



Punch Powertrain's drive to profitability: a sharp focus and investor support

Not so long ago Punch Powertrain was traveling uncertainly down a bumpy road. How did this Belgian automotive company make a U-turn and accelerate towards high profitability and a 35% annual growth rate? Gimv's engagement and expertise played an important role.

Based in the small Flemish city of Sint-Truiden, Punch Powertrain (punchpowertrain.com) traces its roots back to 1972. Founded as a subsidiary of DAF passenger vehicles, it immediately made history by producing an innovative, continuously variable transmission (CVT) known as the Variomatic. The company was subsequently acquired by Volvo and ZF.

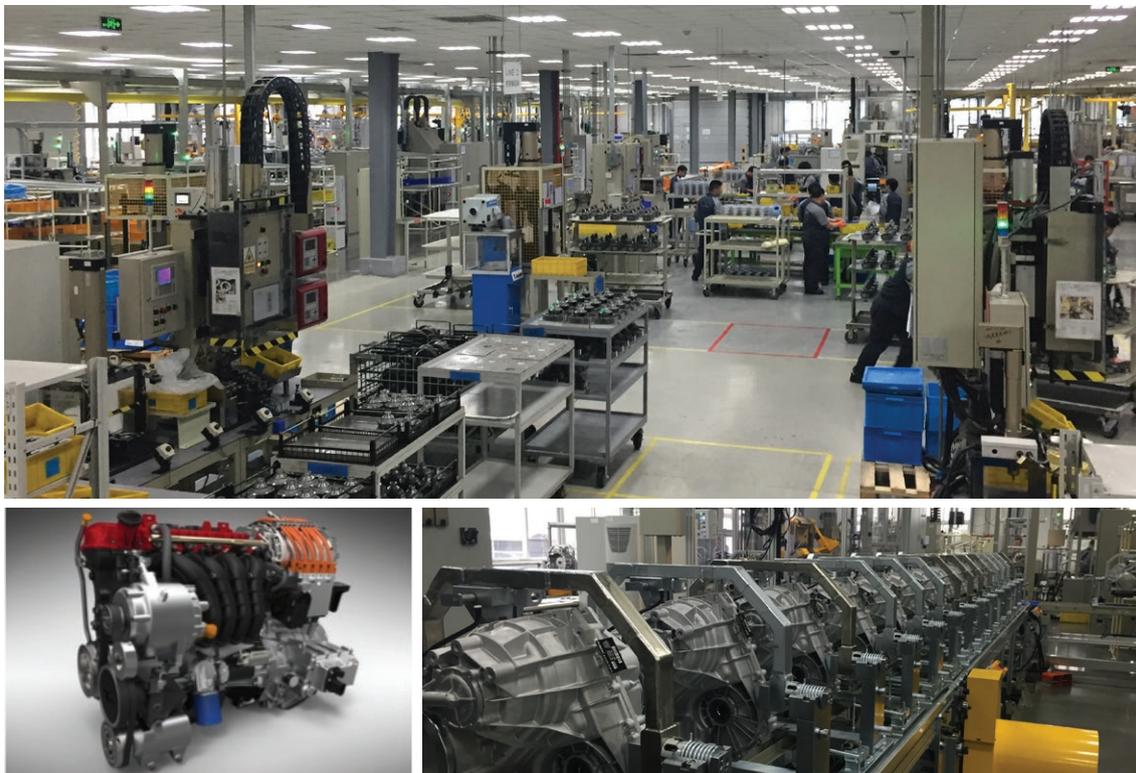
Fast forward to 2006. By this time Punch Powertrain had become independent from ZF. Having just lost its last European customer, management decided to develop business in the Chinese market. The argument for this was strong.

At that time hardly any local Chinese-branded vehicles were equipped with automatic transmission (AT). Demand for AT was rising and domestic brands (which have a third of the national passenger car market) were ready to meet it. But these local carmakers - up against foreign competitors like VW and Toyota - needed western technology.

