

Regional analysis Furniture industry

Knock on wood – solid profitability in Adria Region

Authors:

Ilija Nesic, Corporate Finance Analyst

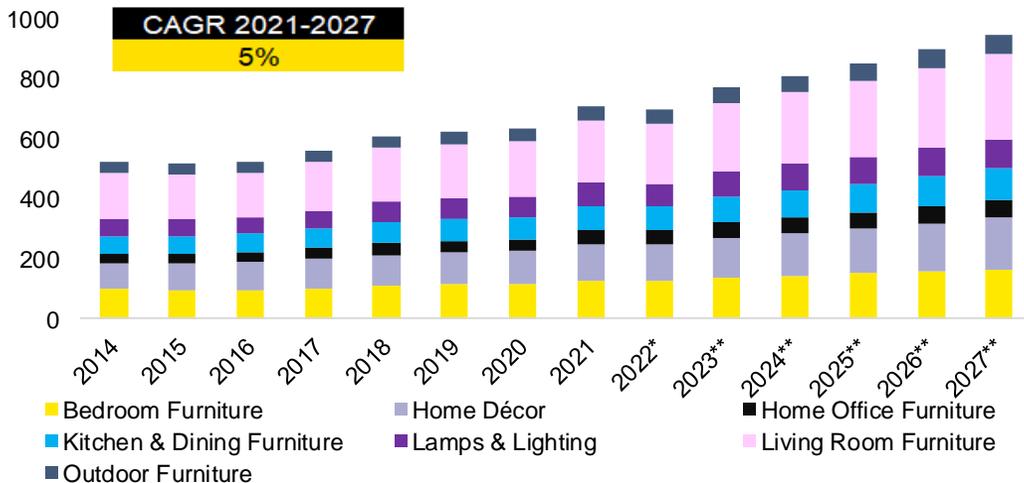
Industry highlights

Our analysis takes a deep dive into the **furniture industry in Adria region**. The product group we focus on is movable furniture - chairs, desks, tables, sofas etc. The rationale is that Adria Region players are predominantly focused on this product group, and therefore we think that it is the most representative of the regional market. We benchmark the performance of this industry with global peers in order to delineate the main drivers and challenges defining the industry currently.

The furniture industry is resource and labour-intensive and relatively decentralized, dominantly composed of small and medium-sized enterprises (SMEs) due to relatively low barriers to entry. The industry has a complex and fragmented supply chain, with many phases that are often outsourced. The sector employs around 1 million workers in the EU through 130 thousand companies generating an annual turnover of around €96 billion. (Source: European Commission)

The global furniture market is valued at bnUSD 706 in 2022 and is expected to grow by 5% (CAGR 2022-2027). The market has a plethora of applications. The principal end uses are residential and commercial.

Revenue per segment in bnUSD

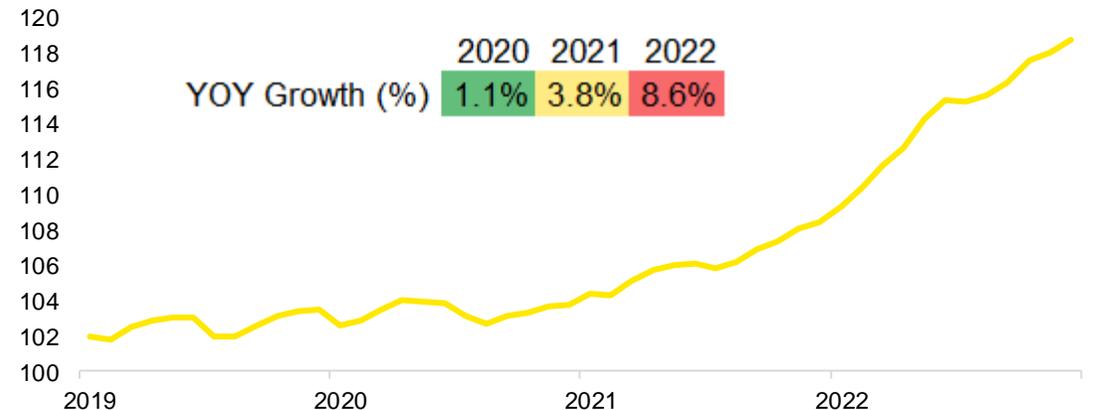


*latest data for November 2022 **estimate Source: Statista

The largest sub-segment is living room furniture, boasting a 40% share of the total market valuation in 2021. The furniture market was a consumer durable goods category that saw a rise in demand in 2020, mainly by residential segment. Namely, consumers were spending more time at home and therefore accentuating the need/want to improve living space or adapt it for remote work. Steady growth exhibited so far has been driven largely by:

- **Expansion of real estate and hospitality sectors** – increased construction, especially in large urban areas and the opening of the hospitality sector post pandemic have been fuelling demand for furniture in 2021 and 2022. Furniture sales are cyclical and depend on general macro and housing market trends.
- **Price component** – steady underlying demand – notably by consumers - coupled by inflation drove furniture prices up, which boosted furniture market incumbents' earnings as consumers still didn't adjust spending habits to increased costs. The effect was pronounced starting in 2021 (3.8% growth in furniture prices) and 2022 (8.6% growth in furniture prices). However, post pandemic, the rebound in the commercial sector - hospitality sector as well as offices and other businesses opening up - contributed to the rising demand for furniture

