



ESG Report 2018
ARX Equity Partners

Contents

Message from the Managing Partner	3
About the Report	4
About ARX Equity Partners	4
Vision, Purpose and Values	5
Portfolio Companies	7
Highlights of 2018	8
ARX ESG Policy	9
Responsible Investment Process	11
ESG Impacts	12

Message from the Managing Partner

We are pleased to introduce our first annual report presenting the ARX Equity Partners principles and performance in Environmental, Social and Governance (ESG) matters. ARX has been a signatory of the United Nations Principles for Responsible Investment (UN PRI) since 2014 and with this report we aim to strengthen our commitment in this area.

As a business, our primary purpose is to create long term value to our shareholders and investors. We can only achieve this goal by combining excellent financial performance with responsible and sustainable business practices that consider employees, business partners and society.

In 2018, ARX has been very active with exits, new investments and portfolio add-on acquisitions. Next to this our focus was on embedding ESG criteria into our investment process and incorporating their evaluation throughout every pre-investment and post-investment process.

Recognizing the importance of ESG issues and their impact on positive returns, in 2019, we plan to strengthen the due diligence screening of our potential new investments and set up new requirements for portfolio companies to grow and advance their sustainability performance.

We hope you enjoy the insights presented in this 2018 ESG Report. From now on we will publish yearly reports that will present a useful tool for our stakeholders through which we can discuss our plans to create lasting positive impact in 2019 and beyond.

Brian Wardrop
Managing Partner

"We are committed to delivering value sustainably."

About the Report

The ARX ESG Report focuses on ARX principles and performance in Environmental, Social and Governance (ESG) matters and covers the calendar year 2018. The report describes how ARX invests responsibly by integrating ESG factors throughout its investment processes, how the company is itself managed responsibly, and how investment expertise is used to positively contribute to society beyond the core investment activities. The report has been prepared on the basis of the Global Reporting Initiative (GRI) Standards. All facts and figures presented are as of 31 December 2018 and cover ARX investment activities globally unless otherwise stated.

About ARX Equity Partners

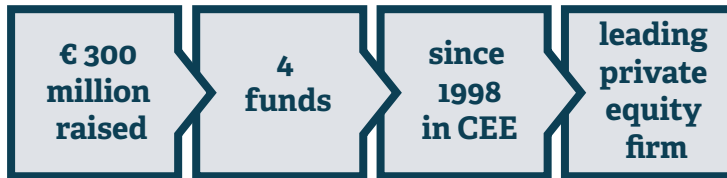
Investing in the Central and Eastern European (CEE) region since 1998, ARX is a private equity investment firm focused on investments with enterprise values generally ranging from € 10 million to € 50 million.

With more than € 300 million raised in four funds, ARX has become a leading private equity firm in its segment.

Headquartered in Prague, the firm's activities are managed by an experienced and multinational team of investment professionals, combining a wide range of international expertise plus in-depth local knowledge. This combination of a locally based team of decision-makers, coupled with substantial international capabilities, is key to the success of ARX and its investee companies.

ARX targets companies that have strong, well-incentivized management teams, are national or regional market leaders in their respective industries, often operating in know-how driven manufacturing sectors, with good cash flow characteristics, sustainable profit margins and defensible business models.

The ARX core objective is to form successful partnerships with owners, managers and other stakeholders with the aim of realising the full potential of portfolio companies, while achieving superior returns for investors and partner entrepreneurs. ARX is structured as a partnership of complementary individuals.



