



INTERVIEW

Dr Wolfgang Trier

CEO, Softing AG, Germany



Great success for Softing: "The new number 1 in the US market"

Softing has acquired the US-based Online Development Inc. (OLDI) for 20 to 30 million dollars. This new subsidiary secures the Bavarians the leading position in the factory automation sector within the all-important US market. In response to this strategic acquisition, Warburg Research has raised its price target for Softing shares to 20 Euro.

In an interview with financial.de, Softing CEO Dr Wolfgang Trier was very confident: "We are anticipating a re-evaluation in the medium term."



Interview Softing AG

? **financial.de:** Dr Trier, the price tag for Online Development Inc. (OLDI) was in the 20 to 30 million US dollar range. How much of this is due for payment after the purchase agreement becomes effective? Not long ago you had just 7.7 million Euros in the bank, will you use a capital increase to finance the move?

➔ **Dr Trier:** As soon as it becomes effective, around 20 million dollars are due for payment. A further 10 million dollars are possible if OLDI meets some very demanding objectives in the next few years. Our financing plan is a combination of using our own cash resources and third party financing from banks. Due to our excellent credit rating, the finance came through at very favorable rates of interest. Currently, we have no plans to make use of any capital measures.

That would only be an option if new opportunities, requiring considerable levels of pre-financing, came about during the integration of OLDI.

? **financial.de:** *Your ad hoc said "OLDI is virtually the perfect addition to Softing's product portfolio in the key Industrial Automation segment area." What does that mean in real terms for your market position and the competitor situation in the USA?*

↳ **Dr Trier:** In our field of Industrial Automation, we differentiate between process automation and factory automation. For the former, we are already in a leading position in our industry and we will further strengthen this position by introducing new products that adhere to more stringent hazardous environment classifications. For the latter, competition is much more broadly diversified, and Softing used to be just one of many providers. Within this market, our new subsidiary catapults us immediately into the pole position among our competitors in the huge American market. This also implies that we will benefit from the dovetailing between the development of our American distribution presence and the simultaneous availability of a wide range of recently added products.

? **financial.de:** *What is your target growth rate overseas? In the medium term, how will the OLDI takeover impact Softing's margin development?*

↳ **Dr Trier:** Following a successful integration, we expect double-digit growth in the field of factory automation, driven by the synergy effects. However, this calls for a high level of pre-payments in the current year. This includes the discontinuation of client projects with its direct effect on turnover and results right through to technological and product adjustments, most of which are not being activated. Therefore, for 2014 we are assuming that the takeover will not bring about any major contribution to our results, even though OLDI is basically generating similar margins to Softing. In the medium term, however, we anticipate an increase in margins.



OLDI works with operative margins in the double-digit percentage range, at the same level as Softing. Through the synergy effects, Softing hopes to achieve growth rates in double figures in the field of factory automation following a successful integration. In the medium term, Dr Trier expects margins to increase.

? **financial.de:** You mentioned major structural changes as a result of the takeover. What other changes are you planning?

↳ **Dr Trier:** As well as the technological expenses referred to above, we have to restructure our business with OEM clients, the direct end-client business, and indirect sales via various channels. Also, we need to harmonize the two American subsidiaries we have today, both in internal processes and in their external marketing. In addition, we will take a good look at the key performance indicators that have been used in the past, to see how effective they really are in terms of management control. American tax law allows you to claim tax depreciation on your acquisition costs against the generated profit. That pushes your pre-tax profit down, but it also reduces your tax burden and thereby increases the cash remaining in the company. In the future, we will focus more on EBITDA or EBITA. The control factor we have mainly used up to now, EBIT, is losing its relevance.

? **financial.de:** In the first quarter, Softing grew organically by 13%, which is faster than the market. In what areas have you acquired market share?

↳ **Dr Trier:** I always counsel caution when interpreting quarterly figures. They often hide deferrals and one-off effects that are limited in time. We had a very good development in turnovers in the field of industrial automation, and also in the automotive segment, where the margins are high. Whether this means that we have gained market share going forward is something we will have to examine at the end of the year, on the basis of four quarters.



