

adidas Group - Venture Capital Energy Fund

RILA Retail Energy Management Program: Updated August 2017



Implementation Model:

GreenENERGY Fund Invests \$10.8 Million in Energy Efficiency and Renewable Energy since 2012

BARRIER

Hurdles to investing in energy efficiency and renewable energy projects due to time, budget, and expertise constraints

SOLUTION

Develop a greenENERGY Fund within the company that identifies investments in leased and owned stores, manages project risk, and monitors and verifies project savings

OUTCOME

Invested \$10.8 million in 61 projects between June 2012 and December 2016. Achieved an internal rate of return of 29% across project portfolio. Avoided 250 million kWh over the expected lives of these projects.

Overview

adidas Group is a multinational sports and clothing manufacturer and retailer with over 2,700 retail locations and 22 million square feet of corporate office space. The company's strong environmental commitments have driven adidas to find creative solutions to reducing energy needs. It created a greenENERGY Fund in 2012 as an internal venture capital fund that provides financing, expertise, project management, and monitoring and verification to facilitate investments in energy efficiency and renewable energy projects – while delivering a net profit. By creating a dedicated internal fund, the adidas

“The greenENERGY Fund has nicely accelerated the pace of investments in energy efficiency in our owned operations. It has also helped to normalize this idea that energy efficiency investments can be great business investments.”

Doug Noonan

*Vice President of Corporate Real Estate
adidas Group*



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Group is able to overcome common internal financing hurdles, such as internal competition for capital, short payback horizons, and a lack of time or budget on the part of facility managers.

The Fund takes a unique approach in two ways: First, it frames energy efficiency and renewable energy projects as *investments* for the company and targets a rate of return above that of the core business. Second, the Fund has a flexible ‘portfolio approach.’ This way, the retailer can bundle more strategic long-term energy projects together with those with quick returns. In other words, risk and return are pooled across all efficiency investments. By providing financing, time, and expertise, the Fund can aggressively pursue the significant energy and cost savings potential in adidas Group facilities.

Process

The adidas Group’s greenENERGY Fund was designed with four goals in mind:

- Create business value
- Accelerate carbon reductions
- Capture and verify energy and financial savings
- Track and share best practices across facilities globally

After an initial pilot in 2012, the Fund has invested between \$1.5 million to \$2 million annually in onsite energy efficiency and renewable energy projects. Each project site retains the energy savings and other benefits, as well as depreciation, labor, and maintenance obligations.

The Fund bundles projects in a portfolio that targets an internal rate of return (IRR) of 20%. This allows the Fund some flexibility in funding individual projects. Projects below this IRR threshold can be packaged with projects that exceed the IRR threshold, allowing adidas to take advantage of even greater investment opportunities.

Projects that fall below 20% IRR compete with other projects on the basis of this metric: ‘Lifetime Metric Tons of CO₂-Equivalent Reduced per Dollar Invested’ (MT CO₂-e/\$). Evaluating projects on both the expected savings *and* carbon impact maximizes the net present value (NPV) and carbon reductions.

The Fund’s corporate energy team audits facilities and shares best practices to accelerate investments like lighting and HVAC upgrades, building automation and on-site renewables. Finally, the Fund monitors and verifies energy and cost savings and shares the results across the company.

By the Numbers:

Between June 2012- December 2016:

- Approved funding for 61 projects
- Invested \$10.8M USD (€ 9.26M)
- Achieved 29% IRR on project portfolio

greenENERGY Fund Portfolio Environmental Impacts - 2012 projected through 12/2025		
Lifetime electricity reduced*	250,427,003	kWh
Net Carbon reduction	88,028	MT CO ₂ -e
That is like removing 1,138 cars from the road in 2016		
* length of project lives range between 1 - 13 years		

Outcomes

As of December 2016, the greenENERGY Fund had completed 61 projects and invested \$10.8 million in efficiency and renewable energy across its global fleet of retail stores, data and distribution centers, and corporate offices. By centralizing energy management, adidas Group delivers greater savings, improved transparency, and quick project turn-around technical support services for facilities.