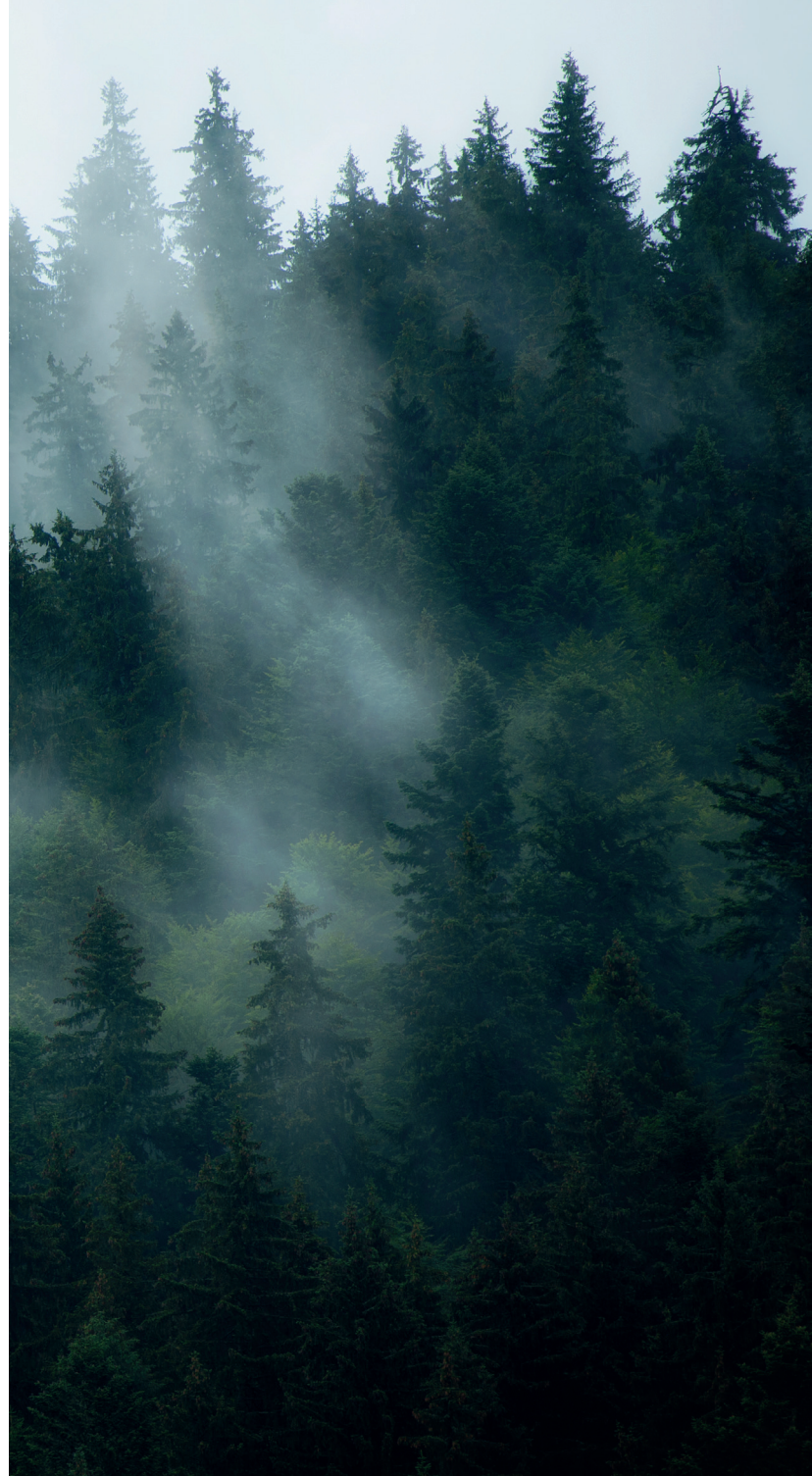
Vision, Purpose and Values

Vision

ARX aspires to be a consistently top-quartile European private equity firm by originating and executing exceptional lower mid-market investments in selected CEE countries. Our overriding view is that this aspiration will be achieved by being the first-choice partner for managers, entrepreneurs, business owners, private equity professionals, advisors and investors.

Core Purpose

Our Core Purpose is to build prosperous, successful and sustainable businesses in our target countries, while establishing valuable partnerships with entrepreneurial managers. ARX exists in order to build valuable companies in its target countries by working in partnership with investors and entrepreneurial owners and managers.



