Interview with Rochus Kobler, CEO of Phoenix Mecano

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by Robert Jakob

Moneycab.com: Mr Kobler, despite very good quarterly reports, the Phoenix Mecano share failed to really take off last year. What do you say to a frustrated investor like me?

Rochus Kobler: As CEO, I have to focus on operational performance and not on market price. But I'm sure of one thing: now would definitely not be the time to sell. I personally bought shares in the Phoenix Mecano Group last year. In fact, operationally we're doing very well and our future prospects are highly promising. Our Industrial Components division has pulled off a sustainable turnaround, and we're seeing profitable growth in all divisions – something in fact we've witnessed throughout the COVID-19 crisis.

What have the challenges of the last few quarters been like for you – particularly for you personally?

As an individual, and also as a business leader, you can only initiate, enable and support change. The pandemic has proved that. Although we haven't been immune from supply-chain disruptions or lockdowns, our executives around the world have taken decisions on their own initiative, based on their own situation but also mindful of the bigger picture. This has enabled them to manoeuvre our Group through the crisis without a loss of sales.

"We serve global niche markets that are growing in line with megatrends such as digitalisation and automation – especially factory automation and smart furniture."
Rochus Kobler, CEO of Phoenix Mecano

Even so, Phoenix still seems like a conglomerate to me…

I take a different view. Each of our three divisions has a clear focus. We occupy niche positions wherever we operate. These are global and broad niche markets with high barriers to entry. And in many sectors we are market leaders. We're number one worldwide for drive systems for comfort furniture, and number three or four worldwide for drive solutions in medical furniture. Over the last 10 years, we've made a significant transformation as a Group towards becoming a system integrator. Our three divisions leverage growth drivers based on global megatrends. In the DewertOkin Technology (DOT) Group, we develop system solutions for smart furniture. The other divisions are geared towards the automation and digitalisation of smart factories, including human-machine interfaces, industrial IoT applications and LEAN workstation systems.

You're referring to the SETAGO Pick by Light digital assistance system for assembly?

Yes, exactly, but also not forgetting our SETAGO integrated systems with ergonomic workstations for the implementation of LEAN production cells. These are used, for example, in the medtech and pharmaceutical industries and by watch manufacturers. Phoenix Mecano also uses the same systems on its own shop floors to manufacture flexibly in a high-mix, low-volume environment.

Industrial Components currently has an operating margin of around 8%, and Enclosure Systems as much as 14.2%. The DOT Group, the largest of the three divisions, has encountered some setbacks in the shape of chip bottlenecks, high freight rates and skyrocketing commodity prices.

But these things can be managed. Over the past decade, DOT has consistently posted growth in excess of 10%, most of it organic. Here, too, we can pass on our production costs, albeit with a slight delay. In our other two divisions, we've been able to raise prices several times in the last few quarters. According to our analyses, our Enclosure Systems division is the largest and most profitable enclosure manufacturer in Europe.

"With lower-volume orders, where we're able to meet customer requirements very specifically and exactly, the margins are bigger and our pricing power greater."

Is it easier to adjust prices for small or large batch sizes?

In the case of large quantities – which we produce for major customers of the DOT Group, for example – the prices are fixed for longer periods in framework agreements. With lower-volume orders, where we're able to meet customer requirements very specifically and exactly, the margins are bigger and our pricing power greater. There, our customers prioritise flexibility and the ability to deliver over price, and we can already factor in commodity price increases when tendering or quoting.

How much steel or aluminium does DOT process in a year?

We process over 1,500 tonnes of aluminium per year in the Enclosure Systems division alone. Steel consumption for the DOT Group is around 60,000 tonnes per year. No doubt you were referring in your question to the rising cost of these two raw materials, and I can confirm that these prices have risen massively over the past year. The same applies to the price of the plastic pellets we use. But the situation has now stabilised, and things aren't as tense as they were, although some prices remain high.

