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ITALIAN LUMINAIRE MANUFACTURERS FINANCIALLY OUTSHINE THEIR GERMAN COMPETITORS CLEARLY

AQUIN STUDY REVEALS SURPRISING FINDINGS

by Martin Kanatschnig, Dr. Kurt Gerl, Raphael Muth and Jana Dillmann | April 2024

You have probably asked yourself before: why are some lighting companies so successful while others are not? Even though they seemingly do the same? We have been advising company takeovers for 14 years, during which we were involved in 16 transactions in the European lighting industry.
Investors have repeatedly asked us these questions.

Italian lighting companies are twice as profitable

Even before we found a new owner for Ingo Maurer in Foscarini, we had been in contact with several Italian lighting firms and had the opportunity to visit many of them on-site.
We were repeatedly surprised by their strong financial performance. This ultimately prompted us to conduct a comparative study between Italian and German luminaire manufacturers. In this context, we also acknowledged Austrian companies.
The results were astonishing despite our prior knowledge: Italian lighting manufacturers are nearly twice as profitable as German ones! The median EBITDA margin for Italian manufacturers was 14.9%, while their German counterparts only reached 7.7%. Figure 1 illustrates the slightly higher average EBITDA margin compared to the median, a difference driven by individual extreme values. Austrian luminaire manufacturers are not only geographically situated between the two countries, but their median EBITDA margin also lies in between, at 11%.

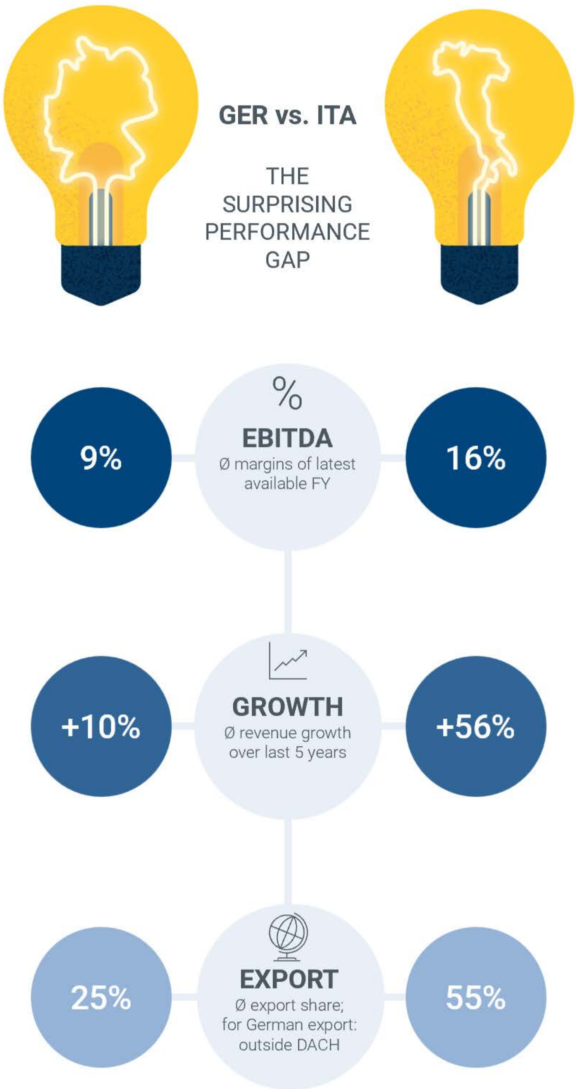

Figure No. 1

Moreover, over the past 5 years, the Italians managed to grow by over 50%, while German players could only achieve a revenue increase of 10%.

Italy is an export champion in the lighting industry

What surprised us further, were the export shares of lighting companies in both regions. While the Germans typically only sell about a quarter of their products to non-German speaking countries, the export share of the Italians is over 50%. Among German manufacturers, we repeatedly hear how difficult it is for them to grow internationally.

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What a difference - but where does it come from?

Before we attempt to provide a convincing explanation for this "miracle", we would like to briefly describe how we arrived at these findings. We have analyzed both our own extensive database as well as accessed public sources covering the European lighting landscape. Thus, we have examined the financial statements of 37 Italian, 30 German, and 7 Austrian lighting manufacturers. As selection criteria, we used revenue (greater than EUR 10m), segments (excluding components and niche applications), and, necessarily, the availability of data (companies in Germany are far less transparent than in Italy). The footnote to Figure 2 shows the names of the companies considered - in our opinion, a representative sample.