An urban edge in Asia

In the stop-and-go traffic of the country's large cities a CVT transmission would have an edge over conventional AT, offering optimum comfort and fuel efficiency. Its competitive price would also make it attractive to China's cost-conscious consumers. Moreover, unlike the large, established transmission suppliers in the region, a small organization like Punch Powertrain could provide the flexibility local carmakers demanded.

The move into Asia would in addition give the company the opportunity to finally diversify its client base. Since the DAF days it had always been a one-customer business. In 2008 it was BMW and its MINI Cooper. But the relationship ended when BMW switched to an externally sourced engine and therefore phased out volumes. With MINI Cooper volumes dropping and the first Chinese customers still in the application engineering phase in 2008, Punch Powertrain found itself with a brand new factory in China but no production yet.



Factory Punch Powertrain in Nanjing, China

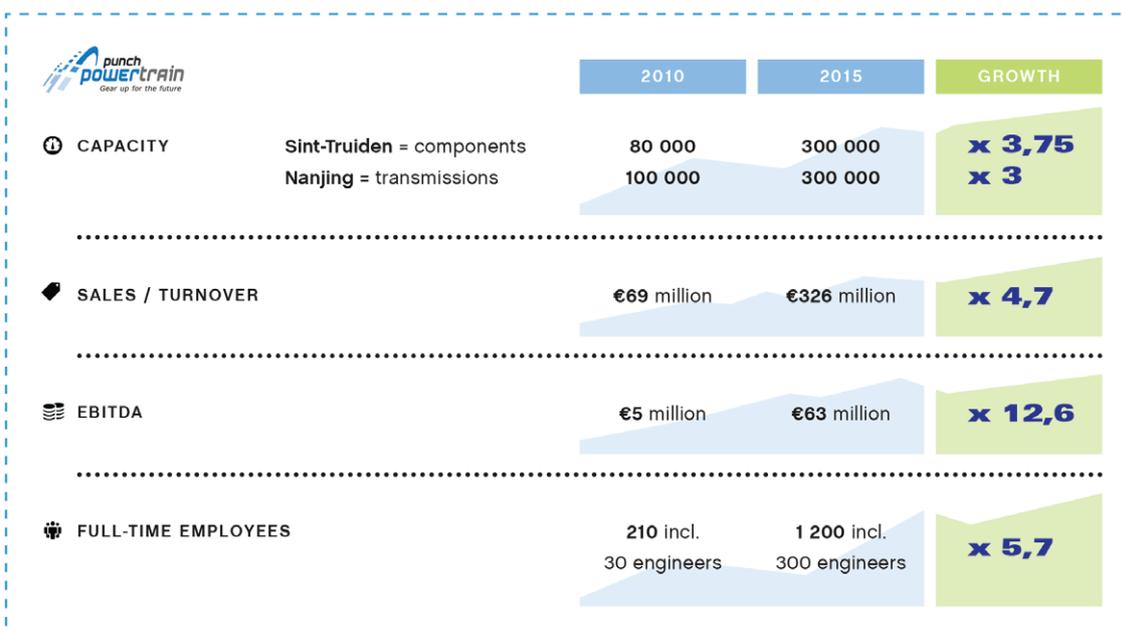
Rebuilding an automotive winner

The struggling company first came onto the Gimv radar at the end of 2009. It had recently attracted the interest of the regional Flemish investment firm LRM. Impressed by the technology, and convinced of the huge potential in the Chinese market, Gimv and Capricorn Venture Partners decided to come on board.

In March 2010 Gimv took a 46% stake in Punch Powertrain, investing EUR 18 million. The capital injection - along with the commitment of the three investors - reassured the banks and convinced them to grant a significant financing package. This permitted the company to restructure its financing, creating even more liquidity to invest in capacity expansion and new product development.

On track towards growth

Punch Powertrain had the breathing room it needed to pursue its growth strategy. The **client base expanded** from only two customers in 2009 to twenty today. **Capacity tripled** at both the Sint-Truiden and Nanjing plants. **Satellite offices opened** in Kuala Lumpur and Eindhoven. And **total headcount rose** from 210 to over 1 200, of which nearly 600 employees in Belgium.



