

Robert Drbul

robert.drbul@guggenheimpartners.com
212 823 6558

Arian Razai, CFA

arian.razai@guggenheimpartners.com
212 518 9341

Ticker	Price	Rating
BIRD	6.33	Buy
LEVI	19.63	Buy
VFC	54.93	Buy

A Discussion with Three Leaders in Sustainability

Key Message: On Friday, March 4th, 2022, we sponsored a panel discussion with three leaders in Sustainability: Jeffrey Hogue, Chief Sustainability Officer at Levi Strauss & Co; Jeannie Renné-Malone, VP of Global Sustainability at VF Corporation; and Hana Kajimura, Head of Sustainability at Allbirds, Inc. In this report, we discuss the topics, new initiatives, and LT outlooks related to sustainability at Levi's, VF Corporation, and Allbirds. Among the many buzzwords we are hearing with regard to sustainability is "Circular Economy." Levi's Chief Sustainability Officer Jeff Hogue believes that everyone is still at the beginning of this journey, as the ecosystem around circular economy and apparel is pretty complicated. Mr. Hogue believes that Levi's is looking at the ecosystem rather than certain products. The company believes that circular economy will be beneficial to the whole industry and continues its workaround policy, technology and collection to make the ecosystem effective and scalable. Levi Strauss & Co.'s goal is to be circular ready in 2025. VFC's sustainability strategy contains three pillars of focus moving forward: sustainable materials, sustainable packaging, and circularity. Circularity is a material pathway to enable VFC to meet its science-based targets, by utilizing materials that can be repurposed, repaired, and recycled. In terms of wool, VFC launched the first regenerative wool platform in the world, which includes two of its Merino brands, SmartWool and Icebreaker, in collaboration with Allbirds. Throughout 2021, Allbirds reduced the average carbon footprint of its top 10 products by 14% through renewable energy.

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We believe sustainability will continue to become an increasingly important factor for consumers, especially among younger consumers, which will better position sustainable fashion brands for increased loyalty and growth over the long term. Interest in sustainable fashion grew ~10x between 2015 and 2020 and nearly doubled between 2019 and 2020, based on Google Search trends. As a result, we are seeing companies, across several industries re-engineer and adapt their businesses to cater to this new and growing level of consumer demand for sustainable fashion. Beyond the opportunity for companies to become more profitable, there is an increasing awareness regarding the adverse effects of pollution caused by apparel manufacturing. Each year alone, apparel manufacturing releases ~1.2 bn tons of greenhouse gases and only ~1% of clothes in the world are recycled into new ones. We have already seen a substantial number of companies taking a stance and taking action to improve conditions, and it is our belief the other players in the market will follow.

Bios Of Our Panelists:

Jeffrey Hogue, Chief Sustainability Officer, Levi Strauss & Co. (LEVI)

Jeffrey Hogue is the Chief Sustainability Officer at Levi Strauss & Co. – the iconic brand with a 167-year history. In his role, he leads the sustainability and circular economy efforts for the organization to create a positive impact across the environmental and social aspects of their global operations.

Jeannie Renné-Malone, VP, Global Sustainability, VF Corporation (VFC)

Jeannie Renné-Malone leads global sustainability at VF Corporation, overseeing all aspects of VF's sustainability strategy across its brands, operations, supply chain, materials, and products. Renné-Malone has extensive experience in the development and implementation of sustainability goals and strategies, stakeholder engagement, and tracking and reporting of sustainability/ESG results.

Hana Kajimura, Head of Sustainability, Allbirds, Inc. (BIRD)

Hana Kajimura leads sustainability at Allbirds, pushing the brand to integrate environmental and social sustainability into all aspects of the business, including product, supply chain, and operations. She also shapes Allbirds's innovation narrative and storytelling, translating sustainability initiatives into engaging consumer-facing stories.

Over the past few years, we have written about the trends, topics, and initiatives on sustainability that have been a focus of the retail, apparel footwear industries. On Dec 17, 2020, we published a 135 page report entitled "[A Gigaton of ESG Info](#)," which covered broad ESG topics, including a consumer survey on brand perceptions and initiatives. Last year, we conducted a similar consumer survey to gauge the transformation in consumer trends and perceptions around sustainable fashion brands called "[A Sustainable Focus](#)," which we published on Dec 13, 2021. We believe companies dedicated to making sustainability a priority, and maintaining high ESG (Environmental, Social, and Governance) standards overall, will fare well over the longer term.

