GND Advisory

VALUE CREATION GUIDELINES

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1. The Firm

GND Advisory is an autonomous investment advisory registered in the Republic of Lithuania. The records of GND Advisory are kept at the State Enterprise Centre of Registers.[1] GND Advisory ("GND") and each of its majority-owned subsidiaries (together with GND, the "Firm") conducts its operations in compliance with the EU and Lithuanian Law, Regulations, and its internal Code of Business Conduct and Ethics.

2. General provisions

2.1. Value creation

Value is created through an organisation's business model, which takes inputs from the capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organization, its stakeholders, society and the environment[2].

The capitals from which the business model takes inputs are financial, manufactured, intellectual, human, social and relationship, and natural capital. The capitals represent stores from which value is released when the capitals are combined, transformed and leveraged through an organisation's business activities and interactions in order to produce outputs and outcomes that represent value creation or value destruction for stakeholders depending on their interests and perspectives.

The process of taking inputs of capital and applying, using, combining, transforming and sometimes destroying them through the business model to produce outputs and outcomes has both positive and negative effects individually and collectively on the capitals, on the organisation, providers of its financial capital, society and the environment. The nature of those effects informs an assessment of whether, to what extent, for whom and over what timescales value has been created. This in turn depends in part on the outcomes from the business model for the environment and for consumers and other stakeholders affected by the organisation's activities (e.g., competitors, regulators and local communities).

The core of value creation process[3] is a value creation plan (VCP) or a strategy. A good strategy is an explanation of how an organisation creates value, and how it intends to create value going forward. But a good strategy does more than create goals or vision; it honestly acknowledges the challenges faced and provides a path or approach for overcoming them. Some of these challenges involve managing social and environmental impacts. A strategy involves a comprehensive plan to develop competitive advantage and create net positive value. It should include governance mechanisms such as links to executive remuneration to ensure success, and relevant KPIs to measure success on the value creation journey.

2.2. Innovation is central to value creation

Changes to the context in which organisations operate, including globalisation, resource scarcity, demographical changes and competition require strategies that secure a competitive advantage for organisations. Such strategies are aimed at generating and innovating new outcomes that distinguish the organisation from others in an increasingly complex and competitive environment and that make the organisation resilient and capable of adapting to new circumstances. Various branches of research[4] including resource-based theory and evolutionary economics contend that value is created or maximized through innovation that allows organizations "to reconceive their sources of strategic advantage and master new mechanisms to build lasting or sustainable strength[5]" and creatively to rearrange resources in order to create new value[6].

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[1] State Enterprise Centre of Registers. https://www.registrucentras.lt/jar/index_en.php

[2] Value Creation Background Paper - Integrated Reporting, EY (2013).

[3] For the table of value creation process please refer to Appendix A.

[4] See for example the work of the Evolutionary Economics Group at http://www.econ.mpg.de/english/research/EVO/discuss.php

[5] Sustainable Value Creation Family Business Oct 2012

[6] Paul Romer quoted in Better is Better than More.

Encouraging a culture of innovation can often be a key business activity, in terms of generating new products and services that anticipate customer demand, introducing efficiencies and better use of technology, substituting inputs to minimize adverse social or environmental impacts and finding alternative uses for outputs. The capacity of the business model to adapt to changes (e.g., in the quality and availability of inputs) often impacts the organisation's longer-term viability.

The Firm tracks distinct value creation action items[7], which we group into five strategies: operational improvements, top-line growth, governance engineering, financial engineering, and cash management. Operational improvements are at the top of the list as most often implemented. The Firm typically employs highly skilled "operating partners" who help with implementation of the VCP and whose skills are plausibly in scarce supply in the short term.).

The Firm typically formulates a value creation plan before agreeing to invest in a company. The firm organises its in-house teams: a team of "operating partners" helps portfolio companies with operational improvements and/or top-line growth, a team of experts focus on financial engineering, and so on. Creating a too detailed VCP is counterproductive, at least as far as implementation is concerned. Execution is the key to achieving high returns for investors.

Much like combination therapies in the treatment of certain diseases, investor returns depend on how strategies are combined. Company operations and profitability improve in ways consistent with the successful implementation of value creation plans, and these improvements persist beyond the exit of investment, as recognised by the EBRD (2020)[8].

