SOFTING

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Softing CEO: „Doubling of results in second half of the year"

Dr. Trier, Softing's strategic goals have been clearly defined. Your aim is to grow to achieve revenue of over EUR 100 million annually. How close to this target have the most recent acquisitions pushed the company?

Dr. Wolfgang Trier: We want to be an international corporation headquartered in Germany. To me, that means generating much of our added value outside of Europe. We also intend to push annual revenue past the EUR 100 million mark. Considerable progress has been made on both of these fronts since the beginning of this year. Even before we begin 2015 planning, I am confident that next year our annual revenue will top EUR 75 million, which represents growth of more than 50% over 2013, our most recent full year. But much more important even than the revenue boost we have already achieved is our dramatically improved strategic positioning, which ensures we can fulfill our plans for the coming years. This sets us apart from all of our competitors.

How is business with US-based Online Development Inc. (OLDI) developing? The word on the markets is that you have won some large tenders – or are on the verge of doing so. Is there any truth to these rumors?

Dr. Wolfgang Trier: This year, OLDI did in fact land some promising new contracts and follow-up orders. However, this business falls within the growth we budgeted for our subsidiary. That's why we haven't emphasized this much. At this point, we can definitely say that just months after the acquisition, our respect for the achievements of our subsidiary has continued to grow. In addition to a strong order book, we keep discovering gems in management too.

Since the acquisition of US-based OLDI, we haven't heard much about the automotive testing business. In order to hit your revenue targets for the coming year, you would have to really step on the gas. Please explain the current situation to our readers.

Dr. Wolfgang Trier: Over the past year, the Group's revenue was divided about equally between the Industrial Automation and Automotive Electronics segments. The three acquisitions in this year, all in the Industrial Automation segment, tipped the scales heavily in favor of Industrial Automation. However, all it takes is a quick look at our financials for the first two quarters to see that Automotive Electronics is as healthy as ever. In addition to our robust revenue figures, we generated nice returns unhindered by acquisition costs. Due to model changes and new major projects, we are nonetheless faced with new obstacles here at the company. We are addressing these with our in-house Jump project. The introduction of new development tools and processes will further improve our efficiency and secure our competitiveness for the future in Automotive Electronics as well.

Consolidated profit in the first half-year was impacted by the expenses associated with the acquisitions and establishing a new sales organization in the United States. What do you expect in the second half of the year?

Dr. Wolfgang Trier: The company‘s performance in the first eight months reflects the expectations we have communicated to date pretty precisely. We believe earnings will be up considerably in the second half due to the elimination of acquisition costs, the reduction of set-up costs and stepped up release orders for products by major customers. Meeting the earnings guidance of EUR 5 to 7 million for 2014 as a whole announced in the last quarterly report requires approximately doubling profit in the second six months. We continue to believe this will be the case.

The capital increase carried out in July provided Softing with funds amounting to some EUR 7.6 million. When will the announced product initiative be reflected in your financials?

Dr. Wolfgang Trier: The funds we received are budgeted so that the liquidity necessary to leverage synergies with the newly acquired companies will be available for at least two years, even in the event of a drastic economic downturn. In our industry, it usually takes a year to develop a product and another year until revenue is generated. These run-up periods are a factor in managing Softing, but then the life cycle of most products is five to eight years. So, we don‘t expect the product initiative currently underway to produce noticeable effects until 2016.

You have stated a medium-term goal of approaching an EBIT margin of around 15%. Can you state more specifically how margins will develop in the coming financial years?

Dr. Wolfgang Trier: No, we won‘t be able to realistically estimate the speed and steps we need to take to get there until next year when the various effects of the new positioning become so clear that we can use them to derive quantitative statements. I am sure that we will quickly be able to see how close we are to a 15% margin.

In two to three years, you want to generate nearly half of your total revenue outside of Europe. Doesn‘t stepped up expansion in non-European markets also increases operational risks?

Dr. Wolfgang Trier: Increasing the number of customers served and the size of our workforce naturally multiplies the challenges that management faces every day. At the same time, however, our company‘s ability to solve problems must grow by at least the same rate. That‘s why I am so happy that we brought on board excellent managers with the companies we acquired, particularly Online Development, which is our largest individual acquisition. Most difficulties are eliminated locally without requiring them to be addressed by the Executive Board here in Munich. Other issues are presented to us along with a recommendation for action and a well-founded explanation of why a particular course should be taken. The mechanisms put into place are taking effect. As a result, reducing our exposure by decoupling from economic risk in Europe far outweighs the chance that we are increasing risk by taking on new business.

For 2014, analysts expect the company‘s divided to drop substantially from EUR 0.35 to EUR 0.20. Do your shareholders now have to suffer for this aggressive growth strategy – at least in the short term?

Dr. Wolfgang Trier: „Suffer“ is not the right word when you take into account our excellent share price performance since we started pursuing our accelerated growth strategy, and it is even less appropriate if my share price expectations are confirmed in the course of the second half of the year. Shareholders don‘t just profit from dividends, but also - often mostly - from share price performance. In addition, don‘t forget that we made our acquisitions with a very moderate EUR 12 million in debt, which will be paid off gradually from healthy cash flow in the coming years. We haven‘t even discussed the amount of the next dividend yet. You are correct in saying that we want a somewhat more moderate dividend for 2014 than in the previous year, though.

US-based Grandeur Peak Global Advisors, LLC in Salt Lake City has reduced its interest in the company to less than 3%. Does this mean that one of Softing‘s strategic investors no longer believes in the company‘s profitability?

Dr. Wolfgang Trier: No, the facts and personal conversations indicate precisely the opposite. It‘s true that Grandeur Peaks recently reported that its equity interest had fallen below the mandatory reporting threshold of 3%. But if you read the announcement closely, you will see that the absolute number of shares held actually rose compared with the previous report of the company‘s interest exceeding 3%. Ultimately, the reason this investor‘s stake fell below 3% is our approximately 7% capital increase.

Regardless of what happened in this case, at times an investor or two will obviously want to realize their quite considerable gains. That‘s inevitable and also completely normal. It has nothing to do with a lack of confidence: it just reflects certain capital market mechanisms at work.

Softing‘s share price recently corrected from the high for the year of EUR 18.75 to around EUR 14. From your perspective, is this an entry opportunity for farsighted investors?

Dr. Wolfgang Trier: Absolutely! It‘s a fantastic opportunity for anyone who missed the chance to begin investing in Softing or to expand their holdings. Despite the rather restrained first two quarters in terms of profit, I stand by my statements on Softing‘s performance. As a matter of fact, I wish I could take this opportunity myself. When our figures for the third quarter are released, it will be clear why I am refraining from doing so for reasons of corporate law.

Dr. Trier, thank you very much for the interview.