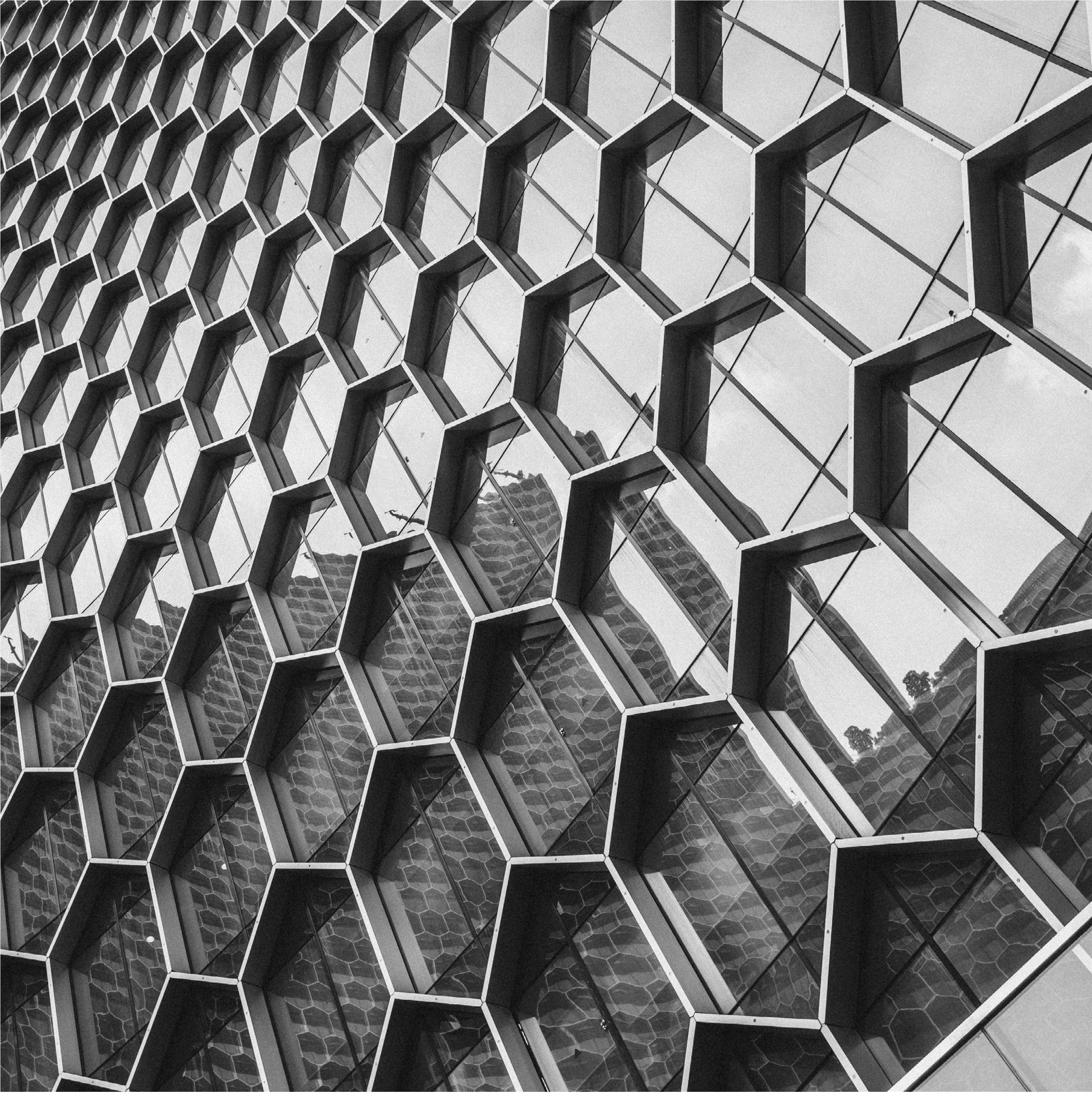




# ESG Report 2022

ARX Equity Partners





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# Message from the Managing Partner



We are pleased to present our fifth 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. Although ESG has recently become a widely adopted consideration for asset managers globally, the core essence of ESG objectives coupled with socially and ethically responsible investing has been embedded in the ARX identity since the foundation of our firm more than 25 years ago.