2.3. Responsible investment – a key component of operational value creation

Incorporating RI/ESG practices and creating sustainable value is vital to the operational value creation model. The value creation potential derived from ESG initiatives is strongly recognised by our Firm. GND aims to be in the best position to manage RI/ESG issues and drive the implementation of principles of responsible investing to help create sustainable growth and increased returns. Aligning the interest of owners and managers as well as bringing additional strategic, financial and operational expertise are at the heart of the Firm business model. RI/ESG issues are an opportunity to enhance value during investment cycle.

GND draw up RI/ESG measures and initiatives that address the companies' compliance with ESG principles, improve governance and decision-making, engage with the workforce for better health and talent retention as well as improve customer satisfaction and brand in order to gain market share. All of these actions can directly or indirectly have a positive impact on the top line and bottom line of a portfolio company, reduce operational risk and improve asset quality; leading to an increased company valuation.

The value-add stemming from an RI/ESG implementation starts from the beginning of the investment cycle, as it enables the Firm to identify risks, deficient standards and value creation opportunities. Throughout screening and due diligence help negotiate better prices and terms due to the full awareness of risks and opportunities.

We also establish an ESG committee to track each company development. This is made up of senior management of the company and at least one expert from GND. The ESG committee helps to set the tone for the business by leading on initiatives. Our companies track their ESG risks on a quarterly basis and set targets to improve. This makes our portfolio companies resilient and well-equipped to manage risks

Implementation of RI/ESG policies during an exit process can also have a positive impact on exit valuation. Improvements in the ESG rating of the company during ownership can make the target more attractive for potential bidders and increase the number of suitors willing to commit to a deal. Furthermore, a company that is fully prepared to exit in terms of their ESG implementation and documentation can enjoy a smooth exit process, leading to an improved valuation and resulting in a higher value creation from the multiple expansion.

[7] For the sample of action items please refer to the Appendix C.

[8] European Bank for Reconstruction and Development, (2020). Biesinger M., Bircan C., Ljungqvist A., Value Creation in Private Equity.

GND primary objective is to be the partner of choice for great companies as they grow. Our team works with companies to help them achieve their full potential and continue to grow. We help companies improve their competitive position by expanding into new products and markets, growing productivity and strengthening their operations. Ultimately, we believe our growth-oriented model results in stronger companies that employ the best people, are socially responsible, and deliver strong returns over the long-term. Value creation plans are highly differentiated and tailored to the needs and circumstances of each individual portfolio company.

3. Climate change: a threat and an opportunity

Evidence shows clearly that climate change is the greatest threat of our generation. The threat from climate change is considerable but, we understand the opportunities it poses and capitalise on our ability to make a significant and positive contribution.

3.2. Our approach on Energy

Photo credit: Getty Images

Sustainability and the transition to a low-carbon, more resource-efficient and circular economy are key in ensuring the long-term competitiveness of the economy. The cost of solar photovoltaic technology has reduced by 90% in seven years. Governments around the world are increasingly designing incentives to direct capital towards innovations that will help them deliver on their carbon reduction obligations.

Energy systems are undergoing a shift that will fundamentally alter the way we fuel our vehicles, heat our homes and power our industries. Sparkled by concern about impacts of greenhouse gases, especially $CO2$ emissions, spending on renewable power has jumped up. The transition toward a more sustainable energy system presents opportunities for investors which have both patient capital and the sophistication to understand and underwrite the opportunity set.

We have a systematic approach to value creation that is simple, repeatable and financially robust. The due diligence phase is our first opportunity to identify areas of impact and perform a gap analysis to determine commercial opportunities as well as risks. This means we can move quickly to make improvements once we own the business or establish the right framework when we create a platform.

We identify attractive investment opportunities in clean energy sectors, perform due diligence on projects, portfolios, companies, provide expertise about local clean energy markets, structure of financing solutions for clean energy sector projects, design value creation plans and provide business development and risk assessment including the analysis of the technical and financial merit of the development and whether the resource would be sufficient to complete the project; the review of the project developer and the overall viability of the project, technical assessment of the proposed technology and the overall plant design; review of the project capital cost estimates and major equipment contractual arrangements and interconnection arrangements; the risk analysis identifying capital cost inflation risks, permitting concerns, construction and contract risks, and risk mitigation strategies.