Furniture and furnishing - indices of consumer prices (2019-2022)*



*Harmonized Index of Consumer Prices: Furniture and Furnishings for Euro area (19 countries) Index2015=100, Monthly, Not Seasonally Adjusted Source: Eurostat, Bloomberg Adria Analytics

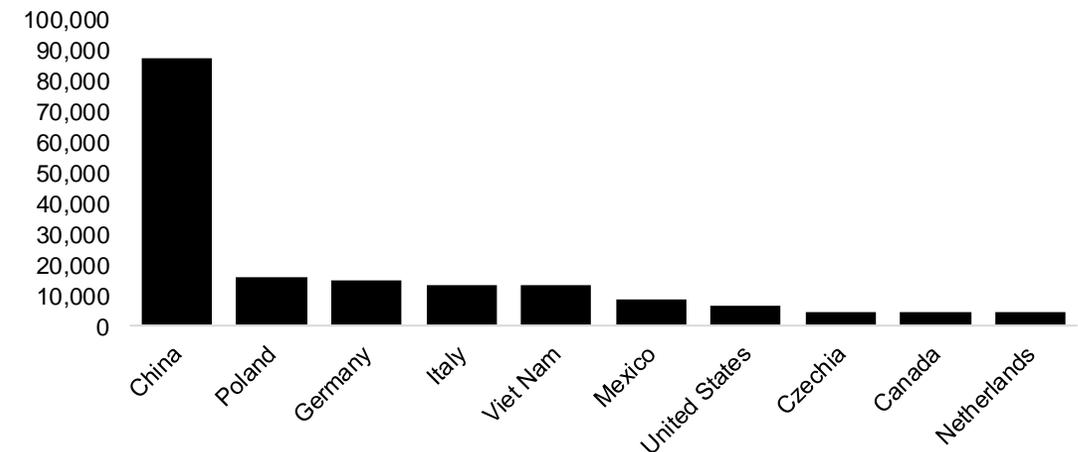
On the other hand, growth in earnings so far is buffeted by:

- **Tight competition** - Competition in the furniture market is not only based on price but also revolves around other characteristics associated with the quality of the finished product (for example durability, design) and/or to its production process (for example handmade, sustainable). This gives way to market segmentation and differentiation opportunities between market players. The market is also highly fragmented and there are a lot of players competing.
- **Supply chain disruptions** due to increased protectionism - which logjammed logistics and increased transport costs - and therefore difficulty in raw material procurement. Moreover, furniture requires a wide variety of raw materials for production including wood, metal, leather and textiles.
- **Structural issues and challenges** – Mainly reflected in an ageing workforce and a rising labour scarcity. Additionally, there is difficulty protecting intellectual property. Patents on furniture are hard to protect, and due to the large degree of outsourcing in the furniture industry, knowledge spillover is imminent. The industry must rely on novel design and continuous innovation in an already mature industry to attract/retain customers. Furniture companies must cater and adapt to interior design trends that emerge as time passes. The last two decades saw at least a dozen prominent design movements emerge such as Boho, Japandi, Industrial, Scandinavian, Country house, Mid Century and many others. Lastly, sustainability concerns loom as the industry is resource consuming, especially wood.
- **Deteriorating consumer sentiment** due to rising interest rates and recession fears. Rising prices pressuring disposable income for non-necessities. The substitution effect is large for furniture as people may pivot to used furniture (furniture restoration, especially for vintage furniture is gaining popularity), keep their current furniture, or simply opt out of buying. We also see demand cooling as a factor of depleting consumer cash reserves accumulated during the pandemic.

Global vs. regional trends

The United States has been the furniture sector's biggest market and growth generator at a global level for decades. However, the US-based furniture industry has progressively deteriorated, due to the growing reliance on imports from low-cost suppliers, mainly from Asia. This led to the closure of many furniture manufacturing plants, with sizable job losses. Ironically, when demand suddenly rebounded in 2020, during the pandemic, the US furniture manufacture market could not keep supply up with demand due to a shortage of skilled labour. **On the other hand, due to its export-oriented production, China has witnessed staggering growth in the last two decades and is now the largest producer (also exporter and consumer) of furniture worldwide. China was an outsourcing destination of choice** for countries such as the United States, Japan and Italy. Lower cost of labour, relatively lax environmental regulations, cheaper plant construction were the key reasons. Downsizing of production facilities elsewhere (especially in the US) corresponded to the expansion of production plants in China.

Export value in mUSD (2021)



Source: Statista, Bloomberg Adria Analytics

Germany is the largest furniture manufacturer in Europe by output. Germany overtook Italy in the early 2010's after the 2008 financial crisis severely shook-up Italian furniture manufacturers. German furniture is defined by functionality, efficiency, and performance. Poland is a strategically vital adjacent market for Germany. Because of its proximity and low operating costs, it is the primary outsourcing market for Germany. German investments as well as mergers with other foreign corporations brought about a transfer of technology, leading to strong increases in productivity. Poland is a prime example how eastern European countries can gain prominence on the global market due to knowledge accumulation.

