THE ESG GROUP

Driving Manufacturing to Net Zero

The ESG Group
Simple, Actionable Steps to Increase your Business Sustainability and Profitability Now

Presented By
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We transform ESG strategies for manufacturing into cost savings opportunities for a competitive edge

The ESG Group was founded with a mission to drive manufacturing to net carbon zero

- Flexible, customized, sustainability/ESG strategies
- Actionable, Capex/non Capex sustainability roadmaps
- Carbon footprint and energy assessments
- Communication planning and ESG reporting

AGENDA

- Regulatory backdrop of Carbon & Climate Risk Reporting
- Value Chain Carbon Mitigation
- Roadblocks to Sustainability Progress
- How Lubrication impacts Sustainability
- Sustainability Marketing
- Reducing your Operating Costs with a sustainability roadmap
- Financing and tax opportunities
- Examples
- Summary
- Questions

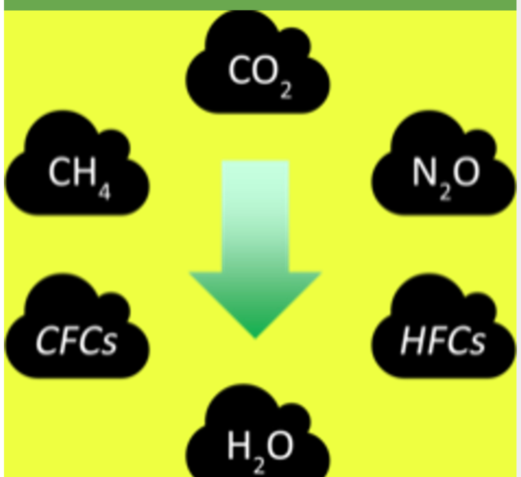
Carbon and Climate Risk Reporting now mandated by the SEC

- **SEC Climate Disclosure Mandate rule for public companies approved on March 6, 2024. (litigation ongoing) Requires Scope 1 & 2 reporting, disclosure of management, oversight of climate related risks as well as financial impact of severe weather, carbon offsets.**
- **Impacts 2,800 publicly traded US companies above $75M in valuation with costs for implementation estimates up to $6.37B.***
- **It is estimated 39 million additional hours of paperwork is needed.****

<u>The bottom line is climate policy has moved from voluntary to mandatory and no longer resides with the EPA.</u>

***The SEC's Costly Power Grab," Competitive Enterprise Institute, June 2022**

****Michael Cohn, "Financial execs need to staff up for SEC climate disclosures," Accounting Today, November 2023**



Today, companies are planning for a world of GHG reductions and climate risk reporting

- **EPA mandates disclosure of companies producing more than 5,000 metric tons of CO2.**
- **California passed SB 253 and 261 for both public and private companies to report Scopes 1-3 with similar measures to SEC rules. SB 253 applies to companies with $1B of sales. SB 261 requires companies with $500M in annual revenue to disclose climate-related financial risks by Dec 2024.**
- **Any company doing business in Europe is required to report carbon emissions and climate risk under CSRP.**
- **Many large consumer companies are implementing "Value Chain Carbon Mitigation Strategies" which drives suppliers to report Scope 3 emissions and develop programs to support their claim of reduced carbon emissions.**

Roadblocks to Sustainability Progress

- **Cost**
  - **Most consumers are unwilling to spend a $1 more on higher gas and electricity prices to mitigate climate change.**
  - **Companies similarly see implementation of sustainability as reducing their profits with high implementation costs for conversion to new technologies. This reduces their competitiveness.**
- **Detracts from the company mission**
  - **Many businesses are reluctant to spend on sustainability. They view it as distracting business focus from their core products and scarce labor resources.**
- **Risks**
  - **Potential litigation from false SEC reporting**
  - **Unsubstantiated claims or greenwashing of data**