Overall, our approach is designed to create lasting value in the companies in which we invest. We believe that taking a holistic and systematic approach to responsible investing, set within a culture of continuous operational improvement, creates energy businesses with sustainable, profitable models that are valued highly when we come to exit and optimise returns for our investors.

3.2. Our approach on Manufacturing

Photo credit: Getty Images

GND' passion is making businesses better and creating world-class, industry-leading companies. GND sees a number of lucrative opportunities to create efficiencies and reduce operating costs along the entire supply chain for the manufacturing companies. Supply chain optimization is one of several ways the Firm can create value and efficiencies in the manufacturing industry. Whether it is building a manufacturing backbone that helps reduce transportation costs and import duties, or building a platform by acquiring similar supplier and distributor companies within a given industry across the region.

Digitisation and technology are the biggest disruptions to the industrial sector. Industrials will be seeing increased digitisation, characterized by the interconnection of products, value chains and business models. Whether it's AI, Internet of Things, cloud or cybersecurity, enterprises are becoming more data-driven, where the insights gained from data can be actualised to streamline processes. This will be critical to optimise their productivity and efficiency and address new markets.

GND understands that making businesses better involves change, and change is conditioned on people and process. The Firm invests a significant resource to train employees and develop human capital. GND possesses core competencies across the following areas: safety, process engineering, plant productivity, manufacturing facility construction and integration, procurement and supply chain management, Six Sigma, Lean, ERP implementations, financial systems and reporting, and sustainability and environmental compliance.

3.3. Our approach on Real Estate

Photo credit: Getty Images

Our approach on real estate focuses on investing in quality assets with growth and development potential driven by global economic and demographic trends. We target assets located in cities supported by employment growth in the technology and education sectors. We proactively source assets off-market through our extensive industry network to avoid highly competitive auction processes. We seek assets that provide us with the opportunity to actively drive NOI growth through asset-level value creation.

Buildings account for 30-40% of global energy-related emissions. However, the benefits of improved resource efficiency can be equally significant. During the value creation phase, we consider the viability of a wide range of sustainability initiatives, ensuring we capitalise on the most effective measures at the most cost-effective stage of development.

Our approach is to invest in distinctive and high-quality schemes in growing markets with a scarcity of ‘grade A’ real estate. We achieve this by using expertise from developed real estate markets. This enables us to develop projects with strong green credentials, which are attractive to local and international buyers. Investing responsibly enables us to support communities, developers, investors and occupiers. Our approach can play a vital role in the evolution of sustainable cities of the future.

4. Effective governance

Effective governance and business integrity is our major focus area. We work with many of our businesses to develop and embed anti-bribery and corruption policies and programmes. This includes work on processes but mind-set, culture and tone at the top are paramount.

Business integrity is simply too important to pass over. We invest a considerable amount of time with management in early stages of investment to ensure there is complete alignment of mindset on business integrity, as culture is key to success.

4.1. Role of the executive body

The executive committee usually takes responsibility for recruiting, nominating and hiring the Top Management. Their relationship continues as the executive committee sets the Top Management compensation packages and works with the CEO to establish goals.

The executive committee usually works closely with the CEO, acting in an advisory capacity. Because of this special relationship and the close bonds that often form between the CEO and the executive committee, the executive committee usually serves as a liaison between the CEO and the full board. Executive committees provide organisational direction for the CEO and the full board. Committee members help the CEO and board members to establish items for board meeting agendas.

Executive committee members have many oversight duties. They are responsible for overseeing the daily implementation of board policies and making sure that the board is establishing and maintaining good governance practices. These activities include overseeing the company’s policies on ethics, security guidelines, quality management, human resources and regulations. Oversight duties also include overseeing ad hoc committees that work on policy development by making sure that they complete their objectives. Discussions of the executive committee should be encapsulated in their minutes, which they should present to the full board in a timely manner.

In most cases, the executive committee meets more frequently than the board. More frequent meetings make it easier for them to move faster when necessary. On an annual basis, the executive committee evaluates the CEO’s performance and implements benefits and compensation according to their agreement. The board receives a report of these activities from the executive committee and approves their actions.

