The Impact of Private Equity in Emerging Markets: Achieving Business Results Through Sustainability

Sustainability Case Study: Cogitel (Tunisia)

Cogitel’s Story

Cogitel (short for Comptoir General d’Impression et de Traitement des Emballages) was created in 1984 by a number of industrialists from the Tunisian region of Sfax, and commenced manufacturing operations in 1987 under the capable leadership of Hédi Zeghal, its CEO. Following several years of growth, Cogitel expanded its production capacity and quality control systems. By the late 1990s, Cogitel had launched its first upgrade program and obtained an ISO 9002 quality assurance certification from AFAQ; however, despite these advancements, the company made a loss in 1997 following the closure of the border with neighboring Algeria, which accounted for an important share of the company’s turnover at the time.

In 1998, TunInvest viewed Cogitel’s short-term setbacks as an ideal opportunity for a turnaround investment. With TunInvest’s capital and expertise, Cogitel obtained a new quality assurance certification (ISO 9001:2000) and quickly returned to profitability. As Zeghal and the TunInvest investment team took stock of the company’s successes, they were inspired to transform the family-owned business into a regional packaging leader.

To do so, TunInvest encouraged Zeghal to undertake a leveraged management buyout – the first in Tunisia’s history; after 18 months of work, the transaction was completed in 2005. This enabled TunInvest to partially exit their investment in Cogitel, and the Zeghal family to increase its stake in the company, a move that would better align interests and incentivize management. In 2006, TunInvest, through its Maghreb Private Equity Fund II, and Swicorp via its private equity fund Intaj Capital, jointly acquired a majority stake in a newly created holding company – Altea Packaging – to enable Cogitel to execute a growth through acquisition strategy.

Cogitel Company Timeline

1987 Cogitel commences manufacturing operations
1994 Expansion of production capacity and quality control systems
1997 Cogitel launches first upgrade program
1998 TunInvest makes first investment
2003 Cogitel obtains ISO 9001 certification
2006 TunInvest makes second investment (via Altea Packaging)
2007 Cogitel acquires French company Roland and invests EUR10 million to create Cogitela in Algeria
2008 Cogitel obtains ISO 22000 certification
2010 Cogitel acquires SIED
2007 Cogitel acquires Optima (Morocco), and the Egyptian companies Porta and Rotopack
2008 Cogitel acquires SIED

The Company

Essentials

GP: TunInvest-AfricInvest Group, a leading private equity house in North and Sub-Saharan Africa with over US$500 million under management covering North, Western, and Central Africa (http://www.tuninvest.com/)
Region: Africa
Country: Tunisia
Sector: Manufacturing
Business focus: Flexible packaging solutions for the food and beverage industry in North Africa
Size: Revenue US$33.3 million (2010); 209 employees (2010)
Investment: US$1.9m in 1998 (buyout of Cogitel shares aimed at constituting a core shareholding base); US$19.5m in 2006 (to fund acquisition program via Altea Packaging); TunInvest holds 31.2% of Cogitel through its stake in Altea Packaging

Impact Highlights

With support from TunInvest, Cogitel has grown from a family-owned SME with a highly fragmented equity structure into the core holding of North Africa’s leading flexible packaging manufacturing group.

In the five years to 2010, Cogitel’s revenues doubled to US$33.3 million, while its exports grew to 51% of total sales.

Cogitel adopted a number of environmentally sustainable policies to reduce waste and energy use, generating economic gains in excess of $675,000 (or roughly 2% of revenues) in 2010.

Cogitel has obtained several international health, safety, and quality assurance certifications; these have enabled the company to penetrate European markets and improve its operating efficiency and customer satisfaction.
The Role Played by Private Equity

Cogitel’s CEO at the time, Hédi Zeghal, sought out TunInvest as a GP for several reasons. During the first investment, Cogitel needed to constitute a core shareholding base in order to facilitate decision making and strategic initiatives, rendered difficult by a highly fragmented capital structure. At the same time, Hédi Zeghal was looking forward to the strategic backing that TunInvest would bring to the company.

