

# Techtronic Industries

Techtronic has taken steps to ensure responsible sourcing of raw materials, introduced clear climate-related targets, and showed progress in board diversity since we began engagement on these issues in 2018.

## Background

Techtronic Industries Co Ltd designs and manufactures power tools for home and industrial use. The company, which sells products under the Milwaukee and Ryobi brands, as well as manufacturing the RIDGID tool brand exclusively for Home Depot, has a strong focus on innovation and has driven a trend of cordless power tools adoption, reducing its indirect carbon footprint. It employs over 50,000 people globally and is headquartered in Hong Kong.

## Our engagement

On the back of technological advancement from corded to cordless products, the company is exposed to human rights risks through the cobalt mining process, a key mineral in batteries that power wireless appliances. Initially, it did not have a dedicated cobalt procurement policy, a concern we first raised in 2019.

In our view, there was also insufficient disclosure of its supply chain management methods and performance indicators to show investors how it complies with the modern slavery act statement, as stated in its 2017 annual report.

The company then faced the challenge of disclosing the effective implementation of its newly established cobalt procurement policy.

**The company sought our advice on cobalt sourcing and expressed its intention to work with us to exert pressure on its key investors.**

## Engagement objectives:



### Environmental:

Emissions reduction and reporting



### Social and Ethical:

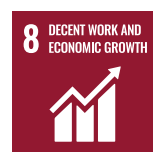
Value chain rights



### Governance:

Increased board and workforce diversity

## Sustainable Development Goals:



“TTI’s bold vision of cordless leadership enables end users to eliminate harmful emissions to reach their own ESG objectives, while promoting much stronger worker safety.”

**Ross Gilardi,**  
SVP Investor Relations

While Techtronic had been gaining market share with its cordless technology and its financial performance was ahead of peers, we felt there was more the company should do regarding emissions reduction goals and reducing its operational emissions intensity.

Furthermore, it was governed by an all-male board, whose audit committee is chaired by a long-tenured independent director and includes a non-independent director.

<sup>1</sup> ESG Report 2021 (ttigroup.com) | Techtronic

Techtronic is yet to incorporate meaningful sustainability targets into its executive incentive plans such that priorities can be conveyed both internally and externally to reinforce its commitment to “doing business in a way that creates a more just, diverse, safe, and environmentally-responsible world”<sup>1</sup>.

### Cobalt mining

We first engaged with Techtronic on cobalt sourcing in 2018 sharing our feedback on the company’s human rights disclosure in its supply chain. The company sought our advice on cobalt sourcing and expressed its intention to work with us to exert pressure on its key suppliers to improve supply chain transparency.

We visited the headquarters and research and innovation centre of its US power tool subsidiary. While impressed with Techtronic’s investment in product innovation, we were concerned with the oversight of its cobalt supply chain and provided recommendations on how to improve its existing due diligence process.

In 2019, we raised the need for meaningful disclosure around the then new cobalt procurement policy, particularly around country of origin and the outcomes of its monitoring and audits. In subsequent years, we requested that the company discloses more about its progress in cobalt supply chain mapping in its annual report, including its position on artisanal and small-scale mines.

**We started a conversation on the lack of board diversity and considered recommending votes against the board chair for this reason.**

### Climate action

In 2018, we requested information on emissions targets, measurement and disclosure, sharing best practice examples. The following year, we recommended the company considers reporting against the Task Force on Climate-related Financial Disclosures (TCFD) framework, particularly on the risks of climate change to the business, as well as setting quantitative, time-bound emissions reductions targets in line with the Paris Agreement goals.

**We urged it to consider committing to science-based targets, net-zero emissions and joining the RE100 (a corporate renewable energy initiative) to commit to sourcing from 100% renewable energy.**

In 2020, we discussed setting ambitious targets aligned with the brand strategy, innovation and peer activities. We urged it to consider committing to science-based targets, net-zero emissions and joining the RE100 (a corporate renewable energy initiative) to commit to sourcing from 100% renewable energy. In 2021, we sought to understand the company’s thinking around adopting the TCFD framework and including net-zero and Scope 3 in its science-based targets.

### Board diversity and committee independence

We started a conversation on the lack of board diversity and considered recommending votes against the board chair for this reason. Eventually, we recommended a vote in favour, by exception to our policy, to reflect our priority for stability under the extraordinary pandemic backdrop. Nevertheless, we continued to engage on this topic with Techtronic.

Last year, we raised our concerns over a long-tenured director, who chairs the audit committee and is a part of the compensation committee, and the membership of a non-independent director on both committees. With concerns over the impartiality of the board’s oversight on both functions, we decided to recommend votes against the re-election of both directors.

**We sought to understand the company’s thinking around adopting the TCFD framework, and including net zero and Scope 3 in its science-based targets.**



## Outcomes

Towards the end of 2019, we were pleased to learn that Techtronic implemented a procurement policy for cobalt. Its suppliers are now required to disclose the source of cobalt used in manufacturing its products and to comply with the policy. Based on further discussions with the company, we were satisfied with the level of supply chain disclosure provided.

With the policy in place, we then moved on to engaging around implementing the policy effectively. Techtronic confirmed in 2020 that it had worked in partnership with the Responsible Minerals Initiative to trace the source of most of its cobalt and to assess mining conditions. In addition, it disclosed the assessment work conducted at source and an overview of its mines. This has also led to engagement in community impact programmes such as the Better Mining initiative, of which it is a founding member.

**Based on further discussions with the company, we were satisfied with the level of supply chain disclosure provided.**

In 2020, Techtronic established a board-level committee to develop targets and ambitions around climate change. We also appreciated the addition of a director with ESG experience and that the vice president would be responsible for climate on the board.

In the 2021 ESG report, it announced plans to reduce absolute greenhouse gas emissions for Scopes 1 and 2 by 60% by 2030. This year, the company committed to completing its Scope 3 emissions mapping to submit reduction targets for all three scopes to the Science Based Targets initiative for validation by 2025.

We saw improvements in gender diversity from an all-male board in 2020 to having two female directors in 2022. Although female representation on its board remained below expectations, we recommended voting for a director on the nomination committee, by exception to our policy, due to the encouraging progress we saw.



## Next steps

**We have been delighted to see Techtronic's progress since our first engagement with the company. Nevertheless, there remain several areas for further engagement. We continue engagement on the setting of a resolute target for Scope 3 emissions reduction, and improving board composition and effectiveness with the company. We will push on strengthening governance and oversight at Techtronic, particularly after recent criticism of the company by a short seller.**

**Having written to the chair to request the board initiate the integration of sustainability targets into compensation plans, we would like to see a meaningful reform of its executive incentive plan in the coming years.**



**Judi Tseng**  
**Engagement**  
EOS



**Ross Teverson**  
**Engagement**  
EOS

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**60%** by 2030.

Case studies are shown to demonstrate engagement, EOS does not make any investment recommendations and the information is not an offer to buy or sell securities.

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