



Xerion.io

## EXECUTIVE SUMMARY

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- **”Virtualization”**: Historic transition of economy from manual/physical industry & services to IT-driven process, guided by AI software & cloud-based process management—OPEX displacing CAPEX & labor = corporate margins, profits.
  - <http://fortune.com/2016/06/15/future-of-work-2/>
  - <https://www.bloomberg.com/news/videos/2017-09-05/xerion-s-arbess-on-u-s-economy-corporate-profits-video>
- = **Major Investment Opportunities → Xerion.io Targeting Transition to Holistic Virtualization from Present Dis-Aggregated Status of Solution Elements.**
  - Enterprises seek *integrated solutions*—hardware/software/solutions versus piecemeal components.
  - Consumers seek device *interoperability, security, privacy*--spontaneously developed app ecosystem has disrupted telecom-customer relationships, generating dis-aggregated value for apps at expense of telcos.
  - Practical & economic efficiencies require and anticipate *consolidation of enterprise hardware/software/services & restoration of TSP-Consumer value relationship.*
- **Xerion.io LLC Core Focus – Value-Added Investment: Integrating, Curating & Introducing Virtualization Solutions to Traditional Industries.**
  - Identifying public or private transaction (buy-out/activist) opportunities for “applied virtualization.”
  - Examples (sector agnostic; substantial balance sheet):
    1. Traditional industrials (ex. Micro irrigation).
    2. EMS companies.
    3. Telecom: NFV/UCaaS (VOIP – data security/redundancy – value-added apps).
  - Private holding company structure; eventual IPO of individual investments and/or parent company.

## VIRTUALIZATION ENVIRONMENT TODAY

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### DOWNSTREAM STAKEHOLDER GOALS

- **Automating Businesses:** integrated hardware, software & services.
- **Enterprise Customers:** holistic economic efficiencies & outcomes (ex. mfgs-preempt costly plant shutdowns; consumer services-better customer service).
- **Consumers:** secure & continuous access to communication, commerce, info & entertainment.

### DIS- AGGREGATION

- Enterprise solutions require integrators of specialized components/software/services.
- Consumers pay telecom providers, share information with app providers (Google, FB, AMZN) who sell them advertising and capture value. Incomplete, insecure global connectivity.

### CHALLENGE: CONNECTIVITY, SECURITY, SEAMLESS INTER-OPT'Y

- Essential for Industrial & Service enterprises.
- App developers providing dis-aggregated pieces.
- Legacy telecom companies have the customers but app developers (and advertisers) yielding the economic benefits.

### WHO'S WINNING

- App developers are winning now, but demand is moving upstream to enterprise integrators and holistic solutions closest to customers.
- We want to execute transactions where targets will benefit from or deploy **integrated enterprise solutions & secure, interoperable consumer connectivity & services.**

## XERION.IO

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- “**Xerion**” = *alchemy*, mythical substance thought to elevate base materials to gold, evokes long term investment goal of Founder & CEO, Daniel J. Arbess, with exceptional track record identifying big themes and capturing in private & public investments.
  - “**io**” = *inter-network operating* -- communication between processing systems and the outside world (I/O); the exact communication that is being revolutionized to virtualize infrastructure.
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### DYNAMIC CORE INVESTMENT THESIS

Capture secular macro trends of virtualization & A-AI reshaping technology stacks of enterprises globally; acquire traditional/legacy manufacturer/service provider; shift towards capital efficient and highly scalable integrated data/IT services model.

### STELLAR TRACK RECORD WITH MACRO-THEMES

Founder/CEO Arbess 30+ year track record at recognizing as-yet-unpriced economic, policy, and industrial developments, using valuation judgment, relationship networks and negotiation skills to capture them in multi-year investments across corporate capital structure and macro instruments. Both public and negotiated private investments.

### DEEP MARKET EXPERTISE

Deep technical understanding of virtualization theme; multi-year diligence of market trends/technology solutions and review of hundreds of private/public opportunities; multi-million investments in select opportunities for direct market experience (see next slide).

