SOFTING

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Softing: International investors snatch top second-tier stocks

Based on its highly successful expansion policy, Softing has been able to further consolidate its already strong double-digit EBIT margin. In addition to a healthy organic growth, CEO Wolfgang Trier has focused on targeted acquisitions. Most recently, the company successfully completed a capital increase. Based on the strong demand after placement, the shares ended-up being over-subscribed several times. Every single share was placed at the daily rate of €16.80 without any discount.

DER AKTIONÄR (share holder) talks to Softing CEO and major shareholder, Dr. Wolfgang Trier.

DER AKTIONÄR: Dr Trier, the capital increase was oversubscribed several times over. Did the level of demand surprise you?

Dr Trier: No, we weren‘t surprised. At that time, as requested by institutional investors, we had finished a road show touching around 30 contacts within the financial centers of Europe. We expected an oversubscription based on the fact that both, large and small institutions showed a marked interest. However, what was possibly even more of a factor than the proceeds was the increased commitment of top-level institutional investors. For the future, this should contribute to achieving a higher liquidity in the Softing shares.

The gross proceeds from the issue were in the region of 7.6 million euros. In retrospect, do you regret not offering more shares?

I have to say no, again. The three acquisitions in the first half of the year had long since been covered. This was just about building resources to push new products and to establish new distribution channels in order to take full advantage of the synergy effects gained through the acquisitions. To do all of this we estimated a medium-term financing requirement of around 4 to 6 million euros, which was comfortably covered by the issue proceeds. Disbursing more shares based on the strong demand would only create a diluting effect. At the same time, raising additional resources without any actual need is certainly not acceptable from the point of view of any existing shareholders.

You have already talked about using the proceeds from the placement to push new and existing products within the next two years, amongst other things. What products do you have in the pipeline and what is your target growth potential?

The aim is to fund new product development over the next two years, carrying the technology from the existing Softing Group into the new companies, like our new US subsidiary Online Development Inc. (OLDI). The idea is that OLDI‘s development team will provide additional country- and market-specific elements in order to attract additional customers. Based on the strategy of pushing new localized products we anticipate double-digit organic growth in these new markets.

What does your sales strategy in the US market look like after the takeover of Online Development Inc. (OLDI)?

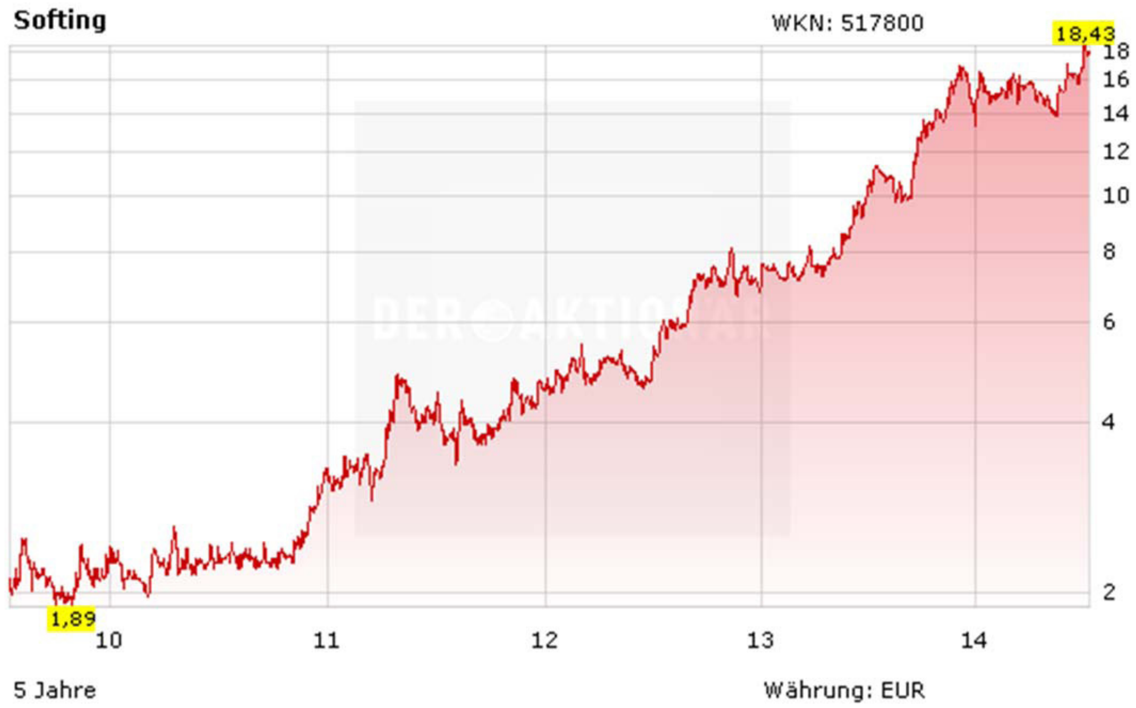
At the moment, OLDI is 90% focused on the OEM market. We are building up a new joint distribution channel for Softing, OLDI, and Psiber. There is a great deal at stake here, so it‘s not going to be a junior scientific research project. From the word go, we will be working with full-time professionals. Also, we have been able to recruit US-based marketing and sales experts. The new-hires have been working many years for our competitors and are very familiar with the market and the distribution channels. This fact alone will do a great deal to secure our success, but has its price in terms of the costs incurred during the development phase.