Core Values

Teamwork

We believe that effective teams have the capability to deliver superior results. We respect and promote the fact that individual team members bring different skills, experience and perspectives to the team. Effective teams possess the capability to leverage cross-functional capabilities in order to achieve common team objectives. At ARX we believe that we will achieve success as individuals only if the teams we are working in are highly effective in achieving overall team objectives.

Ethical Behaviour

We understand that it takes years to build a reputation and only a few moments to severely damage it. We do not engage in corrupt practices and we adhere to principals of social responsibility. ARX seeks fairness in all of its dealings. Ethics within ARX also encompasses the principle that we are intellectually honest with ourselves when making investment decisions and assessing risks; and we are also honest, ethical and transparent externally with our investors and business partners. We understand that a short-term gain based on deception in a single transaction or situation will ultimately undermine the long-term success of the firm. Furthermore, our organization maintains high ethical standards and we seek out investee companies where the same principles of fairness and ethics can be applied. We also apply the principles of ethics and fairness with our lenders and professional advisors

Meritocracy

ARX believes that politics is a corrosive influence on an organization. While we are often faced with difficult decisions internally and within our Portfolio Companies, our core decision-making frameworks in such situations are based on merit rather than politics or personal favouritism. When faced with difficult people-related decisions, we apply the lens of "what is best for ARX as a firm" rather than what is best for a particular individual.

Ownership Mindset

The ARX partnership is fully independent and is 100% owned by its senior investment team. Thinking and acting as owners in every aspect of our business is paramount to living our core purpose of building a successful company ourselves and establishing productive partnerships with business owners and investors. ARX pursues its deal sourcing, due diligence, execution and value-building activities with dedication and passion. We take full responsibility for our actions and clearly understand the consequences of complacency. We strive to challenge the status quo with the mantra "How can we make it better?!" We believe that "market standard" efforts and mediocre efforts will lead to "average" median investment performance. ARX does not aspire to median performance, therefore we understand that living the value of Ownership Mindset is key to achieving consistently top-quartile performance across multiple funds

Portfolio Companies

ARX has completed more than 20 platform investments over the past two decades in five Central European countries, plus more than 10 complementary add-on acquisitions. Our industry knowledge, investment experience and international resources provide a valuable edge in identifying and creating value in our region of operation.

At the end of 2018, ARX held stakes in 7 platform companies based in CEE.

Company name	Country	Sector	Sales EUR mil.
Deva Nutrition	Czech Republic	Baby food production	22
TMX Mobile Solution	Hungary	Mobile phone after-sales services	55
DC Bled	Slovenia	Healthcare diagnostic clinics operator	9
Anwis	Poland	Manufacturer of window covers and related components	33
Gramex Drinks	Hungary	Soft drinks bottler	20
5.10.15. (Komex)	Poland	Children's clothing retailer	41
Eruca	Czech Republic	Chemical recycling	1

Highlights of 2018

ARX made a new platform investment in July 2018, which was the acquisition of a majority shareholding in Hungarian headquartered TMX Mobile Solution. TMX is a market leader in the Hungarian mobile device repair business, generating annual turnover of over € 50 million. Our strategy with TMX is to leverage the company's Hungarian market leadership while driving growth in the broader European B2B mobile device repair market.