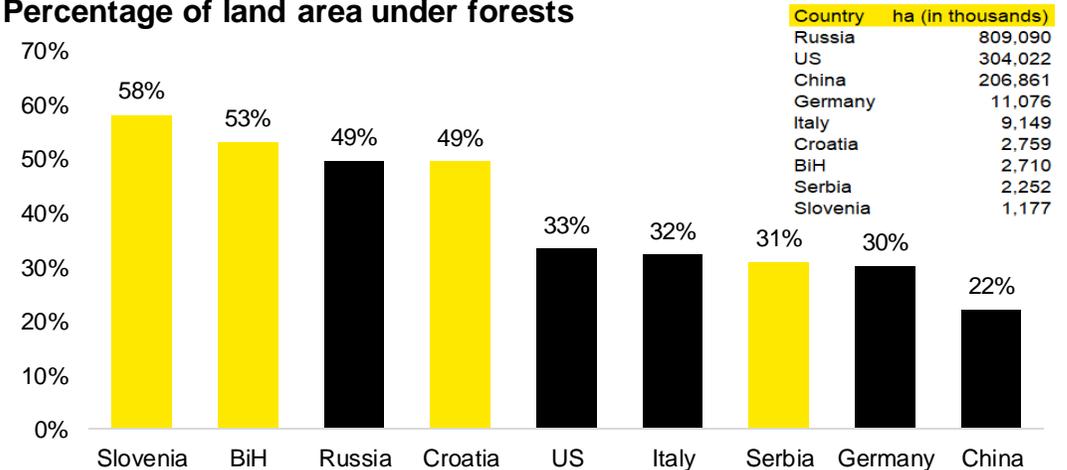
On that note, the Adria region is well disposed for furniture manufacturing due to:

- **Natural resource endowment reflected in ample timber supply** – Slovenia has the largest forest coverage in the region, amounting to 58% of total land area. Serbia is the lowest in the region with 30.7%, however it is on par with much larger furniture manufacturing countries such as US, Italy and Germany. In absolute terms, the Russia has the most forests, followed by China, while Croatia has the most forests in the region, followed by BiH.
- **Developed wood processing industry** – sawmills and timber processing factories that require high levels of investment and have large barriers of entry serve as a backbone of the regional furniture industry
- **Low labour costs** – furniture production is highly labour intensive and in a lot of cases requires significant craftsmanship skills. Labour is cheaper in the region compared to the EU.
- **Favourable location** – The above factors add to the comparative advantage of Adria region manufacturers. They also make the region lucrative for foreign direct investment. For large eastern producers like Russia or China, investment in the region could place them closer to the EU market, offering penetration opportunities. For the EU, we see low operating costs close to their domestic market as the main potential rationale for investment. Operational costs in the EU are higher due to high environmental, sustainability, and technical standards.

Also, because furniture is bulky and relatively expensive to transport, proximity to foreign investors markets adds to the attractiveness of the region. Technological endowment and unique know-how are still concentrated in Western Europe, countries like Italy, Germany. This is also where most of the value is added. Outsourced plants are most often assembly plants.

One of the key threats for Adria manufacturers arises from global retailers that can saw into regional sales. Still, there is opportunity for regional manufacturers to be taken on as subcontractors for large global manufacturers or retailers.

Percentage of land area under forests



Source: Slovenia: fsc.org, BiH: ušitfbih.ba, Croatia: hrsume.hr, Serbia: makroekonomija.org, US, Russia, China, Italy and Germany: fao.org, Bloomberg Adria Analytics

We divided the Adria peer group in two segments – furniture manufacturers and furniture retailers. Our rationale is that this will provide us with a broader insight into regional industry trends. Manufacturers would provide an insight into the supply side of the regional industry, while retailers would tell the demand side story and reflect end consumer habits. The distinction between furniture retailers and manufacturers is not always clear cut, as there are players who are in both businesses, for example Forma Ideale or Vitorog. Sales amounts were the primary selection criteria for both peer subgroups.

The Adria furniture manufacturer peer subgroup saw a double-digit average sales increase in 2021 averaging 14.8%. Sales levels exhibited modest growth (3.4%) even in 2020, when most sectors saw top line declines. This is not a testament to the resilience of the furniture industry, which is sensitive to economic shocks (furniture is a non-necessity and purchase can be delayed). In fact, we see it as circumstance arising from customers spending their time at home in 2020.

Greater top line growth in 2021 was driven by a combination of private pent-up demand during the pandemic and the commercial and hospitality sectors kicking off again. Manufacturers in our sample are diverse in terms of products offered and types of business models. We have players offering mass produced wood-based furniture, solid wood premium furniture, handmade furniture, tailor made furniture and others. The common thread is the use of wood in products. The share of wood furniture in total global furniture production is roughly 50%. When most of the sector experienced growth, some peers saw top line declines in 2020. We see two main reasons behind this:

- Significant exposure to the commercial/hospitality sector** - for example, Promming doo furnishes business spaces: offices, stores, cafes etc. Demand for this type of product markedly dampened during the pandemic.
- Nature of the product - luxury and handmade products were more sensitive to declining consumer sentiment.**

