April 2022

WHITE PAPER

How Having an Environmental, Social and Governance Strategy Has Become a Driver of Value Creation for a Private Equity Portfolio Company

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How Sustainable Indices Outperform Broad Market Counterparts

51/57

Reported by Morningstar[2]

15/17

Reported by MSCI[2]

Introduction

Over the past two decades, sustainability has moved from the value proposition of “the right thing to do” to “the right business thing to do.” A sustainability strategy aligned with a business strategy can translate to a license to grow strategy. Companies are moving towards a "license to grow" strategy, which incorporates programs to address complex environmental and social challenges by working with governments, civil society and other companies, among others.[1]

The recognition that a corporate environmental and social sustainability strategy creates business and, in turn, societal value is now backed by quantitative data and a groundswell of interest by private and public corporations, investors, the public sector, consumers, and civil society. We believe that approaching environmental, social, and governance (ESG) as part of a business' broader strategy boosts bottom line impact. In this paper, we make the case for why an ESG strategy improves top- and bottom-line business performance.

ESG reporting in focus

Corporate sustainability strategies have now integrated an external reporting dimension framed as ESG reporting. The acceleration of ESG reporting is driven by a range of stakeholders. Some of the more critical ones include:

- **Public and private corporations.** Companies are increasingly reporting on ESG performance for investors, customers, consumers, non-governmental organizations (NGOs), voluntary reporting programs (such as CDP) and regulatory reporting programs (such as European Union). It is important to note that these corporations are, in turn, requiring that their supply chain partners also report on ESG performance.
- **Investors.** The investor community is evaluating the ESG performance of potential portfolio companies and embedding sustainability and ESG reporting strategies into their current portfolio companies.
- **Consumers, customers, and workforce.** Companies have recognized that these stakeholders increasingly expect they are addressing environmental and social sustainability issues such as climate change, water, waste, and environmental justice issues. As a result, the intersection of sustainability and brand is a value driver for many companies.

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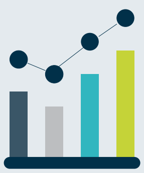
ESG Reporting in Focus, continued...

Development and adoption of sustainability and ESG reporting strategies accelerated over the past 18 months. For example, Dow in their April 2021 Environmental, Social and Governance strategy report tracked its progress against industry leading goals. According to Jim Fitterling, Chairman and CEO, “A sustainable future is attainable, but only if we continue to tackle these issues head-on, hold ourselves accountable, and work together to enable new science - and technology-based solutions that directly address both climate-change and plastic waste.”

As the Dow Jones Industrial Average shed some 34% during Q1 of 2021 amid the Covid-19 pandemic spread, Morningstar reported that 51 out of 57 of its sustainable indices outperformed its broad market counterparts. At the same time, MSCI reported 15 out of 17 of its sustainable indices outperformed broad market counterparts.[2]

How ESG reporting drives business value

The business value of an ESG strategy is compelling. A recent report by the New York University Stern Center for Sustainability examined the relationship between ESG activities at organizations and their financial performance in more than 1,000 research papers over the last five years. It found: [3]

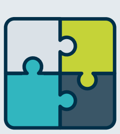


Improved financial performance due to ESG becomes more noticeable over longer time horizons

ESG investing provides downside protection, especially during a social or economic crisis

Sustainability initiatives at corporations appear to drive better financial performance due to mediating factors such as improved risk management and more innovation

Managing for a low-carbon future improves financial performance



ESG disclosure without an accompanying strategy does not drive financial performance

Sustainability and ESG reporting in the T&L industry

Not all sectors have adopted ESG strategies at the same pace. In transportation and logistics, the adoption of ESG strategies has been slow to gain traction when compared to other sectors, according to S&P Global Market Intelligence.[4] Despite the limited reporting in the sector, there is value in sustainability strategies and ESG reporting for increasingly stringent Department of Transportation laws (such as the California Air Resource Board regulations) and to stay competitive in the marketplace.

In general, companies which rely upon transportation and logistics services have ESG strategies. We believe this creates business opportunities for those companies that have a credible ESG strategy to improve engagement with their customer base and ultimately increase sales and retention.

The value of ESG strategies for the sector yields value in the following ways:

- **Reduced operating costs:** Reducing fuel and energy costs through transportation optimization enabled by digital technologies
- **Improved workforce recruiting and retention:** Engaging with a workforce that increasingly values companies that are addressing environmental and social issues like climate change and waste
- **Increased customer sales and retention:** Communicating with customers on ESG reporting performance and supporting customer strategy and goals such as reduced energy and greenhouse gas emissions
- **Enhanced social license to operate:** Proactively and productively working with communities and other stakeholders on issues important to them to reduce the risk of disrupting business growth

Quantix: Achieving value creation from sustainability and ESG reporting

Quantix, North America's leading supply chain services company to the chemical industry, is investing in ESG to create business value for its investors, customers, workforce, and communities in which the company operates. Business value creation is derived from greater alignment and engagement with those stakeholders.

Quantix is owned by Wind Point Partners, a private equity group that has recognized the value of an environmental and social sustainability strategy and corresponding ESG reporting.

