March 20th, 2023

Texas Roadhouse (TXRH)
Proposal #5
Contact: Jared Fernandez (jferandez@bostontrustwalden.com)

Boston Trust Walden encourages shareholders to vote FOR Item 5 at the Texas Roadhouse ("the Company") shareholder meeting on May 11, 2023.

As evidenced below, Texas Roadhouse trails peers in terms of the pace, scale, and ambition of its climate risk management initiatives. Reporting on the Company’s plans to leverage its proposed GHG accounting activities to reduce its total contribution to climate change would help demonstrate to investors how the Company intends to address its climate-related risks and opportunities.

Resolved: Shareholders request Texas Roadhouse issue a report, at reasonable cost and omitting proprietary information, describing if, and how, it plans to measure and reduce its total contribution to climate change, including emissions from its supply chain, and align its operations with the Paris Agreement’s goal of maintaining global temperature increases to 1.5°C.

Supporting Statement: Shareholders recommend the report disclose, among other issues at board and management discretion, the relative benefits and drawbacks of:

- Establishing for the Company’s full greenhouse gas emissions (GHG) footprint short-, medium-, and long-term emissions reduction targets aligned with the goals of the Paris Agreement; and
- Developing a transition plan detailing how the Company intends to achieve such targets.

1. Climate change presents a material systemic risk to the economy and may pose direct physical, operational, and supply chain risks to the restaurant industry.
   - Under current trends and policies, S&P Global predicts that physical climate risks alone could result in 4% of global annual economic output lost by 2050.1 The White House Office of Management and Budget predicts climate change could reduce U.S. Gross Domestic Product by as much as 10% by 2100.2
   - The global food system is responsible for approximately one-third of global greenhouse gas emissions,3 and for many companies in the food sector, emissions from the value chain can represent over 80% of a company’s total GHG footprint.4
   - A 2022 report from the United Nations’ Intergovernmental Panel on Climate Change projects an increase in the frequency and intensity of droughts, heat waves, and floods will have severe impacts on global agricultural output. Even if the world is successful in limiting global average temperature rise to 1.5°C by 2050, about 8% of the world’s farmland would become unsuitable for agricultural production.5
   - The changing climate is already affecting agricultural yields in the United States, which can impact prices and the availability of key commodities for restaurants.
     - The American Farm Bureau Federation states that 2022’s severe drought conditions in the West and Southern Plains led to higher feed costs and “a reduction in U.S. cattle inventory that will continue for years to come,” raising futures prices.6 U.S. cattle & calves inventory is down 3% year-over-year, and down over 10% since 1998.7

4 https://engageethechain.org/top-us-food-and-beverage-companies-scope-3-emissions-disclosure-and-reductions#_ftn5
5 https://time.com/6152615/ppcc-report-climate-change-agriculture/
Texas Roadhouse identifies “Maintaining and/or Improving Restaurant Level Profitability” as a key long-term strategy to grow earnings per share and create shareholder value. Unfortunately, restaurant margin (as a percentage of restaurant and other sales) decreased to 15.7% in 2022 compared to 16.9% in 2021. These headwinds to profit were driven by increases to total costs and expenses. In 2022, total costs and expenses increased $527.9 million, or 16.7%, compared to 2021. Approximately 42% of these increased costs and expenses ($221.5 million) were related to increased food and beverage costs. Approximately half of the Company’s food and beverage costs relate to beef.8

2. We are concerned the Company has not fully assessed the material risks and opportunities posed to the business by climate change, failing to meet investor expectations.

- Long-term investors benefit by understanding how the business models of portfolio holdings align to a scenario in which global warming is limited to well below 2°C, moving towards global net zero emissions by 2050.
- The Board’s opposition statement seems to suggest that climate risk management is a “non-pecuniary initiative,” raising concerns that the company does not sufficiently understand the enterprise-level climate risks facing the business and the supply chains on which it relies.
- The Company’s 2023 10-K filing does not include the word “climate” or “climate change.” Although it does acknowledge that adverse “weather conditions” could pose headwinds to profits due to increased food costs, none of the company’s regulatory filings or sustainability disclosures suggest it has evaluated the extent or likelihood of these risks for key ingredients or its physical assets.9
- In contrast, Brinker International,10 Chipotle,11 Cheesecake Factory,12 Darden Restaurants,13 Domino’s Pizza,14 Jack in the Box,15 McDonald’s,16 Papa John’s,17 Restaurant Brands International,18 Starbucks,19 Wendy’s,20 and Yum! Brands21 all explicitly cite climate change within discussions of Risk Factors in their most recent annual reports.
- The opposition statement points to “greater disclosure in our 2022 corporate sustainability report,” seemingly to assuage investors who seek evidence of incremental progress. Yet the Company still does not report against the SASB Standards, which prompts disclosure of specific decision-useful metrics related to “Energy Management” and “Supply Chain Management & Food Sourcing” for companies in the Restaurant industry.22 Moreover, disclosures related to operational resource conservation in its 202123 and 202224 sustainability reports utilize nearly identical language. Where specific metrics have been updated, they note a year over year decline in performance as it relates to the number of stores that recycle and the company’s landfill diversion rate. Neither report includes the word “climate.”
  - In addition to not disclosing in alignment with the SASB Standards, Texas Roadhouse has never participated in climate- or deforestation-related disclosures through CDP,25 nor has it joined the over 4,000 global corporations who have publicly reported on climate-related risk and opportunity management through the Task Force on Climate-related Financial Disclosures (TCFD) framework.26

