



ESG Report 2019

ARX Equity Partners

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Message from the Managing Partner



This is our second annual report presenting the ARX Equity Partners principles and performance in Environmental, Social and Governance (ESG) matters. This report is the main point of reference for our stakeholders regarding our annual ESG performance. ARX is a signatory of the United Nations Principles for Responsible Investment (UNPRI) initiative and thus committed to implement the principles and communicate on the progress.

Although this report addresses developments during calendar year 2019, we are issuing this report during the difficult and uncertain period of the global COVID-19 pandemic. As the pandemic is both significant and unprecedented, it is appropriate to address this situation within the context of the ARX investment portfolio and summarize some of our immediate actions in this regard.

First and foremost, we have placed the safety and security of our staff and the teams working within our portfolio companies as paramount. We moved rapidly at the onset of the pandemic to implement rigorous safety and hygiene processes and also procured the necessary equipment and material required to support these measures. We are pleased to report that all of the ARX portfolio companies have remained in operation throughout the pandemic and the safety and hygiene measures have been well accepted and appreciated by employees. The positive employee perception of the new safety and hygiene processes has been confirmed via employee surveys undertaken in some companies.

Secondly, we have taken steps to ensure the financial stability of our portfolio companies. Each of our companies entered the COVID-19 with

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relatively low levels of indebtedness and a robust financial liquidity position. Our expectation at this stage is that our portfolio, which employs over 1,600 people in aggregate, is likely to emerge from the crisis in a healthy financial position and without substantial job losses. As the economic fallout of the COVID-19 pandemic is likely to lead to a substantial increase in unemployment levels, we feel that the financial sustainability of our companies and our role as an employer is an important responsibility that falls within the broad definition of ESG.

With respect to developments during 2019, ARX had another successful year, marked by excellent performance in terms of new investments, portfolio performance and exits. Over the course of 2019 we also elevated the importance of ESG topics within our portfolio via the creation of bespoke key ESG indicator tracking at board level for each

company. As a business, our primary purpose is to create long term value for our shareholders and investors. However, we can only achieve this goal by combining excellent financial performance with responsible and sustainable business practices that consider employees, business partners and society. Further information regarding all of these topics is contained within this report, which is divided into 3 areas - Corporate Governance, Social Impact and Environmental Impact.

While 2020 will likely be shaped by the ARX response to the ongoing COVID-19 pandemic and associated economic impact, our firm remains committed to the ongoing process of developing and improving our ESG performance.

Brian Wardrop - Managing Partner



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 2019. 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 exper-

tise is used to positively contribute to society beyond the core investment activities. All facts and figures presented are as of 31 December 2019 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

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.



Vision, **Purpose,** and Values

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.



Vision, Purpose, and 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. Ethics in our view also includes care for environment. 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.

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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 2019, ARX held stakes in 8 platform companies based in CEE.

Company	Country	Sector	Year invested	Sales (€ million)	Number of employees
TES Vsetin	Czech Republic	Manufacturer of electrical machines and related components	2019	59.2	599
Wieden	Czech Republic	Aluminum-glass façade solutions	2019	18.6	173
TMX Mobile Solution	Hungary	Mobile phone after-sales services	2018	48.9	353
Deva Nutrition	Czech Republic	Baby food production	2017	21.4	112
DC Bled	Slovenia	Healthcare diagnostic operator	2015	14.2	138
Gramex Drinks	Hungary	Soft drinks bottler	2014	20.9	107
Eruca	Czech Republic	Chemical recycling	2010	1.1	18
5.10.15 (Komex)	Poland	Children’s clothing retailer	2006	48.0	107

Highlights of 2019



ARX has been a dedicated lower mid-cap private equity investor in Central Europe for over 20 years - and 2019 was another exciting and productive year for our firm.

Our 2019 exit activity included two important transactions:

- In August ARX completed the exit of its investment in the Polish manufacturer of internal and external custom-made sun shading systems (ANWIS), via a sale to German strategic investor WAREMA.
- Legal documents relating to the 100% exit of ARX portfolio company DC Bled were executed with a major Slovenian insurance group (Sava Re). DC Bled is a Slovenian healthcare services provider that has been grown during ARX ownership via a series of complementary add-on acquisitions.

