



Dunkin' Donuts U.S. Packaging and Recycling Update May 2017

Founded in 1950, Dunkin' Donuts is a market leader in the hot regular/decaf/flavored coffee, iced coffee, donut, bagel and muffin categories. Our franchised restaurants serve millions of guests in the U.S. every year, and we strive to responsibly serve our guests, franchisees, employees, communities, business partners, and the interests of our planet.

Dunkin' Donuts is 100% franchised. At the time of publication of this report, there are more than 8,600 Dunkin' Donuts restaurants in the United States, none of which are company-owned, and more than 700 of which are located in airports, casinos, hotels, stadiums, supermarkets, military bases or other alternate points of distribution. In the U.S., all of the restaurants in our system source similar supplies, including packaging, from the National DCP, LLC (NDCP), a centralized, franchisee-owned purchasing cooperative. Suppliers to the NDCP are approved by Dunkin' Brands.

Materiality and Issues Prioritization

At Dunkin' Brands, we continue to explore ways to serve our guests with sustainability in mind and we conduct a materiality assessment bi-annually by which we prioritize the issues that are most important to our business and most important to our stakeholders. Our latest materiality grid can be found in our [2014 CSR Report](#), and we will publish the results of our next materiality assessment in the spring of 2017. In our 2014 assessment, we identified sustainable packaging and recyclability as material issues and priorities for Dunkin' Brands and we have dedicated significant resources to exploring packaging improvements and programs to increase recycling in our U.S. restaurants. However, composting was not identified as a material issue for us in our 2014 assessment. Materiality grids represent a snapshot in time, and in recent years, we have shifted some of our resources from recycling in order to focus on other issues that have become more pressing for the company – notably sustainable sourcing and animal welfare. Because 82% of our packaging leaves the restaurant, these are issues on which we can have a bigger impact.

Franchisee Engagement

In 2015, Dunkin' Brands formed a franchisee sustainability task force. The task force is charged with advising on an as-needed basis on communications efforts related to our strategic approach to key sustainability issues. The eight member task force includes franchisee representatives from smaller and larger networks, various geographical locations and both the Dunkin' Donuts and Baskin-Robbins brands.

Dunkin' Donuts Packaging: Striving for Continuous Improvement

We are always looking for opportunities to make improvements to our packaging that make sense for the planet and for our business. To this end, we evaluate our packaging on an ongoing basis with our suppliers and discuss opportunities to decrease the amount of material in our packaging; increase the amount of recycled and/or certified material in our packaging; and find packaging options that are recyclable, compostable, biodegradable, or a combination of those.



Packaging Improvements

Dunkin’ Donuts sources various paper and plastic packaging items. This includes napkins, bags, hot and cold beverage cups, beverage sleeves, donut boxes, beverage carriers and more. Our supply chain team regularly communicates with suppliers about potential packaging updates. As such, since 2009, we have made a number of important packaging improvements:

- In 2005, we began sourcing a four-cup carrier made of recycled newsprint.
- In 2009, we transitioned to napkins made with 100% recycled paper.
- In 2009, we added recyclable content to our espresso sleeves, foam cup carrier and Box O’ Joe.
- In 2014, we converted Dunkin’ Donuts bagel bags used in the U.S. to 100% recycled paper, saving an estimated 20 million pounds of virgin paper per year.
- In 2015, we began transitioning the lids for our cold beverage cups from PET to polypropylene, a change that will take 500,000 pounds of material out of the waste stream per year.

Further, much of our packaging currently has one or more sustainability attributes. 100% of our packaging is recyclable only where facilities exist, 30% of our packaging is made with recycled content, 35% is compostable, and 30% is biodegradable.

| Packaging Item | Made with Recycled Content | Recyclable Where Facilities Exist | Compostable Where Facilities Exist | Biodegradable Where Facilities Exist |
|---------------------------|-----------------------------------|--|---|---|
| Donut Boxes | | ✓ | | ✓ |
| Paper Napkins | ✓ | ✓ | ✓ | |
| Shopping Bags - Paper | ✓ | ✓ | | |
| Shopping Bags - Plastic | | ✓ | | |
| Cold Cups | | ✓ | | |
| PET Lids | | ✓ | | |
| Sandwich wrap | | ✓ | ✓ | |
| Newsprint wrap | | ✓ | | ✓ |
| Portion Trays | | ✓ | | |
| Four Cup Carrier | ✓ | ✓ | | |
| Paper coffee cups | | ✓ | | |
| Paper cup | | ✓ | | |
| Tissue Paper | | ✓ | ✓ | ✓ |
| Coffee Filters | | ✓ | ✓ | ✓ |
| Box O' Joe | ✓ | ✓ | ✓ | ✓ |
| Bagel Bags | ✓ | ✓ | ✓ | |
| Espresso Sleeves | ✓ | ✓ | ✓ | ✓ |
| Polypropylene Cups | | ✓ | | |
| Extended Polystyrene Cups | | ✓ | | |
| Polystyrene lids | | ✓ | | |

