

Harsh winds on the lighting market

After the challenging but successful transition to LED, lighting companies expected an economic tailwind. Instead, they are now facing the relentless harsh winds from increased price pressure. Martin Kanatschnig and Dr. Kurt Gerl from the M&A advisory firm Aquin talk about success stories that defy these adverse circumstances.

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For investors who encounter the lighting market for the first time, the same two questions always arise: 1. “Why do over 2,000 lighting companies exhibit basically the same products at the Light & Building fair?” *Our answer:* The lighting industry still has a regional character and consists of countless application niches. While regional borders are dissolving more and more, niches will remain. 2. „How do some market players achieve extremely high profit margins, while the vast majority is struggling economically?” *Our answer:* The difference is „Strategic Focus“ & „Operational Excellence“.

If manufacturers succeed in focusing on niches and developing specialty products, this can be a good way out of the margin squeeze. Let us cast light on Fagerhult, F.W. Thorpe, and Glamox, that are among the largest lighting companies in Europe. Without a doubt, due to their size they take advantage of economies of scale e.g. in sourcing, production and R&D. Towards their markets though, they remain organized in small, agile units and pursue a multi-brand strategy in order to address the market with greater customer proximity and profound in-depth application know-how. On average, these three companies achieve an EBIT margin of 13%.

This sets them apart, not only from the general average of the lighting market, which is dominated by smaller companies, but also from their competitors of similar size, who operate rather centralized and serve many different markets with just one single brand. For each

of these comparative groups, the EBIT margin averages at only 4%.

One fact that equally applies to all lighting companies: The setup of operations must constantly be reconsidered. Within the last years, we have been able to visit around 70 lighting companies and their production facilities. We saw highly individualized manufacturing, automated production lines for large quantities, pure sourcing models and sophisticated „manufacturing footprints“, that manage the balancing act of producing and delivering a wide diversity of products within just five days of the initial order placement. There is no such thing as a universally correct approach. However, all models for adding value are subject to rapid change. Many of them lack the economic means and experience that are necessary to move forward on their own.

The speed of change in the lighting market will continue to grow and the number of M&A transactions will remain high, as there is faster sailing in the slipstream of a corporate group.



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Martin Kanatschnig specializes in the purchase and sale of technology-oriented companies, corporate spin-offs, management buy-outs and growth financing. As an internationally experienced M&A-expert, he successfully completed numerous transactions, including 13 in the lighting industry. Prior to joining the M&A-business in 2005, he worked at Siemens Corporate Technology. He studied Business Administration and Technical Physics at the Universities of Graz and Manchester.



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Dr. Kurt Gerl became Senior Advisor at Aquin in 2009. As a former member of the management board at OSRAM GmbH, Dr. Gerl has wide experience and deep insight into the global lighting and electrical appliances industries. Before his accession to the management board, the General Lighting division among others was under his direction. Dr. Gerl also passes on his expertise as a lecturer for the MBA-course General Management at the long-distance college Hamburg.

ABOUT AQUIN

Aquin is a corporate finance advisory specialized in medium-sized, privately held companies. We stand for independent corporate finance solutions in the context of company successions, growth-related capital increases, spin-offs, acquisitions and corporate financing.

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