While 2020 and 2021 were characterized and influenced by the unprecedented global COVID pandemic, 2022 saw the emergence of another external shock in the form of a major military conflict in Europe. Although the word “unprecedented” has been applied to many crises over the past several years – the scale of the recent and ongoing acts of military aggression by Russian forces are undeniably “unprecedented” on the European continent in recent history. European integration has been a tremendous catalyst for peace and economic growth over the past several decades, and the ARX investment region of Central and Eastern Europe has been a major economic beneficiary of EU membership. We at ARX hope and pray that the devastating war and associated human suffering being inflicted on the people of Ukraine will end as soon as possible.

It is evident that the Russian military conflict, the COVID pandemic, inflationary forces and recent financial market instability are all stark and recent illustrations highlighting the importance of sound risk management. The fundamental business objectives of risk management, operational resilience and long-term commercial sustainability are synonymous with the core essence and purpose of ESG initiatives. While the term “ESG” is often misinterpreted and has become politicized and misconstrued in certain markets, we at ARX believe that the private equity industry in Central and Eastern Europe is in the process of adopting a positive industry approach to ESG and related initiatives that have the potential to enhance our financial returns. This letter will highlight two key ESG related themes that are becoming increasingly relevant for our activities at ARX: i) ESG as a risk management tool, and ii) the importance of elevating ESG outcomes on the board agenda.

**ESG risks are one dimension of a basket of risks** that private equity investors evaluate as part of the overall assessment of an investment opportunity. The due diligence process helps us build a mosaic of the risks associated with a particular company – whether such risks are identified in the legal, financial, commercial or ESG domain. It is our steadfast belief at ARX that gaining a thorough understanding and quantification of environmental, social and governance risks associated with an individual investment target will facilitate our ability to both price such risks in our ongoing

valuation and also position us to mitigate and manage these risks during our holding period, with the ultimate aim of enhancing our financial returns at exit. ESG should be viewed as a value-added and critical risk management process, and the ARX assessment and risk management skills in the area of ESG should ultimately contribute to generating excellent financial returns for our investors.

in order to achieve the desired outcomes. Our experience over the past several years suggests that significant ESG improvements can be realized if the ARX investment team prioritizes ESG topics in portfolio company board meetings while linking compensation to quantifiable ESG targets. An example of this experience was in our recently exited TES Vsetin investment, where the key ESG focus metrics related to workplace accidents, which fell by more than 50% during the period of ARX ownership. This result was achieved via a combination of prioritizing health and safety KPIs at board level while implementing creative tools to drive a focus on work accident reduction throughout the organization. A healthier and safer industrial workplace should lead to sustainable productivity improvements while engendering a positive corporate culture. Our experience in TES and several other portfolio companies evidences the pivotal role of the private equity investor in prioritizing ESG initiatives as a value-creation tool.

We at ARX believe that an increasingly relevant source of distinctive competitive advantage for our firm will be our ability to assess ESG risks during the due diligence process and to mitigate and manage ESG outcomes in a volatile environment. We have been working over the past several years to acquire skills and experience in this area with a view that these capabilities should positively impact our long-term financial returns. Our progress in this area has been and will continue to be an evolving “ESG journey” – and we will continue to seek out innovative tools and techniques as we increasingly institutionalize and evolve our approach to implementing value-added ESG initiatives.



**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 2022. 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 2022 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 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

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.

*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
<b>DOORS</b>	Slovenia	Premium front-entry doors	2022	7.9	57
<b>Brebeck</b>	Czech Republic	Composite components for motorsport	2022	16.0	181
<b>WTS Klient</b>	Hungary	Professional business services	2022	5.4	123
<b>Promens Zlin</b>	Czech Republic	Plastic components	2021	46.3	377
<b>I-Tech</b>	Slovenia	Electrical engineering	2021	8.6	50
<b>TES Vsetin</b>	Czech Republic	Manufacturer of electrical machines and related components	2019	65.8	523
<b>Wieden</b>	Czech Republic	Aluminum-glass façade solutions	2019	27.0	155
<b>TMX Mobile Solution</b>	Hungary	Mobile phone after-sales services	2018	40.4	266
<b>Gramex Drinks</b>	Hungary	Soft drinks bottler	2014	24.3	112
<b>5.10.15. (Komex)</b>	Poland	Children's clothing retailer	2006	54.2	103

# 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 2022, ARX held stakes in 10 platform companies based in CEE.



# Highlights of 2022



ARX has been a dedicated lower mid-cap private equity investor in Central Europe for over 25 years, and 2022 was another exciting and successful year for our firm.