4.2. Role of the supervisory board

Supervisory boards play a major role in managing risks. They contribute to the checks and balances that every company needs. They are a core element of good governance. In a nutshell, this is what supervisory boards should do. Whether they really do it, whether they are able to do it, depends on many things. It depends on individuals and it depends on structures.

We expect supervisory boards to assess and oversee the work of management bodies – independently and thoroughly. Most of all, they have to ensure that strategic decisions are always based on a sound analysis of risks. In this regard, you serve as the management’s good conscience. Those who chair a board, who are members of board committees or who interact with internal control functions need to be available and possess the right knowledge and experience, not only to meet today’s needs but also tomorrow’s challenges.

It’s difficult to tease out the factors that make one group of people an effective team and another, equally talented group of people a dysfunctional one; well-functioning, successful teams usually have chemistry that can’t be quantified.

They seem to get into a virtuous cycle in which one good quality builds on another. Team members develop mutual respect; because they respect one another, they develop trust; because they trust one another, they share difficult information; because they all have the same, reasonably complete information, they can challenge one another's conclusions coherently; because a spirited give-and-take becomes the norm, they learn to adjust their own interpretations in response to intelligent questions.

It is nearly impossible for a board to monitor performance and oversee a company if complete, timely information isn't available to the board. It is the responsibility of the board to insist that it receive adequate information. Another sign that trust is lacking is when board members begin to develop back channels to line managers within the company. Another common point of breakdown occurs when political factions develop on the board.

Perhaps the most important link in the virtuous cycle of Respect, Trust, and Candour is the capacity to challenge one another's assumptions and beliefs. Respect and trust do not imply endless affability or absence of disagreement. Rather, they imply bonds among board members that are strong enough to withstand clashing viewpoints and challenging questions.

A performance review of the Board includes a full Board evaluation, individual directors' self-assessments, and directors' peer reviews of one another. Most often, the nominating or governance committee drives these evaluations. A full board review can include an evaluation of such dimensions as its understanding and development of strategy, its composition, its access to information, and its levels of candour and energy. In individual self-assessments, board members can review the use of their time, the appropriate use of their skills, their knowledge of the company and its industry, their awareness of key personnel, and their general level of preparation.

5. Social responsibility

We consider social factors as an opportunity for value creation. Social factors such as human rights, diversity and equal opportunities as well as governance factors such as bribery and corruption were taken into consideration on ethical grounds.

5.1. Community engagement

Civic and community engagement includes strategies to organize individuals for collective action, as well as strategies to make sure that all voices in a community are heard as part of inclusive decision-making. These strategies can help build various kinds of social capital. That is, they can increase the extent to which residents in a given place can turn to each other and to community institutions for support, and the extent to which they are able to influence or control decisions that affect their lives. It should also consider the diversity of our communities, including culture and ethnicity, and seek to create an inclusive and accessible process.

The strategies for community engagement include:

- Develop communication channels that will allow all residents ongoing opportunities to be heard.
- Ensure that communication, outreach, and engagement efforts reach all residents, particularly communities that have been historically under-represented.
- Promote meaningful community participation in decisions that affect their community.
- Develop guidelines and standards for public engagement for use by all county agencies.
- Use public outreach to better communicate who we are and what we do.

5.2. Addressing the skills gaps

As technologies and business models continue their rapid evolution, companies are experiencing a step change in the workforce skills they need to thrive and grow. A better educated workforce will benefit our businesses in growth markets, boosting the countries' competitiveness attracting investments and driving macroeconomic growth. Public and private investment in education and skills is crucial to the long-term success of the economy.

The strategies for addressing the skills gaps:

- Understand which skills you need. Companies might not recognize skill gaps in their workforce, but they probably have some already. A diagnostic can show which skills the workforce possesses and which will be necessary in the future. Understanding which skills to develop in the workforce requires a rigorous, empirical approach to comparing the supply of each skill with the business's strategic needs.
- Be strategic in how you close gaps. Companies must decide what actions they should take to address each gap. Filling most gaps will require a mix of approaches, such as hiring and reskilling. For each approach, it is necessary to decide which specific programs or initiatives to implement to gain the right skills in the workforce. This decision also includes candidate selection: Which employees should be reskilled first? Meanwhile, companies should prepare the workforce for change by explaining the reskilling agenda, including each employee's future role and reskilling options.
- Build training capabilities and partnerships. Applying the science of learning will improve the outcomes of any reskilling effort. Companies should structure the learning journey to help employees retain new skills and apply them to their role. To do so, the reskilling curriculum should blend in-person and digital learning opportunities. Employees should be assigned to train in a cohort of employees with similar experiences and should be involved with projects that allow them to practice skills while they learn.