Jeffrey Hogue, Chief Sustainability Officer, Levi Strauss & Co. (LEVI)

Last year, Levi's released its first ever extensive sustainability report in the company's history (168 years), which encompasses its strategic sustainability plans under three main pillars, climate, consumption, and community. Within these three pillars, the company has 16 new time bound and measurable goals. Levi's believes that one of the reasons their brand jumped to one of the top 5 sustainable brands in our sustainability survey could be due to the company releasing its first set of comprehensive disclosures. Levi's is trying to make a step change in sustainability, with Jeffrey Hogue taking the new role of Chief Sustainability Officer that hadn't previously existed at the company. Levi's has been focusing internally on catalyzing/coordinating types of roles to bring strong values and sustainability performance forward, but hadn't established it all under one umbrella, since the IPO, before last year's comprehensive report.

Mr. Hogue mentioned a tremendous pull within an organization around sustainability efforts. Internal teams are eager to be transparent and get credit for what they are doing. Going forward, the environmental disclosures will remain a focus for the company. LEVI's believes a place where people can access the information easily will be more beneficial to the investor community rather than publishing 216 pages of comprehensive data every year.

Among the many buzzwords we are hearing with regard to sustainability is "Circular Economy." This year, Levi's launched its first Circular Economy strategy, based on the Ellen MacArthur Foundation's vision for circular economy, aimed at creating products that are designed to be made again, and making products from safe, recycled, and renewable inputs. Recent research conducted has been directed at gauging consumers attitudes towards circular economy related behaviors. What the company has concluded post COVID is that people are questioning their behaviors and their consumption patterns. During our panel, Mr. Hogue stated his belief that everyone is still at the beginning of this journey, as the ecosystem around the circular economy and apparel is pretty complicated. Mr. Hogue said that Levi's is looking at the ecosystem rather than certain products. LS&Co believes the circular economy will be beneficial to the whole industry and continues its workaroud policy, technology and collection to make the ecosystem effective and scalable. The company's goal is to be circular ready in 2025.

Based on the research Levi's conducted, the company believes their recent "Buy Better, Wear Longer" campaign is set to closely represent consumer behavior as global attitudes around consumption are changing. 77% of 27,000 surveyed consumers said that they are extremely/very interested in changing their behaviors, and 63% of them said that it is very/somewhat easy to do so. As consumers are switching to more durable, higher quality and timeless styles, LEVI feels the company is in the sweet spot of this, but admits that there's still a lot to learn about the Circular Economy.

Jeannie Renné-Malone, VP of Global Sustainability, VF Corporation (VFC)

VFC's commitment to sustainability is deeply tied to its business purpose, which is the betterment of people and the planet. With the nature of its outdoor activewear brands, the company is deeply committed to environmental stewardship, and improving the lives of the workers and communities across its value chain. In 2019, led by Jeannie Renné-Malone, VP of Global Sustainability at VF Corporation, the company set ambitious greenhouse gas emission reduction targets. These targets were approved by the science-based targets initiative, which has set the standard for how the company has designed its own strategies and goals. These are some of the most rigorous standards when it comes to setting climate change goals. As a signatory of the UN fashion industry charter for climate, VFC strives toward a goal of zero carbon emissions by 2050. The company has made a lot of progress across its supply chain over the years, in terms of reducing emissions and working with factories to install renewable energy. VFC sees supply chain decarbonization as a key lever to meeting its goals.

Additionally, the company has a goal of sourcing renewable energy for 100% of its DTC operations by 2025. VFC is currently at 30% through a combination of onsite renewable energy generation and is exploring new projects that will lead the company to 40% of its goal by the end of the next fiscal year. VFC remains highly focused on its newest goal of eliminating all non-essential single use plastics from its operations and sponsored events by 2023, alongside its ambitious packaging goal to eliminate single use plastic packaging from its business by 2025. During peak COVID months, VFC had the opportunity to put together a cross functional team to do a refresh of its full environmental sustainability strategy, where it was decided that the three pillars of focus moving forward would be sustainable materials, sustainable packaging, and circularity.

