Schiff Hardin

BRIGHTON TRACTOR SUPPLY COMPANY

Three Steps to Jumpstart ESG Policies at the Company

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Schiff Hardin recommends the following steps to assist Brighton Tractor Supply Company in building out its Environmental, Social, and Governance ("ESG") program and is able to assist with any or all of the steps noted below.

1. <u>Conduct a Materiality Assessment to Identify the Metrics that Matter.</u>

When stakeholders ask whether Brighton Tractor Supply Company ("BTSC" or the "Company") is "sustainable," they are really asking about whether the company is positioned to withstand risk. Thus, defining and mitigating risks begin with understanding the Company's ESG efforts to date, its current and future business plans, and its drive to institute any necessary changes.

Sustainability is most commonly associated with environmental and climate-aligned corporate activity, but ESG more broadly includes the following dimensions: (1) environment; (2) social capital; (3) human capital; (4) business model and innovation; and (5) leadership and governance (the "ESG Elements").[1] Following sustainable practices provides a company with resilience and the ability to counter risks and pivot to new opportunities as they present themselves.

To ensure the Company's ESG policies are meaningful, address the actual risks the Company will face, and contribute to the Company's bottom line, BTSC will want to first complete a materiality assessment to identify the commercial and reputational risks and threats that the Company faces as relates to its current business and future aspirations.

The goals of the materiality assessment include:

- Engaging with stakeholders – investors, customers, boards, industry peers and communities where the Company does business – to identify sustainability factors that are valued.
- Completing SWAT analysis (strengths, weaknesses, assets, and threats) of the Company as relates to the Company's ESG Elements.
- Identifying the metrics that third parties use to evaluate the Company, including those mandated by applicable laws and reporting requirements.

The financial impacts of climate change to BTSC's operations and supply chain are material risks. Other ESG issues that are likely relevant to BTSC's operations include water and energy management; supply chain management, including human capital policies and possible conflict mineral issues; compliance issues relating to the manufacture, use and disposal of products; and diversity, equity and inclusion in its workforce.

The materiality assessment may uncover current Company practices that are non-compliant with applicable standards or raise reputational risk for the Company. To protect the information that BTSC collects, Schiff Hardin recommends that legal counsel be actively engaged in the internal review, and that sensitive

[1] See the Value Reporting Foundation's discussion of the SASB materiality map: https://www.sasb.org/standards/materiality-map/.

information be managed through the law firm in order to preserve possible privileges and ensure proper protection of employees and others. If consultants are retained to investigate topics that could raise liability issues, those consultants also should be retained through counsel.

While the materiality assessment may be a significant undertaking, Company-led course correction or policy changes will be more palatable to stakeholders than those directed by outside parties.

2. <u>Empower and Incentivize People to Implement Meaningful Programs.</u>

An integrated approach to implementing sustainability and ESG begins at the top. We concur that creating a chief sustainability officer (“CSO”) position can have this impact. However, the CSO title is unlikely to effect meaningful change if the incentives of the entire executive team are not similarly aligned to incentivize achieving the Company’s sustainability goals.

To align incentives, we recommend:

- The CSO have a background in reporting and compliance, including sustainability credentials.
- The key performance indicators (“KPIs”) of all executives include ESG metrics – otherwise, there is risk that ESG will be treated as a non-core goal and will not be prioritized internally.
- The CSO’s position within the company, including reporting and responsibilities, should be aligned to ensure that the CSO has authority to execute on ESG initiatives. Schiff Hardin can assist in developing appropriate compensation packages that reward the executive team for meeting BTSC’s highest priority ESG goals, recognizing that the Company may be required to disclose executive compensation arrangements in its public filings.

3. <u>Address Known Issues without Delay.</u>

The Company has already identified ESG issues of current importance to its business: liabilities relating to improper battery storage and disposal and international supply chains. We recommend that the Company not delay in developing strategies to address these issues.

Initial steps to address the battery issues:

- The Company should immediately work to identify and, as required, disclose any releases of hazardous substances relating to its battery storage and disposal operations. The Company should then work with regulators, consultants, and other stakeholders to remediate any releases and mitigate impact to the environment.
- Moving forward, BTSC should implement policy changes to better manage hazardous waste handling in compliance with applicable laws. This will include collecting data about used battery usage and working with battery suppliers that recycle, repair, and refurbish batteries or finding third parties who will participate in a sustainable circular value chain by reusing and repairing batteries.

Initial steps to address questions about its supply chain:

BTSC should consider conducting a supply chain audit, not only for its internal ESG uses, but importantly, in anticipation of inquiries from customers that are auditing their own supply chains and will expect BTSC to provide information. BTSC can start this process by auditing the parts of its supply chain that are identified in its materiality assessment as impacting the Company's most material risks and based on stakeholder input regarding their concerns. Once BTSC has identified primary supply chain risks, it can enact policies to mitigate those risks and establish supplier goals, including by adding binding ESG clauses to its supply chain contracts.

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