

# 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.

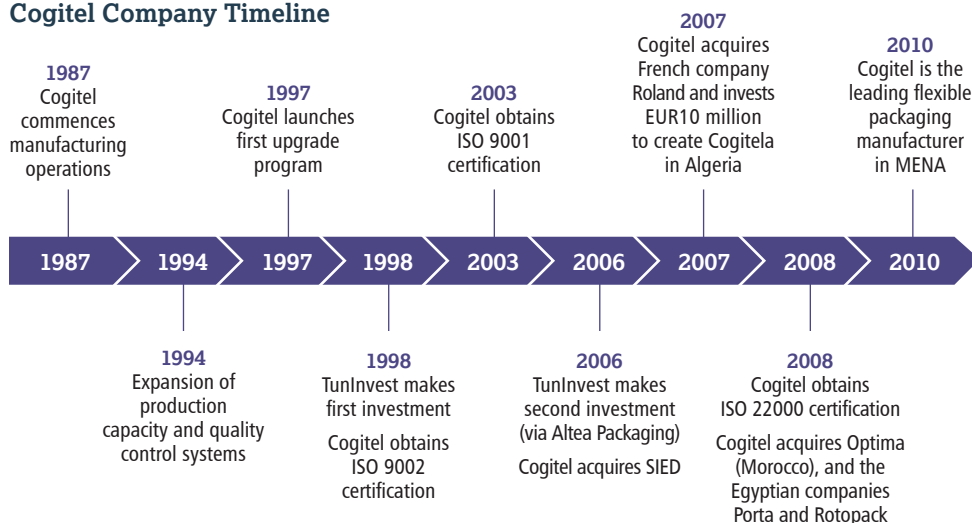
In 1998, TunInvest viewed Cogitel's short-term setbacks as an ideal opportunity for a turnaround investment. With TunInvest's capital and expertise, Cogitel obtained a new quality assurance certification (ISO 9001:2000) and quickly returned to profitability. As Zeghal and the TunInvest investment team 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 initial 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



### The Company



### Essentials

**Company:** Cogitel, <http://www.cogitel.com.tn/>

**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.

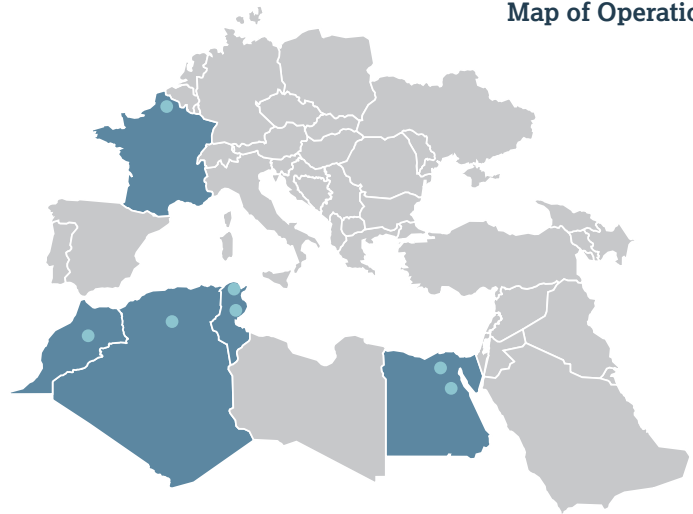
Finally, partnering with TunInvest gave Cogitel the comfort and security of having a strong institutional partner. Notes one of Cogitel's managers, "TunInvest created a formal strategic committee which brought informed and rational decision making to our company through better reporting, enhanced transparency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

**In collaboration with the Tunisian Ministry of Environment and Sustainable Development, Cogitel and TunInvest undertook a detailed study of the company's environmental footprint and impact. As a result of this study, Cogitel will hire an external consultant in 2011 to develop an environmental management system (EMS) in compliance with international standards (ISO 14001).**