Sustainable materials remain a deep focus at VFC. As part of the company's science-based target roadmap, VFC set a vision and a goal that by 2030, 100% of its top nine materials will originate from regenerative, responsibly sourced, renewable or recycled sources. Regenerative agriculture is a system of agricultural practices and principles that support biodiversity. Rich soils improve watershed and increase the capacity of the soil to capture carbon. The goal is to keep that carbon in the ground rather than letting it emit into the atmosphere and get back to nature's original design. The company views regenerative agriculture as a critical pathway to meeting its climate goals. In turn, VFC has worked to source its top volume materials in a way that supports farmers, ranchers, and land stewards working to reverse environmental degradation (cotton, rubber, wool, sugar cane, and leather). Beginning with rubber, the company started the first regenerative rubber pilot in the world in Thailand, to source rubber for two of its key brands, Vans and Timberland. Within the leather industry, VFC has partnered with the food industry to learn how to convert land in the US and other locations for cattle to create a better environment for sourcing leather. In terms of wool, the company launched the first regenerative wool platform in the world, which includes two of its Merino brands SmartWool and Icebreaker in collaboration with Allbirds.

VFC continues to hold a holistic view around circularity. Circularity is a material pathway to enable VFC to meet its science-based targets, by utilizing materials that can be repurposed, repaired, and recycled. The goal is to extend and reimagine the lifecycle of products by designing maximum value with a minimized environmental impact. An example of this is The North Face re-commerce platform, which is designed to keep products out of landfills. VF's recently launched Timberloop initiative (Timberland partnership with recycled materials), as

well as the company's first ever circular jacket for its brands, made using one material known as Eklund, which is a regenerated nylon made of fishnet from the ocean. The jackets made can be recycled and recreated into new products indefinitely without sacrificing fabric quality. Lastly, we look favorably upon the company's sock take-back program. This program is designed to increase consumer engagement with its brands by collecting about 80,000 pounds of socks, which are now being turned into filling for dog beds.

Hana Kajimura, Head of Sustainability, Allbirds, Inc. (BIRD)

Founded just 6 years ago in 2016 by Tim Brown and Joey Zwillinger, Allbirds began its sustainability journey with a blank slate. Ms. Kajimura joined Allbirds about four and a half years ago as the company's first full time sustainability hire. She has been in her role as Head of Sustainability since joining. The company had the opportunity to incorporate ESG from its beginning and truly try to imagine what sustainability could look like within the business itself and not as a separate function. In 2016, Allbirds was incorporated as a public benefit corporation and a Certified B Corp to establish a high level of accountability and become a force for good. An important part of the Allbirds story is the Allbirds' Flight Plan, its bold list of sustainability commitments, planned to reduce its carbon footprint in half by 2025 and reduce it to near zero by 2030.

Allbirds' long-term sustainability goals have been integrated into the company's four overall strategic initiatives from the start, right along its financial targets to highlight its level of importance. The company's four overall strategic initiatives include 20% to 30% sales growth over the next 3-5 years, reaching gross margin of 60%+, mid- to high-teens adj. EBITDA margin, and 95% carbon reduction by 2030 and 50% by 2025. The company's sustainability goals are very intentional in terms of how Allbirds communicates both externally and internally to reinforce its belief that the more sustainable its business is, the better and more successful it's going to be. Allbirds strongly feels that its sustainability efforts don't distract from its financial goals, but it contributes to them, and that begins with strong communication across all divisions of the company.

In 2020, Allbirds began labeling all its products with their carbon footprint. On every pair of clothing or shoes consumers purchase from Allbirds, there is label that displays the carbon footprint of that product. We look favorably upon this initiative at Allbirds, as it means consumers can follow along in this journey, but it also ensures that the company continues to stay motivated to bring those numbers down over time. Throughout 2021, Allbirds reduced the average carbon footprint of its top 10 products by 14% through renewable energy. This has also improved the way the company operates (choosing materials, shipping, etc.) Allbirds notes the reality that there are some sources of emissions across the supply chain that people just don't know how to eliminate, or at least not today. As fashion brands, Allbirds, VFC, and Levi's share some of the same supply chains. This seems to be an area where collaboration makes sense across companies. If companies can work together and exert collective influence on supply chains, this can help make a meaningful impact over time. Therefore, at Allbirds, the company remains highly focused on reaching its LT targets to get to 100% regenerative wool as well as carbon neutral for its whole supply chain, working in partnership with brands such as Icebreaker and Smart Wool.