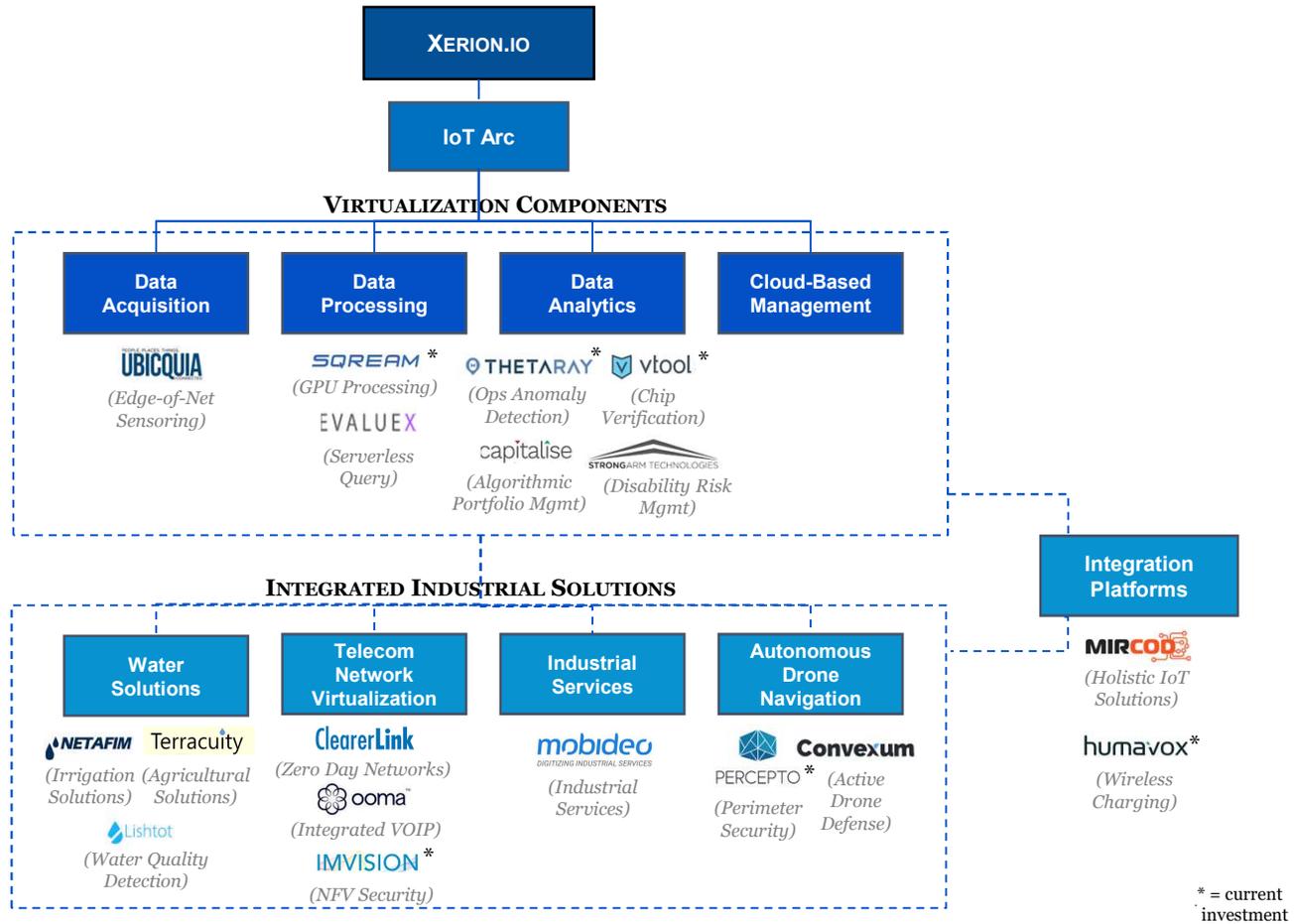
### MATERIAL OPERATING EXPERTISE

Substantial entrepreneurial operating expertise and extensive network of industrial and co-investor relationships to be leveraged to materially enhance value of underlying investments.

### VALUE MAXIMIZING STRUCTURE

Holding company structure designed to *align investment horizon* with time and process required to identify, engage, contribute and optimally harvest value.