Following the company’s turnaround and the decision to expand across North Africa, Cogitel’s leadership wanted to leverage TunInvest’s presence and broad network of business contacts throughout the region. These relationships proved to be critical as Cogitel – acting as the anchor company for Altea Packaging – grew through a series of acquisitions.

Finally, partnering with TunInvest gave Cogitel the comfort and security of having a strong institutional partner. Notes one of Cogitel’s managers, “TunInvest created a formal strategic committee which brought informed and rational decision making to our company through better reporting, enhanced transparency and governance, and a sense of urgency. The monthly meetings were much more effective and value-creating than board meetings.”

Increasing Cogitel’s Value Through Sustainability

Cogitel achieved a number of value-creating environmental objectives throughout TunInvest’s involvement with the company. Prior to TunInvest’s investment, Cogitel’s environmental policy was focused on reducing its amount of source packaging (product inputs) and waste production. While these were laudable policies, TunInvest used its strong relationship with company management to expand Cogitel’s environmental initiatives even further.

Cost Savings

During its first site visit Ilyes Abdeljaoued, TunInvest’s environmental consultant, noticed that Cogitel had a small solvent (volatile organic compound (VOC)) distiller whose capacity was insufficient to treat all solvents used in the plant. Untreated solvents may cause respiratory problems and liver or kidney damage. With a view to reducing the concentration of VOCs, Cogitel installed a device that supplied fresh air to employees and extracted solvent-laden hot air.
Enhancing Cogitel’s Sustainability Profile

Beyond the financial gains from the investment, TunInvest worked with Cogitel’s management to create a culture of sustainability throughout the company. TunInvest raised the awareness of Cogitel’s management to environmental and social issues and explained their links to the company’s financial performance.

These efforts included explaining:

- The risks of financial penalties should liquid waste spill into the natural water environment
- The reduction of production of costs through more efficient energy use
- The relation between absenteeism, working conditions and productivity

At the same time, TunInvest provided Cogitel with the technical and financial support necessary to implement corrective actions, to mitigate potential environmental and social risks and to capture savings opportunities.

As an LP, IFC requests its PE clients to evaluate and improve their ESG management as part of the condition for doing business with IFC. Over the life of the investment, IFC also periodically reviews the PE fund clients’ ESG efforts and provides support and recommendations as needed, to help improve ESG practices. In the case of TunInvest, this included E&S training for staff and evaluation of Cogitel’s E&S performance. Whereas prior to TunInvest’s investment most employees viewed environmental issues as a secondary concern, now employees at all levels view themselves as environmental stakeholders. This outcome would not have been possible without the deep commitment and ownership of sustainability issues on the part of the company itself. While TunInvest has undoubtedly played an advocacy role, Cogitel has been strongly committed to the improvement of its social and environmental performance and thus helped turn the sustainability plans into a success.

“Once you have a good environmental and safety record, you leverage it all over the place.”

Anis Fathallah, Partner at TunInvest

Moreover, Cogitel began to recycle the solvents emitted during the accessories cleaning process. Today, Cogitel recycles all of its solvents for use as cleaning agents for their machines, corresponding to a reduction in solvent usage of about 30 tons per year, or roughly 75% of Cogitel’s total cleaning agent needs.

Cogigel made significant reductions in its waste output, reducing the company’s waste rate – defined as the amount of waste as a percentage of production capacity – from 13.8% to 9.8%. These efforts to reduce the quantity of input materials improved Cogitel’s margins by an estimated $290,000 (roughly 1% of revenues) in 2010.

