



**PRENTISS  
SMITH & CO**

Socially Responsible Investment Report for:

# Tennant Company

Minneapolis, MN

Ticker: TNC

Last Updated: February 6, 2020

## I. Exclusionary Screening

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Does Tennant Company appear on any of the following lists? In our exclusionary screening, a single appearance disqualifies an investment.

### Fossil Fuels & Precious Metals Mining

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- Carbon Underground 200
- CDP/CAI Carbon Major
- BICS - Oil, Gas & Coal
- BICS - Precious Metals Mining

### Pornography, Gambling & Tobacco

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- BICS - Casinos & Gaming
- BICS - Gaming Equipment
- BICS - Adult/nightclubs
- BICS - Tobacco

### Agrochemicals & Animal Cruelty

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- BICS - Crop Chemicals & Fertilizers
- Cruelty Free Investing 10 Worst

### Defense & Retail Gun Sales

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- SIPRI Top 100
- BICS - Defense Primes
- NRA Top Industry Allies

### Private Prisons

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- BICS - Security Services

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CDP = Carbon Disclosure Project  
CAI = Climate Accountability Institute  
BICS = Bloomberg Industry Classification Systems

SIPRI = Stockholm International Peace Research Institute  
NRA = National Rifle Association

## II. Environmental, Social & Governance Data

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What quantifiable environmental, social and governance data, policies or recognition does Tennant Company exhibit? Positive factors may help support a decision to invest.

### General

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CSR (Corporate Sustainability Reporting) since:

**2009**

GRI Criteria:

**Compliant**

### Climate Change & Fossil Fuels

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CDP Climate Change 2018 Leadership Score

**A-**

compared to a sector average of D.

Among the first

**100**

approved Science-Based Emissions Targets (SBTI).

CDP Reporting since

**2013**

2030 Scope 1 & 2 emissions reduction targets of

**25%**

and scope 3 emissions reduction targets of

**50%**

Renewable Energy Purchasing Increase YoY, including

**12**

Minnesota Community Solar Garden Subscriptions.

On pace for

**2°C**

warming target.

## Environmental Stewardship

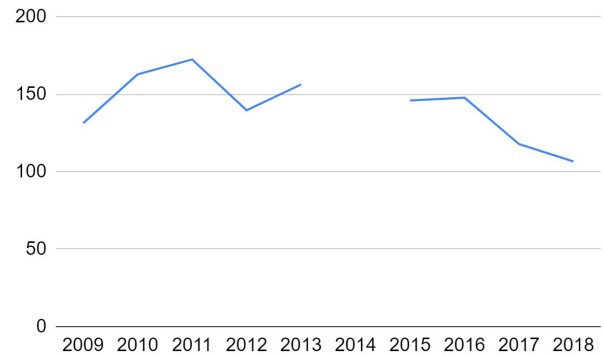
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Environmental Policies in place:

- **Energy Efficiency**
- **Emissions Reduction Initiatives**
- **Supply Chain Management**
- **Green Building**
- **Waste Reduction**
- **Water Policy**

Source: Bloomberg

Energy Intensity per Sales, 2009-2018:



Source: Bloomberg

## Human Rights & Well-Being

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Human Rights Policies in place:

- **Equal Opportunity Policy**
- **Health and Safety Policy**
- **Human Rights Policy**
- **Policy Against Child Labor**

Source: Bloomberg

**18%**

Reduction in operations safety incidents.

## Diversity, Equity and Inclusion

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**19%**

of global workforce are women.

**33%**

(3 of 9) Board Members are women

# 21%

of US workforce identify as Latinx,  
African-American and Asian.

# 8%

of US-based Managers identify as Latinx,  
African-American and Asian.