# REPRESENTATIVE TECHNOLOGY/MARKET EXPERIENCE



## REPRESENTATIVE OPPORTUNITY



- **Situation:**
  - Legacy and leading EMS player with historically high-overhead and low-operating margin (3-4%) culture.
  - Partial evolution to “Sketch-to-Scale” – higher-margin (7-8%), end-to-end integrated hardware/software provider from design to manufacturing.
- **Opportunity:**
  - Dramatically improve operating profile and expedite margin uplift from mid-single digits (management guidance) to high-double digits (Xerion vision).
  - Achieved through combination of potential initiatives, including: bolt-ons/tuck-ins + divestiture of legacy units with earnings drag + move to integrated solution/services provider model (away from direct manufacturing only) with higher recurring revenue.
- Recent exchange with Dan Arbess (CEO, Xerion) & Mike McNamara (CEO, Flex) at CITI Tech Conference signals opportunity for engagement with Flex.

SEPTEMBER 06, 2017 / 6:20PM, FLEX - Flex Ltd at Citi Global Technology Conference

**Daniel J. Arbess** - Xerion Capital Partners LLC - Founding Partner and CEO

Just a follow-up really quickly, Mike. I'm Dan Arbess from Xerion Investments. If you think about it -- if we think about what you've just talked about, what I'm hearing is, we were a hardware manufacturer, and we're moving now with where the market is moving, where the largest idea in the market today is virtualization of physical process. So you're in the virtualization business. Sketch-to-Scale is all about designing, as you said, hardware, software and services, which are presently disaggregated. If you have a client that wants to implement an IoT solution in the industrial context, Cisco sells them a router, somebody else sells them software, somebody else has got to tie it together, the client only wants preventive maintenance to improve his margins and avoid shutdowns. So you guys have Sketch-to-Scale much more profitable business than manufacturing, where you've got your 200,000 employees in 30 countries and, I don't know, how many hundreds of facilities. To what extent, and this is directed also to Chris, can you eventually separate your high-capital, low-margin businesses from this much higher-margin Sketch-to-Scale or virtualization business that we see?

