

## Global luxury group Kering explains how it created an ESG strategy that fits its business

- Global luxury group Kering (Euronext: KER) manages the development of a series of renowned Houses in Fashion, Leather Goods and Jewellery: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, Dodo, Qeelin, as well as Kering Eyewear. By placing creativity at the heart of its strategy, Kering enables its Houses to set new limits in terms of their creative expression while crafting tomorrow's Luxury in a sustainable and responsible way. Kering shares have been listed on Euronext Paris since 1988 and it has been part of the CAC 40® index since 1995. It is also a component of the new CAC 40 ESG index, launched in 2021.



Working with a **large number of suppliers**, Kering needed to develop a strategy that allowed it to **improve its environmental footprint** upstream of its supply chain, as well as internally.

- Kering has a long-standing commitment to ESG issues – particularly those related to environmental and social aspects of its business. Based on the origin of a strong vision and ambition of the Group CEO François-Henri Pinault; Kering has published non-financial indicators for about 20 years, including its first sustainability roadmap in 2006 and EP&L in 2015. This allowed the group to gain experience, notably on the materiality exercise. Its current roadmap started in 2017 and will end in 2025. It voluntarily covers a long period, which allows Kering to place its strategy in the long term. Nevertheless, it is flexible and can be adjusted as the context evolves. For example, the group reviewed its materiality exercise against the context of the Covid-19 pandemic to ensure that it was still relevant. The pandemic has been an accelerating factor, bringing to the forefront issues that have emerged in recent years, especially biodiversity, climate change and circularity, and driving the need for faster action. Employee well-being also stands out as a strong focus for businesses in the context of the pandemic and the development of new ways of working, not only for Kering's employees but also impacting the relationships with its suppliers.
- Sustainability is also an integral part of Kering's global strategy in line with the trends that are shaping its markets, including the emergence of a new generation of consumers who are increasingly connected and conscious of social and environmental issues.



## Setting objectives that work for the group's profile and industry

- In setting its priorities, Kering took into account the characteristics of the group: It operates in the luxury market, with supply chains that are structured in a very specific way: thousands of (mostly) small suppliers, a highly fragmented market with a high level of craftsmanship, essentially based in Europe/ Italy. Its environmental footprint is most significant upstream of the supply chain, during the extraction and processing of raw materials.
- Therefore, in order to have an impact, it was essential to set good sustainable development practices both at the level of its direct operations, and with its suppliers and various partners.

## This strategy is based on three pillars:

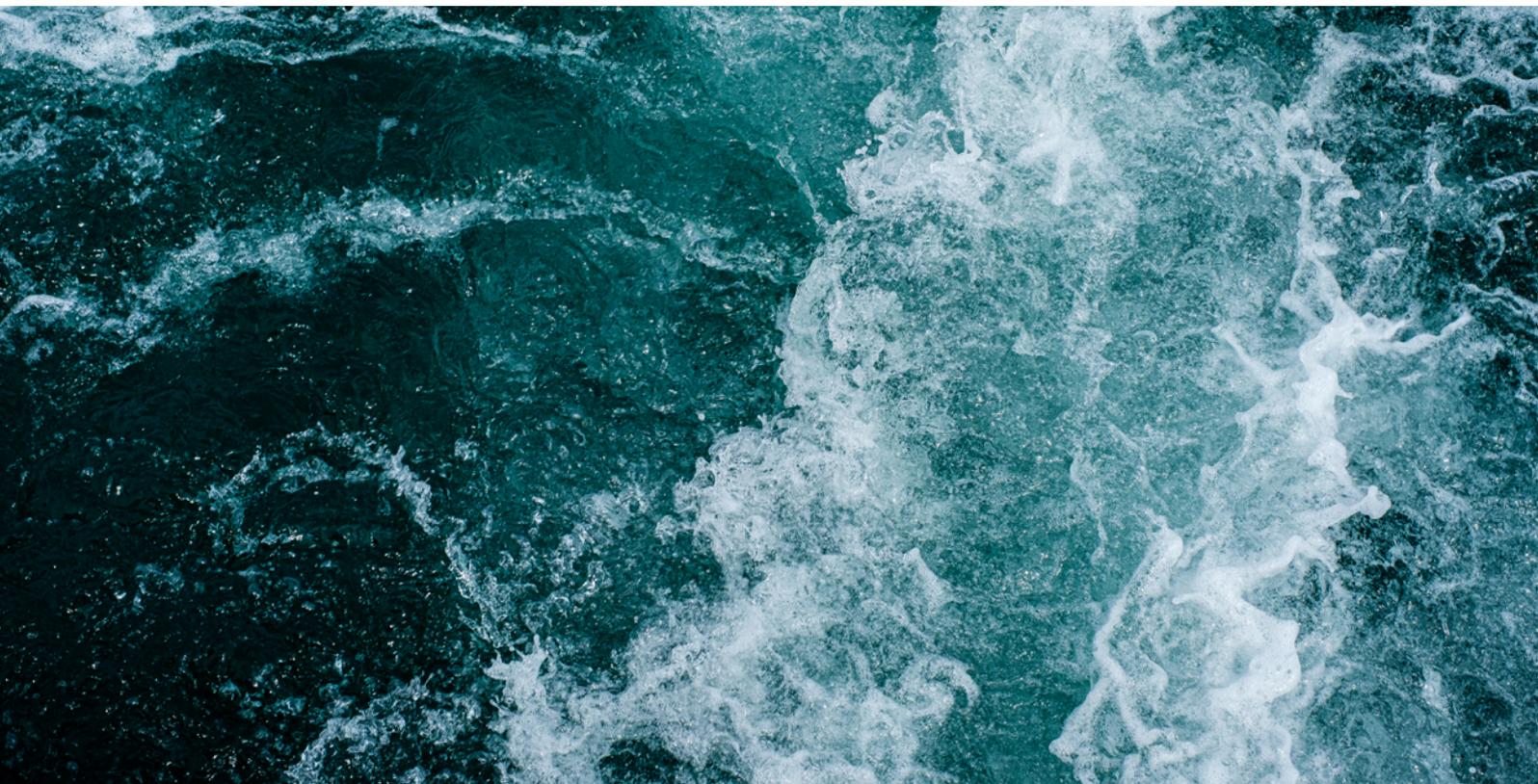
- **1. Care** – which relates to measures taken to protect nature, biodiversity and animal welfare, and reduce the group's climate impact.
- **2. Collaborate** – this is a more social component that aims to encourage the preservation of Kering's know-how, support the continuation of craftsmanship traditions, and amplify forward thinking employment practices.
- **3. Create** – which focuses on the innovation dimension and the company's desire to develop new business models and invest in disruptive innovation as, for example, the development of the second-hand market or the rental market, the development of new or sustainable solutions for sourcing raw materials.