A few recent projects:

- Financed an **exterior LED lighting retrofit** in a Manchester, UK distribution center. Replaced old High Pressure Sodium lights and reduced maintenance costs to ~0 over the next decade. Dropped lighting energy by ~75%. Payback 2.9 years.
- Funded the marginal additional cost for **more efficient HVAC units** in a large showroom renovation that lacked the budget for premium equipment. Payback ~3.5 years. IRR: 24%.
- Invested in **wireless intelligent LEDs** in a large distribution center in Spartanburg, USA. Leveraged advanced control technology ('internet of lights') to pare down lighting energy use by 88%. Payback: 3.7 years. IRR: 26%.

Keys to a Successful Energy Fund

Companies considering the creation of a dedicated energy fund should:

- Assess the cost and benefits of carbon reduction using the same financial analysis tools and metrics as other corporate projects, including prevailing corporate discount rates. This makes it easier for finance colleagues to see energy reduction as a source of value.
- Translate energy and cost savings into easy-to-understand terms that relate to the core business. For example: "this lighting retrofit achieved the same bottom-line benefit as selling 1,000 pairs of shoes."
- Advertise successful projects and case studies throughout the company to reinforce the value of energy efficiency and renewable energy investments and help other sites identify whether similar projects may be viable.
- Recognize that the Fund's credibility and license to operate rests on a robust monitoring and verification protocol. Rigorously track project performance and be transparent when projects over- or under-perform.

Internal Process Spotlight: Dedicated Energy Funds

A dedicated energy fund offers one tactic to overcome the barrier of capital allocation to energy efficiency and renewable energy. As another example, in 2004, Johnson & Johnson established a capital relief fund, one of the first Fortune 500 companies to develop such a program. J&J's fund offers \$40 million annually in "capital relief" for new equipment investments to help reduce the overall carbon footprint. As of 2015, the company has approved 185 projects, ranging from plant efficiency upgrades to renewable energy investments. The fund requires an internal rate of return (IRR) of 15 percent annually, but projects have averaged higher, around 19.4 percent. J&J served as a model for the adidas greenENERGY Fund.

Setting an internal price on carbon is another approach for estimating the full long-term value of energy projects and helps to justify dedicated energy funds. In 2015, 437 companies across a range of sectors were reported to calculate an internal price on carbon, up from 150 in 2014, according to CDP.¹

BENEFITS

- ✓ **Overcome financing barriers:** Individual projects can be funded as part of a *portfolio* of projects; projects with high financial returns can be combined with projects with lower IRRs.
- ✓ **Engage employees:** Allowing sites to retain the benefits like energy reductions and maintenance savings motivates and rewards local staff for pursuing carbon reduction projects.

¹ CDP, Putting a Price on Risk: Carbon Pricing in the Corporate World, September 2015, <https://www.cdp.net/CDPResults/carbon-pricing-in-the-corporate-world.pdf>.

RILA Energy Management Program

Program Background

Retailers have a significant opportunity to reduce the energy consumption and associated greenhouse gases of their vast portfolio of locations, to the benefit of both companies and the environment. The Retail Industry Leaders Association (RILA) is committed to helping its members overcome barriers to enhanced energy performance across their building portfolio through its [Retail Energy Management Program](#).

Program Workstreams:

RILA and its program members are working to (1) Develop Implementation Models, (2) Educate the Industry, and (3) Spur Adoption of Implementation Models with a focus on three key areas:

1. **Financial management**, by exploring how to “speak finance”, improve project proposal and piloting processes, create innovation funds, and utilize external financing.
2. **Leased store management**, by engaging landlords and internal real estate, construction, and store associate teams to overcome the additional energy management challenges faced in leased store locations.
3. **Renewable energy**, by partnering with existing renewable energy organizations to educate energy managers on the landscape of renewable energy procurement options.

Join the Program

Retail energy managers interested in participating should email Erin Hiatt, Senior Manager of Sustainability & Compliance, at Erin.Hiatt@RILA.org.

Learn more at rila.org/energy

Find more Better Buildings resources at betterbuildingssolutioncenter.energy.gov

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