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Top gear

IT'S BEEN A YEAR OF INTENSE CRITICISM FOR PRIVATE EQUITY, BUT PETER WEIKERT, GROUP TREASURER OF GERMAN CAR COMPONENT MAKER EDSCHA, HAS NOTHING BUT PRAISE FOR THE BENEFITS IT HAS BROUGHT HIS GROUP, AS HE TELLS **GRAHAM BUCK**.

Who's afraid of the big, bad private equity wolf? Quite a few people it appears. Although attacks have been muted since the credit crunch hit with a vengeance, early 2007 saw high-profile figures such as Damon Buffini of Permira under fire from unions, politicians and others. They criticised the impact of private equity deals on the corporate landscape and accused the main players of lacking a social conscience.

But Peter Weikert, Group Treasurer for EdCar, the holding company of German car component maker Edscha Group, believes private equity has always received an overly negative press. He says it has introduced a much needed drive and energy at many organisations. "It imposes a lot of pressure on the company, but produces rewards in only a short period of time through its speedy fulfilment of tasks and high commitment," he says. In his view, private equity maximises the efficiency of the business at every level.

Weikert speaks with some authority. He joined Edscha within months of its acquisition by the Carlyle Group in November 2002. As the press has recently reported, although Carlyle has indicated it may look to exit its investment some time over the next two years, it recognises that market conditions are not favourable and will hold off until they improve.

Edscha is the world's market leader in the supply of hinges and driver controls to the automotive industry. It is also challenging Karmann and Magna International-owned CTS for the position of market leader in supplying convertible roofs.

In its five years under Carlyle's ownership, the group has endured some turbulent patches, most notably in 2005 when earnings were dented by a sharply weaker vehicle market in the US, an explosion in material costs, a trend to insource vehicle design and development services, and the effect of the strong euro.

The timing could not have been worse. The downturn occurred just as Edscha completed a highly leveraged recapitalisation.

"Three months after the recapitalisation, Edscha had to go to the banks and reveal the reduction in EBITDA," Weikert recalls. "For a short time the group was trading off its credit in the market, but at the same time it was also able to present the banks with a solution, including a detailed measurement plan for responding to its problems."

He adds that the key to retaining all the investors – around 30 in all – who backed the recapitalisation was being open and honest about its problems and presenting a clear plan for tackling them. A restructuring programme involved a procurement optimisation programme, the closure of the production company in Remscheid, a quality and efficiency improvement programme in various south European operations and a shared services programme. Edscha also began a strategic realignment by concentrating on its core business. This included the disposal of its division manufacturing sliding roofs for trucks, which was sold to Swedish group VBG in September 2005.

This was followed in March this year by the sale of vehicle design division IVM Automotive, which Edscha had bought in 2002 shortly before it was itself acquired by Carlyle. IVM, which accounted for about 10% of sales, went to Sweden's Semcon and Edscha also closed a US factory, enabling it to make a major repayment to the banks. Throughout this period, all changes had Carlyle's continuing support.

"The keys to success are information and communication," Weikert adds. Edscha regularly updates the banks, via monthly telephone conferences in which it presents its latest figures. It also conducts bilateral bank meetings and phone conferences.

The response from banks has been very positive and the group "is off the radar screen and on a good path". Its situation has improved enough for the banks to take it off their watch list.

The Edscha story

The Edscha Group was founded in 1870 by the 26-year-old Eduard Scharwächter, whose shortened name was the origin of the company's name. What began with hinges for horse-drawn carriages has developed into complex hinge systems for automobiles.

Today Edscha operates in two niche automotive markets: hinge systems and convertible roof systems. The Edscha Group has developed products such as retractable hardtops, electrically operated tailgates and rear lids. The group has its head office in Remscheid, Germany, employs 6,500 staff, and operates from 29 locations in 16 countries, supplying practically every carmaker in the world. Turnover is €1.1bn.

In the past year the group has put seven new convertible roof systems into production, including the retractable hardtop for the BMW 3 Series.

AMERICANISED Weikert is happy to describe himself as "much Americanised" and has spent several periods in the US over the past two decades. The first, a four-month stint in Kansas at its biggest bank, United Missouri, was back in 1991 as part of his studies at the Koblenz University of Applied Sciences.

He even gained some blue-collar experience at a Los Angeles rental company, maintaining and repairing the trucks and heavy machinery that it leased out, and he also took economics classes at UCLA.

His studies complete, he joined South Korean car manufacturer Daewoo and over a three-year period built up its group finance department in Germany, which comprised two main departments: classic banking on one side, and dealer and customer financing and leasing on the other.

The opportunity to oversee financing and cash management over a wider area than Germany took him to TRW Automotive in 1997 and the position of Treasurer for Europe – although it also offered the responsibility of overseeing eastern Europe and South Africa.

TRW's European treasury office was based in Frankfurt, but work involved regular visits to its head office in Cleveland, Ohio, and more stints in the US. They included two months of training in US contractual law – enabling him to negotiate finance-related contracts to the legal stage – and a TRW-sponsored teamwork programme at North Carolina's Duke University.