The company also diversified its technology. This was very challenging. Developing a new product can take five years and involve up to 100 engineers. But the goal was achieved - helped by an R&D partnership with DTI (Drive Train Innovations) - which Punch Powertrain subsequently acquired. From a single product, the company now offers a wide range of automatic transmissions for vehicles with internal combustion, hybrid or fully electric powertrains.

What's around the corner?

Car manufacturers must comply with strict environmental and fuel-efficiency regulations without compromising driving comfort and performance. To help the industry meet these challenges Punch Powertrain plans to continue its **innovation track record**. The R&D department is set to expand from around 300 engineers to over 700 in the coming five years. This will allow it to **develop new cutting-edge technologies**. And plant capacity in China and Europe will jump from 300 000 to over a million units per year.

The company frequently wins awards. In a recent example, Punch Powertrain was awarded by leading Belgian industry federations as one of seven "Factories of the Future". More recognition is sure to follow.

Today the company has strong traction in the Asian market. Its largest-ever order book points to a great number of vehicles with Punch Powertrain transmissions being built over the next few years, ensuring growth. As it shifts into high gear Punch Powertrain will keep accelerating.

Together with Gimv and the other shareholders we already accomplished two of three jointly-defined strategic pillars: customer and product diversification. Our third objective for the next five years is to achieve the further geographic diversification outside Asia.

Cor van Otterloo - CEO Punch Powertrain

Power steering: investment, expertise and guidance



Cor van Otterloo (left), CEO Punch Powertrain and Bart Cauberghe (right), Partner Smart Industries within Gimv

Bart Cauberghe, Partner in the Gimv Smart Industries team, was involved in the Punch Powertrain project from the beginning. He says that financing was only part of the Gimv contribution to the company's ride to success.

Hands-on governance

For the first few years Gimv took an active role in the company's governance. The most urgent challenge was to ramp up capacity in 2010 and 2011. *"Together with the other shareholders we appointed two independent board members with expertise in operational management. We also formed separate working committees for finance, operations and R&D, with a mix of board members and management. As a member of the board and all these committees, I regularly participated in these meetings. Given my background in both strategy development and engineering it was great to actively contribute to these lively discussions."*

The second phase saw the small-company governance model adapted for a larger organization. The senior management team was reinforced and expanded. *"Today there are no longer any regular working committees. Having tackled the challenge of capacity expansion, the focus has shifted to new product development. We attracted a senior R&D executive from Bosch as an external board member and advisor to the CTO. Together with our co-shareholders, we have also installed formal committees for audit and remuneration that report to the board."*

Strategic sounding board

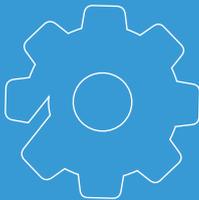
Gimv continues to function as a sounding board for the CEO. *“We supported senior management on several strategic initiatives. For example: the technology development agreement with DTI and its subsequent acquisition, developing different financing structures, working out strategic cooperation models with customers, and developing the business plan. These interactions take place on an ad-hoc basis when we think our opinions and experience can make a positive contribution.”*

At the end of 2013, Gimv and the other financial shareholders sold 30% of their stake in Punch Powertrain to **New Horizon Capital**, a China-focused private equity fund. *“Gimv is proud of bringing New Horizon on board. They bring not only an outstanding track record in the Chinese market and its local network, but also in-depth expertise in the country’s automotive segment. This will support the company’s future development.”*

“Our shareholders not only gave us financial stability. Over the last years we also enjoyed their active support in developing Punch Powertrain to where it stands today. More specifically, the hands-on and pragmatic support of Gimv is very much appreciated.”

Cor van Otterloo - CEO Punch Powertrain

DEVELOPING DEEP SECTOR KNOWLEDGE



Gimv is proud of its role in the growth story of Punch Powertrain. We created strong partnerships with the management and the other shareholders and had deep exposure to the Chinese business landscape. This complements our experience with other companies linked to the automotive industry, such as VCST, Mackevision, LMS and Metris. Today the Gimv Smart Industries team is very well embedded in the sector.

www.gimv.com

To learn more about this success story, take a look at the Punch Powertrain website:
punchpowertrain.com