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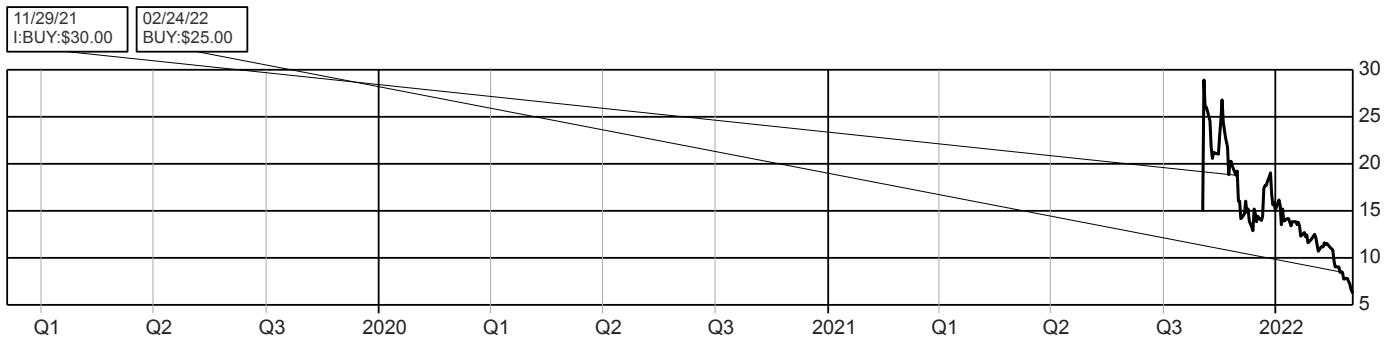
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Rating and Price Target History for: Levi Strauss & Co. (LEVI) as of 03-04-2022



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Guggenheim Securities Equity Research & Equities Teams

Consumer Equity Research

Automotive	
Ali Faghri Ali.Faghri@guggenheimpartners.com	310.319.2562
Beverages & Food Producers	
Laurent Grandet Laurent.Grandet@guggenheimpartners.com	212.372.6368
Consumer Internet/E-Commerce	
Seth Sigman Seth.Sigman@guggenheimpartners.com	212.518.5337
Food Retailers; Consumables Retail/Distribution	
John Heinbockel John.Heinbockel@guggenheimpartners.com	212.381.4135
Hardlines Retail	
Steven Forbes, CFA, CPA Steven.Forbes@guggenheimpartners.com	212.381.4188
Restaurants	
Gregory Francfort, CFA Gregory.Francfort@guggenheimpartners.com	212.518.9182
Retailing/Department Stores & Specialty Softlines	
Robert Drbul Robert.Drbul@guggenheimpartners.com	212.823.6558

Consumer Equities Team

Consumer Sector Specialist	
Carey Kaufman Carey.Kaufman@guggenheimpartners.com	504.299.3424

Energy & Power Equity Research

Energy Technology & Industrial Technology	
Joseph Osha, CFA Joseph.Osha@guggenheimpartners.com	415.852.6468
Power & Utilities	
Shahriar Pourreza, CFA Shahriar.Pourreza@guggenheimpartners.com	212.518.5862

Technology & Media Equity Research

Entertainment & Digital Media	
Michael Morris, CFA Michael.Morris@guggenheimpartners.com	804.253.8025
Media & Live Entertainment	
Curry Baker Curry.Baker@guggenheimpartners.com	804.253.8029
Security & Infrastructure Software; Communication & Collaboration Software	
Imtiaz Koujalgi Imtiaz.Koujalgi@guggenheimpartners.com	212.518.9398
Software	
Ken Wong, CFA Ken.Wong@guggenheimpartners.com	415.852.6465

Healthcare Equity Research

Biotechnology	
Debjit Chattopadhyay, Ph.D. Debjit.Chattopadhyay@guggenheimpartners.com	212.823.6584
Michael Schmidt, Ph.D. Michael.Schmidt@guggenheimpartners.com	617.859.4636
Yatin Suneja Yatin.Suneja@guggenheimpartners.com	212.518.9565
Charles Zhu, Ph.D. Charles.Zhu@guggenheimpartners.com	212.518.9501
Global Biopharmaceuticals	
Seamus Fernandez Seamus.Fernandez@guggenheimpartners.com	617.859.4637
Medical Supplies & Devices	
Chris Pasquale Chris.Pasquale@guggenheimpartners.com	212.518.9420

Healthcare Equities Team

Healthcare Sector Specialist	
Whitney Wolfe Whitney.Wolfe@guggenheimpartners.com	212.518.9630
Healthcare Sector Specialist	
Michael Guba Michael.Guba@guggenheimpartners.com	212.292.5586
Senior Consultant, Guggenheim Securities CEO, Health Capital Group, LLC	
Neal Masia GSPolicyPulse@guggenheimpartners.com	

Sales and Trading Offices

New York	212.292.4700
San Francisco	415.852.6451
Boston	617.859.4626
Los Angeles	310.260.6832
Richmond	804.253.8052