Oak Universe

The Impact of Oak Universe

European Champion’s Fund On Innovative Activities

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www.oakuniverse.com

Introduction Statement

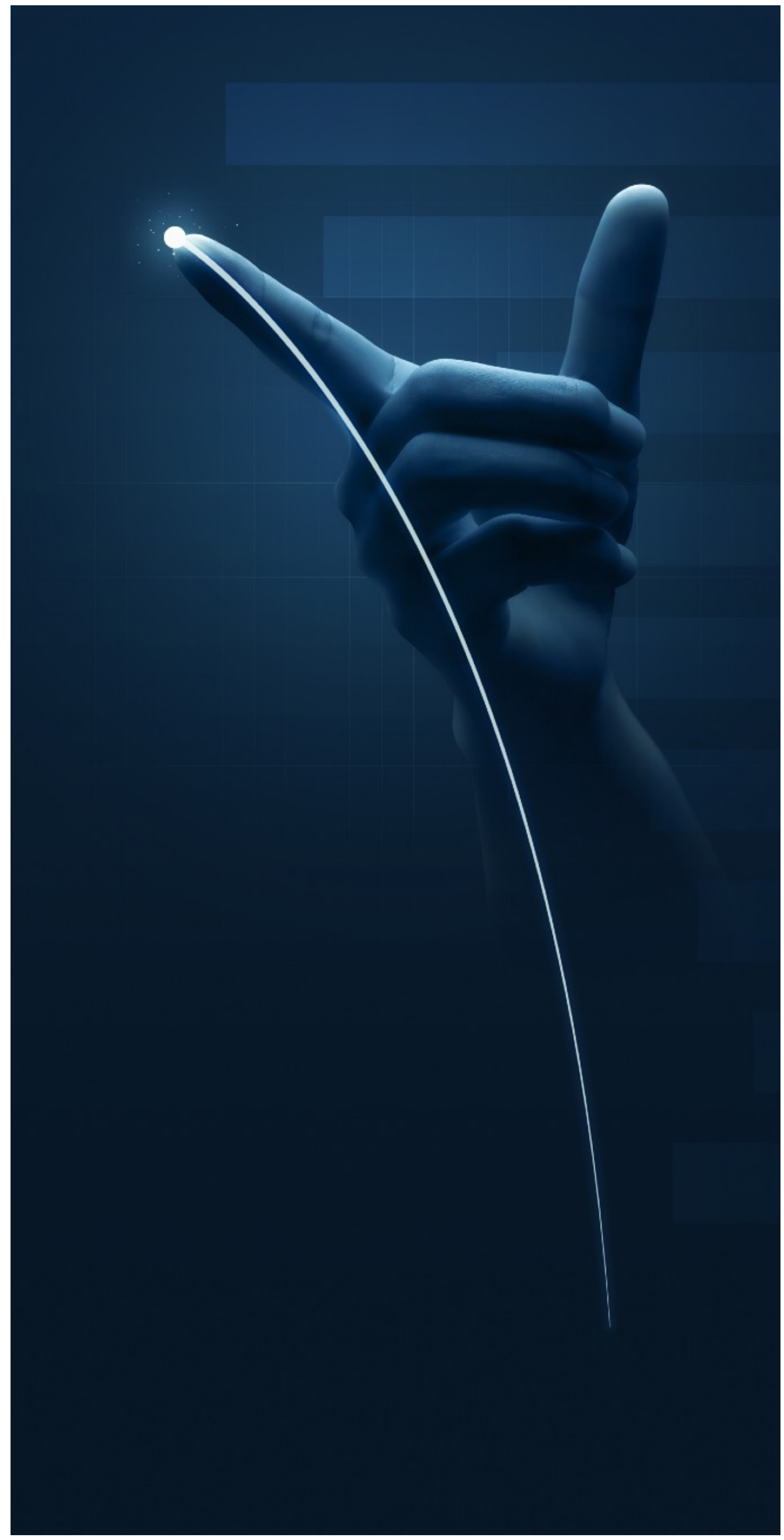
Small and medium business owners are generally wary of private equity ("PE") investment, as this mode of financing is often tied to strict conditions such as an emphasis on short-term results, taking on too much debt, and cost-cutting, all of which tend to damage their long-term prospects. Yet in recent years it is becoming increasingly clear that PE backing has become a necessary stepping stone to adapting a business to the Fourth Industrial Revolution ("4IR"). Oak Universe is an investment firm focused on helping privately-owned European manufacturing businesses rise to the challenges and reap the rewards of the digital age. As founding partners we have experience on both sides of the PE coin, as founders of global technology companies across varying markets. It is this experience that lead us to Oak's unique model – providing equity and expertise to manufacturing companies so that they may create value by implementing the emerging technologies of the 4IR. This is far more effective than the traditional cost and pricing method at securing long-term, sustainable growth and revenue for these companies.

