

## Going into restructuring mode

*Surteco has announced a major restructuring program, including the layoff of a substantial part of the German workforce, the closure of sales operations in Spain and Turkey and management changes. One-off costs are said to be around EUR 15-20m. How long it will take to get to the new mid-term EBIT target of EUR 55-60 will in our view not only depend on internal improvements, but also on the development of the German furniture market and raw material costs. We stick for the time being to our "Buy" recommendation, target price EUR 25.*

### Major restructuring announced

Surteco announced a major restructuring program yesterday. First, 175 jobs will be cut in Germany mainly in the Decoratives segment, which is more than 10% of the local workforce. Second, the sales companies in Spain and Turkey will be closed. Third, the management board will assume operational management for the German core entity, Surteco GmbH, the former MDs will leave the company. In addition, a COO will be appointed at board level during 2020, while the current CFO will leave the firm after expiration of his contract in 2020. The one-off costs will be in the area of EUR 15-20m. In the medium term, the company aspires to achieve EBIT of 55-60m as a result of the restructuring. While the restructuring costs will already be booked in 2019, the guidance for 2019 remains in place (EBIT before exceptional items of EUR 38-40m).

### Our take

The Surteco group clearly had its problems in the last couple of years. RoCE has been between 4-6%, RoE between 5.5%-7.5% in the last five years, according to Pareto's calculation. Moreover, EBIT margin collapsed in 2018 and did not yet fully recover, although the business and consumption climate in SUR's core market Germany has still been in good shape. Because of that, we welcome the restructuring program, that will among others address the underperforming impregnating business, we understand. The US part has already been sold in 2019. Even though the 15-20m restructuring costs will be booked as provisions until year end, its majority will in our view be hard cash costs, given the magnitude of the layoff and the closure of the operational entities. Nevertheless, comparing these one-offs with the envisaged increase of EBIT by 15-20m to EUR 55-60m in the medium term translates into a very good return on investment. How long it will take to get to this level will also depend on the German furniture industry, which is not in the best shape at the moment (more details in our [recent update](#)). Until more details will be revealed on the restructuring program, we stick to our forecasts (EBIT at 50m at 2023e). Our recommendation is Buy, target price EUR 25.

Knud Hinkel  
+49 69 58997 419, knud.hinkel@paretosec.com

Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.