*The ARX strategy is to invest into medium-sized Central European companies valued between € 10 million and € 50 million, and we completed three new investments during 2022 that align with this approach:*

In early 2022 ARX completed the acquisition of WTS Klient, which is a Hungarian provider of outsourced accounting, payroll and related services. ARX acquired the company from its founders in partnership with the existing management team who now lead the company going forward. Growth initiatives include accelerating development of new service offerings, investments into talent and technology, in addition to targeted add-on acquisitions.

In second quarter 2022 we finalized an investment into Brebeck Composite, which is a Czech manufacturer of carbon fiber composite components. The company's customer base includes global leaders in the motorsport market, such as KTM, BMW, Porsche and Audi. Both founders have retained a significant minority stake in the Company and continue to drive the further growth and development of the business. The Company will continue to focus on servicing its blue-chip anchor customers in the motorsport industry, while also broadening its offering to encompass technically demanding customers in adjacent and complementary sectors.

In later 2022, ARX acquired a Slovenian manufacturer of doors. The company was founded in 2002 and has established a strong position as a growing premium front entry door manufacturer serving the residential segment in key target markets of Austria, Germany and Switzerland. The two founders have retained a significant minority stake and will continue to lead the business. The strategic focus of the company shall remain on the premium quality segment, which will be supported by an expansion of production facilities.



We are also pleased to announce a recently completed exit transaction from the ARX IV portfolio, which is the sale of TES Vsetin to a consortium of private equity firms. ARX IV acquired TES in 2019 in partnership with an impressive management team that has successfully revitalized and grown the business over the past few years. We wish continued success to the TES team and the new owners.



# 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 regarding 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

As a relatively small asset manager, the direct environmental influence of ARX is insignificant relative to the impact potential of our firm's 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	Positive influence on the environment	TMX's business model positively influences the environment by significantly extending the average life of mobile devices. TMX repaired approximately 200,000 mobile devices and replaced 455,000 spare parts in 2022. TMX deepened its role in the circular economy by restoring approximately 17,500 mobile devices in 2022 (9,500 devices in 2021) through the purchase and re-use of electric waste. TMX targets an increase in the number of refurbished devices by 10% in 2023.
Promens Zlin	Reduction of electricity consumption	Promens Zlin, as a manufacturer of large-scale plastic components, utilises a significant volume of energy to run its key machinery. The target for 2022 (i.e. reduction of electricity consumption per one million CZK of sales by 12%) has been reached and even surpassed. In addition, the company also reduced its consumption of natural gas by 11% in 2022 (also measured to sales volume). These targets have been achieved thanks to compressed air management, measurement and regulation of selected key appliances, sequential turn on and off of engines and regulation of lighting.
DOORS	Reduction of electricity consumption	Over the course of 2022 DOORS installed solar panels on the roof of its factory building. The solar power plant was connected to the grid in Q4 2022. The company targets a reduction of energy dependency by 40% in 2023, plus the opportunity to sell approximately 40,000 kWh of excess renewable energy annually. In addition, DOORS is planning to extend its production facility and the new construction will also include solar panels.
Brebeck	GHG emissions measurement	In 2023 Brebeck will introduce measurement of scope 1 and scope 2 GHG emissions, with the aim of decreasing such emissions over the ARX investment holding period (specific target yet to be determined).
Wieden	Carbon footprint measurement	The carbon footprint analysis is fundamental part of path towards green environment. Market reflects this trend (Sweden most strongly) demanding facade supplier to present carbon footprint report and to behave responsibly. Wieden has set a target to implement standardised carbon footprint measurement and reporting process for its operations, running projects as well as bidding stage for new projects. The company is working towards reaching this target over the course of 2023.
Wieden	Wooden facade systems	R&D initiatives and exploration of alternative greener materials are a way forward towards protecting the environment and scarce resources. Following completion of the design of a wood facade system (replacing aluminium components) and filing its Czech patent in 2021 and EU patent application in early 2022, Wieden continued with analysis of technical parameters of the timber unitised curtain walling system. Over the course of 2022, the Wieden team confirmed equal or better performance of the wooden system in comparison to existing aluminium systems. The carbon footprint of the complete facade can be reduced by up to 50% (including glass). This is thanks to the raw material used, its local sourcing and use of local suppliers, as well as recyclability of the product at the end of its lifespan. In 2023 the company will perform number of certified tests to bring the product to the next stage and be able to commercialise.