---

8 https://www.sec.gov/Archives/edgar/data/1289460/000155837023001979/txrh-20221227x10k.htm
9 https://www.sec.gov/Archives/edgar/data/1289460/000155837023001979/txrh-20221227x10k.htm
10 https://www.sec.gov/Archives/edgar/data/703351/000070335122000036/ear-20220629.htm
11 https://www.sec.gov/Archives/edgar/data/1058090/000105809023000010/cmpr-20221231x10k.htm
12 https://www.sec.gov/Archives/edgar/data/887596/000104659282026072/cake-20230103x10k.htm
13 https://www.sec.gov/Archives/edgar/data/940944/000094094422000042/dri-20220529.htm
14 https://www.sec.gov/Archives/edgar/data/1286681/0000950170722022139/202212101.htm
15 https://www.sec.gov/Archives/edgar/data/807882/000080788222000017/jack-20221102.htm
16 https://www.sec.gov/Archives/edgar/data/63908/000006390822000012/mcd-20221231.htm
17 https://www.sec.gov/Archives/edgar/data/901491/000162828023004682/pzza-20221223.htm
18 https://www.sec.gov/Archives/edgar/data/1618756/000161875623000013/qtr-20221231.htm
19 https://www.sec.gov/Archives/edgar/data/829273/000082927322000058/dpx-20221210.htm
20 https://www.sec.gov/Archives/edgar/data/360679/00000036067923000002/wem-20230101.htm
21 https://www.sec.gov/Archives/edgar/data/1041061/000104106123000009/yum-20221231.htm
22 https://www.sasb.org/standards/materiality-finder/find?company%5B5%5D=US8826811098&lang=en-us
25 https://www.cdp.net/en/responses?per_page=20&query%5Bname%5D=texas+roadhouse&sort_by=project_year&sort_dir=desc
26 https://www.fsb-cfd.org/about/
• Our proposal requests Texas Roadhouse disclose if, and how, it intends to measure and reduce emissions to align its business with the goals of the Paris Climate Agreement. In arguing against this request, the Board’s opposition statement claims “[our investors] do not support initiatives – including initiatives relating to corporate sustainability – to the extent such initiatives could imperil their portfolio companies’ operations and/or jeopardize value creation and returns for their clients.” This assertion lacks recognition of the fact that December 30, 2022, 9 of the Company’s 10 largest shareholders\(^27\) are signatories to the Net Zero Asset Managers Initiative, committing to achieve net zero alignment within a proportion of managed assets by 2050 or sooner. The initiative is supported by 301 global asset managers representing $59T in assets.\(^28\)

3. Competitive risk posed by inaction relative to peers

• The chart below highlights several North American restaurant companies, of varying sizes and business models, with respect to the maturity of their climate risk management programs\(^29\):

<table>
<thead>
<tr>
<th></th>
<th>Discloses Scope 1 &amp; 2 Emissions</th>
<th>Discloses Scope 3 Emissions</th>
<th>GHG Targets Validated by the Science Based Targets initiative?</th>
<th>Publicly Committed to Set GHG Targets Through the Science Based Targets initiative?</th>
<th>Discloses against TCFD</th>
<th>Discloses through CDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonald’s Corporation</td>
<td>Y</td>
<td>Y</td>
<td>Y (2018)</td>
<td>N/A</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Chipotle Mexican Grill, Inc.</td>
<td>Y</td>
<td>Y</td>
<td>Y (2021)</td>
<td>N/A</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Yum! Brands, Inc.</td>
<td>Y</td>
<td>Y</td>
<td>Y (2021)</td>
<td>N/A</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>The Cheesecake Factory</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y (2022)</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>The Wendy's Company</td>
<td>Y</td>
<td>Y</td>
<td>Y (2023)</td>
<td>N/A</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Restaurant Brands</td>
<td>Y</td>
<td>Y</td>
<td>Y (2023)</td>
<td>N/A</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>International Inc.</td>
<td>Y</td>
<td>Y</td>
<td>Y (2021)</td>
<td>N/A</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Panera Bread</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y (2021)</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Aramark</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y (2021)</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Texas Roadhouse</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