To uncover the main reasons for these vast disparities, we began by scrutinizing the "usual suspects". The first hypothesis we focused on was the company size. However, as can be derived by Figure 2, both the German and Italian lighting markets are highly fragmented and characterized by medium-sized entrepreneurship. Even if the two comparison groups were different in terms of revenue size, as shown in Figures 3 and 4, this criterion does not offer additional insights. In the three countries examined, there is no significant correlation between size and profitability – which is also a remarkable finding.

Another "suspicious" criterion was the ownership structure. Are there perhaps structural differences here? Are more companies in Italy owned by financial investors who vigorously demand high margins and growth rates? Yet, once again, we did not find evidence: The proportion of privately-held companies in Germany is comparable to that in Italy (Figure 5).

SIZE STRUCTURE OF PEER GROUP
as of latest available revenues (in EUR)*

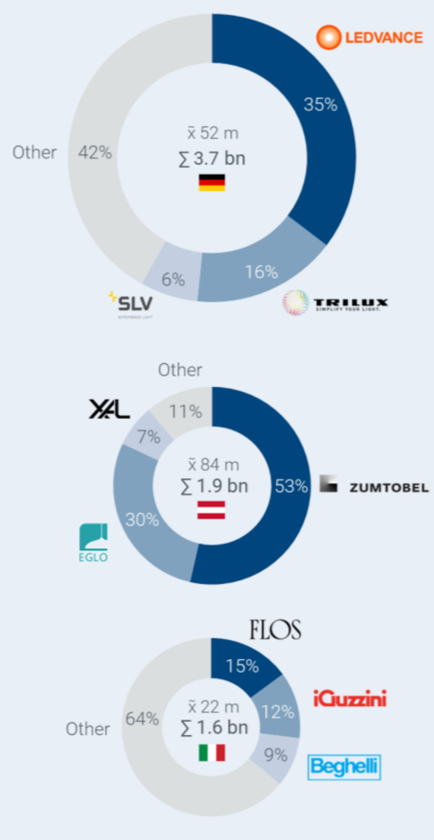

Figure No. 2

PROFITABILITY OF GERMAN AND AUSTRIAN LIGHTING COMPANIES
as of latest available FY (2021/2022)

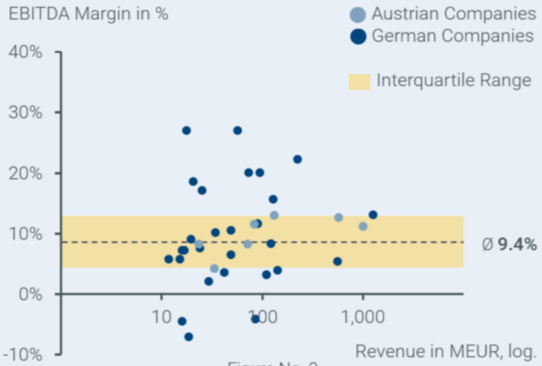

Figure No. 3

PROFITABILITY OF ITALIAN LIGHTING COMPANIES
as of latest available FY (2021/2022)

