

WINNER - LARGE-CAP

Brookfield Asset Management: GrafTech International



When Brookfield Asset Management agreed to invest in GrafTech International in August 2015, the company was generating roughly \$45 million of EBITDA and revenue of around \$530 million. By the time the company listed on the New York Stock Exchange in April, its estimated full-year EBITDA for 2018 was more than \$1.2 billion – a “stunning improvement” in the words of judge Steven Kaplan – and its revenue was up to around \$1.8 billion.

In 2015, GrafTech – a producer of graphite electrodes, a key component in steel manufacturing – was struggling. In the first quarter it reported a net loss of \$56 million, driven by declining demand for graphite electrodes, lower end-market demand in certain steel-consuming sectors and continued high Chinese steel exports. During due diligence, Brookfield identified specific production improvements and strategic positioning opportunities to boost profitability.

Upon completion of the acquisition, Brookfield seconded senior operating executive Jeff Dutton into the business, first as chief operating officer and ultimately as interim CEO. Dutton helped to reposition the business through selling off non-core assets that were distracting from the company’s core focus on its electrodes business.

By 2017 when the market began to recover, GrafTech had established itself as an industry leader and was

in a strong position to execute its operational repositioning plan, which resulted in more than \$100 million in annual cost savings.

These included shifting production from six electrode facilities to three – while increasing annual production per active facility from 34,000 metric tons in 2015 to 67,000 this year; increasing focus on product quality, reducing volume of dissatisfied customer reports by 40 percent between 2015 and 2017; implementing continuous performance improvement and cost reduction across plants to maximise profitability; and halving headcount and optimising the manufacturing process at Seadrift Coke, the company’s key raw material supplier.

In 2010 GrafTech had acquired Seadrift Coke, a supplier of petroleum needle coke, the primary raw material for graphite electrode manufacturing. This vertical integration put GrafTech in a unique position as the only electrode producer able to provide customers fixed pricing and surety of long-term electrode supply.

This allowed Brookfield to successfully implement a new commercial strategy to sell 60-65 percent of GrafTech’s production capacity through three- to five-year fixed-volume, fixed-price take-or-pay contracts – the first time this approach had been used in this industry.

As part of that, GrafTech contracted more than \$6 billion of revenue at more than twice the



GrafTech:
a ‘stunning
improvement’



\$45m
EBITDA on entry



\$1.2bn
Annualised
EBITDA for 2018



\$100m
Annual cost
savings

long-term average electrode price.

GrafTech completed a debt recapitalisation and then listed on the New York Stock Exchange on 23 April, with Brookfield selling 35 million shares of common stock at \$15 per share. Brookfield further sold down its stake in August, but remains a significant shareholder.

“We are pleased with the turnaround of GrafTech and believe there is an outstanding future ahead for the company,” says Cyrus Madon, senior managing partner and head of Brookfield’s PE group.

The \$855 million investment has returned approximately 9x based on GrafTech’s current stock price.

“The Brookfield transformation of GrafTech epitomises operational transformation,” judge Michael McKenna says. ■