## Corporate Responsibility

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2018 Company & Foundation Giving of

# \$650,000+

Employee Volunteer Hours

# 2,655

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Data sources may include:

- Sustainability and other report(s) published by Tennant Company.
- Bloomberg LP ESG Data (via Data License).
- Global Reporting Initiative (GRI)
- CDP
- Science-Based Targets initiative (SBTi)
- Climate Accountability Institute (CAI)
- Fossil Free Funds
- Dow Jones Sustainability Indices (DJSI)
- Barrons 100 Most Sustainable US Companies
- Newsweek Green Rankings
- State Street Global Advisors' Gender Diversity Index
- The 2019 Top 50 DiversityInc
- HRC's 2020 Corporate Equality Index
- PEOPLE's 50 Companies That Care
- Fortune's 50 Best Workplaces for Charity and Volunteering
- Points of Light Civic 50 Honorees
- Stockholm International Peace Research Institute (SIPRI)
- Institute for Clinical and Economic Review (ICER)
- Roundtable on Sustainable Palm Oil (RSPO)
- National Rifle Association (NRA)

### III. Research Narrative

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What else has our research process told us about how Tennant Company conducts business, in terms of its products and services, its environmental impact, and its approach to governance?

#### Summary

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Tennant's products focus on safely and efficiently cleaning a wide range of surfaces. Tennant offers an extensive lineup of environmentally friendly cleaning products that help customers reduce the use of harmful cleaning chemicals and save water. The company is very transparent in its CSR initiatives, including annual sustainability reports and CDP responses. Tennant has set ambitious science-based GHG emissions targets for scope 1, 2, and 3 emissions and is already making solid progress.

Tennant has a clear deficiency in the gender diversity of its employees, and in the gender and ethnic diversity of its overall management and its senior management team, although there are 3 women on Tennant's 9-member board.

#### Products & Services

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Tennant is a global leader in the design and manufacture of industrial cleaning equipment used to clean many types of environments including retail spaces, factories, stadiums, office buildings, schools, hospitals, parking lots, streets, etc. The company's products include mechanized cleaning equipment, detergent-free sustainable cleaning technologies, aftermarket parts, and related services and consumables. Tennant was founded in 1870 by George H. Tennant as a wood flooring and wood products company. By the 1930s the company began to focus on mechanized floor cleaning equipment. Since then, Tennant has frequently been first to bring new technologies to market in the industrial cleaning equipment industry. In 1947, the company invented the first vacuum-equipped power sweeper to be used for industrial use. By the 1970s, the company went on to develop the first riding scrubber and the first walk-behind scrubber, which are still some of

the company's most popular products to this day. Tennant has a global manufacturing footprint and service network spanning thirteen manufacturing plants across the Americas, Europe and Asia. Equipment sales account for 65% of Tennant's total revenues, while sales of parts, consumables, and service comprise the rest of the business.<sup>1</sup> With about 20% market share, Tennant is the largest player in the field of industrial cleaning equipment, which is an approximately \$5 billion annual market. Over the last ten years, the company has become more focused on developing environmentally friendly cleaning solutions that significantly reduce or remove the need for conventional cleaning chemicals. In 2016, Tennant launched an internet-of-things software offering which it calls IRIS Asset Manager that provides customers with improved visibility of their fleets of cleaning equipment via remote monitoring, enabling them to increase productivity, assess maintenance needs, and reduce overall costs to clean. The company's most recent innovation is a line of autonomous driving scrubbers which it launched in late 2018.<sup>2</sup>

The social utility of Tennant's products and services is straightforward in that they allow for safe and efficient cleaning of an extensive range of environments. Additionally, the company's more recent focus on technologies that efficiently use water and reduce the use of harmful cleaning chemicals have clear environmental benefits. These qualities are well stated in the company's corporate vision, which is to "lead our global industry in sustainable cleaning innovation that empowers our customers to create a cleaner, safer, and healthier world."<sup>3</sup>

## Environment

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For a company of its size, Tennant is putting remarkable focus on its greenhouse gas (GHG) emissions. Among companies responding to the CDP supply chain climate change survey, Tennant scores among the top five percent of peer companies within the Electrical Equipment and Machinery group. According to their survey responses, the company has been actively working on 19 emissions reductions projects totaling 1,185 mT of carbon dioxide reductions and 2,850 MW of renewable energy supply, and 2017 marked its third consecutive year of absolute reduction in GHG emissions.<sup>4</sup> In 2015, Tennant decided to set more ambitious GHG emissions reduction targets by working with the Science Based Targets initiative (SBTi) which approved Tennant's new