Quantix is committed to being a sustainability leader in the chemical value chain through innovation and engagement with its people, communities, and industry partners. The company's ESG strategy is built around moving toward a greener, safer and smarter future by focusing on workplace safety, the environment, workforce empowerment, innovation and community engagement.

Within the environmental focus area, Quantix has five pillars supported by one to ten year goals with actionable and strategic initiatives associated with each:

- **Governance** - Establishing a sustainability leadership structure and aligning key performance indicators to sustainability.
- **Measurement** - Measuring things like energy and water usage, as well as waste creation. Aligned with those measurements, Quantix is developing strategies to reduce or more efficiently manage all of the above.
- **Communication** - Reporting on sustainability performance and engaging stakeholders in the company's efforts.
- **Service** - Assessing the impact of the company's electric vehicles and aero trailer usage and mapping ways to expand these initiatives.
- **Value chain** - Enhancing value chain partnerships and enforcing a code of conduct.

Quantix's sustainability-focused activities to date

- Conducted an internal assessment of ESG performance
- Developed short- and long-term goals that take into account customer expectations
- Established a company vision and company goals aligned with relevant sustainable development goals
- Expanded the team dedicated to delivering on the vision and goals
- Invested in sustainable solutions like electric vehicles and pioneered the development of smart business innovations such as our patented aero-trailers for the bulk industry
- Established ongoing engagement regarding ESG with customers, non-profits, regulators, supply chain partners and beyond
- Calculated its baseline environmental footprint (e.g., energy and greenhouse gas emissions) to serve as a benchmark against which to measure progress over time
- Implemented innovative pellet retention strategies to ensure pellets do not escape from our facilities
- Incorporated resin enhancement services to filter and remove contaminants from resin instead of discarding contaminated resin entirely

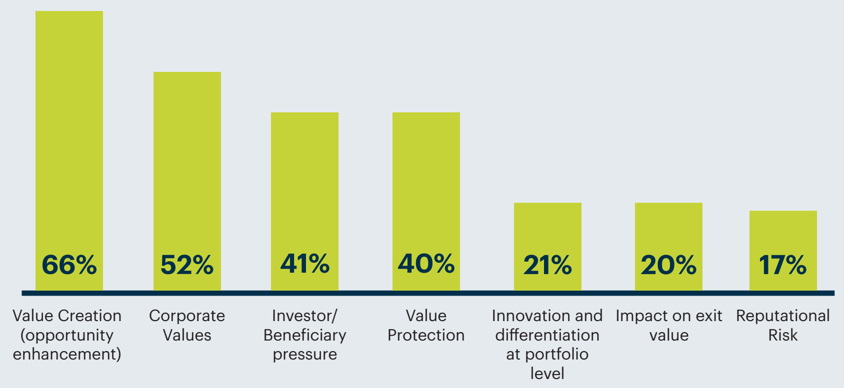
> "Sustainability is a core value at Quantix, and we are committed to being an environmentally and socially responsible leader in this industry.
> We are responsible for handling product and equipment, that if not handled properly and safely, can have a huge impact on the environment, people, and ultimately, our business."
>
> **- Chris Ball, President & CEO**

ESG Strategies: The importance to private equity

Private equity firms are increasingly integrating ESG considerations across the investment cycle. According to the article, "Why private equity has started taking ESG seriously," general partners see an ESG strategy as a value driver and a way to transform companies to help them remain competitive now and in the future.[5] The piece notes, "The big mindset shift is that now ESG risk is as important and as central to a company as any other type of financial risk, such as leverage risk. That's happened for many GPs."

"Wind Point is proud to support the development and continual improvement of ESG programs at our portfolio companies," said Konrad Salaber, Managing Partner at Wind Point Partners. "We recognize the value of ESG for the planet, the community, and growth of the business. Quantix is an example of ESG leadership in an industry where demands are everchanging."

The key drivers for ESG activity based on a Private Equity Responsible Investment Survey[5]



Wind Point Partners is not alone in focusing on ESG for Quantix and its portfolio companies. Quantix is delivering strong financial performance and growth, and there is a belief that ESG will continue to support this positive performance.

Conclusion

Having a sound ESG strategy continues to fuel a license to grow for enterprises based on interest and demand from customers, consumers, workforces, communities, non-governmental organizations and the public sector. As a result, investors, including private equity funds, are building such strategies into their portfolio companies to deliver greater business value and financial returns. With its multi-year ESG strategy underway, Quantix serves as a good example for how sustainability can be a driver of value creation for a private equity portfolio company.

Footnotes:

1. GreenBiz, July 13, 2016, https://www.greenbiz.com/article/why-you-need-license-grow-strategy
2. HedgeWeek.com, May 19, 2020: https://www.hedgeweek.com/2020/05/19/285741/new-blackrock-research-points-esg-resilience-during-coronavirus-downturn
3. InvestESG.eu, Feb. 10, 2021: https://investesg.eu/2021/02/10/esg-drives-better-financial-performance-nyu-stern-center-for-sustainable-business/
4. S&P Global, June, 3, 2019: https://www.spglobal.com/en/research-insights/articles/esg-industry-report-card-transportation-infrastructure
5. Capital Monitor, July 20, 2021: https://capitalmonitor.ai/asset-class/equity/why-private-equity-is-finally-taking-esg-seriously/

Moving As One

toward a greener, safer and smarter future.

Quantix

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