Highlights & Holdings

Case Studies in ESG

SAGE ESG
INVEST WELL, DO GOOD

Highlights & Holdings provides a thoughtful analysis for some of the holdings in Sage's Environmental, Social, and Governance (ESG) portfolios. We provide a comprehensive set of scores for each holding and an analysis from an E, S, and G perspective. Our goal for our ESG portfolios is to choose well-run companies (governance) that care about their employees and customers (social), and have policies in place to create a net positive effect on their environment. Sage's ESG holdings are all best-in-class companies that are leaders within their sectors.

Sage Leaf Score

3/5
Controversy

26.1
Medium Risk

The Coca-Cola Company

NYSE: KO
Market Cap: $164B
Bond Rating: Baa1/BBB+

Invented by a pharmacist in 1886, Coca-Cola forms the foundation for a beverage company that has more than 500 brands and 4,300 products sold worldwide. Coca-Cola makes and distributes beverages through both company-owned and independent bottling plants and distributors, which comprises the world's largest beverage distribution system.

Governance

Coca-Cola shows strength in its board structure, financial reporting, and shareholder rights, but could use improvement in its board quality and remuneration systems. The company generates most of its revenue internationally, exposing it to unique management risks, often related to lax labor standards. Coca-Cola's lobbying expenses are notably high compared to industry peers, and point to the company's defensive position against regulatory pressure. This practice exposes Coca-Cola to potential consumer backlash and brand impairment and draws into question the company's intentionality when it comes to product management.

Social

Coca-Cola does not have a clean social record, but the company's sustainability report indicates it understands the necessary steps required to move forward with regulators and consumers. Coca-Cola often faces lawsuits regarding fraudulent marketing practices and the spread of misinformation about the health risks of sugary beverages. It has funded scientific research to weaken the link between soft drinks and obesity, donating millions to studies and research groups that emphasize the need for exercise to maintain a healthy body weight and shift the debate away from diet. Critics view this as Coca-Cola's effort to deflect criticism about the role sugary drinks have played in the spread of obesity and Type 2 diabetes. The company has widely diversified its product line to include bottled water, juice, and sports drinks, giving it a competitive advantage as demand for sugary drinks declines. Regardless of whether it is their soda or sports drinks, Coca-Cola has the chance to better itself by improving transparency in labeling and adopting responsible marketing practices, especially when related to youth-targeted ads.

Environmental

Coca-Cola relies heavily on single-use plastics, producing more than a fifth of the world's PET (polyethylene-terephthalate) bottles. It has consistently been named the worst plastic polluter in the world by a wide margin, producing almost twice as much plastic as the second-highest polluter, Nestle; however, this may reflect Coca-Cola being the biggest brand in the industry. Coca-Cola uses labeling on its products to indicate that they are 100% recyclable, but we believe it could do more to educate consumers about recycling, as it's estimated that only about 5% of plastic waste is recycled worldwide. Most of Coca-Cola's PET bottles end up in landfills, oceans, and waterways, greatly contributing to the global plastic waste crisis. The company has recognized that it must be a part of the solution, but will not ditch single-use plastic outright, maintaining that using only aluminum or glass packaging will push up its carbon footprint. Companies with an agricultural supply chain, such as sugar in the case of Coca-Cola, have huge water footprints. In addition to ingredient production, bottling soft drinks is also water intensive. Producing a half-liter bottle of Coca-Cola requires almost 2 liters of water. The company keeps costs low by tapping into local water sources, often leaving shortages in its wake. Recently, Coca-Cola pledged to replace every drop of water used in its beverages in order to make operations "water neutral." While an admirable goal, studies found that Coca-Cola exaggerated its water replacement record, contributing only 0.5 liters of the water required for each bottle. In contrast, Coca-Cola has made significant investments in water and sanitation in poor communities, water purification and distribution projects, and water conservation and restoration projects. With the World Health Organization reporting that half the world's population will be living in water-stressed areas by 2025, this is an issue that will continue to be important for both brand reputation and financial materiality, as water shortages present operational challenges.

Looking into the Coca-Cola's social and environmental history highlights its imperfections as a corporate citizen, but the company can take responsibility moving forward. Its current sustainability efforts are noble, but not transformative. If Coca-Cola can harness an understanding of issues fundamental to its ESG progress and improve socially and environmentally, it will benefit financially and strengthen its brand. As consumers continue to demand sustainable products, the next 'Cola' wars may relate to how companies lead change in the beverage industry.

3678-NLD-6/18/2020

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