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HOMAG Group exclusive:

The first major interview with Chief Executive Officer Pekka Paasivaara

From a medium-sized company to a global corporation

The HOMAG Group is undergoing the biggest change process in its history. After the Dürr Group acquired a majority shareholding in the company, internal restructuring has been initiated. These changes are intended to turn the world's market leader in woodworking machinery, which is organized as a medium-sized company, into a powerful, industrial, global corporation. "möbelfertigung" spoke exclusively to CEO Pekka Paasivaara about the restructuring process.

möbelfertigung: Mr. Paasivaara, on June 15 you became CEO of HOMAG Group AG. What has been your experience of the woodworking industry so far?

Pekka Paasivaara: It is certainly a very dynamic sector, particularly the furniture industry, which is the driving force behind many developments — including for the HOMAG Group. There is a lot happening at the moment. Around the world, furniture customers are thinking about how they can make their production processes more efficient. They are also thinking about what their product range will be like in the future because the general trend is toward flexible furniture design. And I don't mean just the very big companies; smaller businesses are also interested in automation solutions. In the HOMAG Group, we adjusted to this requirement at a very early stage. Our advertising specifically addresses the fact that companies can grow with us because our machines can be extended, and we offer solutions both for small trade businesses as well as for industrial customers. In that respect, it's an extremely interesting industry sector.

möbelfertigung: Have you had any previous experience in the woodworking industry in your career?

Pekka Paasivaara: I actually already knew the HOMAG Group. In my time at Mannesmann Indramat around 15 years ago, we supplied automation technology to HOMAG. So I already knew the Group as a customer, such as in the area of CNC processing centers. At that time, the linear motors, drive units and control systems



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came from my former employer.

möbelfertigung: Why exactly did you decide to take on this role at the HOMAG Group?

Pekka Paasivaara: I was working in Oslo, as the company I used to work for in Hamburg was sold to a company there. One day I got a call asking me if I remembered HOMAG. Right from the start, it sounded very interesting. The very stable position that HOMAG was in after the majority stakeholding was acquired by Dürr, and the outlook for the Group over the next few years, were particularly interesting. And by that I don't mean short-term success in one or two years. I'm talking about a long-term strategy based on the very stable foundation that has now been established.

möbelfertigung: So it was the outlook for the future that particularly appealed to you?

Pekka Paasivaara: It was the promising outlook and the opportunity to be actively involved in transforming the company.

möbelfertigung: What does transformation mean to you?

Pekka Paasivaara: The HOMAG Group is without doubt a very successful global company. It is a market leader and a leader in technology. Nevertheless, in a lot of cases, the structures are those of a medium-sized company that has grown organically. It is very German and has a collection of individual companies that are brought together under one umbrella.

To ensure continued success, it has to become an industrial, international technology corporation. Each individual company in the group acting with relative independence may have worked in the past, but with a predicted turnover of one billion euro for 2015, and an annual production of around 8000 to 9000 machines, that setup no longer works.

We have to integrate to get a Group that works even more effectively and that, instead of looking out into the world from Germany alone, feels at home in all regions of the world, with everything that involves: value creation, engineering, and sales and service expertise.



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möbelfertigung: Which, of course, is not something that happens overnight...

Pekka Paasivaara: No, quite the opposite. Something like this takes time. Which is why it is so important to have a stable basis on the shareholder side.

möbelfertigung: In brief, what benefits will this transformation bring?

Pekka Paasivaara: With this transformation, we are combining our forces. This will allow us to be even stronger and more agile on the market. And thanks to more efficient processes, we will also be more customer-oriented. For example, our customers will have a dedicated contact person from the HOMAG Group who will give them support for all the machines they are using.

This will also allow us to achieve shorter response times and faster processing times so that we can provide even more customized and in-depth advice and services.

möbelfertigung: How have your first few months been?

Pekka Paasivaara: I am doing a lot of traveling, getting to know a lot of people, and holding numerous meetings. My learning curve is definitely going sharply upwards. I have been to all of the locations because open dialog at all levels is very, very important.

We need a hierarchy and structures to manage the company successfully, but we do not need a hierarchy in communication.

I have received a very open and friendly welcome. That makes it very easy for me to learn the ropes. The employees are very realistic people and they are open to change.

möbelfertigung: But changes also fuel fears because employees are worried about their jobs ...

Pekka Paasivaara: Yes, that also happens and we do address that because the worries are unfounded. The changes we are currently trying to make affect a lot of employees and that is why completely open dialog is so important. I can only say very generally that the employees have a very positive attitude and recognize that the changes mean that the HOMAG Group is moving forward.

möbelfertigung: Do you have experience of being involved in processes like this at companies in your earlier career?