Company name	Sales EUR in millions			Sales growth %			EBITDA margin %			EBIT margin %			ROE %			Net debt/EBITDA			Cash Conversion Cycle		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Export city (BH)	14.5	19.9	25.2	8.4	37.1	26.6	19.4	21.1	17.5	16.1	18.4	15.1	40.4	46.4	36.3	1.8	1.0	1.0	49.4	64.7	64.2
Fen doo (BH)	28.5	29.6	27.5	36.9	3.7	(7.1)	15.0	18.7	16.7	14.0	17.7	15.4	54.4	44.8	36.1	0.0	(0.4)	0.4	23.7	31.3	45.5
Sinkro doo (BH)	15.1	17.9	27.1	1.6	18.2	51.7	(9.3)	9.3	11.9	(16.0)	3.1	7.5	(259.5)	(14.0)	11792.6	(5.5)	5.0	1.7	71.8	38.5	20.8
Standard Furniture Factory (BH)	27.2	20.6	22.1	(14.2)	(24.3)	7.5	0.2	10.6	10.4	(1.5)	3.1	3.2	1.9	1.9	11.8	72.4	2.7	2.0	97.6	129.7	114.1
Prima Commerce (HR)	67.9	67.9	79.9	12.8	0.1	17.6	3.7	3.2	2.4	1.8	1.3	0.8	20.9	21.3	4.4	3.2	2.8	3.8	140.7	131.7	128.0
Promming doo (HR)	13.4	12.1	15.4	7.1	(9.4)	26.8	23.9	27.3	17.5	14.4	17.8	8.6	12.1	16.5	8.5	1.1	0.3	0.1	120.4	161.7	136.9
Prostoria doo (HR)	11.4	12.0	15.2	17.5	4.8	27.3	18.9	23.0	21.1	11.6	16.0	15.3	19.8	23.4	23.0	2.2	0.9	0.3	288.8	306.8	246.0
Spin Valis (HR)	19.7	18.8	23.9	8.5	(4.5)	26.8	11.0	15.0	17.0	2.1	6.2	6.1	1.0	6.3	7.4	4.5	4.2	1.5	254.1	306.7	189.7
Alpes d.d. (SI)	10.3	10.7	10.2	(7.5)	3.9	(4.6)	8.3	10.9	8.7	2.6	5.1	1.8	1.0	2.1	1.0	4.2	2.4	3.0	61.2	59.1	74.1
Murales (SI)	5.1	4.3	5.2	3.1	(16.0)	21.7	9.9	9.2	14.4	(0.6)	(2.8)	4.3	0.3	(1.0)	3.4	(1.1)	(1.7)	(1.7)	363.2	502.7	460.1
Podgorje (SI)	42.8	40.2	49.6	56.3	(6.2)	23.5	13.7	13.4	15.6	10.1	8.4	10.8	24.9	17.5	21.7	0.9	1.0	0.0	66.0	71.8	64.4
Stilles (SI)	32.6	28.8	30.3	3.2	(11.9)	5.2	6.7	5.6	6.2	2.7	1.6	1.6	12.7	5.8	6.4	0.8	(0.1)	2.0	(35.8)	(39.9)	(9.1)
Forma Ideale doo (RS)	98.6	113.4	128.3	15.2	15.0	13.2	10.8	11.5	15.8	8.6	9.0	10.3	14.6	15.2	16.4	0.6	(0.5)	0.0	75.3	51.6	55.4
GIR Adrani doo (RS)	14.7	21.5	25.4	19.8	46.7	18.3	22.3	22.7	17.8	14.1	16.1	11.6	25.0	33.7	22.0	5.7	3.8	3.8	134.3	143.4	111.0
Matis (RS)	32.8	34.8	35.6	6.7	6.0	2.4	10.7	11.8	13.5	8.9	10.1	9.4	22.0	22.6	17.5	2.3	2.1	1.8	89.1	82.4	134.7
Vitorog Promet (RS)	21.4	19.1	20.5	7.4	(10.4)	6.9	9.5	9.0	11.8	5.9	5.1	4.5	7.9	7.8	4.5	4.1	4.4	4.5	92.9	122.5	109.5
Median	20.5	20.2	25.3	n.a.	(1.5)	25.0	10.7	11.6	15.0	7.2	7.3	8.1	13.6	15.9	14.1	2.0	1.6	1.6	91.0	102.4	110.2
Average	28.5	29.5	33.8	n.a.	3.4	14.8	10.9	13.9	13.6	5.9	8.5	7.9	(0.0)	15.7	750.8	6.1	1.7	1.5	118.3	135.3	121.6

For example, Spin Valis produces massive, solid wood and leather furniture. Murales produces handmade chairs. In both cases, products require high levels of choice raw material which is progressively more expensive and harder to procure as well as a high labour input. The industry has been transitioning to wood-based panels (such as plywood or particleboard) due to ease of assembly and lower production costs. Wood panels also dominate the ready to assemble (RTA) segment due to their light weight and durability. Regarding labour, high degrees of craftsmanship is required to manufacture these products, but qualified labour is scarce. Therefore, production was downsized in 2020. Spin Valis also has exposure in the commercial market end, as it equips various objects. Podgorje is a specific case where the automotive and furniture industry meet. They are one of the biggest furniture producers in Slovenia in terms of sales value. Podgorje produces furniture for RV's and caravans. The automotive sector, and therefore caravanning as an adjacent sector saw a steep decline in 2020 and production was significantly downsized. Therefore, the top line of Podgorje contracted as well.

