier suppliers, who then produce finished goods).

We hope to see Samsonite make further progress, particularly in their supply chain human rights work, which needs to develop in line with the company's sustainability strategy, encouraging a more meaningful approach to assessment and remediation, as well as greater disclosure. The company should report its alignment with the United Nations Guiding Principles on Business and Human Rights, disclose its salient risks – such as modern slavery – and provide details of the due diligence process surrounding the impact of these risks and any identified solutions.

Next steps

We will continue to engage with Samsonite on the issues outlined in this note, in accordance with the company's sustainability strategy to 2030. We have been pleased with the receptivity of the company to date, and therefore remain optimistic that more progress will be realised.

⁶ See Samsonite Sustainability Strategy, 2020

⁷ See Samsonite Sustainability Strategy, 2020



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