Looking back over the current financial year: Your company suffered in the first few months of 2014 because some major clients put off buying particularly high-margin orders in quantity until the second half of the year. What are your expectations for the Automotive Electronics and Industrial Automation segments in the second half of the year?

The Automotive Electronics segment will see software and license acquisitions by major clients that will result in seven-figure sales transactions with very good margins. For the Industrial Automation side of our house, we expect interesting call-off orders for industrial projects over the course of the rest of the year. Together, these two factors will lead to above-proportionate results in the second half of the year, particularly as the one-time and start-up costs are constantly declining.

What are your concrete goals as it comes to turnover and results for the year as a whole, following the OLDI takeover?

I can‘t realistically comment on this subject before the end of the third quarter. Softing‘s accounting numbers are currently going through major changes. As a result of the acquisitions, we have gained an additional 25 million euros of turnover over an entire business year, however, as of now we do not have any experience with the seasonal dynamics of these new companies. The tax optimization of our overseas acquisitions is ongoing. Just within the US alone these effects could have a seven-figure impact on our bottom line. For this reason, it‘s simply too early for any serious forecast.



In the medium term, you‘re aiming to get your turnover past the 100 million euros mark. Warburg Research predicts that you will do this in the financial year 2016. Do you feel that this is realistic?

We should get close to that point in 2016 if the economy continues to expand at a normal rate. From today‘s position looking two and a half years into the future, I would expect to get within a window of plus/minus five million euros of the 100 million euro mark in 2016. However, today it is already obvious that, based on the recent acquisitions and the subsequent integration phase, the Softing Group is evolving into a company of higher magnitude. An additional consideration is the fact that over the next two to three years, we will achieve just about half of our total turnover outside of Europe, which will considerably reduce our dependence on a single market.

In the last few years, Softing has generated EBIT margins of more than 10%. Do you see any further growth potential in your profits in the coming years?

Due to the various one-time costs, it will fall this year. However, our medium-term goal still is to achieve an EBIT margin of approximately 15%. Starting with 2015, we expect to have our margins back in double-digit figures. Also, there will be economies of scale, which will further help us on our way towards 15%.

The 2014 annual general meeting decided to allow the shareholders to choose between receiving their dividends in cash or as Softing AG shares. 57.8% of the shareholders opted for receive dividends. Will you be repeating this option in the coming years?

In the near future, we won‘t be repeating this. The cost of paying out share dividends was enormous for all stakeholders, as we had to factor in the deduction of capital gains tax. Companies such as Telekom, which pioneered the model in Germany, can do so more easily, as they have the option to use tax loss carryforwards and then can pay out the dividends without any tax deduction, in connection with the contribution account for tax purposes – and at Softing, we don‘t ever want to see a tax loss carryforward again.

Following the successful capital measure, the value of Softing AG on the stock exchange is now in the region of 125 million euros. Does this mean that the exchange rate has already, to some degree, anticipated the expected positive operative development?

I think that the market recognizes that Softing is currently transforming itself into an international undertaking with a 100 million euro turnover volume. As a result, we are a bigger player in our markets than any of our competitors and we have a more solid international foundation. In parts, this viewpoint may be already today‘s reality. However, no one should assume that we would be resting on our laurels, once we have attained these goals. We will establish new objectives and work towards achieving them, which will have a feedback effect on the company. We operate in an enormous market. Although there are always going to be setbacks in the market, over the years, the sky‘s the limit.

Dr. Trier, thank you for the interview.