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<sup>1</sup> <https://www.sec.gov/Archives/edgar/data/97134/000009713419000006/form10-k12312018.htm>

<sup>2</sup> <http://investors.tennantco.com/news-and-events/press-releases/press-release-details/2018/Tennant-Company-to-Introduce-Autonomous-Floor-Cleaning-Machines/default.aspx>

<sup>3</sup> [https://web.tennantco.com/GlobalAssets/WebAssets/Tennant%20Resources/Company/Tennant\\_Fact\\_Sheet.pdf](https://web.tennantco.com/GlobalAssets/WebAssets/Tennant%20Resources/Company/Tennant_Fact_Sheet.pdf)

<sup>4</sup> <https://www.cdp.net/en/responses?utf8=%E2%9C%93&queries%5Bname%5D=tennant>

targets. Tennant has committed to reducing absolute scope 1 and 2 emissions by 25% by 2030 from a 2016 base year. Tennant has also committed to reducing scope 3 emissions of sold products by 50% per \$USD of equipment revenue by 2030 (from a 2016 base year). Already in 2017, Tennant reduced scope 1 and 2 GHG emissions by 6.3% from 2016.<sup>5</sup>

From a product use standpoint, Tennant's products enable customers to reduce their environmental impact during the use phase of the product. Tennant claims that it quantifies the use phase GHG emissions of its entire product lineup. For the past five years, the company has been monitoring Scope 3 emissions of sold products using Trucost, a division of S&P Global that provides emissions assurance. Management claims that its highest priority is to reduce Scope 3, Category 11 "Use of Sold Products" emissions, as these emissions account for nearly 75% of its Category 3 emissions. In 2017, the company reported that it had already reduced Category 11 emissions by 7.8% compared to the prior year.<sup>6</sup> This reduction is partly based on the trend towards cleaner energy on the electrical grid as well as efficiency improvements in the products themselves.

On many of its scrubber machines, Tennant offers an optional technology which it calls ec-H2O NanoClean, which electrically converts water into a detergent-free "nanobubble" cleaning solution thereby reducing the environmental impact associated with floor cleaning chemicals. Tennant claims that the machines leave the cleaned floors dry within seconds, also helping to reduce the risk of slip-related accidents. Cumulative revenues for the ec-H2O line of environmentally friendly products has exceeded \$1.2 billion from 2008 to 2017.<sup>7</sup> Tennant estimates that the installed base of ec-H2O products has helped its customers avoid more than 75,000 mT of carbon dioxide emissions compared to conventional packaged chemicals, a savings that is equivalent to two years of Tennant's scope 1 and 2 emissions.<sup>8</sup> Profit margins for this category have also been higher than company average margins. Tennant also has a brand of on-site cleaning solutions generators that it calls Orbio. The Orbio on-site generators are able to create a multi-surface cleaning solution using tap water, electricity and salt. The electrolysis process produces two separate products, a cleaning solution and an antimicrobial solution. Tennant claims that the Orbio produced cleaning solution is far more effective than tap water in breaking down oil-based stains and other soiled surfaces. The machine allows customers to reduce the amount of daily use conventional cleaning chemicals that they would otherwise need to buy and store at their facilities. Due to the fact that the cleaning solution is generated on-site, customers are able to reuse plastic spray bottles, and as such reduce waste associated with having to constantly purchase new bottles of chemical cleaning solutions. The Orbio cleaning solution can also be used

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<sup>5</sup> <https://www.cdp.net/en/responses/37977>

<sup>6</sup> <https://www.cdp.net/en/responses/37977>

<sup>7</sup> <https://www.sec.gov/Archives/edgar/data/97134/000009713419000006/form10-k12312018.htm>

<sup>8</sup> <https://www.cdp.net/en/responses/37977>



in Tennant's scrubber machines. Using the Orbio product reduces the need to train employees in the use of multiple types of chemicals and reduces health risks associated with employees using such chemicals. Ecoform, a third-party environmental lifecycle analysis provider, evaluated the Orbio products and found that compared to conventional packaged cleaning chemicals, Orbio dramatically reduced environmental impacts such as GHG emissions, ozone depletion, acidification, ecotoxicity, etc. Use of machines like the Orbio is also beneficial to facilities applying for their own LEED building certification.

