



PROXY MEMO

Dr. Pepper Snapple Group Shareholder Proposal (“Proposal”) Regarding a Report on Company-wide Efforts to Address Risks Related to the Obesity Epidemic

Executive Summary

Trinity Health has asked the Board of Directors of Dr. Pepper Snapple Group (“DPS” or “the Company”) to report on company-wide efforts to address the risks related to obesity and to adopt goals and metrics for reducing added sugars and improving the nutrition profile of its products.

The Proposal relates to the Board’s role in the Company’s management of risk. Since the company faces material risk that the Board has not adequately managed, shareholders will benefit from implementation of this Proposal. The Proposal will be included in the Proxy Statement for the Annual Meeting of the Company on May 16, 2018.

Resolution

Resolved: Shareowners of Dr. Pepper Snapple Group request that the board of directors issue a report, at reasonable cost and omitting proprietary information, on company-wide efforts to address the risks relate to obesity. The report should include aggressive quantitative metrics around reduction of added sugars in its products and development of healthier product offerings.

Obesity is one of the biggest drivers of preventable chronic diseases and healthcare costs in the United States. According to the Centers for Disease Control, more than one-third of adults and 17% of youth ages 2-17 in the United States were obese from 2011-14. Currently, estimates for these costs range from \$147 billion to nearly \$210 billion per year.¹ In addition, obesity is associated with job absenteeism, costing approximately \$4.3 billion annually² and with lower productivity while at work, costing employers \$506 per obese worker per year.

<https://www.cdc.gov/obesity/data/index.html>

<https://stateofobesity.org/healthcare-costs-obesity/>

The magnitude of this epidemic – which is a global one – poses risks to food and beverage companies if they do not address it responsibly. The Access to Nutrition Index, which assesses the world’s largest food and beverage companies on their nutrition-related commitments, practices and performance has included Dr. Pepper Snapple in its upcoming United States Spotlight Index, to be published in 2018.

Rationale for a Vote in Favor of the Proposal

Reputational risk: There is increased public and media concern about obesity and other health-related public concerns surrounding consumption of sugar-sweetened beverages, like diabetes as well as the awareness of the need for good nutrition. Food and beverage manufacturers are a primary target of scrutiny by consumer advocacy groups, public health professionals, government agencies and consumers.

Market risk: Consumers are increasingly opting for healthier foods, with "healthy" categories seeing growth ahead of categories perceived to be less healthy. As consumer demand turns away from high-sugar, high-fat products, companies will have to adapt in order to keep growing their top and bottom-line or risk losing market share, revenues and profits. In addition, negative publicity resulting from actual or threatened legal actions against DPS or other beverage companies relating to the marketing, labeling or sale of sugar-sweetened beverages may reduce demand for sugar-sweetened beverages, which could adversely affect DPS' profitability.

Regulation Risk: The Company's 2016 annual report named increased government regulation, proposed as a result of "concerns about the public health consequences and health care costs associated with obesity" as one of the key trends and uncertainties that could affect the Company's business. Nine local governments in the US have introduced 'soda taxes' aimed at reducing consumer exposure to and consumption of sugary beverages. In addition, the company may also face additional governmental regulations concerning the marketing, labeling, packaging or sale of sugar-sweetened beverages.

Legal Risk: DPS is one of the beverage companies facing class action lawsuits in California and New York that claim that the use of the word "diet" can reasonably mislead consumers into believing that Diet Dr. Pepper will assist with weight loss or management.

<https://www.classaction.org/news/dr-pepper-snapple-group-named-in-another-lawsuit-over-diet-dr-pepper>

Dr. Pepper Snapple Group Lags its Peers in Disclosure of Mitigating the Above-Named Risks.

1. In its statement of opposition to the Proposal, DPS mentions that it is a member of the American Beverage Association's pilot program, the Balance Calories Initiative <http://www.balanceus.org/en/>, which is working to reduce beverage calories per person an additional 20% by 2025. However, the company lags its peers, which also participate in this pilot program, by not publishing its own approach, commitment and strategies to address obesity.

