

## INTERVIEW

### **Datwyler CEO: «We are currently experiencing a very strong organic growth»**

Dirk Lambrecht, CEO of Datwyler, says what potential he sees for HealthcareSolutions and Food & Beverage, and explains why electric cars are no detriment for Datwyler. He also expounds why he wants to make acquisitions in China and prefers to remain conservative about the margin target for 2021 for the time being.

Michael Griesdorf, March 30th, 2021



Dirk Lambrecht, CEO of Datwyler: «Our order situation is very comfortable at the moment.»

The pandemic affects Datwyler as a producer of elastomer components for the health, automotive, and food industries and as a distributor of electrical appliances both positively and negatively. In 2020, a modest sales increase of 1.2 % in local currencies could be achieved.

For the future, however, Datwyler sees itself in a good position to benefit from long-lasting market trends: In the sectors Healthcare Solutions and Food & Beverage, the management anticipates double-digit growth rates for the next few years, CEO Dirk Lambrecht says in conversation with The Market.

Furthermore, the disruptive shift in the automotive industry—away from combustion engines towards electric vehicles—is not viewed as a threat by the sixty-year-old: «We do not anticipate the value of all our products to decrease per vehicle in the future.» He does anticipate car sales returning to the level of 2018, the last truly good year for car manufacturers, only in 2024 or 2025 though.

The company from Schattdorf in the Swiss canton of Uri has acquisition plans first and foremost in China. There, according to Lambrecht, it wants to purchase a local production facility in the Healthcare Solutions sector. Furthermore, the CEO explains the conservative outlook of a basically unchanged margin for 2021 with the pandemic still entailing many uncertainties. The order situation, however, is very comfortable, he says.

Mr Lambrecht, in 2020 Datwyler was facing strong headwinds at times. What was the biggest challenge for you last year?

*At the outset, we had to ensure the safety of our employees and partially shut down our production facilities. That was challenging. In the second half of the year, demand recovered and we had to make sure to reactivate our capacities as quickly as possible. That, too, was not easy to accomplish.*

In the Healthcare Solutions sector, where you produce rubber plugs for medical vials, you are riding a wave of success since the pharmaceutical industry develops more and more liquid substances. Being one of the market leaders in this area, where do you see yourself mid-term?

*I am very optimistic that we will be able to grow disproportionately to the pharmaceutical market in the years to come, that is to say: at double-digit percentage rates.*

What are the reasons for your confidence?

*Firstly, we benefit from COVID vaccines being injected and thus having to be transported in vials with stoppers, some of which are produced by us. Secondly, we expanded our product range over the last few years by adding further high-quality products. They are characterized by a significantly lower particle load and are produced in highly automated facilities in most modern clean rooms. That is our FirstLine standard. That way we are able to deliver primary as well as secondary packaging components for biotechnological medicines, that show a strong growth but are very demanding regarding purity.*

Can others not to do the same?

*Only very few suppliers can. The entry barriers for this market are high. Also we moved our production and/or additional employees even closer to our customers in important markets such as the US, India, and China.*

As a manufacturer of physical goods you cannot maintain double-digit growth rates endlessly without additional investments. How long will the capacities at Healthcare Solutions suffice?

*We very recently opened a plant in the US where we are able to produce the aforementioned stoppers with a very low particle load on the highest level. So the capacities will suffice for a while. How long that will be depends on how high the demand for COVID vaccines turns out to be in the years to come. Should they at a later point be provided in pre-filled syringes as well, which we expect to happen, that would further increase demand. Because for pre-filled syringes we supply not only the plunger plug but also the needle shield. Depending on the development, we will reach our limits again already in late 2023 or early 2024 and as a consequence will have to invest once again.*

In China and South America you want to keep on expanding with Healthcare Solutions. What is this country's or this region's appeal to you?

*China will become the largest market for drugs in the foreseeable future because of its population density. If you want to grow faster than the market in the long term, you have to be present in China. South America is attractive to us as well because of its large population.*

The division Industrial Solutions meanwhile in parts is grappling with low demands because of both the pandemic and for structural reasons. Your customers from the automotive industry have been struggling since 2019 already. By when do you estimate the order situation of the automotive industry to have normalized on the level of 2018?

*While we see the car market recovering faster than originally expected, we still anticipate the level of 2018, the last truly good year for car manufacturers, to be reached only in 2024 or even 2025.*

Car manufacturers are forced by the EU to produce more electric models. Also multiple concepts are currently in development to make vehicles more intelligent resp. autonomous. Is that a chance or a risk for Datwyler?

*We view this change as a chance. To us, intelligent rubbers, where micro sensors are welded directly into elastomer components, show especially great potential. Many exciting application possibilities for the car of the future arise from those.*

But you supply, for example, components for catalysts of combustion engines. Until recently, you considered these parts a growth market. Does the potential of the new applications top that of the old?

*Of course there are some products that in light of the electrification of vehicles will become useless in the long run. Most of our products are installed in both, vehicles relying on combustion and electricity, though. Breaks—many of our parts are integrated there—are needed independent of drive type. We therefore do not anticipate the value of all our products to decrease per vehicle in the future. New applicabilities in the field of intelligent rubbers and other products for fuel cells or for autonomous vehicles that are not yet part of today's vehicles may even result in an increased value compared to today.*

Things are going well for you in the subsegment of Industrial Solutions, Food & Beverage, where you primarily produce coffee capsules and the accompanying sealing rings for Nestlé. You recently even extended the contract with them until 2030. What development do you anticipate for sales in Food & Beverage for the next few years?