Lubrication Positively Impacts Energy Efficiency and Sustainability

- **Lubrication impacts carbon emission reduction by reducing friction and increasing efficiency. Estimates are 20% of energy used in transportation, manufacturing, power generation and residential is due to tribology contacts.**

- **Reduction in wear allows for increased longevity of products and equipment, conserving resources.**

- **Lubrication allows for higher performance at higher temperatures/pressures increasing operating efficiency.**

- **Improved equipment reliability from lubrication selection can improve downtime & reduce waste with less carbon emissions.**

Deploy “Sustainability Marketing” to increase sales and profitability

- **Can you quantify the improved carbon footprint benefits both direct and indirect with your products to specific customer applications? Based on net profit margin, how much product or services would your customer need to sell to get the same benefit as a sustainability project cash stream.**
  Net profit ratio is net profit/revenue (Typically 10-20%)

- **Do your customers understand the full impact of lubrication on their sustainability program?**

- **Can you promote more environmentally friendly lubricants that are biodegradable and less harmful to the environment?**

Build a sustainability roadmap to reduce operating costs

- **Set sustainability goals and plans in line with business priorities. Sustainability should complement your marketing and growth strategy including new product plans.**
- **Establish a realistic carbon reduction roadmap including budget, timeline and resources.**
- **Start with low hanging fruit projects with high ROI such as lighting, HVAC, building envelope upgrades, etc.**
- **Consider non-capex as well as capex solutions. Non capex includes change management, energy awareness and positive communication programs highlighting progress.**
- **Avoid outside consultant compliance cost creep and integrate climate disclosures within existing reports.**

Use Sustainability and Performance Data to Reduce Total Cost of Ownership

- **Utilize data driven insights to assess and reduce emissions**
  - **Display utility data (ie purchased electricity & gas) utilizing an automated dashboard with visibility to key teams**
  - **Consider the use of Utility, Energy Star Portfolio Manager, Building or Industrial Energy Management Software.**
  - **Track waste and disposal costs to eliminate landfill disposal and to identify reuse or recycling opportunities.**
- **Ensure production and major equipment display performance data including OEE performance measurements, asset utilization, and continuous throughput rates**
- **Regularly use the utility data systems to track performance against goals. Seek to gain equipment and building insights to optimize performance and develop new energy projects**

Partner with finance to ensure carbon projects have a high payback

- Develop a materiality matrix and sustainability roadmap to ensure project selection positively impacts your business.
- Consider alternative sources of capex for energy projects, consider zero interest loans or energy as a service performance contracts.
- Include tax incentives in paybacks and know your carbon impact.
- Consider only energy projects with low internal personnel resource requirements utilizing proven technologies to reduce risk. (i.e. lighting, HVAC, demand intervention. VFD's, etc.)
- Consider your entire operation in your sustainability program. This can include the three R's of packaging (Reduce, Reuse and Recycling), minimizing waste, disposal costs and logistics.

Inflation Reduction Act for Business *

- **Know the tax benefits of implementing energy projects for your business. The Investment Reduction Act includes 26 federal energy tax incentives: tax credits & deduction, accelerated depreciation, and tax credit monetization opportunities.**
- **Investment Credit (Section 48) 30% ITC on commercial solar, wind and geothermal projects with 10% bonus credit on domestic content with bonus depreciation available.**
- **Energy Efficient Commercial Building (Section 179D) allocates up to $5,00/sf of building tax deduction for upgrades to lighting, HVAC, controls and building envelope as well other efficiency upgrades.**
- **Commercial Electric Vehicles 30% tax credit up to $7,500 including items such as forklifts, carts as well as vehicles.**