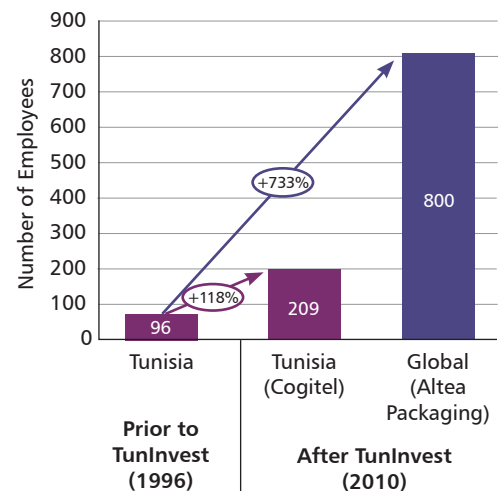
► Following its acquisition of Cogitel, Altea Packaging facilitated Cogitel's acquisition of SIED, the second largest flexible packaging manufacturer in Tunisia. After consolidating the domestic market, in 2007 Altea Packaging acquired 100% of the French flexible packaging company Roland, a move that would allow Cogitel to expand its product range and would grant the company more legitimacy with multinational clients. Later that year, Altea Packaging invested more than EUR10 million in Algeria to create a new flexible packaging company, Cogitela. In 2008, Altea Packaging continued its growth through the acquisitions of the Moroccan company Optima, and the Egyptian companies Porta and Rotopack.

Since TunInvest's initial investment in 1998, Cogitel has increased the number of its employees in Tunisia from 96 to 209, while Altea Packaging now employs roughly 800 employees across its operations in five countries. The Zeghal family retains key positions throughout the conglomerate; Hédi is the Chairman of the Board, his son Slim serves as Altea Packaging's CEO, and his daughter Nadia serves as CEO of Cogitel and Tunisia head.

Map of Operations



Employee Growth



## 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 his 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 over 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 client's 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 evaluations 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.

Moreover, TunInvest shares Cogitel's environmental successes with its other portfolio companies. "We use Cogitel in conversations with other investee companies," relays Fathallah, "and we say, 'look at this Tunisian company making environmental enhancements in difficult operating conditions like yours; if they can do it, you can do it.'"



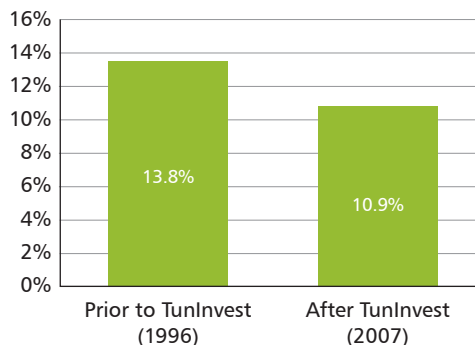
**“Once you have a good environmental and safety record, you leverage it all over the place.”**

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.

Cogitel 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.

## Decline in Waste Rate



Cogitel also identified a number of waste products, including plastics, paper and wood products, which could be collected, recovered, and then sold for recycling. The estimated gains from these activities for 2011 amount to \$52,000.

## Cost Reductions and Revenues Generated Through Sustainability

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

## 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.

Cogitel invested roughly US\$40,000 to obtain internationally recognized certifications for quality and safety, and to enhance its health and safety performance. Cogitel 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. ►





**“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 Cogitel

### ► Building Human Capital

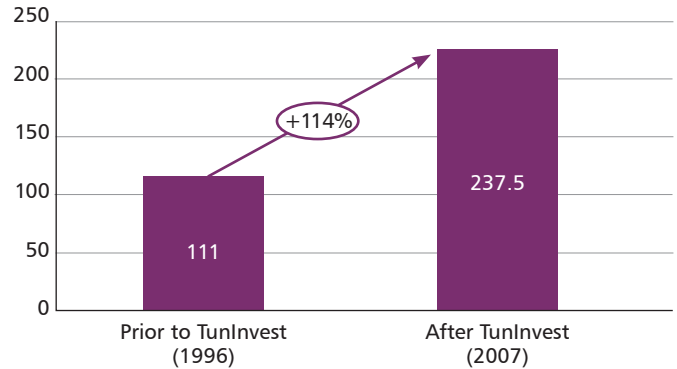
Cogitel has undertaken a number of activities to enhance its social and governance practices. With TunInvest’s encouragement, Cogitel conducted a risk assessment study and initiated a number of safety best practices to accelerate the process of establishing an employee health and safety management system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

Cogitel has also invested heavily in human resources and professional development. Beginning with the recruitment of university students, Cogitel 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 Cogitel’s training programs successfully. These training programs have helped Cogitel boost worker productivity; sales per employee grew from TND110,000 in 1996 to TND237,500 in 2007.

Cogitel’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)



## Results of the Partnership

Since TunInvest’s second round of investment in Cogitel 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.

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 Cogitel and TunInvest teams are integrating their acquisitions and capitalizing upon synergies to ensure the company’s growth continues.

### Breakdown of Local vs. Foreign Sales (US\$, '000)