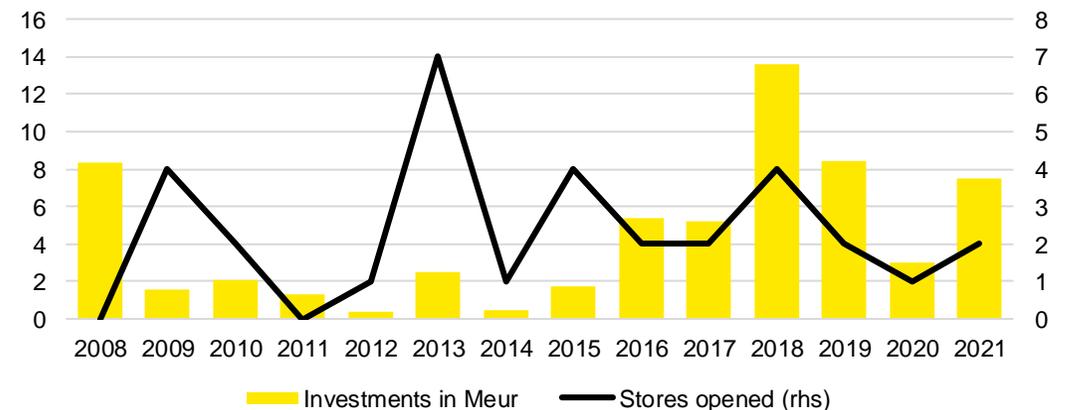
The regional furniture manufacture industry is profitable. This is reflected in double digit EBITDA margins for 2021 in predominantly in the mid-teens (averaging 14% for the entire peer group in 2021). EBIT margins are stable, in the single digits yoy. The main cost item pressuring profitability is cost of materials which accounts for around 70% of total operating costs on average.

Adria region peers managed to decrease indebtedness, deleveraging their balance sheets in 2021. Average Net debt to EBITDA decreased by 0.2pp. Cash conversion cycles for manufacturing peers improved on average in 2021. Inventory moved quicker as retail opened up again and consequently cash collection became swifter.

Forma Ideale managed to retain double digit top line growth in every observed period. Around 80% of their production is exported. Forma Ideale exports account for 20% of total Serbian furniture exports. On the domestic market, Forma Ideale targets low to middle income customers offering simple, functional and affordable products. Forma Ideale produces predominantly wooden furniture in its factory in Kragujevac and operates a retail network of 40 stores.

Despite steadfast growth and double digit EBITDA margins, a caution amidst uncertainty can be seen with investments slowing down (investments peaked in 2018 when Forma Ideale acquired Metal Sistemi, a factory in Kragujevac for mEUR 4.7). This was evident in 2020, where investments dropped by 64% compared to 2019. The downturn in retail meant that only one new store was opened in 2020. The decline in retail was hedged by strong export revenues.

Investment in mEUR and stores opened - Forma ideale (2008-2021)



Source: Company Annual Reports, Bloomberg Adria Analytics

Gir Adrani is also an example of exports taking precedence compared to domestic sales. Exports account for 88% of total sales. GIR Adrani operates an online store for multiple international brands. There is one physical display store in Belgrade, as well as two warehouses, one in Kraljevo and one in Belgrade. GIR also produces oak furniture for Ethnicraft, a Belgian company. Products offered are design centered, premium products. Therefore GIR exhibited solid margins, in the high teens, however reducing in 2021 due to rising input costs pressuring profitability. Nevertheless, low labour costs on the Serbian market, coupled with GIR's saw mill and raw material availability has made it an attractive collaborator/outsourced producer for the Belgian company. GIR markets these products to the domestic consumers, however domestic demand is overshadowed by export sales. The same can be said for Export City, who produce chairs and export them abroad.

Members of peer group are also distributors of international brands, or are members of larger international conglomerates. For example, Sinkro a.k.a Sinmax (exclusive distributor of Cotta Collection AG products) or Matis, that sells a mix of Italian brands (including Natuzzi – the regional market has traditionally been the collaborator market of choice for Italian manufacturers) and their own production. These players had lower margins compared to the group average in 2021. In this case, profitability is not only pressured by rising input costs, but also the rising costs of procuring inventory (finished products) from their respective groups. These products are then mainly marketed to consumers in the domestic market of the Adria Region. For example, Matis derives around 74% on the domestic market, while 26% is derived on the foreign market.

Finally, we conclude that export-oriented peers fared better overall. Generally speaking, players with large export operations had smoother revenue streams and were more profitable on average. These are usually contract based orders, therefore revenue is more predictable. Moreover, players with large export revenues are better hedged from competition arising from large retailers (Ikea Jysk) aggressively acquiring market share on the domestic market.

