

Case Study: Bonbonetti (Hungary)

Bonbonetti's Story

Bonbonetti was founded in 1868 by a master chocolatier who was the first to introduce steam-driven technology and large-scale chocolate production to Hungary. Over the next 80 years, Bonbonetti increased its sales outlets and product lines domestically and internationally until it was nationalized in 1948.

The company underwent various iterations—while retaining its name brand—before being privatized in 1992 and sold to the German food and chocolate company Stollwerck AG. A decade later, Stollwerck AG sold off Bonbonetti's Central and Eastern Europe (CEE) production plants, and Bonbonetti was subsequently acquired by a private equity fund that counted the European Bank for Reconstruction and Development (EBRD) among its LPs.



In 2006, EMSA Capital participated in an EBRD-sponsored competitive bid to take over management of the CEE Private Equity Fund I, which held Bonbonetti among its investments. The fund had incurred significant losses across its portfolio companies. Rather than sell stakes at a significant discount, EBRD sought a new fund manager that would unlock value in the underlying assets and deliver returns on EBRD's investment.

After being selected to manage the fund, EMSA Capital identified Bonbonetti as a portfolio company to which it could add significant value before exiting via trade sale.

The Role Played by Private Equity

At the point of EMSA Capital's involvement in 2007, Bonbonetti had break-even EBITDA, unsustainable debt ratios, poor quality products with unappealing packaging designs, and inventory losses stemming in part from large reserves in its export market stock and in part from failing to drop dead-weight products.

Bonbonetti was also suffering from gaps in its senior management team—particularly relating to marketing and financial strategy—and a lack of a business plan. The EMSA Capital team, including Anton Forint, Parham Pouladdej and Lakos István (who was installed as CFO of Bonbonetti in 2009), together with the recently nominated CEO Sándor Sánta and his newly selected management team, zeroed in on the company's financial and operational weaknesses.

Financially, EMSA Capital worked with Bonbonetti to claw back excess costs in the company's operations and production, and to reduce sales, general and administrative expenses. Part of this reduction entailed refocusing the marketing budget away from general advertising and toward direct marketing—a decision that strengthened Bonbonetti's position as the second leading company in its sector in Hungary while maintaining exports at 30% of sales. EMSA Capital expanded Bonbonetti's profit margins and extended the company's reach into Central Asia, the United States, and Western and Central Europe.

Rather than invest in new equipment, EMSA Capital identified excess capacity and outsourced operations where possible. It sold unused and non-core assets to pay down some of the company's debt and to increase dividends to investors. Efforts paid off: Bonbonetti became debt free and cash flow positive in 2007.

Operationally, EMSA Capital undertook a product profitability analysis across the entire Bonbonetti line in an attempt to reduce the number of under-performing products. The analysis enabled the company to rationalize its product line and focus on developing its best-selling core chocolate offering (as opposed to an additional range of wafers and biscuits). Bonbonetti refocused its mindset upon new product development in line with these market research findings, modernized its packaging and branding, and improved the quality of its raw ingredients. As a result, Bonbonetti has brought an array of successful, seasonal new products to market since 2008.

Moreover, EMSA Capital worked with architects and City Hall for a year to reclassify Bonbonetti's prime real estate location in downtown Budapest from industrial to commercial/residential use in order to create additional value and attract buyers. EMSA Capital has already received offers from strategic and financial buyers, and expects to close a deal on Bonbonetti by the end of 2011.

The Company



Essentials

Company: Bonbonetti, <http://en.bonbonetti.hu>

Country: Hungary

Sector: Food & Beverage

Business focus: Confectionery

Size: Undisclosed

GP: EMSA Capital, a private equity firm investing in underperforming, distressed and other special situation companies across Central and Eastern Europe (www.emsacap.com)

Date of investment: EMSA Capital took over as GP and fund manager in 2006; the original investment was completed in 2002

Investment: EMSA Capital owns 100% of Bonbonetti through its CEE Private Equity Fund I

Impact Highlights

EMSA Capital introduced efficient streamlining of product, operational and financial processes to ensure Bonbonetti controlled leverage and became cash positive

Bonbonetti established an independent export department, which now accounts for up to 30% of sales; the company has expanded its reach into Central Asia, the United States, and Western and Central Europe

Throughout the investment, Bonbonetti has been able to preserve the Hungarian confectionery tradition by enhancing management practices and training its employees

Bonbonetti recently underwent a UTZ certification audit to provide its customers third-party verification that the company sources its raw cocoa sustainably

The Company View



“What really differentiates EMSA Capital is the active role it took in working on a daily basis with Bonbonetti’s existing management—right down to its locational proximity. Thanks to the implementation of EMSA’s international best practice training, we have a stable financial base and efficient processes upon which to grow the company in the future.”

“EMSA Capital has provided us with clear guidelines on how to maneuver our company. Shareholder decisions are made more easily as we have a common agenda to work towards.”

Lakos István, CFO,
Bonbonetti



“Bonbonetti is a true success story—a company with a well-established history which has been prepared to bite the bullet and make the necessary changes to streamline its products and to introduce the necessary financial and operational efficiencies for successful future growth.”

Parham Pouladdej, Managing Director, and Anton Forint, Investment Manager, EMSA Capital

Beyond the Bottom Line

EMSA Capital was keen to uphold Bonbonetti’s tradition as the last sophisticated confectioner in Hungary. A core component of its work with the chocolate manufacturer was to preserve the company’s culture and heritage, while enhancing the consumer appeal of the brand.

Bonbonetti hosted a series of training sessions aimed at improving packaging, raw materials (cocoa), and marketing skills, not only for the company’s top management, but also for key middle managers. By fostering joint training and cooperation, Bonbonetti has produced a team of trained business professionals who represent a core asset of the business.

Bonbonetti recently underwent the auditing process for UTZ certification, which works with companies to ensure they source raw materials sustainably. With a UTZ certification, Bonbonetti’s

customers will be able to trace the source of the company’s cocoa and feel confident that they are purchasing socially and environmentally responsible products.



“The hands-on management style of the EMSA Capital team has proven vital in turning around the finances and operations of Bonbonetti and giving a strategic direction to the company. As a key investor in the Fund, we are impressed with the efficiencies that they have introduced.”

Anne Hutton, Principal Banker, EBRD