## Integrating ESG into the company's strategy

- Kering CEO François-Henri Pinault places these challenges at the heart of the group's strategy. The Chief Sustainability and Institutional Affairs Officer, Marie-Claire Daveu, who sits on the Comex and reports directly to him, is in charge of rolling out the Sustainability Strategy. From an organisational point of view, the company has 90 employees dedicated to sustainability, both at the level of the holding company, and then each Maison has a dedicated team whose size varies, with Gucci having the largest team. A Sustainability Committee has also been created at the Board level to ensure the oversight of these topics at the highest level of the Group.
- The Group defines the sustainability strategy and the guidelines it wants its brands to implement, onboarding its suppliers and more generally its stakeholders along Kering's journey.
- Finally, Kering has created structures dedicated to certain specific aspects of the businesses: for example, it has developed an R&D laboratory for textiles and another for jewellery and watches.
- Following the last AGM held in April 28, 2022, Kering's Board of Directors decided to create a new function: Climate Change Lead. Jean-Pierre Denis has been appointed to this function to ensure that the Board identifies all the impacts of climate change for the Group, taking into account these issues into its work and the strategy it defines. It is expected that the Board of Directors raises the climate issue at least twice a year.

## A tool to monitor progress

- Kering has developed a monitoring tool to help implement its sustainable development strategy: the Environmental Profit & Loss Account, or EP&L. Created in 2012 and extended to the entire group in 2015, this tool allows Kering to measure the environmental footprint of its activities on six different dimensions (CO2 emissions, water consumption, water pollution, land use, air pollution, waste generation) from the moment the raw materials it is going to use are extracted, to the moment the final products are in the store and then the use and end of life phases. In other words, it allows Kering to identify the main drivers for reducing its environmental footprint and based on the monetisation of its impacts, the company can, more adequately, focus its sustainability strategy, improve its processes and sourcing circuits, and adapt its technology choices.
- Initially designed as an internal management tool, Kering has chosen to make its EP&L tool public and available in open source.
- It is an evolving tool; for example, in 2020 Kering integrated the measurement of the footprint of its activities downstream of its value chain. The methodology is public and accessible to all. A dashboard is also available to monitor its progress against the objectives of its 2025 Strategy.





## Recommendations from Kering's ESG experience

- The field of ESG is very broad and evolving very quickly, especially with the many regulations that are being adopted in this area. This may seem disconcerting at first glance, as companies can struggle to know where to start. Kering's advice is to prioritise the actions to be implemented. The development of a materiality assessment is a good first step. Companies may also wish to set up their EP&L.
- Kering advises reporting on concrete actions, even if it means being less ambitious in the objectives that are set, in order to avoid the pitfall of greenwashing. It is also important that the quantified objectives selected are linked to the sector in which the company operates, because in the end, certain key ESG aspects such as the supply chain are sector-specific. Such an approach can lead to joint actions with a multiplied impact, like the Fashion Pact, a coalition launched in 2019 and representing over 250 brands, or one third of the textile industry's production volumes. The Watch and Jewellery Initiative 2030 has been set up with the same mindset. Finally, it is essential to have a flexible sustainable development strategy given the rapid evolution of the sector, particularly on environmental and social aspects due to new regulations and standards and changing investor demands.

## ESG and investor relations

- Kering has seen a significant and rapid evolution in the dialogue with its investors on ESG. Requests from investors for interactions on ESG topics have quadrupled in the last 4 years. ESG themes have become mainstream and portfolio managers are taking these aspects into account in their valuation processes, whereas until recently they were the prerogative of a small group of specialists within the management teams.
- Although investors still have an overall approach to ESG, Kering is able to bring them a more concrete vision.

Each type of investor has a **dominant theme**, whether it is **climate change, biodiversity, the energy transition, or the protection of human rights** within supply chains.

- As this market continues to develop and become established, Euronext has an important role to play in continuing to facilitate the dialogue between companies and investors. Specifically in the field of ESG indices, Kering believes it is important to offer indices that reflect good practices in ESG. The methodology used must be transparent and based on public and auditable criteria.