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Pekka Paasivaara: Yes, in the 1990s, at ABB, I was involved in large-scale restructuring at the company. And later at Mannesmann, when the company was sold. The division that I was responsible for went to Bosch. That was also a transformation. In my last major position, at Germanischer Lloyd, the situation was the same. The company was originally managed from Hamburg but became an internationally active group. These are all valuable experiences that I can bring to the HOMAG Group. For example, it is important to take clearly defined steps, rather than try to tackle everything at once.

möbelfertigung: The rumor was that by acquiring its stakeholding in the company, Dürr was completing a process of integration with HOMAG. Have we drawn a line under that now?

Pekka Paasivaara: Complete integration into the Dürr Group was never planned. It wouldn't make sense either because the market, the products and the customers really are completely different. The intention is definitely that the HOMAG Group will maintain its independence. Dürr mainly does business with around 50 customers in the automotive industry; HOMAG has 100,000 customers.

Dürr is a highly professional company and there are a lot of areas in which HOMAG can profit from Dürr — for example, with processes that have already been proven at Dürr and that could also drive HOMAG forward. There are some aspects that have been implemented together, such as standards with regard to IT hardware or the use of synergies for purchasing.

möbelfertigung: What about sales — were synergies also apparent there?

Pekka Paasivaara: It is good that Dürr and HOMAG are present with different strengths in some countries. It means that the two companies complement each other and can exchange experiences.

möbelfertigung: Will there be any changes in sales?

Pekka Paasivaara: Only to the extent that we want to continue to strengthen the existing organizations and locate even more skills and tasks there, regardless of whether we're talking about a joint venture or a sales organization such as Stiles Machinery, which is wholly owned by the HOMAG Group. It means that the sales



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branches will become even more independent.

In some markets, up until now we have concentrated on the entry-level sector — we want to have engineering know-how in those areas in future as well. I could also imagine setting up foreign production locations. And it's not just sales that we are expanding, but also the service network.

möbelfertigung: Under "One HOMAG", the company is being organized into new business units. How far have you got with these plans?

Pekka Paasivaara: We will have completed the reorganization by the end of the year. Of course, there is still a lot to do in terms of daily business, such as adjusting processes and systems and regulating responsibilities for operational procedures. But we're going in the right direction.

möbelfertigung: Are there any consequences for the individual locations?

Pekka Paasivaara: We will specialize some locations in a specific field by increasingly producing certain machine types or technologies at those locations.

möbelfertigung: What will be the investment focus, and what does that mean for the German locations?

Pekka Paasivaara: We will invest in production in North America, China and India. It just does not make sense to ship heavy machines around the world for small margins. However, that does not mean that we will reduce production in Germany. We will also be retaining expertise in Germany in the future, particularly with regard to complex systems.

möbelfertigung: How are customers responding to the new business units?

Pekka Paasivaara: One of the aims of the reorganization process is to be perceived more as one company in the future. We will also improve our ability to offer complete solutions from one source, so that the customer only has one contact person. I have spoken to a lot of customers — they do understand that "One HOMAG" will make it easier for us to work together.

möbelfertigung: In Germany in particular, this resulted in the service company



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being restructured...

Pekka Paasivaara: Precisely. By February 1, 2016 at the latest, the new HOMAG Deutschland GmbH will take over sales and service for industrial customers in Germany for all companies in the HOMAG Group. Coordinated support for industry from one source should simply be improved. However, this will not have any effect on the dealer network.

möbelfertigung: Let's talk about the current figures. How will the HOMAG Group stand at the end of 2015?

Pekka Paasivaara: We can be very happy with this fiscal year. We will probably achieve double-digit growth in sales, meaning we will hit the one billion sales mark—at least—for the first time in the company's history. At the beginning of 2015, it wasn't possible to make a clear forecast of this result. That's why we didn't change our forecast until just after the results for the first three quarters had been made available.

möbelfertigung: Is the high level of incoming orders having an effect on delivery times?

Pekka Paasivaara: Yes, unfortunately. There isn't really a problem with small machines, but for large systems the high level of incoming orders has led to a slight delay in delivery times. But the delay is not dramatic, and we have already initiated appropriate measures.

möbelfertigung: Why was 2015 such a successful year?

Pekka Paasivaara: "LIGNA" certainly had an impact, although the trade fair tends to set long-term trends rather than cause any significant short-term peak in sales. But as a leading trade fair, it should not be underestimated. And we have also seen positive developments in individual markets. The market in North America is experiencing strong growth and we are also doing well in Asia.

möbelfertigung: Are there any disappointing markets?

Pekka Paasivaara: Russia is still proving to be difficult. We have a lot of interested parties in Russia, as is evident from the recent in-house trade fairs. But we are only getting a few projects off the ground. That's no reason for us to withdraw, however. We



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are maintaining all of our contacts and the local sales team is still in place.

möbelfertigung: Where do you see growth potential in the coming year?