6. Monitoring of companies

The assessment of value creation involves considering the interdependencies between a company's competitiveness and performance and the communities, stakeholders, supply chains and natural environment it affects and on which it draws. An integrated report should enable providers of financial capital to assess whether, to what extent and how an organization's business model affects the wider context that supports or threatens value creation, including financial value, in the short, medium and long term.

GND employs a systematic tracking of the value creation plan that helps to demonstrate the value growth achieved and value potential ahead. By tracking progress against a clear roadmap, all stakeholders can see the path to value growth, repositioning and optimisation, while the business will be well placed to position itself. A core part of the monitoring and tracking against the value creation plan, also enables its evolution, as initial targets are met, and greater visibility across the business unearths additional value creation levers.

Key performance indicators are more specific than broader objectives, but clearly fit under them and the wider strategy. A thorough, comprehensive strategy involves both non-financial and financial KPIs, and links these to what the portfolio company would like to achieve, and risks they would like to mitigate and challenges to overcome. Non-financial KPI may cover operational performance, market position, product quality, research and development, customer satisfaction, or sustainability indicators related to employees, the environment, local communities or local stakeholders.

6.1. Information that facilitates an assessment

Information that will facilitate an assessment of whether, and to what extent, value has been created or destroyed includes:

- A description of the business model including inputs, business activities, outputs and outcomes and links to the organization's strategy.
- Performance.
- What type of value the organisation intends to create, how, for whom and why – including the organisation's notion of value, the process that is used for value creation, what actions and activities the value creation process entails, for whom the organization aims to create value and why.
- Management's assessment of whether the intended value has been created, that is, whether the outputs and outcomes from the business model are as intended according to the organisation's strategy and targets.

- Management’s assessment of the way in which various forms of capital have been affected by the business model so as to create or destroy value – Business activities inevitably draw from or add to the capitals.
- Governance – Information about the stability of the organisation’s governance structure helps intended users to assess its resilience against short term disruptions so as to continue to create value. Information about the organisation’s governance structure also influences the level of confidence in the organization’s ability successfully to implement its business model and transparently and accurately to communicate performance.
- Innovation and future outlook, including the measures taken, and research in which, the organization has invested to innovate so as to ensure the resilience and efficiency of the business model for value creation over time. This will include management’s view of the anticipated effect on financial and other types of value of their policies, decisions and innovations.
- Stakeholder engagement – As noted above, an organization’s ability to create value is closely linked to the supply chains, communities and consumers, which may share or be affected by value creation or destruction. There is a symbiotic relationship between a company’s competitiveness and success and the communities and natural environment on which it draws. The extent to which an organization’s activities and offerings represent “value” depends in part on the reaction of consumers and other stakeholders affected by the organization’s activities (e.g., competitors, regulators and local communities). Those reactions, manifested in increased sales, market share, enhanced reputation, better community links, etc., inform future iterations of the business model.
- The external context in which the organization operates – An overview of the external policy, regulatory, societal and environmental context in which an organization operates, the opportunities and risks it faces and how it responds to the external context is important for assessing the resilience of an organization’s value creation mechanism. The policy and regulatory context can have a significant influence on how, and the extent to which, the organization is able to create value.
- Value drivers are capabilities or variables resulting in outcomes that give an organization competitive advantage and over which it has some degree of control so as to create value. They may include:
  - financial drivers such as pricing strategy, operational efficiency, brand equity and cost of capital;
  - non-financial drivers such as customer relations, societal expectations, environmental concerns, innovation and corporate governance;
- Connections – Value is created or destroyed by organizations from connections between a wide range of factors including business activities and the wider system and context in which they operate, including planetary limits and societal expectations.

7. Communications to investors

The Firm will provide a comprehensive integrated report to investors about value creation on portfolio companies once a year – Annual report. As well, summary of value creation will be provided in the integrated reports on quarterly basis – Quarterly reports.