**Michael M. McNamara** - Flex Ltd. - CEO & Director

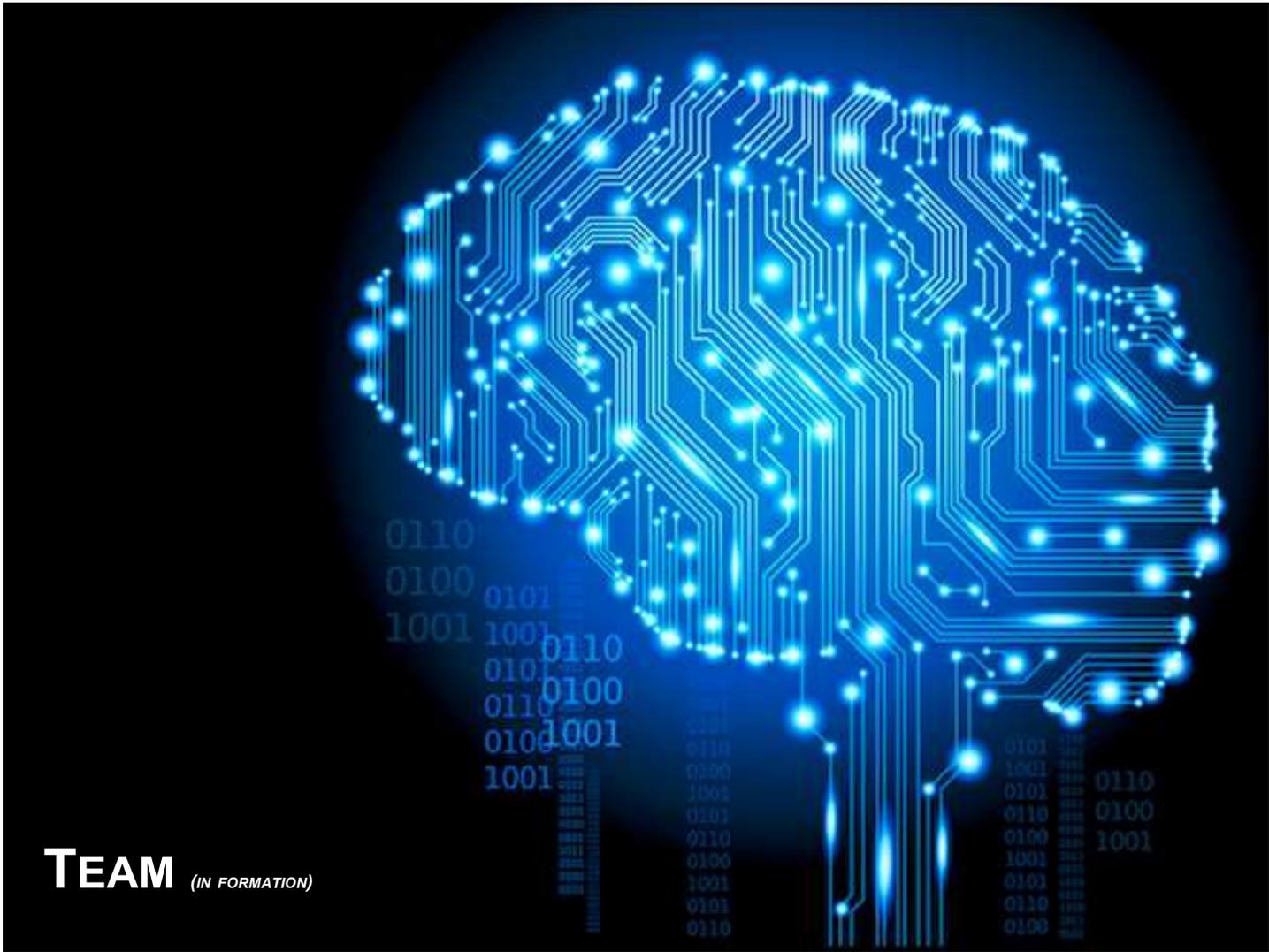
Yes. No, there's a lot of good comments in there. In today's business, our customer needs to compete with hardware, software. It has to compete with content, it has to take the data, it has to use the data, it has to apply AI to it and maybe create new disruptive business model. So the whole involvement in that whole chain for someone like Flex, Flex changes substantially. Very much a lot of what we're doing, I mean, there isn't even any electronics in any of these shoes. We're not building the shoes that have electronics in them. We're building regular shoes. And we're using our system, our worldwide system and the ability to run complex supply chains on a worldwide basis that actually speeds the velocity of supply chains and improve the delivery precision is what we're now selling. So it's not just about banging SMT boards down an SMT line, which was all built on just achieving the lowest possible cost you could of doing a highly commoditized kind of product. Another good example is we've turned it into the construction industry. We announced a new relationship called Y2WO, where we have a partner called RIB over in Europe, where we're going to digitize the entire construction business all the way from design concept all the way through to product execution. And in that case, there may not even be any factories. But what we're doing is, applying the technologies, the technologies we have around creating a digital supply chain and applying it to an industry that if we achieve faster cycles of supply chain velocity, we'll be able to increase the speed of buildings getting completed, less layers in the supply chain, and as a result, higher profitability for the builders. So we're actually starting to use a lot more of our system in this more interesting, more advanced world. And it's less about just building it as cheap as you can in China operations. And by the way, we can actually build it pretty cheap, too, all around the world.

**Daniel J. Arbess** - Xerion Capital Partners LLC - Founding Partner and CEO

But how about going to the next step in due course and owning the solution, providing it the whole thing as a service to the OEM? In other words, move past thinking of yourself as a manufacturer to thinking of yourself as a solutions provider where you can get recurring revenue from providing a solution?

**Michael M. McNamara** - Flex Ltd. - CEO & Director

I mean, I think the one thing we're going to stay away from is being a product company. But in terms of enabling the service, so that they can actually get the insights from the data perhaps and we're just supply the system, I think that's very much a possibility into the future. We're moving into the Sketch-to-Scale world, and I talked about it going from 7% to 23% to 40%. We are, actually, going to see our margins increase all through that. And the reason the margins are going to increase is, we do more and more Sketch-to-Scale to create more value. And just what you said in the data center is exactly right. Five years ago, it was just like how cheap can you build this board, this server or this switch down the line as cheap as you possibly can. And now that's actually not what they need. They actually need the data center to be fed with a rack with fully installed software. It's a service kind of model that they're looking for. And you might take a router from one company and switch from another company and storage memory from another company and integrate it into the rack, and the service is actually the whole rack fully tested, which is what we're doing in our converged infrastructure space, which has grown double digits that we're pleased with, but it's becoming a higher percentage of our business.



