Flügger group A/S

2020/26 - Flügger gains majority stake in Eastern European paint group

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Today, Flügger group A/S entered into an agreement to invest in Eskaro group gaining 70% of the shares in Eskaro Group AB, an international paint group with operations in Ukraine, Russia, Belarus, Estonia, Latvia and Finland. The company employs around 1,100 people and generates annual revenues of approximately DKK 420 million. The acquisition is awaiting approval by the competition authorities. Full approval is expected to be granted in early 2021.

With the acquisition of 70% of the shares in Eskaro Group AB, Flügger adds another Eastern European player to its activities. A year ago, Flügger bought a majority stake in the Polish paint group Unicell, and with the acquisition of a majority stake in Eskaro, the Flügger group is thus expanding its presence towards the east and entering new markets. Eskaro's activities cover Ukraine, Russia, Belarus, Estonia, Latvia and Finland. There, the group operates six factories that produce more than 30 million litres of paint, varnish and primer a year. The production facilities include a new and modern factory in Ukraine. Most of Eskaro's products are sold to dealers, builders' merchants and other retailers.

After the investment, Eskaro's co-founder Igor Chumakov will own 30% of Eskaro, while Flügger group A/S will own 70%. Igor Chumankov will be in charge of Eskaro's day-to-day operation and management and will develop the company's short- and long-term business plans in close cooperation with Flügger's management.

Jimmi Mortensen, CEO of Flügger group A/S, says:
"Eskaro is an extremely interesting company, which operates on growth markets. Eskaro has created a solid platform in Eastern Europe, which we believe has potential for further profitable growth. The company has grown by 15% annually since 2016, and we expect to be able utilize significant synergies between Flügger and Eskaro over the coming years. With the acquisition of the Polish company Unicell in November 2019, we significantly strengthened our position in the Polish DIY market, and now we're doing the same in large parts of Eastern Europe with the acquisition of Eskaro, which has a leading position in water-based decorative paints. The acquisition supports our strategy Going Green, where we see further growth potential in Eastern Europe, and seek to expand Flügger group's presence in Eastern Europe. Our financial targets for 2023/24 are DKK +2.5 billion in revenues and EBIT of +8%, and with the acquisition of Eskaro, we're close to achieving these."

Igor Chumakov, founder of Eskaro, says:
"We look forward to joining the Flügger group. As part of Flügger group, we'll have the opportunity to exploit synergies – in particular sales and solutions to large builders' merchant chains – but also in the area of production and purchase of raw materials. We look forward to continuing our expansive growth journey with the backing of a strong group."

Most of Eskaro's revenue comes from sales via dealers and builders' merchants, with Ukraine and Russia accounting for about two-thirds of the revenue. In 2020, Eskaro expects revenues of approximately DKK 420 million, EBIT of DKK 27 million (EBIT margin: 6.5%) and EBITDA of DKK 40 million (EBITDA margin: 9.5%).

Facts about Eskaro Group

- Employs approximately 1,100 people in six countries
- Produces approximately 30 million litres of products annually
- Is ISO 9001 and ISO 14001 certified
- Has operated in Finland since 1975 and in the other five countries since the 1990s.
- Until 2007, the six companies operated as separate entities, after which they were consolidated into the holding company Eskaro Group AB, which is registered in Gothenburg, Sweden
- Operates six factories in five countries (Ukraine, Russia, Belarus, Estonia and Finland) as well as 15 distribution centres from which goods are distributed for export etc.
- The product portfolio is wide-ranging. Paints make up about half of the group's revenue, primers/priming oil 10%, wood stains 5%, and other categories such as varnish, glue, adhesives and sealants approximately 35%.

Facts about the transaction
Flügger group A/S will after the investment own 70% of the shares in Eskaro, while 30% will be owned by the founder of Eskaro, Igor Chumakov. Eskaro will continue to operate as an independent entity in Flügger group A/S. After closing, Igor Chumakov will continue as CEO of Eskaro.

In addition:

- The transaction will put Eskaro's value at DKK 350 million on a debt-free basis.

- Flügger pays a total consideration of DKK 208 million for a 70% share which is partly reached by purchase of shares and partly by capital increase.
- The transaction costs relating to the deal are expected to total approximately DKK 8 million.
- Eskaro will continue to operate as an independent business entity with Igor Chumakov in charge of day-to-day operations and management.
- The transaction is awaiting approval from several competition authorities. Full approval is expected in early 2021.
- From the time of closing, when the authorities have granted approval, the transaction will be fully included in the Flügger group's accounts in accordance with current accounting standards.

Part of the Going Green strategy
The acquisition of Eskaro is part of Flügger's strategy of growth through acquisitions with a focus on Eastern Europe. The acquisition will give Flügger access to new emerging markets and a solid starting point within the DIY sector in the six countries in which Eskaro operates.

Impact on the 2020/21 financial year
The acquisition of Eskaro is expected to have a positive effect on Flügger group A/S's revenue and earnings in the 2020/21 financial year, but the scope of the effect depends on the timing of the authorities' final approval of the transaction.

If Eskaro had been part of Flügger group A/S throughout the 2020/21 financial year, the total revenue would have been just under DKK 2.5 billion, with an EBIT margin of 9-10%.

The financial outlook will be updated at the time of final approval of the transaction.

Kind regards,

Flügger group A/S

Attachments

- Download announcement as PDF.pdf