Cost Reductions and Revenues Generated Through Sustainability

<table>
<thead>
<tr>
<th>Activity</th>
<th>Annual Savings/ Revenues</th>
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<tbody>
<tr>
<td>Energy savings</td>
<td>US$335,000</td>
</tr>
<tr>
<td>Decline in waste rate</td>
<td>US$290,000</td>
</tr>
<tr>
<td>Recovery and sale of recyclable waste</td>
<td>US$52,000</td>
</tr>
<tr>
<td>30 ton per year reduction in solvent usage</td>
<td>75% reduction in total cleaning agent needs</td>
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</tbody>
</table>

New Markets

TunInvest brought sophisticated knowledge of how to penetrate new markets. It recognized that attaining international qualifications, such as a quality assurance certification for food safety (ISO 22000:2005), would make the company more competitive in Europe, a EUR10 billion market (roughly 20x larger than the North African market), and more attractive to multinational clients and strategic buyers.

Cogigel invested roughly US$40,000 to obtain internationally recognized certifications for quality and safety, and to enhance its health and safety performance. Cogigel now leverages its superior environmental and social performance to differentiate itself from its competitors and build trust with its multinational clients, which include Danone and Coca-Cola.
Building Human Capital

Cogitèl has undertaken a number of activities to enhance its social and governance practices. With TunInvest’s encouragement, Cogitèl conducted a risk assessment study and initiated a number of safety best practices to accelerate the process of establishing an employee health and safety management system in line with international standards (OHSAS 18001, planned for 2011/2012). Over the last three years, Cogitèl’s efforts have reduced its frequency index of on-the-job accidents from 15.9% to 9.6%.

Cogitèl has also invested heavily in human resources and professional development. Beginning with the recruitment of university students, Cogitèl provides new employees training in an array of topics – not only in adhesives, inks, and manufacturing, but also in English and management;

96% of new employees complete Cogitèl’s training programs successfully. These training programs have helped Cogitèl boost worker productivity; sales per employee grew from TND110,000 in 1996 to TND237,500 in 2007.

Cogitèl’s commitment to being a responsible corporate citizen extends to the communities in which it operates. The company donates roughly US$20,000 to local social and rural development funds every year.

Sales per Employee

(thousands of Tunisian Dinars)

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<td>1996</td>
<td>111</td>
<td>237.5</td>
</tr>
</tbody>
</table>

Moreover, the company is a reliable partner for most multinationals in the region. To wit, Altea is now among the top 10 global suppliers of flexible packaging to the Danone Group.

Having implemented their strategic objectives, the Cogitèl and TunInvest teams are integrating their acquisitions and capitalizing upon synergies to ensure the company’s growth continues.

Results of the Partnership

Since TunInvest’s second round of investment in Cogitèl as anchor for the Altea conglomerate, the group has grown to become the leading flexible packaging manufacturer in the Middle East and North Africa (MENA). With TunInvest’s help, the Zeghal family business has obtained a 35% market share and annual revenues five times larger than those of the second largest provider in the market.

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Breakdown of Local vs. Foreign Sales (US$, ’000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (local)</th>
<th>Sales (exports)</th>
<th>Total Sales</th>
</tr>
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<tbody>
<tr>
<td>2005</td>
<td>$16,786</td>
<td>$2,983</td>
<td>$19,769</td>
</tr>
<tr>
<td>2006</td>
<td>$17,640</td>
<td>$4,638</td>
<td>$22,278</td>
</tr>
<tr>
<td>2007</td>
<td>$22,550</td>
<td>$8,041</td>
<td>$30,591</td>
</tr>
<tr>
<td>2008</td>
<td>$17,137</td>
<td>$4,636</td>
<td>$21,773</td>
</tr>
<tr>
<td>2009</td>
<td>$27,502</td>
<td>$11,109</td>
<td>$38,611</td>
</tr>
<tr>
<td>2010</td>
<td>$33,332</td>
<td>$17,181</td>
<td>$50,513</td>
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"From the beginning of the relationship, TunInvest has pushed the company to grow its exports and to target the top customers in the region such as Danone, Henkel and Coca-Cola; the introduction of higher environmental and social standards has been a key differentiating factor to attract and retain these customers."

Nadia Zeghal Marrakchi,
CEO of Cogitèl