California SB 261: Climate-Related Financial Risk Report

Company Overview: Headquartered in Milwaukee, WI, Douglas Dynamics Inc., North America's premier manufacturer and upfitter of work truck attachments and equipment, is committed to sustainability and transparency regarding the financial risks associated with climate change. We recognize that climate change poses both physical and transition-related risks to our business operations, assets, and value chain. In accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, we present the following disclosure to outline how climate-related risks are integrated into our governance, strategy, risk management, and financial planning processes. Our approach is informed by benchmarking against peers in the industrial equipment sector.

1. Governance

The Company's Board of Directors (Board) is responsible for overseeing climate-related risks and opportunities. Climate-related risks are reviewed by the Board regularly to ensure timely oversight and responsiveness. Senior management, including the CEO and CFO, are actively involved in evaluating climate risks and integrating them into strategic planning and financial decision-making. The Board and senior management are supported by a dedicated ESG Team, which is tasked with assessing climate-related risks, advising on strategic responses, and ensuring proper implementation. The ESG Team is comprised of senior executives across a range of disciplines, and reports directly to the Board regularly. The role of the ESG Team aligns with the TCFD's governance principles, ensuring that climate-related risks are considered at the highest levels of the organization. The Company's management team engages regularly with investors, customers, and employees on climate-related topics through surveys, stakeholder meetings, and ESG reporting. The Company also issues regular sustainability reports and data sheets.

2. Risk Identification and Categorization

As per TCFD Recommendation 2, the Company assesses the potential impacts of climate-related risks and opportunities on its business strategy. The Company considers multiple scenarios, including both moderate and severe climate projections, in its evaluation of potential climate impacts over the near-term, medium-term, and long-term horizons. Risk assessments are based on internal evaluations and external climate models. We acknowledge that our data collection efforts on Scope 3 emissions and long-term climate impacts is still being developed, and disclosure around these topics will be enhanced in future disclosures.

Physical Risks

Physical risks can be divided into **acute** and **chronic** risks. Acute risks are event-driven, while chronic risks arise from long-term changes in climate patterns. We have identified the following physical risks and how they may impact our Company.

- **Acute Physical Risks:**
    - **Extreme Weather Events:** The Company operates in several regions that are vulnerable to extreme weather events, including hurricanes, floods, tornados, wildfires and winter storms. These events can damage infrastructure, disrupt supply chains, and cause temporary operational halts. For instance, our operations in the Midwest and East Coast are particularly vulnerable to wind and flood damage.

- **Disruption of Supply Chain:** Climate-induced events such as such as those listed above may result in supply chain disruptions, delays, or shortages of raw materials and products, directly impacting operational efficiency and costs.

- **Chronic Physical Risks:**
  - **Long-Term Temperature Changes:** Climate change may lead to long-term shifts in temperature, which could affect both operational conditions and consumer demand. For example, regions experiencing consistently warmer temperatures may see less severe winter weather, directly impacting demand for our snow and ice control products.
  - **Water Scarcity:** The availability of water may decrease due to changing precipitation patterns or prolonged droughts. This could hinder manufacturing production capacity and increase costs.

Transition Risks

Transition risks arise from the shift toward a low-carbon economy, which includes policy changes, technological advancements, and shifts in consumer preferences. We have identified the following transition risks and how they may impact our Company.

- **Policy and Legal Risks:**
  - **Carbon Pricing and Emission Regulations:** The introduction of carbon taxes, cap-and-trade systems, or stricter emissions standards may increase operational costs and impose financial obligations on the Company, especially for high-emission activities.
  - **Evolving Environmental Regulations:** New regulations designed to address climate change, including stricter environmental standards, may require substantial investments to meet compliance requirements.
- **Technological Risks:**
  - **Obsolescence of Existing Technologies:** Advances in low-carbon technologies may render current operational processes and products outdated. Investments may be needed to upgrade infrastructure or shift to greener alternatives.
  - **Market Shifts to Low-Carbon Products:** Growing consumer demand for sustainable products and services could drive a shift in the market. Failure to adapt to these trends may result in a loss of market share.
- **Reputation Risks:**
  - **Public Perception of Environmental Impact:** As stakeholders (investors, customers, and employees) increasingly prioritize sustainability, the Company's reputation could be at risk if it is perceived as not adequately addressing climate change or environmental responsibility.

3. Risk Management and Strategy

In accordance with TCFD Recommendation 4, the Company has embedded climate-related risks into its overall risk management process. Climate risks are identified, assessed, and integrated into the Company's enterprise risk management framework (ERM), which is overseen by the Board. Climate risks are prioritized within our ERM framework using a scoring system based on likelihood and financial impact.

To address both physical and transition risks, the Company has identified the following measures:

Physical Risk Mitigation and Adaptation

- **Infrastructure Resilience:** We will continue to evaluate our existing footprint and determine where additional investments are necessary to strengthen critical infrastructure to withstand extreme weather events. We have also put in place disaster recovery plans and business continuity strategies to minimize recovery time following climate-related disruptions.
- **Diversification of Supply Chains:** To mitigate supply chain disruptions, we work with a diverse array of suppliers across various geographies.
- **Water and GHG Emission Initiatives:** Through our continuous improvement mindset, we evaluate and implement efficient water and energy management practices to reduce consumption, safeguard operations, and ensure compliance with all existing environmental regulations. We have a comprehensive energy and water conservation strategy aimed at reducing emissions and water use in our manufacturing operations wherever possible.