For value creation reporting to be fully useful, it is accompanied by an assessment of the portfolio companies operating environment, business context and risks and opportunities. Information on stakeholder engagement also is provided for understanding corporate strategies. Finally, related KPIs and governance information will be included to provide a complete overview.

Reports will communicate information that enables intended report users to assess whether, and to what extent, value has been created and is likely to be created for the organisation, so as to add to financial value. In addition, it will explain how the business model affects whether, how and to what extent value has been created or destroyed for others, so as to increase or decrease the pool of capitals on which the organisation can draw to create value over time given planetary limits and societal expectations.

When reporting on value, the Firm may therefore draw a boundary around elements and interactions that are most relevant to their business model and strategy, and therefore to the way in which the Firm expects to create value over time. The boundary will be disclosed together with any significant assumptions and estimates made by management in its disclosures about value creation, so that intended users understand the limitations of the connections that it is possible for the Firm to make, given that some of them might be outside its sphere of knowledge, or might not yet be apparent.

The ability of the Firm to consistently add value through operational improvements remain a key driver of investment returns. A value creation plan is the most important part of every deal. Every time we look to enhance the current operating model to drive greater returns.

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This document was approved by the Top Management on 5 April 2021. This document may be amended, replaced or annulled by GND at any time.

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APPENDIX A. Long term value creation process

Impact on long term value creation (Internal & External)			
Inputs	**Business activities**	**Outputs**	**Outcomes**
- Funding model - Infrastructure - People - Intellectual property - Raw materials - Ecosystems services - Relationships	- Research and development - Planning - Design - Production/conversion - Product differentiation - Market segmentation - Distribution - Service provision - Quality control - Operational improvement - Relationship management - After-sales service	- Products - Services - Waste - Other by-products	- Customer satisfaction - Profit/loss - Shareholder return - Asset consumption - Contribution to local economy through taxes - Job creation - Employee development and engagement - Improved standard of living - Environment impact - Licence to operate

APPENDIX B. Taxonomy of value creation[9]

LEVERS	DRIVERS	MECHANISMS	METHODS
I. DIRECT VALUE CREATION	**A. Operational Driver**	1. Functional Experience and Operational Expertise	- Strengthening the operational expertise and industry experience
		2. Cost Structure Improvements	- Cost reductions and increased productivity - Controlling and moderating capital Expenditures - Pruning administrative overhead and fostering a flat organisation - Reassessing and qualifying R&D investments
		3. Capital Management and Asset Utilization	- Increasing asset utilisation - Lowering inventory levels and accelerating turnover rates - Revising the stream of account receivables and payables - Rationalising the logistics flow
I. DIRECT VALUE CREATION	**B. Financial Driver**	1. Financial Expertise and Contact Networks	- Competency of capital markets - Extensive contact networks - Rewards to repeat customers
		2. Debt Market Cycles: Mispricing and Overheating	- Capitalizing on market mispricing of debt and equity markets - Evading the hazard of overheated debt markets

[9] Items described in the table are only exemplary and might be redefined entirely considering particular circumstances on case-by-case basis. Table structure adapted by Hannus, S. (2015). Value Creation in Private Equity.

		3. Alleviating Capital Market Constraints	- Investing in markets, industries, and firms in need of expansion capital
		4. The Effects of High–Leverage: Inflating Gains and Inducing Efforts	- Inflating gains through increased risk Exposure - Inducing managerial effort
		5. Capital Structure Optimization in Buyouts	- Determining the optimal capital structure - Gaining from the non–linear risk for financial distress - Avoiding management risk aversion from debt overhang - Continual optimization of the capital structure
		6. Creative Finance	- Applying innovative financial instruments
		7. Asset Conversion and Securitization	- Raising company liquidity by asset conversion and securitization
I. DIRECT VALUE CREATION	**C. Strategic Driver**	1. Focusing on the Core: Complexity Reduction	- Complexity reduction and decreased Diversification - Divestments and asset sell–off
		2. Focusing on Consolidation: Buy and Build Strategies	- Buy and build strategies and add–on Acquisitions - Facilitating acquisitions by asset conversion and stock swaps
		3. Focusing on Growth: Market Expansion	- Focus on market expansion to improve the exit value - Redefining the business profit drivers - Recruiting dynamic executives with acquisition experience - Growth strategies advocated by leading consulting firms - Analyzing the profit variance allocation across the value chain