**TEAM** (IN FORMATION)



DANIEL J. ARBESS

- Professionally pursuing multi-year, global macro themes & negotiated event-driven opportunities expressed with public and private corporate (debt/equity/derivatives) and macro (currencies, commodities, rates) for 25+ years.
- Xerion Hedge Funds **12-year net returns +240% (12.5% annualized) from 2003 through 2014, including +112% (21% annualized)**, without a single down year through the four years of financial crisis and early recovery ('07-'10).
- Noted for recognizing as-yet-unpriced economic, policy, and industrial developments, and using valuation judgment, relationship networks and negotiation skills to capture them in multi-year investments. Multi-year thematic successes include:
  - China's economic transition to manufacturing, urbanization and ultimately toward consumption (expressed for a decade with distressed U.S. credit and long/short global equities);
  - U.S. housing bubble and financial crisis (short mortgage CDOs and financial institutions' equity);
  - Post-crisis recovery and monetary policy-led reflation of U.S. credit and stock markets (long credit, equities and gold from 4Q '08);
  - U.S. energy and downstream manufacturing renaissance (stressed and bankruptcy credit and equities);
  - Rise of wireless media and online retailing (long/short equities); and
  - Ten-year Legal & operational restructuring & renaissance of U.S. airline industry.
- **Next:** "Virtualization" of telecom infrastructure & advent of applied artificial intelligence and rapid adoption of smart hardware/software solutions across industries (read: <http://fortune.com/2016/06/15/future-of-work-2/>).



## DANIEL J. ARBESS

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- \$3.25 Billion Xerion Funds pursued an opportunistic, multi-asset class investment strategy, targeting multi-year transformative corporate events, pivotal business trends, and changes in government policy affecting the macro environment. Xerion generated 12-year net returns of +240% (12.5% annualized) from 2003 through 2014, including +112% (21% annualized) without a single down year through the four years of financial crisis and early recovery ('07-'10).
- Investment principal since 1995. Launched Xerion Capital Partners in 2003 backed by Paloma Partners, merging it into Perella Weinberg Partners in 2007 and joined the firm as a Partner and CIO of the Xerion Funds.
- Began career at White & Case in 1987, rising to become the youngest partner in the firm's history, and eventually Head of its Global Privatization Group; advised European and other emerging market governments on economic transition, industrial reorganization and privatization
- **Born in Montreal, Quebec, Bachelor of Laws, Osgoode Hall Law School (Toronto); Master of Laws, the Harvard Law School. Lifetime member of the Council on Foreign Relations; co-Founder, No Labels (bipartisan collaboration); frequent writer and media commentator on macro-economics, geopolitics, investing and global markets.**



SELECT MEDIA CONTRIBUTIONS

• **Social Media**

- LinkedIn: <https://www.linkedin.com/in/daniel-j-arbess-a5572ab4/>
- Wikipedia: [http://www.wow.com/wiki/Daniel\\_Arbess](http://www.wow.com/wiki/Daniel_Arbess), [http://en.wikipedia.org/wiki/Daniel\\_Arbess](http://en.wikipedia.org/wiki/Daniel_Arbess) .

• **Robotics & AI**

- BNN (12/6/2016): <http://www.bnn.ca/video/the-robot-uprising-is-here-and-they-want-your-job~1010372>
- CNBC (11/30/16): [video.cnbc.com/gallery/?video=3000572326](http://video.cnbc.com/gallery/?video=3000572326)
- Fortune (11/22/16): <http://fortune.com/2016/11/22/donald-trump-jobs-unemployment-digitization/>
- Fortune (6/15/16): <http://fortune.com/2016/06/15/future-of-work-2/?iid=sr-link4>

• **Business & Economic Policy Implications**

- Bloomberg (9/5/17): <https://www.bloomberg.com/news/videos/2017-09-05/xerion-s-arbess-on-u-s-economy-corporate-profits-video>
- Bloomberg (11/7/16): <http://www.bloomberg.com/news/videos/2016-11-08/xerion-s-arbess-both-major-parties-are-fractured>
- Fortune (5/5/16): <http://fortune.com/2016/05/05/leaders-u-s-economy-challenges/>
- Bloomberg (4/1/16): <http://www.bloomberg.com/news/videos/2016-04-01/stocks-open-lower-as-investors-assess-u-s-jobs-data>
- Bloomberg (4/1/16): <http://www.bloomberg.com/news/videos/2016-04-01/china-trade-and-a-plan-for-the-next-u-s-president>
- WSJ (2/9/16): <http://www.wsj.com/articles/the-young-and-the-economically-clueless-1455924699>



