



ESG Report 2020

ARX Equity Partners

Contents

Message from the Managing Partner	3
About the Report	4
About ARX Equity Partners	4
Vision, Purpose, and Values	5-7
Portfolio Companies	8
Highlights of 2020	9
ESG at ARX	10
ARX ESG Policy	10
Responsible Investment Process	11
ESG Impacts	12-14



Message from the Managing Partner

We are pleased to present our third annual report outlining 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 (UN PRI) initiative and our firm is committed to a process of continuous development in the area of ESG. We believe that **three overarching themes** are illustrative of the current status of our ESG journey at ARX.

Firstly, we are encouraged by the **rapid adoption and acceptance of ESG initiatives in the Central and Eastern European private equity industry**. Despite the clear human, economic and societal challenges triggered by the Covid-19 pandemic, ESG remains firmly on the agenda as a key strategic priority for ARX and its industry peers in the Central European (CEE) region. In fact, our experience suggests that the Covid-19 pandemic has led to a heightened level of both ESG awareness and tangible action throughout the private equity industry in our region. The CEE private equity industry is supported by a host of institutional investors that are placing an increasing level of emphasis on ESG in their own investment decision making processes, and we welcome the high level of rigor being applied on ARX and its industry peers as we work to manage

environmental, social and governance externalities in our investment activities and within our portfolio companies.

Secondly, an important goal for ARX in 2021 is to continue our **progression from “ESG anecdotes” toward increasingly well-defined and measurable ESG objectives**. For example, each of the ARX portfolio companies has selected a single highly impactful ESG objective where relevant KPIs will be tracked intensively and where a mechanism will be designed in order to drive full organizational alignment toward achievement of the key objective. The key objectives will be unique to each company depending on industry. We have concluded that at the current stage of development of the mid-sized company segment in the CEE region that fostering deep alignment throughout the entire employee base on a single overriding key objective will likely lead to a deeper level of organizational awareness and total company alignment regarding ESG priorities.

The third theme worthy of mention is the **ongoing challenge for smaller asset managers to track and monitor ESG performance** with inherently limited resources. While large private equity firms with assets under management in the billions of Euros possess the resources to employ dedicated ESG professionals and embedded consultants, smaller private equity

firms must be innovative and agile in these efforts. We believe that the potential for smaller cap private equity to positively impact ESG outcomes is enormous – as we are typically the first institutional owners of our portfolio companies. We also believe that there are countless smaller cap private equity firms in all world regions that possess strong internal cultures that are in alignment with the UN PRI. Nonetheless, as an increasing emphasis is being placed on formalizing ESG processes and procedures, it is paramount that ARX and its peers find innovative, efficient and practical tools and mechanisms to ensure that we are optimizing our ESG outcomes.

In summary, we at ARX believe that there can and should be a positive correlation between meaningful ESG outcomes and excellent financial returns – and we welcome the groundswell of momentum globally that supports this view. The real test for the medium to long-run will be systematically proving that this integrated approach to both financial outcomes and externalities is both valid and sustainable.



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 2020. 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. All facts and figures presented are as of 31 December 2020 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

ARXaspirestobeaconsistentlytop-quartileEuropean 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 principles 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.

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 2020, ARX held stakes in 7 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	50.8	554
Wieden	Czech Republic	Aluminum-glass façade solutions	2019	21.7	187
TMX Mobile Solution	Hungary	Mobile phone after-sales services	2018	43.7	344
Deva Nutrition	Czech Republic	Baby food production	2017	22.6	114
Gramex Drinks	Hungary	Soft drinks bottler	2014	20.0	106
Eruca Technologies	Czech Republic	Chemical recycling	2010	0.9	18
5.10.15 (Komex)	Poland	Children’s clothing retailer	2006	47.0	86



Highlights of 2020



ARX has been a dedicated lower mid-cap private equity investor in Central Europe for over 20 years – and 2020 was a uniquely demanding yet successful year for our firm.

