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ACROTEC: VERTICAL INTEGRATION IN THE SUPPLY SECTOR

INDUSTRY

François
du Pasquier
02 FEBRUARY 2021

Acrotec is probably one of the most important players in the watch supply industry. Operating in the watch-making, medical and aerospace high-tech markets, the company has a turnover of around 100 million Swiss francs, employing 1,200 people, generated turnover of CHF 103 million with net profits of CHF 15.8 million, compared to 6.6 million in the previous year. It is a family-owned, fully private-equity group, pressure that it has worked into an agreement to acquire Acrotec. The transaction is expected to be completed in the first quarter of 2021.

A — the time of writing this article, we have just learned that the global investment company, KKR, has agreed to buy Acrotec, which supplies the watch-making and horology industries from Carlo Capitel for an "undisclosed sum".

Reuters reported last October that Carlo Capitel was seeking a buyer for Acrotec, which has a turnover of around 100 million Swiss francs. Acrotec supplies high precision medical applications to the watchmaking and medtech industries, as well as to the automotive, aerospace and auto sectors. It employs around 1,200 people.

This partnership will "leverage Carlo's healthcare expertise and strong relationships with medical device companies to accelerate expansion into new sectors and geographies in Europe and in the United States", Carlo's said.

Acrotec was founded in the mid-1960s by Cliff and Gordon Gallup's uncle, who is the uncle-in-law of the acquisition by The Carlos Group.

Europa Star: All the watchmaking suppliers we've met lately say that vertical integration is the answer. Is it the answer?

François Billig: Yes, of course, we're of manufacturing at a lack of visibility, an expression of volatility, a never-ending succession of ups and downs. And we're seeing it in all our sectors of activity, whether it's in the watch, medical, aerospace, or auto. In the medical sector we know that as the pandemic gradually subsides, operations will resume and the market will follow almost exactly the same curve as the watch market. The aerospace sector plays a medical supplier, while in horseriding, ophthalmology, implantology, and orthopedics, we are very active.

But where watchmaking is concerned, we're still down the general curve. We're fortunate enough to work in the top and medium ranges, so we're not affected by competition from smartwatches. Watchmaking is a sector that has demonstrated that it has held out in the long term, because watches have become purely emotional objects, a matter of status. They are also the sole male accessory.

Having said that, while the high end of the market is more resilient, we still need volumes. We're interested in quantity.

François Billig, CEO of the Acrotec Group

All there we met also told us that the key to overcoming the pandemic is diversification.

Not only are you preaching to the converted, but innovation is at the very core of our group's highness. It's crucial to differentiate ourselves from competitors and to maintain a lead in innovation. And that does not apply solely to the visible product. Crucially, it also applies to what's behind the product. We've developed a number of innovations in machining, in the tools and moves in the production apparatus itself, in the machines, in order to go on improving quality and – very important – the ergonomics of our operators, who are getting older, like us.

During the first wave of Covid, we created a new entity, Acrotec R&D SA. It is already working on 15 innovative products, currently in prototype or in production, and is looking to recruit another three engineers rapidly.

Watchdial - Courgevaux

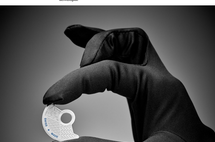
Deep diversification, of which you are a striking example, seem to be the answer to the pandemic and its consequences.

Our business, in terms of turnover, breaks down into 30% for watchmaking, 30% for medtech and 30% for precision high tech. In watchmaking, we supply components for the entire watch, which is a business a balance of our third for each sector. But micro-mechanics remains the common denominator of all our lines of business, and we can transfer our know-how from one sector to another. For example, in watchmaking we do a lot of work on the problem of friction in the context of low-energy consumption. The same problem arises in the medical sector, in the aerospace sector, in the auto sector. Another example of this reciprocity between sectors Hesalox has been used in medtech for a long time. That it derived from our watchmaking business. We developed a technique that we had the know-how to produce this difficult material, which it complies to work with and highly tolerances.