LEVERS	DRIVERS	MECHANISMS	METHODS
II. INDIRECT VALUE CREATION	**D. Governance Driver**	1. The Firm Effect: Experience and Expertise Matters	- Effects of GP expertise in governance. incentivation, operations, industries
		2. The Firm Constraints: Industry Focus and Fund Size	- Developing sector expertise by industry focus - Restricting the fund size
		3. Reducing Agency Costs: Incentivation and Interest Realignment	- The upside of a downside: the carrot–and–stick mechanism - Pay–to–performance sensitivity Illiquidity of remuneration
		4. Restructuring the Board of Directors	- Reshaping the board structure, size, composition, and duties
		5. Reinforcing the Top Management Team	- Rapid removal of underperforming management

II. INDIRECT VALUE CREATION	**E. Cultural Driver**	1. The Parenting Advantage: Monitoring and Mentoring	- Applying an active, hands–on approach - Improved monitoring and control - Advising and mentoring
		2. The Value of Corporate Culture: A Revived Entrepreneurial Spirit	- Direct and frequent communication - Minimizing bureaucracy - Reviving the Entrepreneurial Spirit - Improving human resource practices
		3. Performance Management: Stretch Budgets and Ambitious Goals	- Raising performance standards
		4. Revising the Firm KPIs: Novel Yardsticks	- Using a core set of cash–flow based financial metrics - Using a core set of industry–specific operational indicators
II. INDIRECT VALUE CREATION	**F. Temporal Driver**	1. High–Tempo and Inchoate Change	- Constructing the “100–day plan” - Enacting immediate changes to maximize the IRR
		2. The Holding Period Time Horizon	- Focusing on the early holding period - Curtailing the holding period

LEVERS	DRIVERS	MECHANISMS	METHODS
III. VALUE CAPTURE	**G. Commercial Driver**	1. Proprietary Deal Flow	- Proactive proprietary deal sourcing
		2. Deal Making Expertise	- Avoiding the winner’s curse - Re–negotiating the price for uncovered defects - Being prepared to capitalize on emergent opportunities
		3. Target Firm Identification and Investment Criteria	- Predefined investment criteria
		4. Uncovering the Business Potential	- The inefficient market: identifying underperforming firms
		5. Detecting Nascent Market Trends: Multiple Expansion	- Optimizing the market share, geographic scope, and firm size for multiple expansion - Capitalizing on GDP growth, industry growth, and business cycles
		6. Timing the Business Cycles	- Timing the entry and exit transactions - Attentive consideration to vintage years and business cycles
		7. The Entry Transaction: Firm Valuation	- The mixed blessing of auctions - Utilizing scenario analysis–based contingency plans in base cases
		8. Divesting the Firm: The Mode of Exit	- Potential optimal firm size for maximizing the exit multiple - The IPO exit route: only top performing firms during high GDP growth - The effect of geography on trade sale and secondary buyout

III. VALUE CAPTURE	**H. Organisational Driver**	1. Mitigated Legislative and Regulatory Constraints	- Out of the spotlight: a mitigation of business constraints
		2. The Corporate Tax Shield: Debt and Taxes	- The corporate tax shield
		3. Carried Interest and Capital Income	- Carried interest and capital income

APPENDIX C. Sample of action-items and metrics[10]

ACTION-ITEMS
Operational improvements
Buy/upgrade assets refers to plans to buy or upgrade fixed assets and capital expenditures.
Sell existing assets refers to plans to sell fixed assets.
Divest/spin off companies refers to plans to sell or spin off parts of the company's business.
Reduce costs refers to plans to reduce the cost of goods sold (e.g., direct labour, materials, and overhead) and/or operational expenses (e.g., selling, general, and administrative).
Improve IT systems refers to plans to improve information technology (IT) systems (e.g., management information system).
Improve distribution or logistics refers to plans to improve the movement of raw materials into an organization and/or the movement of finished goods out of the organization to the end-customer.
Improve organizational structure refers to plans to reorganize business functions and/or business units.
Top-Line Growth
Target market share refers to plans to increase market share or reach a certain scale.
Pursue add-on acquisitions refers to plans to merge with or acquire another business.
Change product/services mix refers to plans to introduce, upgrade, or eliminate products and/or services from a company's offering
Pursue international expansion refers to plans to enter new geographies or leave existing geographies.
Change pricing strategy refers to plans to increase or reduce prices.
Improve marketing/promotion refers to plans to improve marketing communications and/or the company's promotion and communication strategy.
Improve quality refers to plans to improve the quality of products and/or services.
Governance Engineering
Change CEO refers to plans to replace the company's chief executive officer (CEO).
Change CFO refers to plans to replace the company's chief financial officer (CFO).
Change other management refers to plans to change members of the senior management team other than the CEO or CFO (e.g., the chief operating officer or chief information officer) and/or middle management (e.g., heads of departments).
Improve corporate governance refers to plans to improve the system of rules, practices, and processes by which a company is directed and controlled (e.g., internal controls, disclosure, and transparency).