Odysseas Christofi
Founding Partner

John Franklin
Founding Partner

The Relationship between Private Equity and Innovation

The cornerstone of PE is value creation within portfolio companies. And while PE-backed firms often generate strong returns for investors, it is unclear whether those investors actually create value for portfolio firms. On the one hand, PE investors have a vested interest in increasing the value of a portfolio company by eliminating unnecessary costs and increasing revenue. Yet in their efforts to achieve this, firms tend to over-prioritise short-term results, saddle target companies with high levels of debt and emphasise cost-cutting over revenue growth, damaging companies over the long term, often leading to job losses and bankruptcy.



PE investors have a reputation for favouring market-dominant cash-steady firms over more risky innovators, often using a cookie- cutter cost reduction and pricing optimisation method to create value. But traditionally "safe" investments are no longer bringing attractive returns in today's market, and investors are seeing the potential profits innovators can bring in. Likewise the traditional cost and pricing method approach to value creation is undergoing a paradigm shift, as it unable to support the innovative activities, growth and scaling required by this new breed of investments. What these companies desperately need is technological innovation, and that is exactly what we at Oak Universe provide. We invest in privately-owned European manufacturing businesses and create great value by applying 4IR technologies to fuel innovation, increase productivity and maximise returns for our investors.

Value Creation Methods

Value Creation: Pricing Optimisation

PE firms often target value creation for portfolio companies through pricing optimization. And while a recent report by McKinsey & Company does confirm that pricing transformations can create value when compared with other markers, a 1% improvement in price only translates into a 6% profit increase. Alternative forms of capital (such as intangible or technological capital) are far more effective at creating value.

Applying Technological Capabilities to Create Value

When asked about digital value-creation in PE, Don Gogel (Chairman of Clayton, Dubilier & Rice, LLC) stated that it was a complex way to improve service, lower costs and engage more with the customer. But it is this perceived complexity that discourages digital investments. When PE firms are backed by a robust investment thesis, however, digitisation need not be viewed as an endeavour of significant risk, but a profitable route to sustained value creation when combined with imaginative leadership and operational flexibility.

The Global Lighthouse Network was launched by the World Economic Forum in 2018, in collaboration with McKinsey & Company. It is a network of leading manufacturers using 4IR technologies to transform factories, business models and value chains all while maintaining strong financial and operational returns5. The **table 1** demonstrates how three of their member firms have managed to create value through the implementation of 4IR technologies :

Advanced Growth cases by adopting 4.0 Industry Technologies.

Table 1 : Global Lighthouse Network Cases.