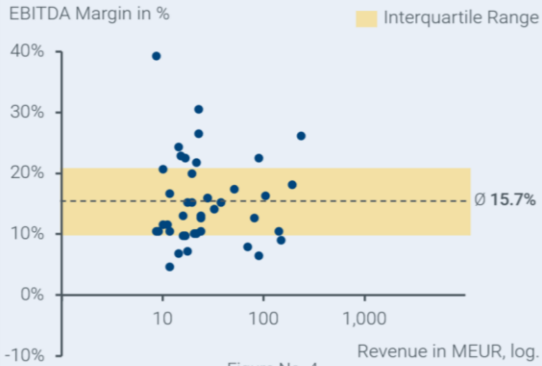

Figure No. 4

OWNERSHIP
as of Q1 2024

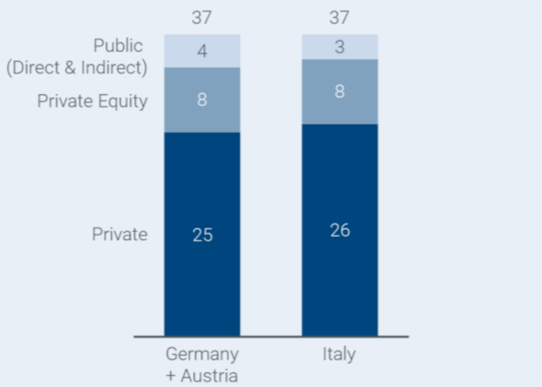

Figure No. 5

COMPANIES PER LIGHTING SEGMENT
by number of lighting firms per segment

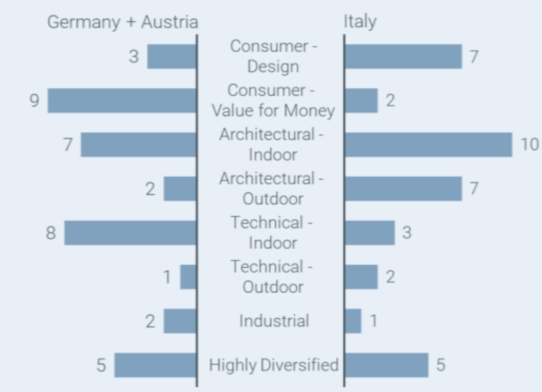

Figure No. 6

*Includes only companies with publicly available records and >10 MEUR in revenues. Analysed Lighting Companies in Italy, Germany and Austria: 3F Filippi, AEC Illuminazione, Schuch, Arcluce, Arditi, Artemide, Barthelme, Beghelli, Cariboni, Castaldi, Catellani & Smith, Davide Groppi, Disano Illuminazione, durlum, EGLO, ERCO, ESSE-CI, EWO, Fabas Luce, Fael, Fischer & Honsel, FLOS, Foscarini, Gea Luce, GLOBO, GRAU, Hess, Ideal Lux, iGuzzini, Ivela, LED Linear, Ledvance, Leipziger Leuchten, Lenneper, Linea Light, L&L Luce & Light, Lombardo, Luceplan, LTS, Martinelli Luce, MBN, Molto Luce, MÜLLER-LICHT, Nobilé, NORKA, Occhio, Oluce, OLIGO, Panzeri, Paulmann, Penta, planlicht, Platek, Prolicht, REGIOLUX, REV Ritter, RIDI, RZB, Selux, Simes, Siteco, SLV, Slamp, STEINEL,TecMar, TRILUX, Trio Leuchten, Viabizzuno, Vistosi, Waldmann, XAL Group, Zumtobel Group, Zafferano.

But what are the "real" reasons? Structural differences become evident when looking at Figure 6, which assigns companies to different lighting application segments. German lighting manufacturers have made a name for themselves with their high technical quality. In order to remain competitive despite rising labor costs, they have heavily invested in machinery and equipment. Unfortunately, Chinese and Eastern European competitors have caught up in terms of quality. Especially in the field of “commodities”, they exert strong pressure on German companies. Technical quality alone is no longer a unique selling proposition (USP).

Design expertise surpasses functionality

Italian companies excel when it comes to Design and Architectural Lighting. Apparently, good design is very individual and hard to reproduce by competitors from low-wage countries. Mastering this art has become a prerequisite for achieving attractive margins and export success. Our data underline this hypothesis. Even German design-oriented companies with individual lighting solutions tend to have better margins than those focusing more on technical lighting in high volumes. We observe that the latter increasingly source their basic product lines from China or Eastern Europe.

Differences in labor costs are not crucial

Do employees in Brescia perhaps earn lower wages than those in Sauerland? Yes, but this effect is not decisive. On average, Italian lighting manufacturers based in the north have personnel costs of €53k per employee, while German ones bear €58k. More important seems to be the fact that Italians have a lower level of in-house production than Germans. In addition to substantial investments in automating local production, they have established a flexible production setup earlier and thus gained relevant experience in sourcing (pre-)products.

In-house production or outsourcing? Both!

Consequently, significantly fewer employees are required to achieve the same output. The examined Italians generate €420k in revenue per employee, while Germans only achieve €250k.

Fresh capital opens up room for maneuver

Our conclusions for German manufacturers: Apparently, greater customization of the product offering contributes to improved profitability. This implies moving away from pure in-house mass production (in Germany). Also, an increased focus on exports seems to have a very positive -impact. Given the challenges and slow pace of implementing these strategies organically, actively pursuing acquisitions in other European countries presents itself as a viable option for German lighting companies. In case internal funds and experience are lacking for an endeavor like this, a large number of capital providers are ready to support development steps.

Acquisitions within Europe will increase significantly

Our conclusion for Italian manufacturers: The German market holds the greatest sales potential in Europe. With few exceptions, Italian lighting manufacturers, despite their other export successes, struggle to establish themselves in Germany. A merger with a well-established German lighting company, with a strong presence in the market and distribution channels, could prove to be a promising strategy. At this year's Light & Building trade fair, we heard from several Italian lighting companies that they are now actively scouting for German companies for the first time. The economic success of recent years has equipped them with considerable cash reserves for such a venture.

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