OSMAN KHAN

- Multidisciplinary, results driven management professional with 15+ years of global work experience and international exposure; emphasis on operational management and growth focused organizational development for early and growth stage companies.
- Recent focus - scaling and commercializing companies through sustainable growth and bringing innovative "outsider" perspective on business and technology in non-traditional consumer internet companies.
- Recognized for understanding startup ecosystem, and identifying and navigating emerging technology trends:
  - Successful entrepreneur with strategic exit; Co-Founder and CEO of Paddle8, leading online auction house for art and luxury collectibles, which revolutionized the online art auction industry; run-rates revenues of \$200MM and successful sale to a strategic party in 2016; carve-out sale in 2017 to an Asian private equity firm.
  - Angel investor across several sectors (18 investments and 4 exits to date) and advisory board member of several prominent startups in consumer retail and internet space; judge for Harvard Business School New Venture Competition; member of Advisory Board, HBS Club of New York and "Alums in Alley" Initiative.
  - Named to Art + Auction Power 100; serve on Leadership Council of Rhizome, a pioneer in bringing together the spaces of art and technology.
  - Frequent speaker on innovations in art market and intersection of art, business, and technology
- Joining Xerion.io as an investment partner and working closely with CEO/CIO in identifying, reviewing and evaluating investment opportunities.



## OSMAN KHAN

- In 2011, recognized historic disruption of creative industries by internet (e.g. music and publishing); identified imminent disruption of art market; conceived and launched the leading online auction for art and collectibles, Paddle8; grew to \$200MM in annualized sales and successfully exited to a strategic acquirer in 2016 after raising c.\$50MM in financing
- Recruited as Summer Associate to Perella Weinberg Partners in 2007; joined full-time in 2009 as dual-track Associate in both the M&A Advisory and Private Capital groups; worked closely with the Firm's Founding Partners on industry leading transactions and financings.
- Joined leading and global Executive Compensation Firm, Towers Perrin, in 2003; conducted complex equity valuations and structuring comprehensive compensation plans for Fortune 100 companies; youngest promote to Senior Consultant in 2007; part of compensation advisory group to CEO/Boards of MasterCard, Hearst, Great Atlantic & Pacific Tea Company and Bank of America
- Began career in 2001 reviewing and optimizing supply chain practices across several industries -- optimizing mail routes throughout the Midwest for USPS & managing optimal routing patterns for hub-and-spoke delivery models for regional dealerships for Daemler Chrysler.
- **MBA, Harvard Business School; Masters, Industrial Engineering and Manufacturing Services, Northwestern University; Bachelor of Arts in Economics and Bachelor of Education and Social Policy in Organizational Change Management, Northwestern University.**
- **Fluent in Arabic, Urdu, Hindi and English.**



## GAL INBAR

- Professional career focused on engagements with Companies across lifecycle to develop and implement turnaround plans and realize growth plans including – capital investments, new market development, executive recruitment, complementary business acquisitions.
- Technical and operating expertise with: collaborative robots distribution, residential real estate development, Israel and global EdTech initiatives and ecosystem development, renewable energy projects (EPC & entrepreneurship); frequently engaged on startups evaluation and deal structuring for various east coast based family offices.
- Critical roles in helping both management and staff adapt and conform to the changes necessary within an organization; focus is always geared towards managing for profits and enhancing business development.
- Officer in the Israel Defense Forces, (IDF) -- communication, operation, and logistics officer; significant role as company commander of an armored battalion for a period of 6 years leading 180 soldiers; currently serving as reserve duty and hold rank of Lieutenant Colonel.
- **Bachelor of Science (B.Sc.) in Industrial Engineering and Master of Science (M.Sc.) in Industrial Engineering, Tel Aviv University; Master of Entrepreneurship and Innovation (M.E.I.), Swinburne University of Technology.**