Transition Risk Mitigation and Adaptation

- **Metrics & Sustainability Goals:** We currently track baseline metrics including water usage, waste generated, energy consumption, and Scope 1 and 2 GHG emissions. See Section 7 below, as well as our separately published ESG Impact Report for this data While we have not yet set specific targets, we aim to reduce our environmental footprint where possible and strive to use water and energy resources as efficiently as possible within our operations.
- **Product Innovation and Diversification:** We aim to meet evolving consumer preferences for low-carbon and eco-friendly alternatives and, if desired by our customer base, may introduce more sustainable product lines over time.

4. Financial Impacts and Disclosure

We acknowledge that there can be financial impacts to climate-related risks that may increase our costs in the future. We define financial materiality using a threshold of 5% of operating income, consistent with our internal risk management policies. Some of these increased costs may include the following:

- **Increased Operational Costs:** The transition to a low-carbon economy and compliance with new regulations may lead to increased operational costs. These may include costs related to energy efficiency upgrades and regulatory compliance.
- **Capital Expenditures for Climate Resilience:** Investments in infrastructure improvements and climate resilience measures may increase capital expenditures over coming years. These

investments may become necessary to ensure long-term business continuity and to protect Company assets from physical climate risks.

- **Increased Insurance Costs:** Costs may increase as insurance companies charge higher premiums to insure assets in areas at greater risk of extreme-weather events and other climate-related impacts.
- **Impact on Revenue Streams:** Changes in weather patterns, specifically less severe winter weather, can have a direct impact on our revenues and profitability. For instance, over the last five years, snowfall variability contributed to fluctuations in revenue for our Work Truck Attachments segment, including a decrease in revenue from 2022 to 2023 of approximately 24%. In addition, shifts in consumer preferences toward sustainable products and services may influence revenue generation. Increased demand for eco-friendly products and a failure to adapt to these preferences could result in lost market share.

5. Opportunities

We recognize that climate change, while presenting risks, also creates significant opportunities for innovation, operational efficiency, and long-term value creation. In alignment with TCFD and SB-261 guidance, we have identified the following potential climate-related opportunities across our business:

Product Innovation and Market Expansion

- **Development of Low-Carbon Products:** Expanding product portfolios to include eco-friendly products can help meet evolving customer preferences and regulatory requirements.
- **New Market Segments:** As demand for sustainable solutions grows, there are potential opportunities to enter new markets, such as customers in regions with emerging climate adaptation needs.

Operational Efficiency and Cost Savings

- **Energy Efficiency Upgrades:** Investments in energy-efficient manufacturing processes, facility retrofits, and renewable energy sourcing can reduce operating costs and improve resilience to energy price volatility.
- **Water Conservation and Waste Reduction:** Enhanced water management and waste minimization initiatives can not only reduce environmental impact but may also lower utility expenses and potential regulatory costs.

Supply Chain Resilience and Collaboration

- **Supplier Engagement:** Partnering with suppliers with robust climate management programs can strengthen the supply chain and minimize disruptions.
- **Diversification:** Sourcing from a broader geographic base and prioritizing suppliers with robust climate adaptation strategies can reduce risk and unlock new business relationships.

Access to Capital and Financial Incentives

- **Government Incentives:** Leveraging available tax credits, grants, and incentives for energy efficiency, renewable energy adoption, and climate adaptation projects can offset capital expenditures.

Brand Reputation and Stakeholder Engagement

- **Enhanced Reputation:** Strong climate policy can help strengthen brand reputation, attract and retain talent, and build trust with customers, investors, and communities.
- **Stakeholder Collaboration:** Engaging with customers, employees, and local communities on sustainability initiatives can foster innovation, improve employee morale, and drive customer loyalty.

Risk Management and Scenario Planning

- **Scenario Analysis:** Proactive scenario planning can help to anticipate regulatory changes, market shifts, and physical climate impacts.
- **Insurance Optimization:** Improved climate risk management may result in lower insurance premiums and better coverage terms.

Digital Transformation and Data Analytics

- **Climate Data Analytics:** Investing in advanced analytics and digital tools to monitor climate risks and opportunities can improve decision-making, operational efficiency, and reporting accuracy.

6. Conclusion

At Douglas Dynamics Inc., we acknowledge the growing risks posed by climate change and are committed to addressing them proactively. We will continue to integrate climate-related considerations into our business strategy, risk management, and financial decision-making. Our approach is designed to minimize the negative impacts of both physical and transition risks while maximizing the opportunities for sustainable growth in a low-carbon economy.

We are also committed to leveraging climate-related opportunities to drive innovation, operational excellence, and stakeholder value. We will continue to explore product development in low-carbon technologies, enhancing energy and water efficiency across our operations, and collaborating with suppliers to build a more resilient value chain.

We will continue to monitor the evolving climate-related landscape, regularly assess our climate-related risks, and adapt our strategies as necessary to protect the interests of our stakeholders and ensure long-term value creation.

7. Data Table

Energy & Emissions[1]	2023	2024
Energy Consumption, by Fuel Type (GJ)		
Natural Gas[2]	151,529	132,732
Propane[3]	36,922	30,833
Electricity	81,782	70,644
Greenhouse Gas Emissions[4], by Fuel Type (tCO2e)		
Natural Gas (Scope 1)	7,630	6,672
Propane (Scope 1)	2,208	1,858
Other (Scope 1)	1,344	1,415
Electricity (Scope 2)	9,010	7,548

1- Environmental data reflects all of our manufacturing, upfitting, office and warehousing locations. Includes estimated data using interpolation and extrapolation methods as applicable.

2- Reflects five manufacturing sites that consume natural gas.

3- Reflects one manufacturing site that consumes propane instead of natural gas.

4- Emissions data includes those resulting from the energy consumption reported above, as well as other Scope 1 emissions from company vehicles and refrigerants. These were calculated using eGRID 2020 emission factors as published by the United States Environmental Protection Agency (EPA).