*We not only extended the contract with Nestlé. We also won a new customer in the beverages industry. Also the market for coffee capsules continues to go very well. We have a very high utilization rate and thus over the next eighteen months will put several more plants into operation. For the next two to three years I therefore expect the growth in the Food & Beverage sector to accelerate towards double-digit rates.*

Are there further application possibilities aside from coffee capsules where your expertise in the field of Food & Beverage might be put to good use?

*Yes, there are. The previously mentioned customer in the beverages industry is one example. Another customer in this area produces filling systems, and we provide the seals.*

So it can be anticipated that the revenue share of customers other than Nestlé will increase over the next years in Food & Beverage?

*That is correct.*

Torsten Maschke, manager of the Industrial Solutions division, announced last Friday that he would leave Datwyler. What is the reason for his departure, and do you as his successor have the time required to manage the division successfully?

*Torsten Maschke took the decision to leave Datwyler in view of his professional development and life planning. Starting from April 1st, I will manage Industrial Solutions directly. Since the restructuring is completed and the division is comprised of own subsegments, it can be done in parallel to my function as CEO.*

Datwyler has repeatedly made acquisitions in the past. Where do you still see white spots on your map?

*We are currently experiencing a very strong organic growth. Therefore we do not depend so much on acquisitions. Still, we would like to strengthen our present business with acquisitions. We do so by either purchasing new, complementary technologies, or by expanding on our presence in particular markets with an acquisition.*

What does that mean concretely?

*In the future we want to purchase an own production facility in China in the Healthcare Solutions sector so that we no longer can supply this important health market only from India. Also barriers loom when importing to China. Now, in theory we could build a plant in China ourselves as well. That would require specialists though, and our specialists are already heavily engaged in our organic growth projects. For that reason, we are currently looking for a takeover target in China.*

The goal is taking over a Chinese competitor?

*Not necessarily. We could also imagine taking over a company producing similar products, that is: products for the health market that are based on elastomers. What matters is just that the plant or plants of this corporation are equipped in a way that would allow us to produce our products with our usual quality standard, and that synergy effects justify the purchase price.*

How much are you prepared to pay at maximum?

*The companies we are looking for do not necessarily have to be large. An object with a revenue of CHF 50 to 100 million and a high profitability would be ideal. So it will be no transformational acquisition. That is currently not our goal given the high organic growth. Even though with our firepower of more than CHF 500 million we could stem a larger takeover.*

Meanwhile you sold a large portion of your distribution business for electrical appliances. All you kept was the affiliate Reichelt. Why are you holding on to it?

*Reichelt is positioned very well, which is why it shows good growth rates. The profitability is fine, too. What is more, it is still managed by the same management as when we acquired it twelve years ago. They are very experienced, and thus Reichelt is very easy for me to manage. So all in all we are under no pressure to sell the business.*

Still: The business of distributing electrical appliances no longer really matches the profile of today's Datwyler. Do you have any divestment plans for the division?

*Sure, Reichelt is not part of our core business. So if somebody willing to pay the right price comes, we will of course always have a ready ear for that.*

Ultimately, Datwyler is a specialist for rubber components. That does not sound particularly innovative. What distinguishes you from others, what are your unique capabilities?

*We are able to proudly say that we, based on our core competencies, are the leading high-tech company in the elastomer industry. We possess great experience in mixing rubber, in engineering the components, and in producing parts in volumes of billions. Furthermore, we automated and digitized many of our work steps.*

What advantages does that offer you?

*We are able to reliably supply our customers with our components in constantly high quality. That is very important in our business since our components are often highly relevant to the final product. If they do not work flawlessly, neither will the final product. This fact by the way is also what enables us to achieve an above-average margin on our products. Despite their great relevance, our components account for only a fraction of the overall production costs of the final product.*

Speaking of margin: For 2021 you aim for an EBIT profitability of 15%, which is not much more than last year. At the same time, you anticipate the sector Healthcare Solutions with the highest margin within the group to grow in a double-digit percentage range. Why are you not more optimistic about the profitability of Datwyler as a whole?

*Currently, we prefer to be cautious in our prognoses. We are still in a pandemic situation. Should we, or a customer of ours, have to once again close down one or more plants, it will have an immediate impact on our result again. That is why it was important to us to be able to give a reliable baseline along with the annual result. I agree with you though that our current order situation is very comfortable. For now, we are on course. When the mid-year result comes, we will surely be able to say more.*

With the economy recovering after the pandemic, there is a risk of a bottleneck appearing in the supply chain. Are you already having difficulties to obtain basic materials, or do you see yourself running into this kind of trouble?

*So far, we are still receiving our raw materials reliably. But in order to be prepared for all eventualities, we precautionarily stocked up on raw materials in some regions.*

It is a fact that raw material prices are on the rise. Can you pass on higher production costs to your customers?

*Most of the contracts with our customers include raw material clauses. That means we can pass on the prices to the customers for the most part. So changes in raw material prices are not too huge of a problem for us.*

#### About the Person

---

Dirk Lambrecht works for Datwyler since 2005. Until 2012 he managed the corporate division Sealing Technologies. After that, he took over the division Sealing Solutions, which in 2019 was split up into the segments Healthcare and Industrial Solutions. In 2017 he became CEO of Datwyler. Lambrecht is a board member of Swissmem, the industry association of Swiss mechanical and electrical engineering industries. He is sixty years old and has a mechanical engineering diploma in the field of apparatus engineering from the Hamburg University of Applied Sciences. He underwent additional training at the Management School St. Gallen, among others.