Packaging improvements often present a challenge for us from a specification and supply perspective. In addition, supply constraints can drive up cost. For example, we continue to explore using recycled



content and FSC-certified fiber in our donut boxes. Currently, this is not possible for several reasons: our understanding is that there is very limited availability of food contact safe packaging that includes recycled content; further, our suppliers have indicated there is not enough supply of FSC-certified fiber for our donut boxes at this time due to the size of our system – and because of the limited supply overall, FSC-certified fiber is also very expensive.

Dunkin' Donuts Hot Coffee Cups

We currently serve hot coffee in expanded polystyrene (foam) cups in the majority of our U.S. Dunkin' Donuts restaurants. Our foam cup is beloved by our guests and has many positive attributes – it keeps coffee hot and hands cool – but we recognize that it is not accepted in municipal recycling programs in many U.S. communities. As such, in 2014 we set a goal to identify an alternative to our Dunkin' Donuts foam cup and establish a phased implementation plan and timeline for that transition in the U.S. by the end of 2015. We remain committed to finding a long-term recyclable alternative to our Dunkin' Donuts foam cup that meets our guests' expectations and reduces our environmental impacts.

We have worked extensively to find a replacement for our foam cup that would meet three criteria: be curbside recyclable and/or be made of renewable materials; meet the performance of our current cup (keep hands cool, product hot); and not be significantly more expensive for our franchisees.

Based on our efforts to date, we have identified two possible alternatives to foam: a (#5 plastic) polypropylene cup and a double-walled paper cup. Neither of these current alternatives to foam fully satisfies all our criteria for performance, environmental impact and cost. Additionally, customer feedback has indicated that many are not satisfied with the lid on either cup. In addition, both cup and lid combinations are significantly more expensive than our current polystyrene cup and lid set.

So while we remain committed to finding a long-term alternative to our current cup and will continue to test all available cups and lids, we are not prepared to make the transition at this time. We will, however, work to find a solution that works for the environment, our customers and our franchisees.

Reusable Mug Program

In 2012, we created a reusable mug program for hot and iced beverages. The program, available at participating restaurants in the U.S., encourages guests to bring their own mug to receive a discount toward the purchase of a beverage. In 2014, to further support our franchisees in this program, we launched new guidelines to improve operational aspects of the program.

Two of our primary challenges with the reusable cup program are guest participation and impact on restaurant operations. Low guest participation results from lack of awareness about our refill programs as well as the convenience of using a disposable cup. Operations issues include sanitation concerns and the impact on speed of service, especially at the drive-thru. Between 2012 and 2016 we distributed nearly 5.5 million reusable mugs through promotions to Dunkin' Donuts guests to encourage participation in our refill programs. The promotions included charitable fundraisers, new store openings, and other regional promotions.

We have explored methods for measuring reuse rates for our hot reusable mug program, to be able to better evaluate the program's success. We found that while we are able to track all refills at our restaurants, our system is not currently able to distinguish between refills served under the reusable mug program and refills served through one of our other loyalty programs. We do know that in 2016, we



implemented programs in more than 14 markets and we served nearly 18.5 million beverages in reusable mugs through one of these programs.

Current Efforts and Challenges to Recycling

As our Dunkin' Donuts restaurants are independently owned and operated, it can be challenging to get data about sustainability – or other – practices in each restaurant. While we regularly distribute surveys to engage our franchisees on a variety of topics, the response rate has historically been low – around 10-20%. In mid-2012 we surveyed franchisees with in-store recycling programs in an effort to gather best practices we could share across the system. More than 130 franchisees representing over 1,000 stores responded; at that time, approximately 55% said they recycle corrugated cardboard or other shipping materials, but none reported a successful recycling program available to guests. Of those who do not currently recycle, cost and space constraints were cited as the biggest barriers to participation.

We intend to issue a follow-up survey in spring 2018 to capture data from the franchisee community and specifically from markets where recycling is mandated by law. Restaurants in several markets, including New York City, are facing new recycling legislation, and we are targeting 2018 to give franchisees in these markets sufficient time to implement recycling programs. We will continue to monitor active, in-store recycling programs to assess their effectiveness and apply any applicable learnings to similar programs.