Information not intended to provide legal or tax advice

Funding and Financing Options

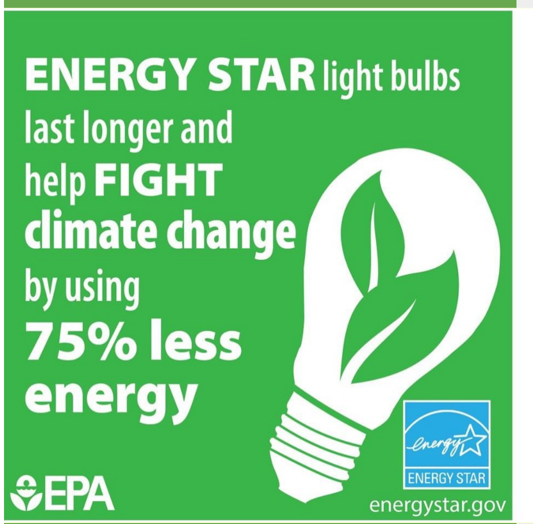
- Partner with tax advisors, finance teams, utility suppliers and energy consultants to assist in providing rebates, financing opportunities for both prescriptive energy measures and customized programs.
- Access databases of available funding sources and financing. These include DSIRE database, the US Dept of Energy's Industrial Efficiency & Decarbonization Office, EPA, utility, and State Go Green programs.
- Consider off book capex financing and be aware of the many different finance options that exist. I.e. Utility Loans, Capital Leases, Operating Leases, Tax Exempt Lease Purchase Agreements, Power Purchase Agreements, Energy Performance Contracts, Energy Service Agreements

Energy Loan Examples

- **PG&E 0% On-Bill Financing loan for replacing old and worn out equipment with more energy efficient modes**
  - **250K per premise with loan terms up to 120 months.**
  - **Utility underwrites and approves projects**

- **Go Green Program, similar to PG&E with 0% loans available**
  - **Broader range of measures such as energy audits, data acquisition systems. etc.**
  - **Quicker approval with less paperwork**
  - **Allows up to 30% of the loan to be used for non energy projects.**

Lighting Example



Project Cost
10,000

Energy efficiency rebates and incentives 2,500

Loan Amount 7,500

Estimated energy savings from retrofit $300

Monthly loan installment on PG&E bill $300

Simple Payback Period
25 months

Summary

- ESG and sustainability reporting has gone from voluntary to mandatory affecting not only large companies but smaller ones due to retail/industrial supply chain requests for Scope 3 reporting.
- Ensure your marketing messaging includes sustainability benefits to increase your sales.
- Build a sustainable roadmap that integrates existing teams and processes. Select projects that reduce your operating costs with a rapid payback period.
- Work with finance to implement proven quick payback energy solutions including non capex and take advantage of rebates, financing and tax incentives.

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Questions ?

Thank you

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GoGreen Business Energy Financing

administered by the State of California

Private market financing provided through a state-administered and utility-supported program offering attractive interest rates and terms, with option for convenient repayment through utility bill