While manufacturing is a decentralized, regionalized business, furniture retail is much more concentrated. Namely, a few large retailers dominate the regional landscape. These are large international conglomerates such as Ikea, Jysk and Lesnina (founded in Slovenia, acquired by Austrian XXXL group in 2010). **Retailers went through a tough period in 2020, seeing decreasing sales. The selected peer group exhibited a 3.3% average top line decline.** The period was marked by brick-and-mortar store closures. Furniture retailers such as Ikea rely on browsing which was rendered impossible by the pandemic. This meant target purchases prevailed, meaning that consumers made the product selection process beforehand. Impulse sales decreased dramatically. A large part of the retail shopping experience is the showroom aspect, where consumers can try out and see the furniture. Online sales took precedence and the momentum gained during the pandemic is continuing.

The year 2021 saw a top line rebound (averaging 8.7%), spearheaded by stores re-opening and rising prices of furniture. Retailers in the region have similar profitability levels to the region's manufacturers, however retailers are more profitable, on average. Average EBITDA margin for retailers amounted to 16.4% in 2021 (vs. 13.6% for manufacturers) and an average EBIT margin of 11.9 in 2021 (vs. 7.9% for manufacturers). While the biggest cost for manufacturers are raw materials, for retailers, its obtaining inventory. Inventories mostly consist of products in warehouses.

Inventories reduced dramatically when stores re-opened after the lockdown. While the supply chain mobilised quickly, it took several weeks to restart production and address logistics challenges. The main problems arose with transport (container ships), logistics and product availability.

Despite headwinds in the retail sector, regional players managed to boost profitability in 2021, and can continue to leverage their scale, bargaining power and backing from global conglomerates to continue their growth path.

Company name	Sales EUR in millions			Sales growth %			EBITDA margin %			EBIT margin %			ROE %			Net debt/EBITDA			Cash Conversion Cycle		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Jysk (BH)	29.3	28.7	34.9	13.7	(2.3)	21.6	13.4	20.1	23.5	11.9	14.2	18.1	41.5	32.5	37.3	(1.1)	0.6	(0.1)	63.5	70.4	62.5
Ikea (HR)	108.2	102.2	115.0	12.8	(5.6)	12.5	8.5	8.3	10.2	5.8	5.8	7.7	33.3	23.6	30.4	2.7	2.7	1.1	0.3	3.7	1.0
Lesnina (HR)	141.4	127.5	140.3	8.6	(9.8)	10.0	14.5	14.0	9.9	8.9	7.7	4.1	18.8	11.1	6.5	1.7	1.6	2.5	77.8	83.4	81.9
Jysk (SI)	36.2	38.6	43.4	8.1	6.6	12.3	11.2	19.6	19.1	10.2	13.2	17.7	27.2	27.2	42.8	(2.3)	0.9	(0.4)	23.8	14.4	28.8
Lesnina (SI)	114.5	102.4	116.8	3.3	(10.5)	14.0	13.3	15.9	15.1	8.3	10.6	10.8	71.6	62.0	71.3	(0.6)	0.4	(0.2)	5.1	3.7	6.1
Jysk (RS)	39.9	52.4	61.0	11.4	31.5	16.3	9.7	17.4	22.3	8.2	16.0	15.7	34.7	55.1	39.2	(1.1)	(1.1)	0.4	58.6	57.3	59.8
Emmezeta (RS)	28.8	30.1	12.6	7.3	4.6	-58.0	7.2	10.3	14.5	5.1	8.5	8.9	2.2	4.2	2.7	(1.1)	(3.5)	5.2	431.2	439.2	601.0
Median	39.9	52.4	61.0	n.a.	31.5	16.3	11.2	15.9	15.1	8.3	10.6	10.8	33.3	27.2	37.3	(1.1)	0.6	0.4	58.6	57.3	59.8
Average	71.2	68.8	74.8	n.a.	(3.3)	8.7	11.1	15.1	16.4	8.4	10.8	11.9	32.7	30.8	32.9	(0.3)	0.3	1.2	94.3	96.0	120.1

US Players leveraged their scale to achieve higher margins and superior returns. However, peers producing premium/designer furniture and players that had exposure to the hospitality/commercial sectors were more susceptible to shocks. **Williams Sonoma (WSM) weathered the storm in 2020 and witnessed a rising top line in 2021 and 2020 due to its stable competitive position.** WSM is a multi-channel retailer with 545 stores in North America. Sales (especially retail) were retained due to a well-executed pivot to online sales – now amounting to two thirds of total revenues. They managed to convert stock to cash quickly, reducing the cash conversion cycle every observed year. WSM also leverages its scale (in a market that is highly fragmented) and bargaining power with suppliers in order to procure materials. Finally, WSM targets high income consumers whose disposable income and therefore spending were more robust. The same is true of RH (Restoration Hardware), a luxury home furnishings retailer.

Miller Knol products are considered premium and ask premium prices, therefore, overburdened customers pivoted to simpler, cheaper, RTA furniture in a lot of cases. This kept top line flat in 2020 and led to a contraction in top line in 2021. Miller Knol (formerly known as Herman Miller) is one of the largest and most influential modern design companies worldwide and is known for its design led, innovative furniture products. A large chunk of revenue comes from the “Americas Contract” business segment – about 35%. These operations are associated with work related environments – healthcare, office, education etc.

This revenue line experienced a downturn in 2020 that continued into 2021. Their global retail operation also suffered as their retail design studios were closed. However, in 2021, as pandemic related measures eased, the Retail segment experienced an upturn, compensating for the downturn in the contracts segment.