## Management Integrity & Ethics

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In terms of corporate transparency, Tennant has been publishing annual sustainability reports since 2009. Tennant's CSR reports are very comprehensive, and it is unusual to see a company of Tennant's relatively small size (\$1.2 billion market capitalization) be so active and transparent about their CSR initiatives. Many publicly traded companies of Tennant's size do not publish annual CSR reports. The company has been submitting annual responses to the CDP since 2013 and has also been participating in the CDP supply chain climate change program since 2013. For its Climate Change 2018 Score Report, Tennant received a CDP Leadership Score of A-, which compared to a sector average score of D.<sup>9</sup> Tennant received particularly high marks in the areas of risk management processes, risk disclosure, opportunity disclosure, emissions reductions initiatives & low carbon products, and scope 1 & 2 and scope 3 emissions (including verification).<sup>10</sup>

Tennant is led by CEO Chris Killingstad, who joined the company in 2002 and has been the CEO since 2005. During his tenure as CEO, Mr. Killingstad has been focused on expanding the company's mix of recurring revenues (parts & consumables), extending Tennant's leadership in environmentally friendly technologies, and expanding the company's geographic footprint, particularly in Europe and Asia. Mr. Killingstad and the management team are now focused on margin improvement initiatives.

The diversity of Tennant's workforce is not a strong suit. Only 19% of Tennant's workforce is female, as is just 2% of its middle and upper management. While over 21% of Tennant's US workforce identify as African-American, LatinX or Asian, just 8% of its middle and upper management identify that way.<sup>11</sup> Tennant's 9-member Board of Directors does have three women

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<sup>9</sup>

<https://assets.tennantco.com/GlobalAssets/WebAssets/Tennant%20Resources/sustainability/tennant-cdp-supply-chain-climate-change-score-report.pdf>

<sup>10</sup> <https://www.cdp.net/en/responses/37977>

<sup>11</sup> [http://s2.q4cdn.com/547804565/files/doc\\_downloads/2018\\_TNC\\_CSR\\_FINAL-\(1\).pdf](http://s2.q4cdn.com/547804565/files/doc_downloads/2018_TNC_CSR_FINAL-(1).pdf)

and eight independent directors, including experienced executives from companies such as Bemis, Ingersoll Rand, General Mills, and Emerson Automation.

Tennant has been first to launch several innovative technologies within its industry, and the company targets annual spending of approximately 3% to 4% of total sales on R&D expenditures.<sup>12</sup> A few of the innovations to come from this research include the environmentally friendly ec-H<sub>2</sub>O NanoClean technology, the Orbio line of on-site cleaning solution generators, the IRIS asset management software, and the autonomous cleaning machines.

There was a small controversy around the launch of its ec-H<sub>2</sub>O products as Tennant marketed the launch of ec-H<sub>2</sub>O with claims like, “ec-H<sub>2</sub>O converts water into a powerful detergent,” and repeatedly referred to ec-H<sub>2</sub>O as a “powerful” and “superior” cleaning solution. Competitors Nilfisk-Advance and Alfred Karcher & Co both brought lawsuits against Tennant alleging false advertising over the claim that ec-H<sub>2</sub>O cleaned as well as detergent. A lack of clarity around industry cleaning standards and Tennant asserting the claims were backed by independent laboratory studies resulted in mixed outcomes. Ultimately, Tennant competitors received a partial win when a German Judge required Tennant to change the language of their advertising.<sup>13</sup> Tennant has altered marketing to claim, “ec-H<sub>2</sub>O technology converts water into an innovative cleaning solution that cleans effectively, saves money, improves safety and reduces environmental impact compared to daily cleaning floor chemicals.”

Tennant does not have any current environmental liabilities and furthermore the company is not involved in any material legal proceedings.

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<sup>12</sup> <https://www.sec.gov/Archives/edgar/data/97134/000009713419000006/form10-k12312018.htm>

<sup>13</sup> <http://www.europecleaningjournal.com/magazine/articles/latest-news/stuttgart-court-rules-activated-water-no-better-than-tap-water-in-tennant-vs-krcher-case>

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