

Biesse aims to grow its services business and leverage digital

Mechanical sector. The group is pushing sales of its systems (its connected machines). Execution risk in integrating recently acquired Forvet.

by Vittorio Carlini

Biesse has a number of priorities. They include: increasing sales revenues; boosting turnover from Systems (that is, from linked and interconnected machines not sold as individual units); digitalisation and development of the company's IT systems; and integrating the recently acquired Forvet. This column spoke to the company's financial leadership.

The divisions

We start with the business itself. As of 30 September, Machines and Systems accounted for 90.9% of revenues, Mechatronics for 13.4%, with an overlap of 4.3% between the two divisions. Notwithstanding the company's aim to grow in both areas, is this picture set to change in the medium term? The answer is no – the breakdown is likely to remain the same. That's not to say, however, that the mix within the Machines and Systems division won't undergo any changes. Specifically, Systems is likely to increase its share. Currently this area of the business accounts for less than 20% of turnover, but could hit 25% over the medium term. Biesse is looking to increase sales of integrated, interconnected machines firstly because it boosts customer retention and secondly because it can offer a greater range of services – with margins for Systems higher than for stand-alone solutions. Lastly, these more sophisticated solutions also fit into the group's strategy of positioning itself at the higher end of the market.

Acquisitions

On closer inspection, the recent purchase of Forvet for around €41m is a further example of this strategy in action. One of the strengths of the newly acquired business – which gives Biesse the opportunity to bolster its glass processing machine offering – is its sales of Systems. The deal will therefore help drive up revenues from linked and interconnected machines. And beyond Forvet, Biesse's growth by acquisition is set to continue, with the group's list of potential targets looking to meet two objectives. The first is to expand its product portfolio in sectors in which it is already present. An example of this would be adding new technology to the wood segment. The second objective, meanwhile, is to develop its Systems offering in segments where it has a minimal presence – plastics and metals, for example. In general, potential targets include small-to-medium sized firms (up to €50m in revenues) that are already profitable, thereby excluding turnaround projects. There are two points to bear in mind regarding the company's M&A treasure chest: firstly, the

group's prudent approach, and secondly, the fact that, as of 30/09/2021, its net financial position had improved to the extent that it now stands at €113.88m (which, however, also includes the €41m paid for Forvet). In addition, Biesse points out that it has committed credit lines of more than €125. All in all then, the group is confident it has a sound financial footing to support its future acquisition strategy.

Execution risk

That doesn't mean it's all plain sailing: the reality is more complex. And so, returning to the Forvet acquisition, we highlight a risk inherent to all acquisitions: execution. It's a risk that could impact the group's business, entailing, for example, a reduction in margins. Biesse shrugs off the concern, reminding us that Forvet is a highly profitable business. Naturally, given its lean structure, investments will be needed to further strengthen the company. But, on the other hand, in volume terms, the newly acquired company will be able to exploit Biesse's more extensive sales network. Similarly, continues Biesse, while Forvet's ebitda margins may see a temporary fall before rising once again (albeit not to pre-acquisition levels), the ratio between ebitda and revenues at a group level will not undergo any dilution – on the contrary, it will see a benefit.

The digital world

So much for Systems and M&A. But what about digitalisation? This is a common thread running through the company's business. The Sophia application – a technology allowing remote monitoring of a machine's use and how it is performing – is a good example. It allows Biesse to acquire data and information, thus improving both the product and its related service offerings. It also means that the customer can see, for example, whether the machine is being used correctly; or undertake preventative maintenance. As of today, the digital platform encompasses around 60% of new products built annually, with the company aiming to increase that percentage. But digitalisation extends beyond the Sophia app: as part of the project to boost services revenues (the target is to increase this to around 20% of the total business), digitalisation will underpin the creation and development of hubs supporting the company's services. The project, which will launch in the next 12 months and be gradually rolled out (starting from Italy), involves creating several hubs across a range of geographies: from the US (for North America), to Asia (in support of Southeast Asia) and China through to the Middle East and Italy (for Europe). A closer look reveals that the greatest investment will not be on physical buildings (in large part, already in place), but on IT and digitalisation processes. This will make managing and offering the services faster, more flexible and more efficient (for example, in the spare parts and support market).

The issue of raw materials

We now turn towards the troublesome question of commodities. Recently we've seen a marked rise in raw materials prices. This results in a higher cost of sales, and risks putting a brake on companies' profitability – Biesse included. The company is aware of the issue, which could continue in the coming months, but remains confident. Firstly, it says, higher expenses are counterbalanced by greater operational efficiencies. And, as is customary in the sector, rising costs are reflected in its final prices. Finally, as the group points out,

demand remains high and is not influenced by fluctuations in price; its order book is proof of this – at 30/9/2021 it had risen to €291m (+48% compared to 2019).

Global supply chains

Despite this, one further issue remains: the serious problems that continue to affect global supply chains, particularly regarding electronic components. As mechatronics accounts for a significant part of Biesse's revenues, these problems could impact its growth or profitability. Again, however, the company dismisses these concerns. While it is true that the supply chain impasse could, for example, mean a rise in freight costs, these are dealt with on a pass-through basis; moreover, rising freight costs in the period between the contract being finalised and its execution have a limited impact on ebitda. As regards procurement, the group says it has taken the necessary precautions: it has improved planning and is currently developing an integrated supply chain management process. This, says the company, will enable it to manage the situation. And, indeed, on the one hand there appears to be no supply shortage to date; on the other, the company sees 2021 revenues as being in line with those of 2019 (the forecast for the end of the year is for more than €700m) with ebitda margin above 11%.

The sales network

Lastly, we turn to the international nature of the sales network. Today Biesse has 35 branches across the world. 2021 has seen the opening of three: in Japan, Brazil and Israel. We could see further new openings in the future, although not this year – but where might these be? The company's strategy remains the same: where Biesse sees a market becoming significant, and when it perhaps only has a presence via agents, opportunities could arise. With that in mind, geographies that could be on the group's radar include East Europe or Asia, particularly Southeast Asia.

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Net financial position

As of 30/9/2021, the group had a positive NFP of €113.9m. This figure still included the €41m to be deducted for the Forvet acquisition. Partly in light of expected cash flows, NFP for 2021 is forecast to be above €65m.

Capex and automated plants

In 2021, the group's overall capex is forecast to be within the €20-25m range. In addition, there is a pilot project underway to automate the plant that produces electrospindles. This should result in a facility which does not require human intervention and will enter into operation in 2022. The total investment in this project amounts to around €7m. And turning from projects to the balance sheet: as at 30/9/2021, Biesse's net invested capital was €136.6m (compared to €165.2m at the previous year end)