Case	Challenge	Investment Require	Innovative Solution (Industry 4.0Technology)	Impact
1	Labour shortage Highly customized product requirements Extreme climate conditions	Customised automation Development of a digital analytics and AI development platform	Automated material handling	**12% increase in productivity**
			AI Powered automated testing and repair	**3% decrease in scrap cost**
			Advanced IOT applied to process optimisation	**8.5% increase in sputter**
			Predictive maintenance aggregating data based on historical and sensor data.	**32% decrease in maintenance cost**
			Advanced analytics enabled sustainability optimisation	**20% decrease in carbon emission**
2	Increased demand for diversified products Faster delivery Higher service quality	5G. IOT Automation, Advanced Analytics	3D simulations/ digital twin for product design and testing	**50% decrease in research & development lead time**
			Flexible manufacturing : Hybrid assembly line to meet customer orders	**50% decrease in order fulfilment lead time**
			Automated Material Handling	**67% decrease in line inventory**
			Advanced analytics enabled sustainability optimisation	**18% decrease in energy consumption per unit**
			Big data/Ai-enabled product design and testing	**35% increase in monthly sales.**
3	High Complexity Cost pressure operating room inefficiencies	Advanced case management : 4IR programme leveraging open API architecture, a suite of digital tools and machine learning algorithms.	Digital enabled real time connectivity with customer system	100% increase in real time data integration to the Ai algorithm
			Big data/Ai-enabled product design and testing	40% decrease in inventory cost
			Digital integrated business planning	10% decrease in non value added time
			Digital enabled customer performance	25% decrease in response time to customer experience/needs
			Ai to accelerate scaling of digital applications across sites	10x increase of speed to scale.

Discussion : Accelerate Value Growth at Scale.

Every one of the impacts associated with these technologies creates value for the companies. For example, a 32% decrease in maintenance costs frees up capital to be invested elsewhere in the firm, and a 35% increase in monthly sales will increase profit margins.

We at Oak Universe follow a hybrid investment model where innovation-focused, digitalised value drivers are combined with more traditional cost and revenue considerations. The former include a change in business model, new market entry, inorganic growth (i.e., bolt-on acquisitions or vertical integration), specific best-in-class digital enhancements, operational reshoring, or support with operational or supply chain management. These growth drivers are further backed-up by robust KPIs that highlight the effect of improvements across four key markers. The table below highlights the ways in which organizations investing in 4IR technology realise improvements in operating costs, customisation, speed to market, productivity and sustainability.

Table 2 : WEF/ Global Lighthouse Network.

KPIS	Investment Require	Impact
Sustainability	Greenhouse gas emission reduction	8-97%
	Waste reduction	4-80%
	Water consumption	5-65%
	Energy Efficiency	1-58%
Productivity	Factory output increase	2-140%
	Productivity increase	4-250%
	OEE increase	2-84%
	Product cost reduction	4-70%
	Operating cost reduction	3-92%
	Quality cost reduction	2-99%
Agility	Inventory reduction	5-100%
	Lead-time reduction	10-99%
	Change-over shortening	11-100%
	On-tome delivery increase	16-30%
Speed to market	Speed to market reduction	10-80%
	Desing iteration time reduction	2-98%
Customisation	Lot size reduction	40-100%

Conclusion

PE firms can no longer rely solely on cost and price levers to create value and yield return on investment. Digital strategy is imperative to ‘future proof’ a company seeking to retain market share and stay ahead of competitors. Firms that are nimble and embrace the transformation will maximise the potential for value creation. And it follows that investors entering into limited partnerships should select funds targeted towards the 4IR, innovation and digitalisation, as they will likely yield higher, more sustainable and long-term returns. There is still a place for more traditional routes to value creation, but in an era of rapid technological change and advancement, technological innovation has the greatest potential to create value for companies and investors alike.

What it will take to succeed

A 3-5 Year Value Creation to accelerate Growth & Returns.

Oak Universe high-level value creation timeline and key activities.

0 — **Pre-Closing**

Investment Theses

- Conduct operational assessment
- Build high level Business Case
- Outline Value Creation Plan Hypothesis
- Outline 100-day Plan

01 — **0-3 Months**

Mobilisation

- Setup Value Creation program
- (identify and mobilise key resources)
- Launch and detail 100-day plan
- Detail Value Creation Plan
- • Outline long-term strategy and KPIs