[10] The provided list is not exhaustive. Action-items and metrics applied for each individual company is defined on case-by-case basis after company assessment.

Change board/shareholder structure refers to plans to change the size and/or composition of the board of directors or the ownership structure and/or to resolve shareholder conflicts.

Financial Engineering

Optimize capital structure refers to plans to borrow additional debt to finance projects or to refinance existing debt.

Improve incentive systems refers to plans to introduce performance-based incentive systems for management and/or employees (e.g., through equity ownership or bonus programs).

Cash Management

Improve receivables/payables refers to plans to reduce payment terms to customers and/or to extend suppliers' payment terms.

Improve inventory management refers to plans to improve the process of ordering, storing, and using a company's inventory.

MEASUREMENT METRICS

Operational Improvements Measures

Employment is defined as the natural log of the total number of full-time employees.

Average wage is defined as the natural log of the ratio of total staffing costs to employment.

Labour productivity is defined as the natural log of revenue per employee.

Net investment in fixed assets is the annual change in fixed assets net of depreciation and scaled by beginning-of-year nominal total assets.

Capital intensity is defined as the natural log of the ratio of fixed assets to employment.

Total factor productivity (TFP) captures the efficiency with which all inputs into production (labour, materials, and capital) are used. For details of its construction.

Top-Line Growth Measures

Sales is defined as the natural log of annual operating revenue measured in EUR.

Markup is defined as the natural log of the estimated ratio of price to marginal cost.

Market share is defined as the ratio of annual company sales to the total of annual sales by all companies in the same industry and country.

Customer satisfaction is assessed comprehensive Customer satisfaction survey results.

Governance Engineering Measures

Number of shareholders is defined as the number of all individuals or entities that legally own one or more shares of stock in a company.

Ownership concentration is the Herfindahl index of individual shareholdings in a company, calculated as the sum of the squares of each individual shareholding.

Financial Engineering Measures

Leverage is defined as the ratio of short-term bank loans plus long-term debt (= total debt) to total assets.

Net debt to EBITDA is defined as the ratio of total debt minus cash to EBITDA.

Implicit interest rate is imputed as the ratio of interest expense to total debt.

Taxes paid is defined as the natural log of the total taxes paid by the company.

Tax rate is imputed from ($1 - earnings\ after\ tax\ /\ earnings\ before\ tax$) and winsorized such that all tax rates above 1 are set equal to 1 (roughly, the top 98th percentile).

Cash Management Measures
Working capital is defined as the ratio of working capital to the sum of working capital and fixed assets.
Credit period is defined as the ratio of creditors' accounts to operating revenue, multiplied by 360.
Collection period is defined as the ratio of debtors' accounts to operating revenue, multiplied by 360.
Stock turnover is defined as the ratio of operating revenue to inventories.
Profitability Measures
Operating cash flows is defined as the natural log of a company's earnings before interest, taxes, depreciation, and amortization (EBITDA) if EBITDA is positive, and minus the natural log of minus EBITDA if EBITDA is negative. Note that we replace EBITDA with EBIT whenever the former is missing.
EBITDA margin is defined as the ratio of EBITDA to sales.
Return on assets (ROA) is defined as the ratio of a company's net income to its total assets.
Return on invested capital (ROIC) is used to assess a company's efficiency at allocating the capital under its control to generate profit. Return on Invested Capital is defined as follows: ROIC = NOPAT / Invested Capital, where NOPAT = Net Operating Profit less adjusted taxes = EBIT x (1-Tax rate).