What is the Tenex Effect, and why did we name our firm Tenex?

Although it would be understandable to believe that the name represents the financial return expectations of the principals, unfortunately that is not the case.

Tenex is a firm that was founded by engineers and business operators. As such, we sought a company name that would reflect our training in the fundamental engineering principles of operating efficiency. Drawing our inspiration from Andy Grove, the former CEO of Intel, we define the Tenex Effect as "operational change that fundamentally alters the trajectory of a business, creating an inflection point in the company's performance." Grove defined a Strategic Inflection Point as " a time in the life of [a] business when its fundamentals are about to change. That change can mean an opportunity to rise to new heights." Grove even quantified that strategic inflection point, by calling it a "10x" change, or a change that was 10 times the magnitude of what the company previously had encountered, requiring a business to fundamentally change its strategic approach. From a technical point of view, he said, "An Inflection Point is when a change in the curvature takes place, and depending on the actions you take in responding to this challenge, you will either go on to new heights or head downward in your prosperity as a firm."

At Tenex Capital, we believe that the application of engineering principles of operating efficiency can have similarly meaningful impact on firm performance, enabling companies to reverse downward performance trends or meaningfully improve upon stable or even improving trends, i.e., achieve an inflection point. Like all investors, we believe in the application of leverage to drive returns. However, we believe greater risk-adjusted value creation comes from applying operating leverage and not financial leverage to achieve these gains. Private Equity investors commonly apply leverage to the companies they acquire, but in almost all cases, the leverage applied comes in the form of debt, thus minimizing the amount of required equity. This naturally results in an amplification of investment returns, but comes with heightened downside risk should markets shift downward. We manage risk by emphasizing operational, not financial leverage.

Exploiting leverage in our companies means taking advantage of the inherent operating leverage in the companies we acquire by partnering with management to apply our hands-on approach. Our employees and team members utilized leverage to amplify force to achieve results beyond what was achievable under previous operating models. The Tenex Effect consequently results in achieving superior investment returns by optimizing efficiency in the assets we have acquired, without resorting to applying excess balance sheet leverage.

In conclusion, we believe that the Tenex Effect, and all that is implied by the term, is a fundamentally differentiated approach, allowing the application of arguably "safer" operational leverage to businesses, while generating distinctive risk-adjusted returns.