

MEMO

Subject: Home Depot (HD) – Grounds for a **YES** vote on shareholder resolution concerning energy use and reporting

Date: April 28, 2009

Contacts: Donald Kirshbaum, Office of the Treasurer of the State of Connecticut
860-702-3164, Donald.Kirshbaum@ct.gov

Betsy Boyle, Ceres
617-247-0700 x. 143, boyle@ceres.org

Resolved:

Shareholders request that The Home Depot assess its current companywide energy use in its buildings, transportation, and supply chain; set targets to reduce energy use in the future; and report to shareholders (at reasonable cost and omitting proprietary information) on its findings and progress by September 1, 2009.

Rationale for YES vote:

1. Despite repeated requests, Home Depot has not developed a report to shareholders on energy usage. While the company has cited some specific energy saving actions, the lack of a comprehensive report appears to indicate that the company does not have a comprehensive plan to address energy usage.
2. Home Depot has significant opportunities to reduce operating costs through better management of its energy usage.
3. Other big box retailers are well ahead of Home Depot in managing energy use and in reporting to their shareholders.
4. Home Depot has been dismissive of shareholder requests for energy usage and related climate-risk disclosure.

Home Depot lacks a report on energy usage

In comparison to other retailers, Home Depot has been a laggard in terms of benchmarking its energy usage, setting goals for reducing energy consumption, measuring progress toward those goals, and reporting to shareholders. Other big box retailers are well ahead of Home Depot in managing energy use and in reporting to their shareholders.

Most European retailers recognize that climate change can and will impact their businesses. They are preparing to deal with the challenge through concrete actions such as reducing in-store energy use, switching from air to sea freight for products, where feasible, and are participating in groups like the Corporate Leaders Group on Climate Change.¹ In addition, most publicly report information on their plans for addressing climate change.

Other retailers such as Wal-Mart and Carrefour Group SA have already recognized the importance of energy efficiency, outlined key sustainability initiatives, and set goals for moving

forward. As outlined in a recent report on climate change and consumer and technology companies, Wal-Mart recently opened its High Efficiency (HE.5) prototype Supercenter in Las Vegas as part of a wider effort working on several prototypes. The new Las Vegas prototype has improvements in heating, cooling, refrigeration, and lighting systems that are up to 45% more efficient than baseline Supercenters. Carrefour has set a global energy efficiency target: 20% (kWh/m²) reduction from baseline year 2004 by 2015. It has also set a goal to transport 40% of its import flows in France by rail or waterway. This same report cited Wal-Mart and Carrefour as leaders in supply chain management.ⁱⁱ

Wal-Mart details its energy reduction plans, including efficiency goals for its truck fleet, on its website:

“As significant consumers of energy worldwide, we are committed to doing our part. Our long-term goal is to reach a day where all of our energy comes from a renewable source. Not only will this help restore balance to climate systems, but it will save money for our customers and reduce our dependence on oil. As we work to reach our long-term energy goal, we have set several benchmarks along the way to improve the energy efficiency of our stores and trucking fleet. Today we are working to make:

- Existing stores 20 percent more efficient in seven years;
- New stores 30 percent more efficient in four years;
- Our truck fleet 25 percent more efficient in three years, double in 10 years.

As we make progress, we plan to share our innovations throughout the supply chain, which we believe will create a ripple effect and magnify these solutions on a global scale.”ⁱⁱⁱ

Lowe’s Energy Use Report describes the reductions achieved through its energy management system, including decreasing energy use per store and distribution network reductions. The report also includes its Energy Efficiency Policy:

“One of the key systems employed to impact energy efficiency is our integrated energy management system. Centrally controlled in North Wilkesboro, North Carolina, this system allows our energy management team to remotely monitor our stores’ energy use. Readings that exceed specifications are identified and investigated and corrections planned through national contracts.”¹

Competitive Analysis:

Company	Climate Reporting	Emissions Reporting & Reductions	Energy Management and Other Efforts
Wal-Mart (WMT)	Yes	Wal-Mart conducts a greenhouse gas (GHG) inventory and has committed to reducing emissions from stores and distribution centers by 20% over the next 6 years. ^{iv} WMT has also achieved a more than 25% drop in fuel use	Wal-Mart has committed to reduce energy usage in stores by 30% and increase trucking fleet efficiency by 25%. It set a target to achieve 100% renewable energy use and has set goals to increase its use of alternative fuels. It is working on several prototype stores with the goal of designing and opening a viable prototype by 2009 that is up to 25-30% more energy efficient than its 2005 baseline store. WMT is