Previously, Softing was just one of many providers in the field of factory automation: "Our new subsidiary brings us into pole position among our rivals in the huge American factory automation market, at a single stroke. This means that in terms of timing, that will also bring off a dovetailing between the development of our American distribution presence and the availability of a wide range of recently-added products."

? **financial.de:** *A number of major clients have postponed their call-offs of particularly high-margin orders until the second half of the year. What is behind this?*

↳ **Dr Trier:** In one of our high-margin areas, products for the oil and gas industry, two major clients have postponed product development for their technical infrastructure. This means that the product call-offs scheduled for the first half of the year were put back to the third and fourth quarters. When you factor in the one-off costs resulting from the takeovers, that left ugly traces in the first and second quarters. Due to the supply contracts in place, however, we still expect all of these sales this year.

? **financial.de:** *You have stressed that the OLDI takeover has reduced Softing's economic dependence on the European market. Are you feeling the first signs of an economic slowdown in Europe?*

↳ **Dr Trier:** In the Industrial Automation segment, we have seen no further growth in Europe in the first half of the year. We are also gathering that from our contacts with clients and competitors. But it's too soon to conclude that there is a permanent economic slowdown. Layers of seasonal effects or major clients' new projects have on many occasions neutralized these short-term trends. In the Automotive Electronics sector, we are currently pleased to report a very healthy demand situation.

? **financial.de:** *When will you publish a new annual forecast for 2014?*

↳ **Dr Trier:** At the moment, the existing forecast still applies. We will certainly not re-assess before the third quarter. Whilst changes on the sales side are still relatively easy to estimate, assessing changes on the income side is incomparably more difficult, due to the much more complex tax situation and the depreciation of goodwill. But it is already clear today that we need to use new key performance indicators to measure our success. The target of EBIT, which we have used up to now, is no longer enough to map the new situation.

? **financial.de:** *Including OLDI, Softing's group revenue is approaching the 80 million Euro mark. This puts your medium-term goal of 100 million Euros within reach. Are you planning further acquisitions in the next few months, or does the integration get top priority?*

↳ **Dr Trier:** Having spent nearly two years sounding out the market, three transactions have come together in the last five months, all of which we have been able to manage without any capital measures. That makes it quite clear that we will achieve our goal of an annual turnover of 100 million Euros in the next few years. In any case, the integration of the companies and products we have acquired will be our top priority in the coming years

and that will take 1-2 years. At the moment, we are not actively looking for acquisitions, but that doesn't mean that we would let any really good opportunities pass us by. Financially, we would still be able to function. The resources within the company that go hand-in-hand with integrations are what is currently limiting any further acquisitions.

? **financial.de:** *Finally, let us turn to the Softing share. The stock exchange gave the OLDI takeover a positive welcome, but your share is still considerably below its annual high of 17.21 Euro. Warburg Research has increased its target price to 20 Euro. What are your expectations?*

↳ **Dr Trier:** In the short term, it is hard to predict, but in the medium term, it is absolutely certain that we are looking at a re-evaluation. We have grown massively, and not just from sales and earnings potential. By 2015, more than 50% of our turnover in Industrial Automation will be generated outside Europe. That means that we are somewhat removed from the risks of European economic cycles, but we are still taking a share of the hoped-for growth. Once OLDI's integration is complete, we will be, among our competitors, what I have long envisioned us to be: a genuinely international group of companies with its headquarters in Germany. That lays the foundation for our future development, which may extend to other dimensions altogether.

? **financial.de:** *Dr Trier, many thanks for talking to us.*

Disclaimer: the interview was carried out by financial.de for and by request of the client. It is solely for information purposes and does not constitute a recommendation to buy or sell securities. The statements made in it reflect the opinion of the interviewee, which does not necessarily correspond to the opinion of the editorial team. We are therefore unable to accept any liability for the correctness and completeness of the information or for any financial losses.