02 — **3-12 Months**

Execution

- Project management Value Creation Plan execution
- Manage risks and issues

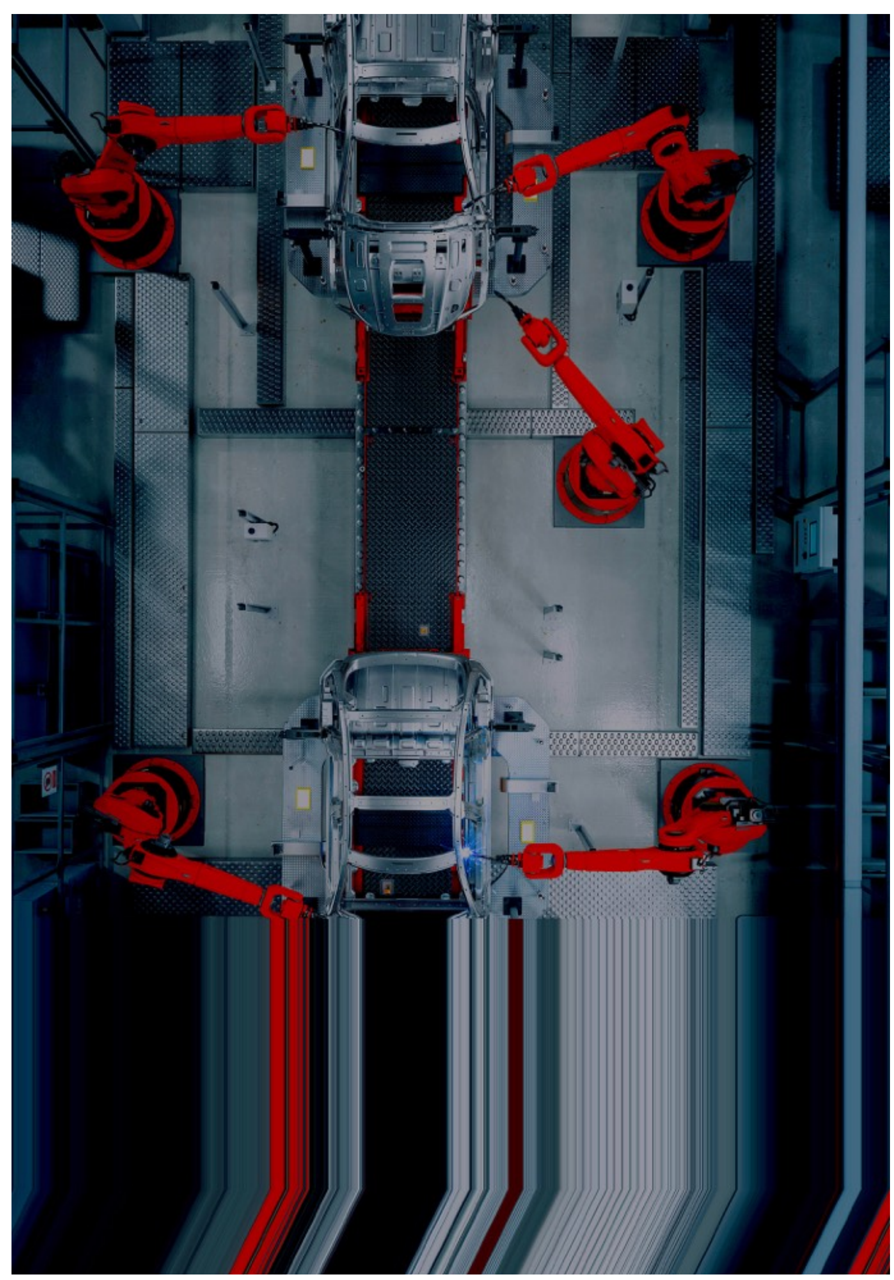
03 — **12+ Months**

Realisation

- Identify and execute additional value creation initiatives
- Follow up on value realisation

The investment firm Oak Universe is dedicated to scaling the manufacturing champions of tomorrow. It helps privately-owned, mid-sized manufacturing businesses achieve the next stage of their growth through the adoption of advanced technologies.

It does this by providing not only capital, but also a close partnership bringing access to strategic insight and consulting support for undertaking carefully selected value creation initiatives. Unlike the classical private equity model, which relies on financial leverage, buyout of controlling stakes and wholesale management changes to impose what is often perceived as an aggressive and alien top-down programme, Oak Universe provides capital for growth and transformation in partnership with existing owners and management to inject the finance, expertise and project management in support of an agreed value creation plan. The partnership is expected to last over a 3-5 period of transformation, running from initial engagement and planning through mobilisation and execution of key initiatives to their full realisation and value creation impact.



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