		from 2005 to 2008.	collaborating with the USGBC on the LEED Retail Portfolio Program. WMT has employed several strategies to reduce supply chain emissions: it has implemented a Supplier Energy Efficiency Program; announced the “Supply Chain of the Future” commitment in Jan. 2008; and entered into an agreement with the Carbon Disclosure Project in 2007 to measure the energy use and emissions of the entire supply chain of 7 product categories. The company has also set energy efficiency goals for its products, such as home products. In February 2007, WMT announced that it would push suppliers to produce less carbon intensive products. ^v WMT has also committed to aggressively pursuing regulatory and policy changes that will create incentives for utilities to invest in energy efficiency and use low or no GHG sources of electricity. ^{vi}
Target (TGT)	Yes	Target tracks and reports both direct and indirect GHG emissions. TGT is currently working to set a GHG reduction goal. ^{vii}	Target is a member of the U.S. EPA’s Climate Leader program. TGT also purchases green energy where economically viable. ^{viii}
Home Depot (HD)	No	No official emissions report. The company has reduced some GHG emissions by replacing incandescent light bulbs with CFLs and by upgrading HVAC units.	No future projections or targets have been made public to shareholders despite their requests for such information.
Staples	Yes	Staples has set a goal to reduce energy costs by 5% in 2008 regardless of growth, hoping to achieve a total GHG emissions reduction of 7% by 2010 (from baseline year of 2001) in the U.S.	Staples is working with SunEdison to install 14 rooftop photovoltaic energy systems. Staples has also set a goal to complete or start construction on 12 rooftop solar installations in 2008. The company was rated 4 th out of the top 10 corporate retail purchases of “green power” by the U.S. EPA’s Green Power Partnership.

Background

According to the U.S. Department of Energy (DOE), commercial buildings currently account for 18% of the nation’s energy consumption and carbon dioxide (CO₂) emissions.^{ix} The increasing attention paid to climate change, energy security, rising energy costs, and the burning of fossil fuels has resulted in a focus upon energy efficiency as one of the cheapest and most important measures to combat these issues. The new U.S. Energy Secretary Steven Chu is a strong

supporter of energy efficiency and conservation. Domestic and international regulations and incentives addressing energy and buildings continue to increase, serving as further incentive for companies to develop the plans, targets, measurement tools, and reporting that will reduce costs now, and provide a roadmap for a future. As public policy in the U.S. and abroad continues to focus on energy use and climate change, producing an energy report would allow Home Depot to be prepared to take advantage of incentives for distributed energy, and energy efficiency, while also being prepared for higher unit costs for energy throughout their business.

To fully understand and reduce their carbon footprints and energy use, retail chains like Home Depot needs to look beyond buildings to transportation and supply chains as well. McKinsey & Co. has found that for consumer goods makers, between 40 and 60% of the company's carbon footprint resides upstream in its supply chain, and for retailers, this figure can be 80%.^x Assessing energy usage and developing a unified report will help our company to identify key areas for improvement, benchmark its energy use, determine the best metrics to use, and analyze the efficacy of different measures. This will also provide benchmarks and targets against which to report progress. Companies that wait to formalize their processes and systems for energy use will be at a competitive and operational disadvantage. With an integrated energy plan, Home Depot will be able to prioritize projects, assess impacts, and identify potential areas for saving. It can help with forecasting and budgeting, as well as performance monitoring. The process of putting together a comprehensive report on energy will also help the company to determine what works best given the company's characteristics. Identifying these best practices can make internal operations run more smoothly and will save time in the long run.

Home Depot has announced steps that it has taken in promoting sustainable energy usage polices and reducing energy consumption – but these steps are just steps, not a comprehensive strategy. The steps they point to include launching environmental friendly *Eco Options* products, replacing HVAC units, installing compact fluorescent lights, partnering with the U.S. Green Building Council in building LEED certified stores, and working with the U.S. Environmental Protection Agency's (EPA) ENERGY STAR program. These steps, while important, are not a substitute for a plan that covers all of the company's stores, all of its energy usage in those stores, as well as transportation and supply chain energy use. An energy report with benchmarks and targets, and including transportation and supply chain information, would not only allow shareholders to assess their company's long-term viability in an increasingly competitive sector with volatile energy costs, it would assist the company in its endeavor to reduce energy use and increase efficiency.