ARX also closed two new platform investments during 2019:

- In April, ARX completed the simultaneous acquisition of two Czech facades businesses - family owned Fenestra Wieden and the Czech facades division of Skanska. The combination of these enterprises has created a significant European market player in the segment of aluminum-glass modular facade solutions for large and technically demanding projects. Key members of management and the founding Fenestra Wieden family have partnered with ARX in the transaction. Following the merger of the two entities, it was renamed as Wieden.
- In October, ARX completed the acquisition of TES Vsetin, which is a Czech engineering company engaged primarily in the manufacturing of system components related to electrical machines, in addition to the design and manufacturing of its own proprietary machines, such as generators and electric motors. ARX

partnered with the company's existing management team in the transaction.

In addition to these divestment and investment achievements, the following 2019 highlights have also been noteworthy for our firm:

- In early 2019 ARX won the Central and Eastern Europe Deal of the Year Award for VUES at the 2019 Real Deals Private Equity Awards ceremony held in London.
- ARX was recently nominated by Private Equity International as a finalist for the Central and Eastern European private equity firm of the year award.
- ARX was nominated for the Real Deals 2020 Central and Eastern Europe Deal of the Year Award and the 2020 Nagrody PSIK Private Equity Deal of the Year Award for ANWIS
- Our role as a socially responsible investor has always been a core pillar of the ARX business philosophy. During 2019 we have undertaken various new ESG-oriented initiatives, such as the publication of our inaugural external ESG report (available via a link on our website <https://www.arxequity.com>) and providing ongoing financial and pro bono support for the first "impact first" fund in the Czech Republic (Tilia Impact Ventures <https://tiliaimpactventures.cz>), which completed its first three impact investments during 2019.

Our 2019 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 and value-creation for all stakeholders.

ARX ESG Policy 2020



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.



ESG Impacts

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.

Green Solution Facades	Wieden designs and manufactures facade solutions for large administrative, mixed-use and residential properties. Environmental sustainability is a key trend driving the technological parameters of facades driving advanced building envelope solutions. Designers focus to propose solutions delivering the energy efficient solutions using modern technologies and materials.
Research & Technological Improvement	Wieden participates in several R&D projects to primarily improve the performance of the facade. It has developed a specific technical solution of insulated profiles for the improvement of thermal performance offering low-energy systems. Currently developing an autonomous facade module which deals with both energy savings as well as improvement of interior environment of buildings by efficient utilisation of solar energy, which is being researched along with the Czech Technical University.
Waste Sorting	<p>TES aims to properly sort at least 50% of its municipal waste (paper, plastics, glass, etc.). This was fully achieved in 2019.</p> <p>The share of properly sorted waste has been steadily increasing over the past few years, from 32% in 2014, owing mainly to numerous initiatives taken by management. For example, in 2019, the purchasing department created a manual for appropriate and effective waste sorting.</p>
Reduction of Emissions	During February 2019 TMX purchased a 100% electric car for corporate errands. The new car made 10,000 km in 2019.



ESG Impacts

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' Health and Safety	Wieden operates two production facilities manufacturing aluminum-glass facade elements, as well as installs these elements on buildings on site. Manipulation with elements requires special attention. Along with compliance with the appropriate regulation, well-established site planning and workflows, it is dedicated to ensuring the highest safety for its employees and sub-contractors. After the ARX acquisition of both companies, ARX introduced a dedicated Health and Safety Manager responsible for regulation, training, risk register, implementation of directives and monitoring of compliance. We are pleased that during 2019 the majority of directives have been implemented and Wieden is devoted to further protect the health and safety of its employees.
Sustainable Work Force	TES is one of the largest employers in the city of Vsetin. To contribute to long term availability of skilled and educated labour, TES regularly provides internships to young students from local vocational high schools.
Grants to Students	In 2019, 18 students from four local schools took part in these short-term internships. In addition to internships, TES also hosted open days for students from a number of elementary as well as high schools in the region.
Contribution to Social Events	In 2019, TES provided monthly scholarships to four students from a local school on the basis of their academic achievements. In addition, the four students took part in paid internships to provide them with practical learning opportunity.



ESG Impacts

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.

Merging of Companies	After acquisition of Wieden and the completion of an immediate add-on investment, ARX along with remaining board members assisted the management teams of both operations to establish suitable governance scheme. The goal was that the newly formed governance would respect both cultures of family-owned and founder-run business as well as the large corporate culture, and utilise the best from each while establishing efficient management with engaged capable members. ARX believes that the goal has been reached and the two operating companies merged at the end of 2019 into one legal entity.
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Thank you!

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