

The Investor



CEECAT Capital is a private equity and private credit investor operating in Emerging Europe and Central Asia. The CEECAT team has been active in the region since 2005, with nearly EUR700 million invested in the areas of industry, consumer, healthcare and business services. The firm invests in small and mid-market companies with a focus on majority buyout or minority with significant control. CEECAT has a team of 25 professionals operating out of offices in London, Luxembourg, Bucharest, Istanbul and Almaty.

FUND NAME
CEECAT I Fund

FUND SIZE
EUR265 million

TOTAL AUM
EUR290 million

The Company



Cevher is an automotive parts manufacturer that began as two businesses: Cevher Dokum Sanayii A.Ş. (a foundry that produces aluminum castings) and Cevher Jant Sanayii A.Ş. (an alloy wheels business). In 2016, Cevher sold its foundry business to Mexican automotive parts manufacturer Nemak. The company, which exports to Western European car manufacturers, has an annual production capacity of more than two million wheels as of October 2021.

WEBSITE
www.cevher.com

INDUSTRY/SECTOR
Automotive Components

LOCATION
Turkey

DATE OF INVESTMENT
AUGUST 2012

AMOUNT
EUR18.1 MILLION

INITIAL PARTICIPATION/STAKE
46.2%

DATE OF EXIT
NOVEMBER 2019

LUXEMBOURG-BASED INVESTOR CEECAT CAPITAL first met the Cevher Group, a Turkish manufacturer of aluminum casting and alloy wheels, in 2009. Having started its foundry business in 1955, Cevher had built a reputation as a trustworthy supplier to Western European original equipment manufacturers (OEMs) such as Volkswagen, Audi, Daimler and BMW. However, the company was facing a short-term liquidity crisis and was in need of a financial partner. The global financial crisis had led to a sharp drop in automobile demand, and the company, which had gotten caught up in a large capacity expansion, was struggling to service a sizable loan with unfavorable terms. Cevher had even been forced to borrow from its OEMs, which was negatively impacting future orders.

CEECAT engaged a consultant with extensive experience in private equity-led automotive supplier restructurings to assist it in analyzing Cevher's product line, efficiency and profitability. The team chose not to invest at that stage but still shared its commercial due diligence findings with the company. When Cevher's shareholders and management team asked CEECAT for a reevaluation three years later after implementing many of its prior recommendations, the team decided it was the right time to form a partnership.

In 2012, CEECAT purchased 46.2% of Cevher after negotiating several rights, including control over the company's financial management. The firm invested a total of EUR18.1 million in the company until its full exit in 2019.

The Deal

CEECAT'S INITIAL FUNDING went toward Cevher's immediate needs, including equitizing the company's debt, repaying suppliers and resolving tax liabilities. CEECAT also spent time presenting its action plan for Cevher to the OEMs – reassuring several that were concerned it would simply break the company into parts and conduct an asset sale. As part of its strategy, the CEECAT team made substantial changes to Cevher's organizational structure, including appointing a new Group CEO, Financial Director and Continuous Improvement Manager. It also brought in a sales and

marketing expert, an operations expert to improve production in line with best practices such as Six Sigma and Kaizen, and a new procurement manager to implement diversification strategies in sourcing aluminum.

At the time of CEECAT's investment, Cevher had two distinct but complementary subsidiaries – a foundry focused on aluminum automotive castings and an alloy wheels business. CEECAT's initial investment thesis was that the foundry would yield better profit-

ability compared to the more commoditized wheels segment given its focus on complex engine parts. However, the rapid adoption of electric cars and OEM requirements for more complex designs allowed wheels to be a higher-margin segment. In particular, demand for alloy wheels began to surge as customers started to appreciate that aluminum wheels result in less fuel consumption than steel ones, while also being more visually appealing.

In a change of strategy, CEECAT sold the foundry first in 2016 and then shifted all its attention to the wheels business. The team started with replacing the CFO and COO, while making selective investments into computational engineering capabilities to improve the air resistance of its wheels. CEECAT's continued investment also led to the acquisition of a second production facility in 2018 located in the Aegean Free Trade Zone in Izmir. The new facility, which created approximately 250 new jobs, allows Cevher to

produce wheels with a diameter of 22"-24" (up from 18"-19") as electric cars require larger wheels to support a heavy battery located at the bottom of the vehicle. Cevher is also using the facility to grow in the premium segment, increasing its percentage of wheels that are high shine diamond cut.

Cevher began experimenting to make its wheels lighter without changing any technical qualities. By 2019, it has succeeded in optimizing the weight of more than 10 new models, resulting in a total carbon dioxide emission reduction of more than 35,000 tons over each vehicle's expected lifetime on the road. The optimized wheels also require less aluminum, generating an estimated annual cost savings of nearly EUR2 million for the production. With the improvements in efficiency and greater capacity, Cevher increased its EBITDA by 130% and more than doubled its EBITDA margin over seven years from 7.8% at entry to 17.3% at exit.

Outlook

IN NOVEMBER 2016, CEECAT and Cevher's founder sold 100% of the foundry business to Mexico's Nemak, a global leader in aluminum powertrain casting. At the time, Nemak had 35 facilities worldwide – including locations in Russia, Hungary, Poland and Czechia – and believed Turkey would be a strong strategic addition to its network. Impressed by Cevher's talent, Nemak charged the management team with even greater leadership responsibilities, including covering regional business.

Using the proceeds from this transaction as well as additional capex and acquisition loans arranged by CEECAT, Cevher's founder bought back CEECAT's stake in the alloy wheels business in 2019, allowing the firm to fully exit the investment. CEECAT's total cash-on-cash return was above 2x.



Prioritizing an environmental agenda

GIVEN ITS FINANCIAL DISTRESS, Cevher had not focused significantly on the environmental aspects of the business beyond meeting the requirements put in place by its OEM partners. CEECAT developed an action plan tied to its shareholders' agreement that included establishing an environmental management policy and assigning a coordinator to oversee it. The CEECAT team knew that this was not only the right thing to do for the employees and surrounding community; it would also provide better financial returns upon exit.

During the site visit, CEECAT recognized that the original aluminum foundry presented several environmental concerns. It replaced all the forklifts with electrical ones to reduce fossil fuel usage, introduced 100% renewable electrical energy and doubled Cevher's aluminum chip recycling capacity. The foundry lacked sufficient air ventilation, so CEECAT also invested approximately EUR2 million in the ventilation system to improve air quality. In 2014, CEECAT worked with Cevher to move most of the machinery to a third facility in an organized

industrial zone further away from the city and introduced more efficient production lines that led to annual energy savings of approximately 40%.

Eighteen months post-investment, CEECAT spent over EUR3 million on a sand reclamation system. Sand, made mostly from silica, is used to create cavities in aluminum die casting parts. Because Cevher didn't have recycling capabilities, it was continuously buying fresh sand and then dumping it at a waste site given that it contains metallic aluminum particles. The new sand reclamation system allows the company to recycle more than 90% of the sand it uses, resulting in a more efficient, cost-effective and environmentally friendly process.

In 2016, an improvement project was undertaken to prevent the loss of water in the cooling channels of low-pressure machine tools. Cevher reduced its water consumption by 150 m³ per day and additionally achieved an approximate 25% reduction in the total amount of water consumed between 2016 and 2019.