Weikert describes himself as "very much a team player" and able to appreciate contrasting US and European business cultures. The main difference, he says, is that Americans are more ready to concentrate their thinking in a much shorter time span and embrace trial and error. Even if this risks a higher failure rate, he prefers it to the more European approach, where months of pre-planning typically precede the launch of any project.

LONDON POSTING During his tenure at TRW, the group made three acquisitions. The biggest was the $7bn purchase of UK group LucasVarity in 1999, which doubled the size of TRW's automotive business and beefed up its aerospace division. Weikert took on responsibility for integrating Lucas's European operations and treasury activities within TRW, a task that saw him based in London, where LucasVarity had its HQ.

"It was quite a smooth process," he recalls. "The Lucas team was very co-operative, despite treasury and cash management being transferred from the UK to Frankfurt." Integration included taking on the very different hedging processes required for the acquired aerospace business, with hedging periods typically up to 10 years rather than 12 months.

Despite several post-deal divestitures, the debt load from the LucasVarity deal led to the acquirer itself being acquired. In 2002, TRW was bought by US group Northrop Grumman, which promptly split the group up and sold the automotive divisions to Blackstone.

Despite the opportunity of staying on, Weikert moved on to Edscha, which, having just been acquired by Carlyle, offered the responsibility of overseeing operations worldwide.

"Carlyle explained to me that the company it had acquired was very decentralised in terms of its liquidity," he says. "Each division conducted its own banking and cash management independently."

He, in turn, presented his blueprint for changing this structure. "My mantra has always been cash is king, so the treasurer reigns."

Following this maxim meant centralising Edscha's functions – a policy that had the full support of both Carlyle's and Edscha's executives. This, and the fact that centralisation was a requirement of the syndicated loan agreement, permitted an accelerated rate of change, with the transformation taking only nine months.

Another challenge was to meet the reporting requirements imposed by the syndicated loan agreement. "No one at the group had experienced having to comply with all kinds of finance arrangements, including operating and finance leasing plus factoring arrangements and guarantees," says Weikert. The team nonetheless set up a reporting system within three months of the arrangement being finalised, so it was ready to take effect in June 2003.

The overall aim of Edscha's new treasury policy was to have cash at the Remscheid HQ. The first step was to get information on each unit's banking arrangements. It was decided that a single major bank account, plus a secondary account for petty cash, was adequate for each operating company. Thereafter, it was important to collect the day-to-day bank account balances by using Unicredit, the former HypoVereinsBank (HVB) and Dresdner Bank.

Finally, Weikert established a global cash pooling system, based on zero balancing or cash concentration and compliant with the legal and tax issues of each country that Edscha operates in. The group uses Unicredit and Dresdner for euro pooling throughout Europe, and US bank Comerica for US dollar pooling in the NAFTA region.

By mid-2004, around €40m of the group's €45m-€50m total worldwide cash reserves had been transferred to Remscheid, saving the group annual interest charges of around €1.5m.

FIVE YEARS ON So how does Edscha's centralised treasury operate now? Weikert says he is in regular contact with Carlyle's German office in Munich and was helped by the parent group's promotion, in April 2006, of Benno Hank as Chief Financial Officer. "I've known him since I joined the group and we have an excellent working relationship. The same great relationship applies to my work with our Chief Executive, Manfred Puhlmann."

Treasury consists of a team of four at Remscheid and a fifth member based in Detroit. Their duties include finance and creditor relationships, with one individual responsible for worldwide insurance. Meetings to discuss issues are held daily and their duration is anything from 10 minutes to an hour. As part of the centralisation process, cashflow reporting – including liquidity planning and management of trade receivables and trade payables – is a weekly exercise, working to a 12-week rolling forecast.

"Three years ago, Edscha's treasury was responsible for collecting trade receivable data, but then passed this function over to the sales department," Weikert says. "We quickly realised that their focus was more on sales than cash, so we brought it over to the finance and treasury side and added it to the duties of the finance people in the operation."

As Edscha's focus in recent years has been on restructuring, acquisition has been off the agenda. Instead, it has turned its attention to technological development, with two new products about to launch, and general improvements to vehicles.

Despite this, it hasn't always been a smooth ride. In addition to the earnings downturn in 2005, the problems experienced by Ford and GM led to Edscha closing a US facility and transferring 80% of its operations to Mexico and the remainder to Canada.

High steel prices remain a problem and the group is also affected by the euro's strength and the dollar's steady depreciation. Edscha employs hedging as most of the high-grade steel for its US and Mexico operations has euro exposures against the dollar.

"FX management is also centralised at head office," Weikert adds. "We write internal trade tickets, so the Mexican operation can account for it. Centralisation also applies to our interest rate management, to comply with the syndicated loan agreement."

The agreement is long term and largely shields Edscha from the impact of the credit crunch although the tranches, based on short-term Euribor, have reflected the rise in interest rates.

On the positive side, after being criticised for job cuts in 2005, Edscha has created 700 jobs this year – mostly in the convertible roof division – and now has 6,500 employees worldwide. And while the current loan agreement restricts the group's ability to engage in merger and acquisition deals, Weikert believes that if the current bout of global economic jitters doesn't prove too lasting, Edscha could once again hit the acquisition trail.

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