

# ESG Report 2021

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               | 6     |
| Highlights of 2021                | 7     |
| ESG at ARX                        | 8     |
| ARX ESG Policy                    | 8     |
| Responsible Investment Process    | 9     |
| ESG Impacts                       | 10-12 |



# Message from the Managing Partner



We are pleased to present our fourth 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 (UNPRI) initiative and our firm is committed to a process of continuous development in the area of ESG.

While preparing this report, we have been witnessing the brutal atrocities being inflicted by Russia on the people of Ukraine. Witnessing this human tragedy unfold just a few hundred kilometres from our headquarters in Prague has been both heart-breaking and deeply disturbing. Although none of our ARX portfolio companies have offices or operations in either Ukraine or Russia, the impact of the war and associated humanitarian crisis will be felt in Europe for many years to come.

From a historical economic perspective, the ARX investment region of Central Europe has been a tremendous beneficiary of the fall of communism in the early 1990s and the systematic integration into the broader European economy. The Central European private equity industry has played a vital role in this economic transformation through the deployment both of financial capital and professional know-how to support worthy entrepreneurs.

*We at ARX remain steadfast in our belief that the private equity industry will continue to contribute positively during the forthcoming phase of global transformation and disruption that lies ahead. We also believe that an unwavering commitment to sound ESG investment principles is more important than ever before.*

The central theme driving our ESG activities in 2021 has been the continued effort to develop measurable ESG metrics that are uniquely relevant to each of our portfolio companies. While we are still in the "trial and error" phase with this initiative in some of our companies, we are also pleased to report that a system of monitoring certain key ESG indicators has been implemented in each of the ARX IV portfolio companies. We have worked with our management teams to creatively align the achievement of selected ESG targets within the overall culture of each company. We expect to deepen and further optimize this process throughout 2022.

Another area of interest and importance during 2021 has been the ARX support in the expansion of the social impact investing sector in the Central European region. We believe that the professional skills and experience of private equity investors ideally position our team members to contribute meaningfully to the success of social impact initiatives in our region. While the sector is currently at a relatively embryonic stage of development in our region, we believe that the relevance of social impact investing as a tool to support highly impactful entrepreneurial initiatives will increase considerably going forward. Specifically, we anticipate an important emerging need for capital and know-how to support refugee-oriented social entrepreneurial initiatives in Central Europe. ARX and its team members are active financial and pro bono supporters of Tilia Impact Ventures (which is active in the Czech Republic) and Nesst (which is active most notably in Poland and Romania within Central Europe).

As a business, our primary purpose at ARX is to create long term value for our shareholders and investors. In this regard, we are encouraged by the outlook for the two new investments our firm completed during 2021 (the acquisitions of Instrumentation Technologies in Slovenia and Promens Zlin in the Czech Republic). However, we can only achieve this overarching 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 three areas - Corporate Governance, Social Impact and Environmental Impact.

In summary, we at ARX trust that there can and should be a positive correlation between meaningful ESG outcomes and excellent financial returns. Furthermore, we believe that the importance of conducting our business in alignment with sound ESG principles is essential during the current and projected period of humanitarian, economic and geopolitical uncertainty.



**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 2021. 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 2021 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

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.

# 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.

# 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.

## Ownership Mindset

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.



*The ARX partnership is fully independent and is 100% owned by its senior investment team.*



| Companies           | Country        | Sector   | Year invested | Sales (€ million) | Number of employees |
|---------------------|----------------|--|---------------|-------------------|---------------------|
| Promens             | Czech Republic | Plastic components   | 2021          | 37.7              | 318                 |
| I-Tech              | Slovenia       | Electrical engineering                                     | 2021          | 8.5               | 44                  |
| TES Vsetin          | Czech Republic | Manufacturer of electrical machines and related components | 2019          | 50.4              | 523                 |
| Wieden              | Czech Republic | Aluminum-glass façade solutions                            | 2019          | 38.1              | 172                 |
| TMX Mobile Solution | Hungary        | Mobile phone after-sales services                          | 2018          | 42.2              | 288                 |
| Gramex Drinks       | Hungary        | Soft drinks bottler  | 2014          | 22.7              | 106                 |
| 5.10.15. (Komex)    | Poland         | Children's clothing retailer                               | 2006          | 56.5              | 91                  |

# Portfolio Companies

ARX has completed more than 30 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 2021, ARX held stakes in 7 platform companies based in CEE.