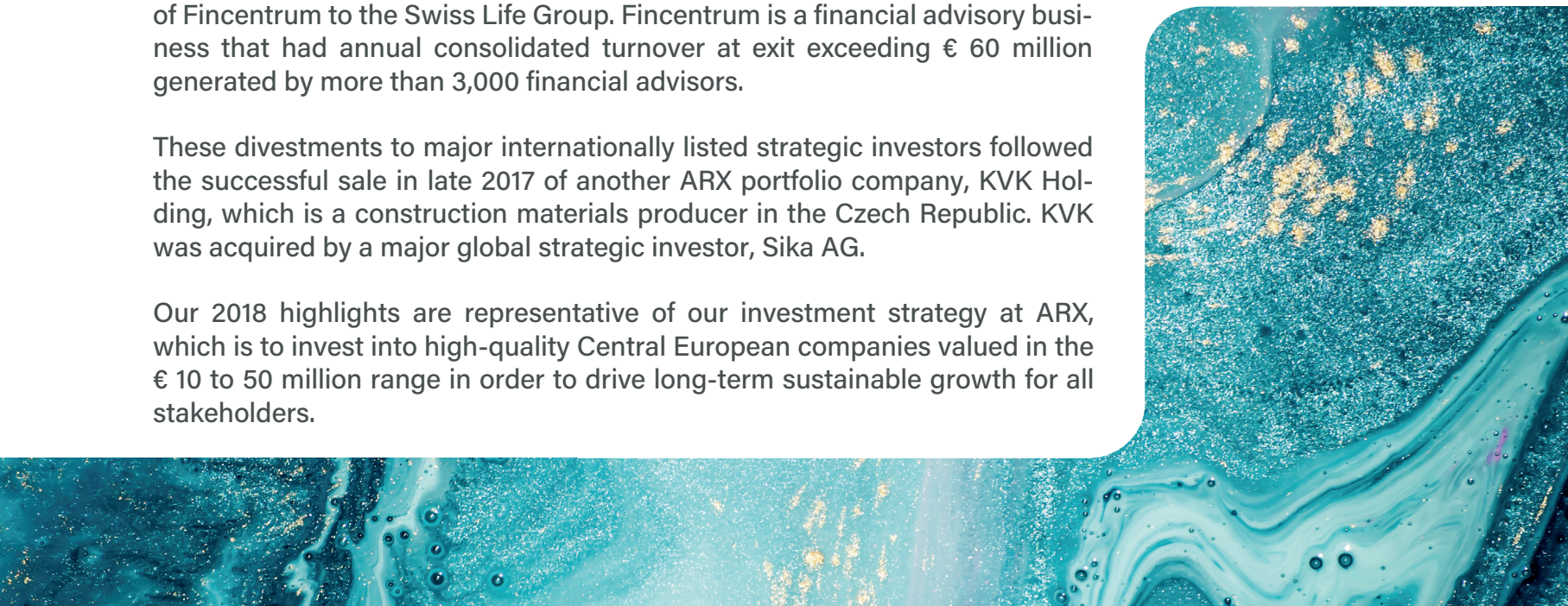
In terms of portfolio company value-creation, we have been pursuing both organic and inorganic expansion efforts for our companies during 2018. A notable example of an ARX buy-and-build initiative involved our Slovenian healthcare services company, DC Bled, which acquired two complementary clinics in 2018. These acquisitions not only increased the scale of DC Bled, but also enhanced patient care and broadened the company's service offering.

In April 2018, ARX completed the exit of its investment in the Czech producer of specialized electrical motors (VUES Brno), via a sale to NYSE listed Moog Inc., in a transaction valued at € 53 million.

Our second 2018 exit was successfully completed in October 2018 via the sale of Fincentrum to the Swiss Life Group. Fincentrum is a financial advisory business that had annual consolidated turnover at exit exceeding € 60 million generated by more than 3,000 financial advisors.

These divestments to major internationally listed strategic investors followed the successful sale in late 2017 of another ARX portfolio company, KVK Holding, which is a construction materials producer in the Czech Republic. KVK was acquired by a major global strategic investor, Sika AG.

Our 2018 highlights are representative of our investment strategy at ARX, which is to invest into high-quality Central European companies valued in the € 10 to 50 million range in order to drive long-term sustainable growth for all stakeholders.



ARX ESG Policy

ARX became a signatory of the **United Nations-backed Principles for Responsible Investment (UN PRI)** in November 2014. The UN PRI works with its international network of investor signatories to put the six Principles for Responsible Investment into practice. We believe that by agreeing to the UN PRI principles we are publicly confirming our desire to incorporate environmental, social and corporate governance issues in our investment and management operations.

ARX operates in line with its established ESG Policy and integrates the consideration of ESG risks and value creation opportunities into investments made through its managed private equity funds. We encourage ARX team members and portfolio company managers to act in a socially responsible manner, in an effort to contribute to the social and environmental sustainability and development of the CEE region.