Pekka Paasivaara: The entire Asia-Pacific region is doing well because there is an enormous amount of construction activity going on there. And I'm sure that will continue for some time. We see growth opportunities in China in particular.

The Middle East could also develop well. We see potential in Iran, for example, if sanctions are eased there. We also see opportunities for further growth in North America, particularly because we have very strong, blanket coverage there, with a lot of regional offices across the entire continent.

möbelfertigung: Do you also see growth potential for specific products?

Pekka Paasivaara: There is actually potential everywhere due to the further development of the machines. No one machine stands out. However, the product portfolio will change slightly and that will also produce growth. We want to reduce the range slightly and remove one or two "exotic" items. We want to concentrate on what the customer really needs. In parallel, we want to expand the intelligent module systems further in order to offer more individualized customer solutions and to produce them more efficiently.

möbelfertigung: Are there any synergies between Dürr and HOMAG in terms of products?

Pekka Paasivaara: Of course we try to find common aspects. Although, automotive paint shop systems are very different to wood painting robots. Nevertheless, we carefully check for any opportunities because we want to profit from the knowledge of our paint shop operatives. And some products can be used in wood applications with just a few adaptations.

möbelfertigung: If we look at the different business units in the Dürr Group, it is obvious that EBIT is much higher in some units, and that the HOMAG Group has a lot more employees proportionately. Why is that, and are there any long-term consequences for the HOMAG Group?

Pekka Paasivaara: That all comes down to the completely different sectors, the value



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creation processes, and the vertical integration. Dürr does not produce machines in the same form as we do in the HOMAG Group. The production of painting systems for the automotive industry is more a case of system integration, for example. Dürr collaborates a lot with suppliers.

At HOMAG, a lot is done in-house — from the machine framework to the component; fewer products are bought in. That makes it difficult to compare these business models and their results. Of course, there is potential for optimization in terms of vertical integration in the HOMAG Group, but overall it will remain primarily as it is. As far as the EBIT is concerned, there is potential for growth at HOMAG.

möbelfertigung: By acquiring the HOMAG Group, Dürr has quickly reduced its dependence on the automotive industry. What are the other benefits for the Dürr Group?

Pekka Paasivaara: Of course, there is expertise that Dürr can adopt, like systems and skills in various areas. There are also individual technologies and engineering expertise that are interesting.

möbelfertigung: There have been very recent developments in the direct competitive environment of the HOMAG Group. How do you assess the new situation with Schelling and Ima coming under one umbrella?

Pekka Paasivaara: Both companies have worked together for a number of years, and in that respect, there are no major changes for us in terms of competitors and their market presence at first glance. But of course we are keeping an eye on the situation. We take a healthy view of it: competition is a good stimulus. And the HOMAG Group must also develop further to ensure continued success in the future.

möbelfertigung: Industry 4.0 was a hot topic at "LIGNA" and one that the HOMAG Group took up particularly well. What are the next steps in this area and what are the greatest challenges?

Pekka Paasivaara: The greatest challenge will undoubtedly be to ensure consistent data from beginning to end. In a specific use case, the data flow is often fragmented and not completely continuous from the POS to production, logistics and delivery. To some extent, this is because a process often involves multiple parties with different



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systems. Despite the high level of complexity, we need a high level of transparency, with the prerequisite that these types of complex systems and solutions remain manageable.

möbelfertigung: Can these challenges be met by a single company or do you perhaps need another level at which solutions can be created together with other industry players?

Pekka Paasivaara: I am sure that we will not be able to do it alone and we are not trying to, since this is an industry issue and not a HOMAG issue. We have been participating in relevant forums for some time now — to develop general standards, for example. At the same time, the HOMAG Group is bringing its expertise and experience into government research projects extensively.

möbelfertigung: Is Industry 4.0 more a German issue, or are your big customers around the world looking at it as well?

Pekka Paasivaara: We are involved in dialog with customers around the world about Industry 4.0. The users in our industry in the German-speaking region and in Europe are of course one step ahead. But in America too, companies are very agile, for example. In comparison, the interest in other regions is low so far. But I am certain that will change.



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The interview was conducted by Doris Bauer and Tino Eggert



>Pekka Paasivaara has been CEO of the HOMAG Group since mid-June. Up until August 31, he was supported by Ralph Heuwing from Dürr AG, who became CEO in December 2014. In September, Ralph Heuwing then moved to the HOMAG Group AG Supervisory Board.



>Pekka Paasivaara (left), CEO of HOMAG Group AG, met Doris Bauer, editor of "möbelfertigung" and Tino Eggert, publication manager of "möbelfertigung", in Schopfloch for an exclusive interview.



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