- Coca Cola’s (“KO”) 2016 Sustainability Report states its “support of the World Health Organization’s guideline that people limit their daily calorie intake from added sugar to no more than 10 percent of their total calorie intake, and we’ve begun a journey toward that goal. It extends to the actions we are taking to provide smaller, more convenient package sizes; to introduce new reduced and no-sugar drinks; and to reduce sugar in existing drinks around the world.” It notes that “today, more than 1,100 of the drinks we make are reduced or no-sugar, and in 2017 we will reduce sugar in 500 more drinks” <http://www.coca-colacompany.com/stories/sustainability/2017/2016-our-way-forward>
KO’s 10-K, cites obesity twelve times, and lists it as one of the company’s six key challenges, stating: “We understand and recognize that obesity is a complex public health challenge and are committed to being a part of the solution.” <https://www.sec.gov/Archives/edgar/data/21344/000002134418000008/a2017123110-k.htm>
- PepsiCo (“PEP”) published its PepsiCo Nutrition Criteria, which sets standards that include nutrients to limit and nutrients to encourage. These standards are used to improve the nutrition profile of current products and to develop new products. PepsiCo says these standards “are based on dietary and nutrient recommendations from leading global and national authorities”, and names, among others, the World Health Organization, the US Institute of Medicine of the National Academy of Sciences and the US Department of Agriculture’s Evidence Analysis Library. It also refers to country-specific guidelines, including from the United States and Mexico. <http://www.pepsico.com/docs/album/policies-doc/pepsico-nutrition-criteria.pdf>
- In a separate document, PEP discloses its goal to have at least 2/3 of its global beverage portfolio volume having fewer than 100 calories from added sugars per 12-ounce serving by 2025. PepsiCo states that this goal is “informed by the guidelines on added sugars intake provided by the FDA. <http://www.pepsico.com/docs/album/policies-doc/sugar.pdf?sfvrsn=0>
- Dr. Pepper Snapple Group’s 2017 Sustainability Report and statement of opposition to this Proposal states: “in 2016, 47% of our product and packaging innovations that were launched had a health and wellness component”, but does not disclose what those components are, and on what criteria they are based. The Company also says that its health and wellness efforts are “informed by the World Health Organization and other nutrition authorities’ guidelines for daily sugar intake.” (Unlike KO’s statement of supporting WHO guidelines). The Company’s 10-K cites obesity twice, both times in the context of health care costs associated with obesity.

2. DPS in its statement of opposition to the Proposal refers to its policy on responsible marketing to children and has a statement referring to the policy on its website. <https://www.drpeppersnapplegroup.com/company/responsible-marketing-to-children>

Shareholder engagement encouraging DPS to join the Children’s Food and Beverage Advertising Initiative (CFBAI), a voluntary self-regulation program through which many of the largest global food and beverage companies are working to shift the mix of foods and beverages advertised to children under 12 to healthier dietary choices, has not been successful to date. The Coca Cola Company and PepsiCo are CFBAI members. The CFBAI enhances participating companies’ capacity to manage the risks associated with marketing to children by providing uniform nutritional standards for child-oriented food/beverage marketing. It also serves as a platform for industry collaboration, enabling companies to keep voluntary measures strong, current, and respected in a continuously shifting environment. CFBAI offer monitoring/verification of commitments, ongoing analysis of relevant news and research, public relations work to highlight accomplishments, and advocacy for self-regulation. <https://bbbprograms.org/programs/CFBAI/>

Conclusion

The food and beverage industry faces serious nutrition-related risks. Peer companies Coca Cola and PepsiCo disclose efforts to address these risks. While Dr. Pepper Snapple Group recognizes the importance of the issue, it fails to provide enough information for investors to adequately assess whether the company is effectively managing these risks.

Shareholders are urged to vote for this Proposal.

For questions regarding the Proposal, please contact Cathy Rowan, Director, Socially Responsible Investments, Trinity Health, (718-822-0820) rowancm@trinity-health.org