ARX refrains from investing in certain sectors, which the firm views as socially irresponsible, e.g. gambling or tobacco production. We will never invest in these sectors regardless of whether any investor restrictions or policies contain formal restrictions. With respect to business ethics, we do not engage in corrupt or unethical practices and we systematically avoid companies and/or sectors where corruption is endemic.

The ARX ESG Policy framework aims to

- Comply with relevant regulations governing the protection of human rights, occupational health and safety, the environment, and the labour, and business practices of the jurisdictions in which we conduct business.
- Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.
- Instruct ARX investment professionals in the identification and management of ESG risks and opportunities, and provide them with appropriate support and assistance.
- Regard implementation of our ESG engagement activities as an integral part of how we do business.
- Grow and improve the companies in which ARX invests for long-term sustainability and to benefit multiple stakeholders, including on environmental, social, and governance issues. To that end, ARX will work through appropriate governance structures (e.g. board of directors) with portfolio companies with respect to environmental, public health, safety, and social issues, with the goal of improving performance and minimizing adverse impacts in these areas.
- Use governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest, and to implement compensation and other policies that align the interests of owners and management.
- Identify ESG risks and opportunities prior to the acquisition of companies entrusted to our care and control, and manage ESG risks and opportunities following acquisition.
- Encourage ARX portfolio companies to advance these same principles in a way that is consistent with their fiduciary duties.
- Adhere to the highest standards of conduct intended to avoid even the appearance of negligent, unfair or corrupt business practices.
- Be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.
- Encourage dialogue on how we can accommodate ESG issues in a way that is consistent with our investors and other stakeholders' initiatives in these areas.
- Recognize that our ESG activities are of an on-going nature and to encourage continual improvement in ESG performance at the companies we own.

Responsible Investment Process

We have long recognized that ESG issues can have a significant impact on private equity investment, in terms of making investments, managing investments and creating value in each portfolio company. We also believe that effectively addressing ESG issues has the potential to positively impact financial returns.

Pre-Investment Stage and Due Diligence

Before making an investment, a selection of the appropriate ESG criteria is tailored to the individual company that we evaluate based on the topics that are most material to their profile. ESG factors play a decisive role in the final decision whether to make the investment.

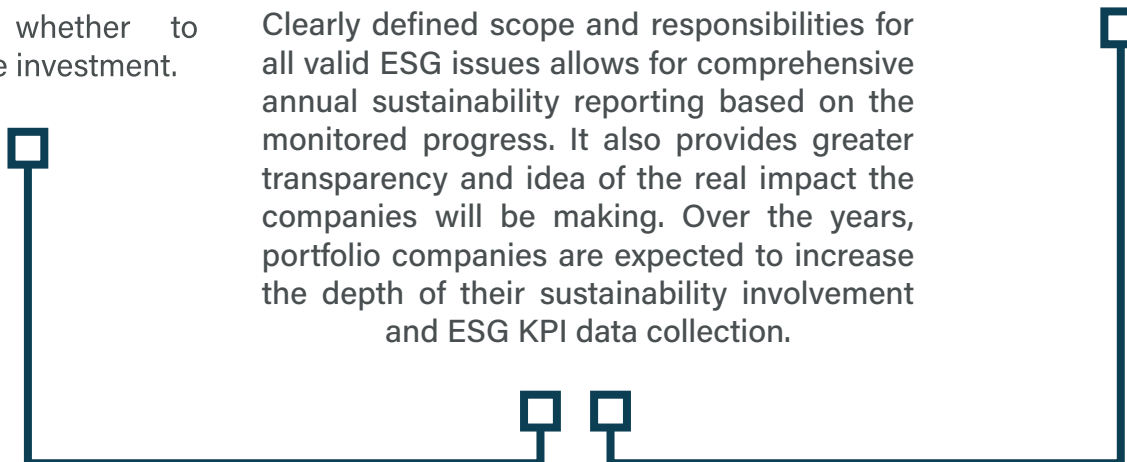
Post-Investment Stage and Portfolio Management

After consummating the investment, ARX focuses on data collection and monitoring of material issues based on the company profile. According to the ARX ESG Strategy, we ensure that all of our portfolio companies have an effective sustainability policy with a set of valid KPIs to enable its regular monitoring and evaluation.