The most resilient producer in the global peer group is Jason Furniture, posting double digit top line growth in the period 2019-2021. The main driver is the large domestic Chinese market as well as an aggressive export strategy. Returns have been stable, and their debt position is the most favourable in the global peer group, reflected in a negative net debt to EBITDA, meaning cash reserves are plentiful.

EU players felt the burn of pandemic related slowdowns. Both Steinhoff and Natuzzi experienced top line declines in 2020, with a subsequent rebound in 2021 when demand and production started to normalize again. Margins carried thin for EU players. Headwinds faced in 2020 pushed Steinhoff in the red, while Natuzzi posted sub 1% EBITDA margin. Both players saw single digit margins in 2021, despite double digit top line growth. Steinhoff International is a global retailer with more than 40 brands in over 30 countries, among which is Pepco, a discount variety home goods retailer. Natuzzi had exposure to the hospitality and commercial sectors, while Steinhoff was not shielded from the retail decline in 2020.

Company name	Sales EUR in millions			Sales growth %			EBITDA margin %			EBIT margin %			ROE %			Net debt/EBITDA			Cash Conversion Cycle		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Miller Knoll*	2,245.0	2,248.9	2,079.4	12.1	0.2	(7.5)	10.7	3.7	14.9	7.9	(1.5)	9.4	23.2	(1.3)	23.2	0.4	4.1	0.3	33.7	40.6	41.2
Williams Sonoma**	4,831.8	5,282.7	5,905.6	4.0	9.3	11.8	11.0	15.6	20.1	7.7	7.9	13.4	28.3	29.8	47.2	(0.1)	1.3	0.3	69.7	63.4	51.5
Jason Furniture	1,434.7	1,609.4	2,407.2	22.1	12.2	49.6	12.7	13.3	12.3	10.3	10.2	8.9	22.6	13.4	22.6	(1.0)	(1.8)	(0.9)	39.1	41.9	41.6
Rh**	2,136.9	2,371.2	2,480.1	(0.1)	11.0	4.6	17.3	20.4	22.6	10.4	13.7	16.4	n.a	n.a.	116.7	4.3	3.2	2.3	86.8	74.6	79.1
Steinhoff***	8,069.0	7,899.0	9,193.0	(29.4)	(2.1)	16.4	6.1	(2.8)	5.6	2.7	(11.7)	(1.3)	n.a	n.a	n.a	19.3	n.a	19.9	58.7	40.2	50.5
Natuzzi	387.0	328.3	427.4	(9.7)	(15.1)	30.2	(3.4)	0.7	4.1	(5.8)	(3.2)	1.1	(27.8)	(27.8)	4.6	22.9	3.9	2.2	32.6	24.7	25.3
Median	2,191.0	2,310.1	2,443.6	n.a.	5.4	5.8	10.9	8.5	13.6	7.8	3.2	9.2	22.9	6.0	23.2	2.4	3.2	1.2	48.9	41.3	46.1
Average	3,184.1	3,289.9	3,748.8	n.a.	3.3	13.9	9.1	8.5	13.3	5.5	2.6	8.0	11.6	3.5	42.9	7.6	2.1	4.0	53.4	47.6	48.2

Source: Company financial statements, Bloomberg Adria analysis,
 *year ends on 30.05.
 **year ends on 31.01.
 ***year ends on 30.09.

For the following period, we do not see room for any major increase but rather a stagnation or even sporadic reductions in sales figures and EBITDA margins. **A negative element preventing further increases in profitability arises mostly from inflation-affected disposable income, recession concerns and rising interest rates.** Residential sales could only drive demand so far. The boom experienced during, and post pandemic is subsiding as consumers cash reserves are depleted and their purchases are rerouted elsewhere. On the other hand, we see the office/business end of the segment gaining traction as people return to office . According to Eurostat, 12.3% of people aged between 15 and 64 were working remotely by May 2021. This shows a 140% increase compared to figures before the pandemic, which boosted earnings for office furniture players in 2021. However, in broad strokes, **many companies are opting for a hybrid work model, which will kindle the demand for office space, and therefore office furniture. On a positive note for furniture producers, the strongest factor fuelling demand for furniture we see in the hospitality sector.**

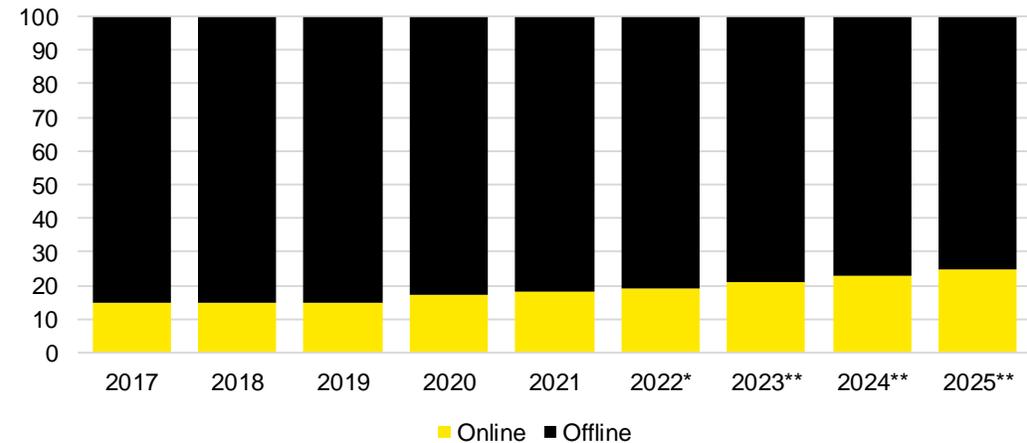
We see luxury and fool wood furniture progressively being replaced with more affordable and more sustainable products. The general consumer is looking for functional furniture that has a shorter lifecycle and can be easily replaced, especially people who are renters. Therefore, premium and design furniture will be confined to an even tighter niche.