Pellegrino - Cortaillod

Acrotec **is a non-example of vertical integration in the supply chain. Is it, in your view, a response to the verticalisation of the brands and groups?**

The gradual verticalisation of our group is a response to strong customer demand. For reasons of simplification and rationalisation, watchmaking groups want to have fewer suppliers for the components they have to assemble. They're looking for suppliers who can provide them with a complete module, ready to be fitted into an movement, rather than having to delve into all the components of a movement, including the hands, Index assemblies, etc., in all sectors and with the aid of different tools, processes and technologies.



Omega - Moeve - Les Breuleux

But Acrotec **was built up in very specific way, by bundling together companies that are all of a piece in terms of mechanics.**

Tagetik from France, a highly centralised country. When I arrived in Switzerland, I realised the virtues of federalism. We practise structured decentralisation. All our companies, which are only medium-sized, have their own independent management, which is crucial for maintaining their motivation. The groups bundle together complementary areas of know-how and generate synergies between them. We have 15 companies, and we buy new companies, they join us. The company heads must earn it. We buy 10% of their shares, but they have to reinvest significantly in the company. We don't buy companies that are in difficulty. Companies that they become stakeholders in the entity as a whole, participate and benefit from the synergies. We don't want to destroy the existing conditions of interest.

That way, in most cases you retain the historical managers of the companies that join you.

Yes, the former independent owners have been running their companies for more than 30 years so they are either the founders or the descendants of the founding families. And so they are all motivated by independence. We don't want to destroy that spirit or small, and relatively flat, capitalist structures. We're going to continue this policy, but not with the aim of becoming hegemonic. We want to remain a family. We want to remain a family business, increase our market share, but rather in extend our complementary skills, to Nebelsta talents to be able to serve our customers better. In addition, we're going to expand our business in the medtech sector.

In your view, are there already lessons to be learned from this pandemic, and what can we and our sector to have long-term consequences?

Yes, the crisis has already taught us a lot. On the positive side, we've learned that we can work from home and organise our work in a hybrid way, between relations. Of the rest of them we already have a stable, durable relationship. And I'd like to publicly thank some of our staff, who, at the start of the crisis, were very concerned about their personal health and that of the company, who said their little, quickly and even paid for orders in advance.

The crisis has taught us that we can be flexible. The stability is also a matter of priority. From the perspective, the destabilisation caused by the pandemic makes this relational fabric even more important.

That said, there are difficulties, some greater or lesser depending on the business and the sector. We know that we have to be that stock market groups who fall for short stock prices have made a mistake in relocating their production to the Chinese or Asian suppliers.

The everyday is to stay closer that ever to the market, by constantly anticipating. You always have to listen, be right – in all our professions, we have to be right in our forecasts and anticipate the movements imposed by the customers. The approach path is tough and gradual, but falls often come sudden and fast.

An Innovation THE **ONROF Accuracy Motion**

Historically, watchmakers had and regulate the chronometric precision of mechanical movements in an ideal space – two horizontal and four vertical positions – to compensate for the effects of gravity on the balance and hairspring.

But on static positions are no longer enough. Why? Because it is simply not representative of what happens when you wear a watch on your wrist. Watches are worn in a dynamic, three-dimensional environment with complex and varied interference. Accuracy Motion can be controlled without any backlash, not to its static performance, but rather to its dynamic performance. The gear train also the regulated from one rotation per minute (measurement also being possible during rotation) to more than 10 rotations per second.

These characteristics open up new perspectives for manufacturers who can create new test and control processes at will, thereby ensuring the consistent performance of their watches before they are put on the market.

The most demonstrative feature is no doubt the ability of the Accuracy Motion to simulate the effects of gravity on the balance, the actual problems of movement that occur in the world during an activity. It's a perfect demonstration of the use of a smartwatch at the service of the watchmaking industry.

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