• Clearly, Texas Roadhouse is behind many peers when it comes to assessing and developing plans to mitigate climate risk. Although we applaud the Company for its recent commitment to measure and disclose its GHG emissions profile by the end of 2024, the pace with which it has approached these efforts to date – and its reluctance to signal to the market an intent to align the business with the goals of the Paris Agreement – raise concerns that the Company is not adequately positioning the business for long-term resiliency.

• Industry peers have already been able to drive meaningful carbon reductions within their operations and supply chains.
  o In its 2022 CDP disclosure, McDonald’s reported having achieved 25% of its 2030 target to reduce its Scope 3 emissions intensity by 31% (compared to a 2015 baseline).\(^30\) In pursuit of this goal, McDonald’s has asked 131 suppliers, representing 79% of annual global spend in 2020, to set GHG emission reduction targets and to report progress annually through CDP.\(^31\)
  o Yum! Brands reports having achieved 54% of its 1.5°C aligned target to reduce scope 1 and 2

\(^28\) https://www.netzeroassetmanagers.org/signatories/
\(^29\) As of March 16\(^a\), 2023
\(^30\) CDP. McDonald’s Corporation – Climate Change 2022. https://www.cdp.net/en/responses/11581
\(^31\) Ceres. How food companies can reduce their greenhouse gas emissions and transition to a lower emissions economy. March 8, 2023. https://www.ceres.org/report/download/4097
emissions 46% by 2030 (2019 baseline), as well as having achieved 44.6% of its target to reduce scope 3 emissions from franchises 46% by 2030 (2019 baseline). Yum! Brands also reports having achieved 10% of its target to reduce scope 3 emissions from purchases goods & services – driving meaningful change within its value chain – 46% by 2030 (2019 baseline).32

4. **Support for this proposal would encourage the Company to increase the scale, pace, and rigor of its climate risk management program.**

- The opposition statement predominantly focuses on one aspect of our supporting statement, which asks the Company to disclose within its report “the relevant benefits and drawbacks of...[e]stablishing for the Company’s full greenhouse gas emissions (GHG) footprint short-, medium-, and long-term emissions reduction targets aligned with the goals of the Paris Agreement.” Yet the Company does not provide in its statement an analysis of the relative benefits and drawbacks, instead claiming the establishment of an emissions reduction target is not in the best interest of the Company or its shareholders because “many climate targets are beyond the scope or control of the Company.”
- While the Company states a desire to undertake “thoughtful materiality assessments before making strategic decisions on setting targets and/or goals,” we note neither of its newly revealed commitments – to disclose its emissions profile and to “discuss” ways to reduce Scope 1 and Scope 2 emissions with a third-party consultant – serve to fully inform the Company about the materiality of physical and transitional climate risks to the business under various warming scenarios.
  - Conducting a formal risk and opportunity analysis, as encouraged by the proposal, would likely inform the Company about the benefits of joining peers such as Aramark, Cheesecake Factory, Chipotle, McDonalds, Panera Bread, Restaurant Brands International, Starbucks, Sysco, Wendy’s, and Yum! Brands that have already set, or committed to set, science-based emission reduction targets.33
- The opposition statement argues that the business community is “replete with examples of companies that have set and subsequently missed targets, which often leads to negative publicity, reputational damage, and distractions to the business.” We contend reputational risks from failing to take ambitious actions to mitigate physical and transitional climate risks may far outweigh those of a company trying and falling short of a goal.
- Our proposal does not seek to prescribe the means or timeframe by which the Company should demonstrate if, and how, it plans to align the business with the goals of the Paris Agreement. Despite this agency, Texas Roadhouse has failed to provide any directionality within the opposition statement with respect to whether the business will be managed in pursuit of the internationally agreed upon goal to maintain global warming to well below 2 °C, moving towards global net zero emissions by 2050.

**Conclusion**

Shareholders are urged to vote FOR the proposal asking Texas Roadhouse to report if, and how, it plans to measure and reduce its total contribution to climate change, including emissions from its supply chain, and align its operations with the Paris Agreement’s goal of maintaining global temperature increases to 1.5 °C.

For questions regarding this proposal, please contact Jared Fernandez at fernandez@bostontrustwalden.com.

---

33 [https://sciencebasedtargets.org/companies-taking-action/](https://sciencebasedtargets.org/companies-taking-action/)