A report by Innovest Strategic Value Advisors sums this up well: "Energy management, as an indicator of management quality and reputation, can be used as one indicator of superior intangible value and stock market potential. Innovest's analysis found wide variations in corporate energy management performance in the retail merchandising sector. These differentials have strong implications for investors."^{x1}

Home Depot has significant opportunities to reduce operating costs through better management of its energy usage

The U.S. Environmental Protection Agency's (EPA) ENERGY STAR has described the benefits for retailers who upgrade their buildings, including increased profitability, less vulnerability to fluctuating energy costs, increased sales, and enhanced public image. Referring just to retail

buildings, the ENERGY STAR Building Upgrade Manual states that all upgrade projects should begin with establishing a benchmark rating. The manual also highlights the potential for significant operating cost savings, stating, “In addition, following the staged approach that is advocated throughout this manual can reveal opportunities for saving on capital costs by ‘right-sizing’ major equipment.”^{xii} It goes without saying that developing a comprehensive energy management plan, including energy reduction goals, transportation, and supply chain energy use and goals, will enable the company to better link operating costs and energy use, and how they can be improved going forward. Shareholders need to know what the company’s plan is to maximize and systemize energy savings.

Lowes, a competitor of Home Depot’s, has produced an Energy Use Report, which states that “Lowe’s views energy efficiency measures in our facilities as one of the best opportunities to decrease operating costs as we develop new stores and retrofit existing stores.”^{xiii}

Home Depot has been dismissive of shareholder requests for climate-related disclosure

In 2006, shareholders withdrew a resolution with Home Depot after the company agreed to improve disclosure of their energy efficiency performance including: energy efficiency policies, bottom-line impacts of energy efficiency measures, information on green/renewable power consumption, facility operation and maintenance programs related to energy efficiency, company views on greenhouse emissions, targets for renewable energy usage, and reducing greenhouse gas emissions. **To the best of our knowledge, Home Depot did not issue the reports as promised when the shareholder resolution was withdrawn.**

On March 10, 2009, Home Depot issued a Draft Opposition Statement in response to the shareholder resolution. Although the letter did outline several actions the company has taken in promoting sustainable energy usage polices and reducing energy consumption, the statement itself describes these actions as “examples”. Management argues that complying with the request in the resolution would not enhance their energy programs. However, there is no evidence that the company has a comprehensive energy program to manage. They do not indicate that they know their baseline energy usage, that they have a plan to better manage energy usage, that they have set targets for reduction of energy usage, or that they can report on how they are meeting the goals set out in any such plan. We believe that without such a plan and reporting, energy costs are higher than they should be.

Taking action to improve energy efficiency can result in financial and competitive advantages. Shareholders acknowledge the steps Home Depot has taken to reduce its environmental impact, but also need the company to synthesize its energy assessments into a clear strategy that also addresses transportation and supply chain energy usage. Without a unified, comprehensive energy report, Home Depot’s position in the marketplace is threatened relative to more advanced competitors and the company is exposed to reputational and regulatory risks.

ⁱ Tescocorporate.com/crreport06/f/climatechange.html

-
- ⁱⁱ *Corporate Governance and Climate Change: Consumer and Technology Companies*. A Ceres report authored by RiskMetrics Group. December 2008.
<http://www.ceres.org/Document.Doc?id=397>
- ⁱⁱⁱ Wal-Mart Sustainability: Climate & Energy. <http://walmartstores.com/Sustainability/7673.aspx>
- ^{iv} cdproject.net/online_response.asp?cid=2235&id=4&exp=3&desc=S%26P+500&letter=W&year=1
- ^v logisticsbureau.com/supply_chain_carbon_footprint_emissions_analysis.htm
- ^{vi} cdproject.net/online_response.asp?cid=2235&id=4&exp=3&desc=S%26P+500&letter=W&year=1
- ^{vii} cdproject.net/response_list.asp?id=4&exp=3&desc=S%26P+500&letter=T
- ^{viii} http://media.corporate-ir.net/media_files/irol/65/65828/corpgov/TGTCorporateResponsibilityasof3-29-07.pdf
- ^{ix} U.S. Department of Energy Press Release. *Department of Energy and Commercial Real Estate Executives Launch Alliance to Reduce Energy Consumption of Buildings*. April 9, 2009.
<http://www.energy.gov/news2009/7251.htm>
- ^x The McKinsey Quarterly. *Climate Change and Supply Chain Management*. July 2008.
- ^{xi} Innovest Strategic Value Advisors. *Energy Management & Investor Returns: The Retail Merchandising Sector*. Feb. 2003.
http://www.energystar.gov/ia/business/guidelines/assess_value/merch.pdf
- ^{xii} ENERGY STAR Building Upgrade Manual Facility Type: Retail Chapter 13. Updated Jan. 2008. http://www.energystar.gov/ia/business/EPA_BUM_CH13_Retail.pdf
- ^{xiii} Lowe's Energy Use Report. 2007. http://images.lowes.com/2007/mrrm/energy_report.pdf