"Thanks to strategic focusing and the dynamic growth of the DOT Group, we're no longer as exposed to Europe as we used to be."

Phoenix Mecano is also increasingly turning its attention beyond Europe. Only around half of sales are generated on the European market compared with two thirds a decade ago. That trend is pretty constant, I assume?

Indeed, driven by the strong growth of the DOT Group. The advantage of this is that, from a Group perspective, our business has become noticeably less cyclical. Asia is extremely dynamic, and DOT's main end market, North America, is characterised by consistently strong, structural growth. At our new industrial park in Jiaxing, around 90 minutes south-west of Shanghai, we're creating a huge industrial cluster for high-tech seating, comfort beds and hospital beds. Over the next five years, we'll be investing €100 million in that site – not only in 115,000 m² of industrial space but also in machinery and laboratories and, above all, in highly-skilled research and development staff. Consolidating our sites will also substantially shorten our logistics and information chains.

Is it hard for a Western European company to cope with all the red tape in China?

For us it hasn't been a problem at all. We're already very well connected locally and have the support of the authorities. But you're right: in terms of the DOT Group's planned IPO, we've found that stock-exchange regulations in China are very strict.

Why have you postponed DOT's IPO in China until at least 2023?

We'll submit the IPO application in 2023 at the earliest. In the current climate, we wouldn't get a very good price. In any case, there's no immediate rush to go public with our subsidiary. We want to optimise our operational performance and working capital first, while exploiting potential for further growth. Then we'll decide on the best time for the partial IPO.

"There's no immediate rush to go public with our subsidiary."

Under Swiss GAAP FER, your equity ratio has fallen from almost 60% to just over 35%. Isn't that cause for some concern?

That's right – our equity ratio was initially reduced for accounting reasons following the switch from IFRS to GAAP in 2018. There were also two major takeovers whose goodwill was offset directly against equity, and lastly DOT's strong double-digit growth requires a lot of capital. However, due to our constant cash flow, this isn't a problem. We don't need to dilute our enterprise value.

As a paramedic, I was particularly pleased by your recent takeover of BEWATEC. What do you expect to gain from it?

As I said, the Phoenix Mecano Group has evolved from being a pure component manufacturer to a system integrator. These systems are becoming increasingly electronic and digital, and the importance of software is growing. BEWATEC is a leading manufacturer of digitalisation solutions for hospitals and clinics. With the takeover, we're combining hardware, i.e. our drive systems and sensors, with BEWATEC's software solution ConnectedCare. BEWATEC ConnectedCare is a patient-centric platform that enables hospitals to digitalise their interaction with patients throughout the treatment process, so before, during and after their stay in hospital. With this takeover, we're combining hardware and software to create the basis for smart, digital applications for healthcare and comfort furniture. We see demographic change and the associated demand for home-care solutions as a long-term growth driver in this area.

The book-to-bill ratio was a very solid 105% in Q3. Will it contract due to the accordion effect in the global value chain?

Not materially. While we expect the record-high level of orders on hand to decline in some areas, our order books will remain full in the months ahead.

And what about the dividend?

The target payout ratio for dividends to shareholders is between 40% and 60% of our annual profit adjusted for special items. The exact figure will be decided by our Board of Directors.

Rochus Kobler

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CEO of Phoenix Mecano

Rochus Kobler joined the Phoenix Mecano Group as COO in 2010. He has been the Group's CEO since 2016. Before that, Kobler was CEO of Gutta Group AG for eight years. He worked as a management consultant at McKinsey & Company in Zurich, Chicago and Johannesburg for five years. After studying industrial and business engineering at ETH Zurich, he completed a Master of Science in Advanced Manufacturing Systems at Brunel University London and a PhD at the University of St.Gallen Institute of Technology Management. Rochus Kobler is married and has three daughters. He enjoys being outdoors, trail running, high-mountain touring and long-distance running.