# Highlights of 2021



While 2021 has been defined and influenced to a significant extent by the continuation of COVID-19 related challenges and uncertainty, we commend the tireless dedication and agility demonstrated by our portfolio company leadership teams. All of the ARX portfolio companies performed well despite the challenging operating environment - and all of our management teams have succeeded to mitigate countless COVID-19 related risks from both an operational and financial perspective. An additional area of operational risk mitigation in the portfolio, which will undoubtedly also be a key topic in 2022, has been ensuring resilience and reliability in our supply chains.

*From an operational standpoint, a key area of focus has been directed toward ensuring employee health, safety and wellbeing.*

In early 2021, ARX completed the acquisition of Instrumentation Technologies ("I-Tech"), which is a Slovenian company that is the global market leader in the development and production of highly specialized precision instruments utilised in major scientific particle accelerators. The I-Tech team consists of an exceptional group of scientists and engineers, and our objective is to leverage the extraordinary capabilities of I-Tech into adjacent industries, while maintaining the company's leadership position in the core particle accelerator market. The transaction catalyst for the ARX investment was a succession situation where ARX acquired I-Tech from the founding family. We expect that the I-Tech investment will develop into the next positive chapter in our successful long-term Slovenian track record.

ARX also completed the acquisition of Czech-based Promens Zlin, which is a system and development supplier focused on the production of large vehicle exterior and interior parts. The parts manufactured by Promens Zlin are key components for the production of buses, earthmoving vehicles and agriculture equipment. The company possesses exceptional R&D capabilities, especially in the areas of reaction injection moulding and vacuum forming. ARX partnered with a skilled and experienced MBO team in this investment, and our strategic objective is to significantly expand manufacturing capacity over the next few years in order to satisfy growing customer demand. ARX acquired the company from a major multinational corporation that viewed Promens Zlin as non-core. The transaction is another example of the ARX ability to complete complex corporate carve-outs reliably and efficiently. Our firm has closed three investments over the past few years where the vendor was a large publicly listed corporation seeking an experienced and dependable buyer for a Central European non-core asset.



Throughout 2021 we have continued to develop our unwavering commitment to act as a socially responsible investor in Central Europe. An important initiative for us during 2021 has been to explore practical solutions to address the ongoing challenge for smaller asset managers, such as ARX, to track and monitor ESG performance. 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 strive to be innovative and creative in these efforts.



# ESG at ARX



## ARX ESG Policy

ARX became a signatory of the United Nations-backed Principles for Responsible Investment (UNPRI) 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, the direct environmental influence of ARX is insignificant relative to the impact potential of our portfolio companies. Moreover, we are cognizant of the fact that meaningful environmental impact stems from the business activities of our portfolio companies.