- Despite many challenges over the past several months, we are pleased with the performance of the ARX portfolio - as all of our companies have remained solidly profitable during 2020 and are entering 2021 ready to capitalize on emergent growth opportunities. While the months ahead will inevitably be characterized by continued uncertainty, we are confident that our companies are well-placed to succeed in this environment from a financial, operational and leadership standpoint.
- From a financial perspective, the low level of indebtedness in our portfolio (which is a core element of the ARX investment style) enables the ability to invest in both organic and inorganic company growth initiatives, while steering a path toward long-term value creation. Our track-record contains numerous cases of successful add-on acquisitions and we will seek to replicate this approach during 2021.
- From an operational perspective, we have minimized risks through the course of 2020 while implementing rigorous health and safety measures throughout the portfolio. These measures have both allowed our companies to remain undisrupted operationally, while also prioritizing employee health and wellbeing.
- From a leadership perspective, our primary focus during 2020 has been supporting our management teams as they navigate various challenges associated with the pandemic. We commend the leadership teams of all our ARX portfolio companies (i.e. Deva, Gramex, Komex, TES Vsetin, TMX and Wieden) for their great efforts and dedication during 2020; and we are confident in their capability to overcome hurdles and seize new opportunities in 2021 and beyond.
- On the transaction front, ARX successfully completed the exit of DC Bled to a strategic acquirer in early 2020. DC Bled is a Slovenian healthcare services provider that was grown during ARX ownership via a series of complementary add-on acquisitions. We congratulate the outstanding DC Bled management team (led by Zvone Novina and Lenca Moze) for their achievements and great cooperation while working alongside ARX for five years of value building.
- Despite the COVID-19 pandemic, we have continued to place unwavering emphasis on our commitment to act as a socially responsible investor in Central Europe.

ESG at ARX



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.

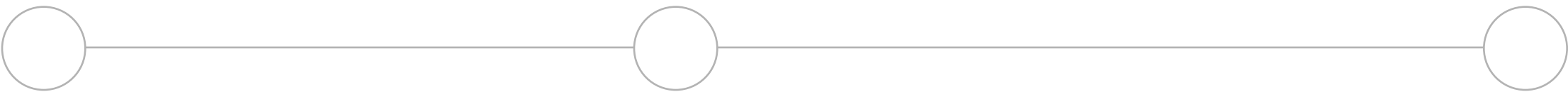
ARX refrains from investing in certain sectors, which the firm views as socially irresponsible, e.g. gambling or tobacco production. We will never invest in these sectors regardless of whether any investor restrictions or policies contain formal restrictions. With respect to business ethics, we do not 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.



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.

Wieden	Green Solution Facades	Dedicated R&D team has been established being led by Mr. Wieden, the Wieden founder. The team is currently focusing on development and composition of carbon-free facades to further decrease the carbon-footprint of Wieden products while using environmentally friendly materials where possible. In addition to providing a greener solution, the facades shall naturally adhere to all technological parameters and energy efficient standards.
Wieden	Research & Technological Improvement	Wieden participates in R&D projects with the Czech Technical University related to autonomous facade modules which deal with both energy savings as well as the improvement of interior building environments by efficient utilisation of solar energy.
TES Vsetin	Waste Sorting	<p>TES aims to properly sort at least 50% of its municipal waste (paper, plastics, glass, etc.). In 2020, TES managed to properly sort close to 50% of materially usable waste (glass, paper, plastic, aluminum cans) from municipal waste.</p> <p>The company’s long-term goal is to constantly increase this share. To help achieve that goal, two new containers for collection of abrasion dust were purchased in 2020.</p>
TES Vsetin	LPG Station	In 2020, an LPG station was successfully installed with the aim of gradually replacing diesel-powered forklift trucks for more environmentally friendly natural gas.
TES Vsetin	Electricity Savings	TES is engaged in gradual replacement of older, less energy-efficient luminaires with LED technology throughout the company’s premises. Electricity consumption savings are to reach 65%.



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.

Wieden	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 in the Czech Republic and abroad. Manipulation with elements requires special attention. The company is dedicated to ensure the highest safety for its employees and sub-contractors. The position of dedicated Health and Safety Manager for Wieden has strengthen over the past year, all directives and monitoring systems are in place to ensure high safety standards. The successful certification for ISO 45 001 "Occupational health and safety" demonstrates the dedication to employee safety improvement, workplace risks reduction and the creation of better and safer working conditions.
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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.

Wieden	Merging of Companies	Wieden in today's form was formed through the merger of a family-run business and corporate spin-off. This cultural difference formed challenges in terms of governance of the business. We are pleased that the organisational structure has stabilised and a suitable governance scheme was established. We found the right balance between both cultures of a family-owned and founder-run business as well as large corporate culture style, and utilised the best from each while establishing efficient management with engaged capable members.
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Thank you!

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