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<b>WTS Klient</b>	Transition to IT enabled hybrid office environment increased employee satisfaction and decreased carbon footprint	WTS Klient introduced 50% work at home week (2 FTEs to a desk) shortly after ARX's acquisition. WTS Klient believes a work-from-anywhere policy can boost employee productivity, reduce turnover, and lower organizational costs, while employees enjoy perks like flexibility and the lack of a commute. WTS Klient invested more than € 100,000 in improved technology which enabled the hybrid working model. Remote work has been an overwhelming success for both employees and employers, benefiting from close to 40% spent on office space on a per employee-basis. WTS Klient's goal for 2023 is to further reduce its office space on a per FTE-basis by 10% and thus decreasing its overall carbon footprint.
<b>Promens Zlin</b>	1,401 days without reported work injury	Promens Zlin takes health and safety very seriously. The company continued with its successful trend formed in prior years and reached 1,401 days without a reported work accident (injury) by the end of 2022. This is thanks to dedication of the management and all team leaders, regular trainings provided to the employees and a focus on following implemented health and safety procedures.
<b>I-Tech</b>	Educating students	For 2022, I-Tech introduced an overarching ESG KPI at I-Tech of 60 hours dedicated by I-Tech employees to student / education events (e.g. events aimed at presenting careers in electrical engineering, introducing teenagers to electronics, etc.). This goal was exceeded, whereby 100 hours were dedicated to such events in 2022 by I-Tech employees.
<b>TES</b>	Work accidents	In our recently exited TES investment, our key ESG focus metric related to workplace accidents, which fell by more than 50% during the period of ARX ownership. This result was achieved via a combination of prioritizing health and safety KPIs at board level while implementing creative tools to drive a focus on work accident reduction throughout the organization.
<b>Brebeck</b>	Achieving equal pay	After acquiring Brebeck in May 2022, the senior management introduced a new pay system for the lamination department, which is responsible for a significant portion of the production and has a diverse workforce including both men and women. This new system is based on job grades, which takes into account an employee's experience and performance. We believe that this new pay system will help prevent any potential pay gaps between men and women. However, we recognize that this system is only the first step, and the average remuneration shall be continually monitored to ensure pay equity.



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WTS Klient	Newly appointed Independent Director boosted governance setup and operational best practices	ARX has made its second high-profile appointment of a non-executive Independent Director in Hungary, appointing Robert Stöllinger to the board of its portfolio company WTS Klient in March 2022. Mr Stöllinger's 16 years as KPMG Budapest National Senior Partner will enhance the management supervisory function and improve the reporting transparency of the business. Mr Stöllinger brings powerful insight into the workings of a Big Four organization.
I-Tech	Employee stock ownership plan	In 2022, together with I-Tech senior management, we introduced to I-Tech employees a possibility to invest and become owners of I-Tech. We believe this will lead to increased ownership mindset and increase further loyalty to the company. Approximately half of the employee base invested to become co-owners of I-Tech.
ARX	ESG education at ARX	We at ARX committed that each investment team member will dedicate at least 10 hours of study per year to a selected course or material on ESG. Specifically, for 2023, we set out to complete an ESG course offered by the University of Pennsylvania on ESG Risks and Opportunities.





# Thank you!

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