## 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.

## 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.

|         |   |  |
|---------|---|--|
| TMX     | Reduction of environmental waste and carbon footprint | TMX’s business model positively influences the environment by significantly extending the average life of mobile devices. TMX repairs approximately 220,000 mobile devices and replaces 500,000 spare parts annually. The average phone has a significant manufacturing carbon footprint estimated at approximately 16 kg of CO2 emissions. The manufacturing carbon footprint of all mobile devices repaired by TMX in 2021 is estimated at 3,520 tons of CO2. Additionally, mobile devices contain many rare and precious metals. The phones repaired by TMX in 2021 are estimated to contain 5,500 kg aluminum, 3,300 kg copper, 75 kg silver and 7 kg gold. TMX also deepened its role in the circular economy by restoring approximately 1,000 mobile devices in 2021 through the purchase and re-use of electric waste.                              |
| Promens | Treatment of wooden pallets                           | Promens Zlin uses a high number of wooden pallets to transport material. Once the pallets have no further use within the company, these shall be liquidated. Until 2020, these pallets were liquidated in a waste regime, thus liquidated as waste intended for recycling / compost, or incineration via a waste liquidation provider. An external provider was used for liquidation. In 2021, Promens implemented a new approach to pallet liquidation via a re-use regime, which is now possible under current legislation and approval from local authorities has been received. Pallets are being re-used according to the original designation, which is packaging. By changing its approach toward wooden pallets liquidation, Promens Zlin is progressing its objectives in terms of environmental sustainability and savings of natural resources. |
| TES     | Waste sorting   | TES aims to properly sort at least 50% of its municipal waste (paper, plastics, glass, etc.). In 2021, TES positively progressed in this area and properly sorted 63% of materially usable waste (glass, paper, plastic, aluminum cans) from municipal waste, compared to 50% in 2020.   |
| TES     | Decreasing carbon footprint                           | In 2021, an LPG station at the TES premises successfully started operations with the aim of gradually replacing diesel-powered forklift trucks with more environmentally friendly natural gas. TES is now continuously upgrading the fleet from diesel to gas-powered forklifts, which decreases carbon footprint. Additionally, TES has continued in installation of LED lights throughout the production premises, which also contributes to decreasing TES’ carbon footprint.   |
| Wieden  | Innovative facades solution                           | Following early steps in 2020, during 2021, the design of wooden facade system solution has been completed. Calculated technical parameters confirmed to be same or better than aluminum solution, heat transfer parameter demonstrates energy savings. Overall carbon footprint over the facade life-cycle is expected to be significantly lower compared to existing aluminum solution. Wieden obtained Czech patent in June 2021 protecting the intellectual property rights.   |



# ESG Impacts



## Environmental Impact

Being a small company, the direct environmental influence of ARX is insignificant relative to the impact potential of our portfolio companies. Moreover, we are cognizant of the fact that meaningful environmental impact stems from the business activities of our portfolio companies.

## 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.

## 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.

|         |   |  |
|---------|---|--|
| Promens | 1030 days without reported work accident                    | Promens Zlin takes employee health and safety very seriously. A number of measures have been incorporated over the past years, and the company has reached 1,030 consecutive days without a reported work accident (injury) by the end of 2021. This is thanks to the dedication of the management and all team leaders, regular training provided to the employees and a focus on following implemented rules.              |
| Promens | Charity supporting family after tornado in Southern Moravia | In the summer of 2021, Southern Moravia was struck by a strong tornado. A number of houses were destroyed and many families were severely impacted. Promens organised charity collection, where employees could contribute, and the company then provided a matching amount from its account.  |
| TES     | Safety of workers   | In 2021, together with the TES management we introduced an overarching KPI of the number of serious accidents. Upon meeting the KPI, TES will contribute a monetary amount to a local not-for-profit organization.   |
| I-Tech  | Democratising education                                     | I-Tech’s subsidiary, Red Pitaya, develops measurement and data acquisition boards which replace most of the equipment found in electrical engineering laboratories for a fraction of the cost and thus empower students to work on their own projects and take the first steps towards becoming real engineers. Red Pitaya supports the learning experience by providing extensive teaching materials free of charge online. |
| I-Tech  | Women in engineering  | As an engineering driven company, Red Pitaya (I-Tech’s subsidiary) is proud to be employing four women (including the CEO position) out of seven employees in total  |



# ESG Impacts



## Environmental Impact

Being a small company, the direct environmental influence of ARX is insignificant relative to the impact potential of our portfolio companies. Moreover, we are cognizant of the fact that meaningful environmental impact stems from the business activities of our portfolio companies.

## 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.

## 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.

|     |  |  |
|-----|--|--|
| TMX | Completion of institutionalization through an owner-manager succession | Separating ownership and management control is often an integral part of corporate governance as it determines the balance of power within a corporation and can directly affect governance practices and company behaviour. At the outset of ARX' investment into TMX (2018), succession planning was put into action as the CEO expressed his desire to step out of the CEO role in three years. This was successfully administered in the second half of 2021. This final separation of ownership and management should ensure the sustainability of the business through its management by a team of professionals with the diverse skills necessary to effectively run TMX. This change and neutrality especially ensure continuity within the business, even under eventual new ownership. |
|-----|--|--|





# Thank you!

## Contact us

+420 22 423 5399

[praha@arxequity.com](mailto:praha@arxequity.com)

[www.arxequity.com](http://www.arxequity.com)