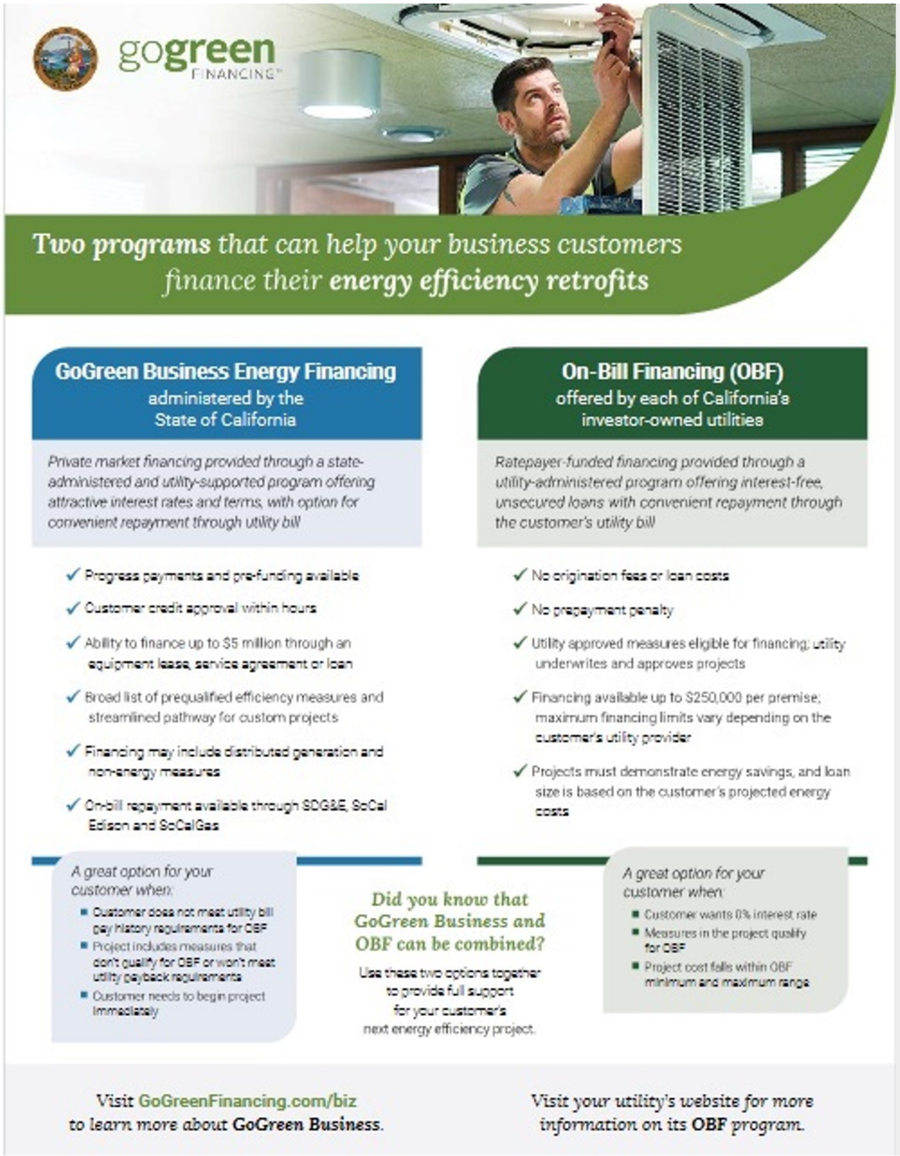
- ✓ Progress payments and pre-funding available
- ✓ Customer credit approval within hours
- ✓ Ability to finance up to $5 million through an equipment lease, service agreement or loan
- ✓ Broad list of prequalified efficiency measures and streamlined pathway for custom projects
- ✓ Financing may include distributed generation and non-energy measures
- ✓ On-bill repayment available through SDG&E, SoCal Edison and SoCalGas

On-Bill Financing (OBF)

offered by each of California's investor-owned utilities

Ratepayer-funded financing provided through a utility-administered program offering interest-free, unsecured loans with convenient repayment through the customer's utility bill

- ✓ No origination fees or loan costs
- ✓ No prepayment penalty
- ✓ Utility-approved measures eligible for financing; utility underwrites and approves projects
- ✓ Financing available up to $250,000 per premise; maximum financing limits vary depending on the customer's utility provider
- ✓ Projects must demonstrate energy savings, and loan size is based on the customer's projected energy costs



gogreen FINANCING™

Two programs that can help your business customers finance their energy efficiency retrofits

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A great option for your customer when:

- Customer does not meet utility bill pay history requirements for OBF
- Project includes measures that don't qualify for OBF or won't meet utility payback requirements
- Customer needs to begin project immediately

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A great option for your customer when:

- Customer wants 0% interest rate
- Measures in the project qualify for OBF
- Project cost falls within OBF minimum and maximum range

Did you know that GoGreen Business and OBF can be combined?

Use these two options together to provide full support for your customer's next energy efficiency project.

Visit GoGreenFinancing.com/biz to learn more about **GoGreen Business**.

Visit your utility's website for more information on its ***OBF*** *program.*