Regarding retail sales, consumers are seeking to simplify their furniture shopping experience. Online sales have boomed during the pandemic and kept large retailers afloat. However, we see online sales gaining even more precedence as time passes. **Put simply, the industry is increasingly digitized. Players who were quick to respond and adapt to this trend managed to retain sales and scale their online platforms.**

We expect further investment in the regional furniture industry. The main drivers being low operating costs and proximity to EU markets. International players seeking to invest could also benefit from subsidies offered. For example, when IKEA was setting up in Serbia, they received land and subsidized workers' wages.

However, long term ecological and demographic factors could erode the region's comparative advantage in furniture manufacture. Deforestation may very well affect timber supply, while workers leaving the region could affect labour supply in an already scarce and ageing workforce.

Share of sales by sales channel (%)



*latest data for November 2022
 **estimate
 Source: Statista, Bloomberg Adria Analytics

Bloomberg
Adria

Bloomberg Adria



Bloomberg Adria Team Analytics

Andrej Knez, Chief Markets Analyst
andrej.knez@bloombergadria.com

Ivan Odracic, Lead Financial Markets Analyst
ivan.odrcic@bloombergadria.com

Marina Petrov, Senior Financial Markets Analyst
marina.petrov@bloombergadria.com

Jelena Zindovic, Senior Corporate Finance Analyst
jelena.zindovic@bloombergadria.com

Matteo Mosnja, Corporate Finance Analyst
matteo.mosnja@bloombergadria.com

Ilija Nestic, Corporate Finance Analyst
ilija.nestic@bloombergadria.com

Disclosures Appendix

This report is oriented for professionals and analysts that live in the country or abroad who are interested in investing and following local and regional markets. The information and opinions in this report/investment research were prepared by Bloomberg Adria and/or one or more of its subsidiaries/affiliates (collectively, 'Bloomberg Adria') for information purposes only. This report is not investment advice or an offer or solicitation for the purchase or sale of any security/financial instrument or to participate in any trading strategy. Neither Bloomberg Adria nor any of its employees accept any liability for any direct or consequential loss arising from any use of this publication or its contents. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate in price and value. Past performance is not indicative of future results. Besides, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety. Estimates of future performance are based on assumptions that may not be realized. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this publication.

This report is based on information available to the public. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Bloomberg Adria makes no representation or guarantee with regards to the accuracy, completeness or suitability of the data. Bloomberg Adria does not undertake to advise you of changes in its opinion or information. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice.

From time to time our analysts receive assistance from the issuer including, but not limited to, discussions with management of the subject company(ies). However, it should be presumed that the author(s) have communicated with the subject company to ensure factual accuracy of the (company) research report prior to publication, without mentioning recommendation and summary.

Any opinions and estimates contained herein reflect the current judgment of the author(s) and do not necessarily reflect the opinion of Bloomberg Adria or any of its subsidiaries and affiliates. This report is disseminated and available primarily electronically to professional clients and eligible counterparties, who are expected to make their own investment decision without undue reliance on this publication, and may not be sold, redistributed, reproduced or published in whole or in part for any purpose without the prior express consent of Bloomberg Adria.

Please always cite source when quoting. The content is copyrighted and cannot be quoted in a commercial setting/media outlet without prior written consent.

Additional information is available on request. Bloomberg Adria and others associated with it may be involved or seek to be involved in many businesses that may relate to companies, issuers or instruments mentioned in this report. These businesses include market making, providing liquidity and specialized trading and other proprietary trading, fund management, investment services and investment banking.

Bloomberg Adria and others associated with it including any of its employees may have positions in securities of companies or financial instruments discussed in this research, and may trade them in ways different from those discussed in this report.

This report may include research based on technical analysis. Technical analysis is generally based on the study of trading volumes and price movements in an attempt to identify and project price trends. Technical analysis does not consider the fundamentals of the underlying issuer or instrument and may offer an investment opinion that conflict with other research generated by Bloomberg Adria. Investors may consider technical research as one input in formulating an investment opinion. Additional inputs should include, but are not limited to, a review of the fundamentals of the underlying issuer/security/instrument.

The author(s) is/are named in the front page of this report. The research analyst(s) or analysts who prepared this report (see the first page) hereby certifies that: (1) the views expressed in this report accurately reflect their personal views about the subject securities or issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report. On a general basis, the efficacy of recommendations and clients' feedback are factors in the performance appraisals of analysts.