Clearly defined scope and responsibilities for all valid ESG issues allows for comprehensive annual sustainability reporting based on the monitored progress. It also provides greater transparency and idea of the real impact the companies will be making. Over the years, portfolio companies are expected to increase the depth of their sustainability involvement and ESG KPI data collection.

Exit

Depending on the length of our investment, portfolio companies are able to present the financial and/or non-financial value added because of their sustainability strategies.



Social Impact

ARX aims to create a safe and motivating work environment built on the key principles of high professional standards, mutual trust, transparency and respect.

Commitment to Employees

ARX is committed to promote and support a healthy and safe workplace environment across its portfolio companies.

Worker Safety

Deva Nutrition is a European producer of infant food and baby drinks. Its production facility employs 113 people. Precise site planning and exact workflows have allowed Deva to be accident-free for 2,950 days (through the end of 2018). Deva management created a culture where all employees are encouraged to actively report any risks that might lead to an accident and performs regular health and safety training for all active employees.

Sustainable Work Force

TMX Mobile Solution is one of the leading after-sales service businesses in CEE and provides repair services for mobile equipment. To ensure long term availability of properly trained workforce, TMX collaborates with the regional Chamber of Commerce and Industry by giving students of 5 different high school's professional practice and summer training each year. High schools participating in trainings are specialized in electrotechnics and mechatronics. 25-30 students perform their training in TMX each year, focusing on quality check of mobile phones and basic repairs. Following graduation, 85% of students who participated in the summer training join TMX as technicians.

Commitment for a Sustainable Society

Being a committed citizen, ARX contributes to certain social projects that create meaningful added value and are in line with its vision of a sustainable world.

Support of Social Entrepreneurship

ARX supports an innovative Czech non-profit organization Tilia. Tilia is the first fund in the Czech Republic investing in social enterprises whose business model goes hand in hand with a significant and measurable societal impact. Tilia's aim is to support the development of impact-first entrepreneurs and to promote social impact investment in the Czech Republic. ARX contributed CZK 1 million to the Tilia loan fund as well as significant managerial time, participating in the investment committee and carrying out other pro bono work for the organization.

Environmental Impact

Being a small company, ARX environmental impact is not so significant. We realize that much greater environmental impact results from the business activities of our portfolio companies.

Reduction of Carbon Footprint

Deva Nutrition is the leading European producer of infant and baby food who believes in supporting local farmers. Deva focuses on sourcing raw material from carefully selected, monitored and controlled suppliers with 95% of apples sourced from Czech suppliers.

Pesticides Free

Deva Nutrition is the leading European producer of infant food and baby drinks whose food safety and product quality are their highest priority. Its products are GMO, heavy metal and pesticides free. It promotes their own values and supports their suppliers in limiting their use of pesticides through direct meetings and best practice work instructions.

Governance Impact

ARX informs its investors about its operations formally on a quarterly and annual basis. ARX believes that a diverse board leads to greater board effectiveness. ARX Portfolio Company board members are active and engaged, and support a culture of open dialogue, collaboration and rigorous decision-making focused on creating long-term shareholder value.

Independent Board Member

ARX is making a systematic effort in terms of corporate governance to involve experienced and diligent non-executive independent directors to its portfolio company boards. An example of this initiative relates to TMX Mobile Solution, which appointed Christopher Mattheisen as Chairman of the Board of Directors in November 2018. Mattheisen's vast telecom experience (notably as a long-term CEO within the Deutsche Telekom Group) and ethical reputational track-record will enhance the management supervisory function.

The background of the entire image is a dense, close-up photograph of various green leaves. The leaves have different shapes and textures, with prominent veins visible on many of them. The overall color is a rich, vibrant green.

ARX Equity Partners

+420 22 423 5399
[praha@arxequity.com](mailto:p Praha@arxequity.com)
www.arxequity.com