While we do not have more recent data about recycling in our Dunkin' Donuts restaurants, we do know anecdotally that more and more franchisees are recycling. You can read about two of our franchisees who have in-store recycling programs [here](#). One of the franchisees featured in the article, Kim Garrett, recycles and composts at 11 of her restaurants, with plans to expand to more restaurants subject to vendor availability. 95% of the recycling done at her restaurants is back-of-house, because the volume of what can be captured back-of-house far exceeds what can be captured front-of-house and because front-of-house recycling has not been quite as successful due to a high level of cross-contamination from guests. In fact, wide adoption of comprehensive front-of-house recycling programs by our franchisees remains challenging for several reasons:

- **The volume of material at a restaurant that can be recycled must be significant in order for recycling to be operationalized.** Dunkin' Donuts caters to a guest who is on-the-go. Nearly 40% of our system-wide sales happen at the drive-thru, and at our drive thru locations, more than 60% of sales happen at the drive-thru. As a result, the majority of our consumer-facing packaging leaves our restaurants with the guest. According to CREST® data for 2015, only 18% of our guests consume what they purchase from Dunkin' Donuts on site in our restaurants (lower than the industry average for Quick Service Restaurants, which was 27% according to CREST) which means that 82% of our guests consume what they purchase offsite – either in their home, their car or their office. As such, some locations may not have enough material to recycle to “offset” the resources invested in a recycling program, including a contract with a recycling hauler, second dumpster, crew training, etc.
- **Recycling presents multiple operational complexities.** Our U.S. restaurants come in all shapes and sizes and have different formats, and for many, space in both front- and back-of-house to install additional waste bins is limited or unavailable. Many of our restaurants in crowded urban areas do not even offer seating and lack space for an extra (or larger) trash corral and recycling dumpster in the back of the store, which is frequently mandated by municipalities if restaurants elect to recycle. Recycling can also present a food safety challenge in our restaurants. For



example, in 2014, we piloted a foam cup recycling program in our company-owned restaurants. Because most of our beverages are consumed as carry-out items, very few of our cups are disposed of by guests at the restaurant. As a result, we experienced low guest participation throughout the in-store recycling program. Despite signage and guest education by crew members, we found continuous problems with commingling of recycling and trash, which presented a challenge for our crew members in charge of waste removal.

- **Implementing a recycling program is extremely resource-intensive, often for little return on investment.** Because Dunkin' Donuts U.S. franchisees are independent owners and operators of their restaurants, they are individually responsible for waste removal for each of their restaurants. Dunkin' Brands does not manage those contracts or relationships. As a result, each franchise owner who is interested in setting up an in-store recycling program must conduct research and reach out to and negotiate contracts with his or her waste and recycling haulers. Depending on the size of their network, the franchisee may have multiple haulers. Further, each store must be retrofitted with new cabinetry and signage to accommodate the recycling units. However, because most of the packaging leaves the restaurant and therefore is not recycled in store, the franchisee is unlikely to see immediate – if any – return on his or her investment.

Identifying Solutions

Although we cannot mandate recycling in our franchised restaurants, Dunkin' Brands is committed to providing Dunkin' Donuts franchisees with the tools for environmental stewardship in their restaurants. To this end, we worked with a recycling consultant to develop and make available an in-restaurant recycling toolkit for franchisees who wish to implement a recycling program in their restaurants. The detailed toolkit provides franchisees with practical tips and tools – such as how to evaluate their waste, identify and reach out to recycling haulers, and negotiate the best rates and contracts. In advance of the toolkit launch, our design team designed two new condiment stations for our U.S. restaurants that include recycling bins and instructions for proper disposal of recyclables.

In 2014, we also made composting guidelines available to franchisees who wish to compost organic waste from their restaurants. We know that there is interest in composting coffee grounds as well, and we continue to explore opportunities to offer a coffee ground recycling program for our system that is both cost-effective and scalable for our franchisees. We are also exploring creating a coffee ground recycling toolkit for franchisees who want to identify and implement a local solution.

Lastly, we have intensified our outreach efforts around [DD Green Achievement®](#), Dunkin' Donuts' sustainable restaurant program launched in 2014. DD Green Achievement provides a framework for franchisees who want to open new or remodeled energy- and water-efficient restaurants. To be designated as DD Green Achievement, franchisees must select from a menu of different strategies to achieve a required number of points. One of these strategies is implementing a recycling program, and of our 124 DD Green Achievement restaurants across the country, 46 have implemented recycling. At each of these restaurants, the construction manager verified that each had ordered and installed the compliant recycling station for the front of the house and bins for the back of the house. Because restaurants applying for DD Green Achievement recognition must have all strategies validated by a Dunkin' Donuts construction manager who does a walk-through of the restaurant and completes a checklist, the DD Green Achievement program will allow us to more effectively track of how many of our restaurants are recycling.