PN-ABZ-862
02732

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KPMG Peat Marwick

Policy Economics Group

Polish Furniture Sectoral Privatization

Prepared for

U.S. Agency for International Development
Government of Poland, Ministry of Capital Privatization

KPMG Peat Marwick

Agenda

October 8, 1992

- Executive Summary
- Business Definition and Competitive Advantage
- Panel Board Industry Evaluation and Assessment of Privatization Candidates
- Furniture Industry Evaluation and Assessment of Privatization Candidates
- Next Steps and Schedule

Polish Furniture Sectoral Privatization

Objectives

- Identify relative competitiveness of Poland's furniture and panel board industries
- Identify likely capital privatization candidates
- Recommend enterprises for initial privatization preparation
- Prepare four enterprises for capital privatization
- Assist with marketing and sale of prepared enterprises (subject to contingency fee agreement)

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Polish Furniture and Panel Board Privatization

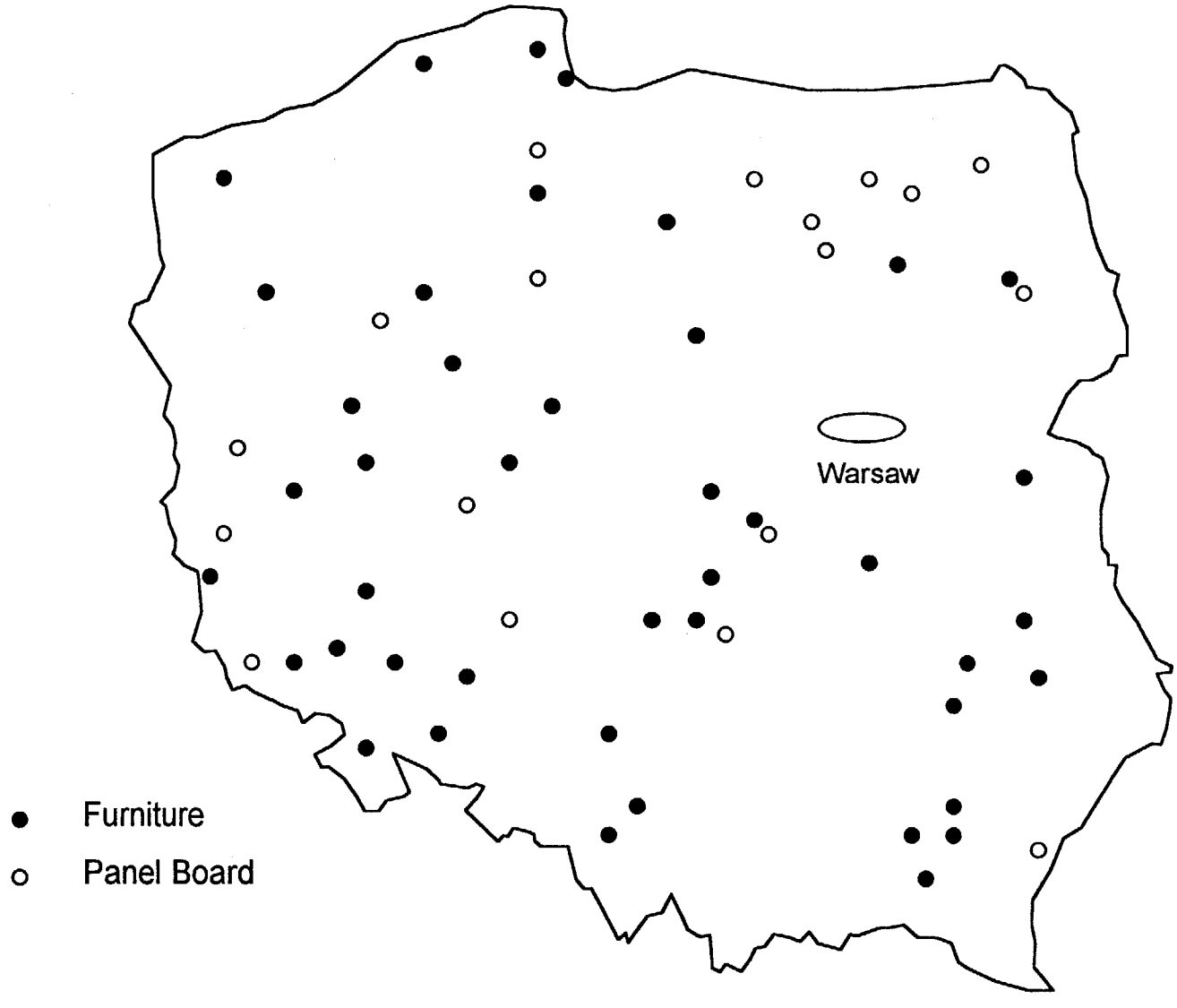
Executive Summary

- Furniture and Panel Board Sector is an important segment of Polish Economy
  - Significant contributor to skilled employment
  - High export and domestic potential
- Furniture and Panel Board are separate but related businesses
- Poland's Furniture and Panel Board Sectors share several sustainable competitive advantages:
  - Availability of natural resources leads to a pricing advantage for wooden raw materials
  - Availability of relatively low cost skilled employment gives Poland labor cost advantages
  - Proximity to large wood products export markets

Poland

Furniture and Panel Board Enterprises

Included in KPMG Analysis



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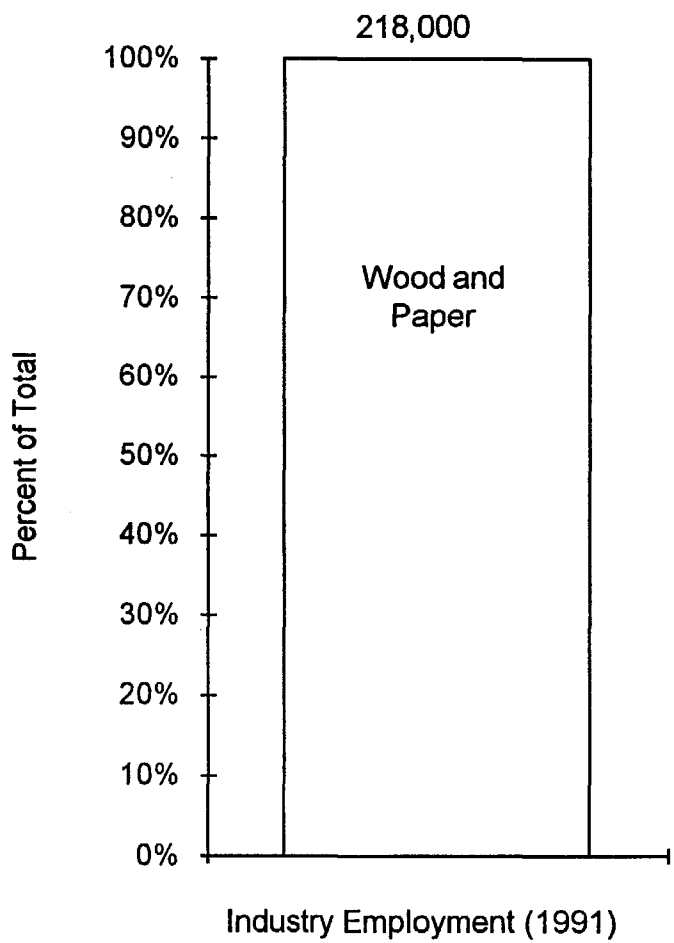
Polish Furniture and Panel Board Privatization

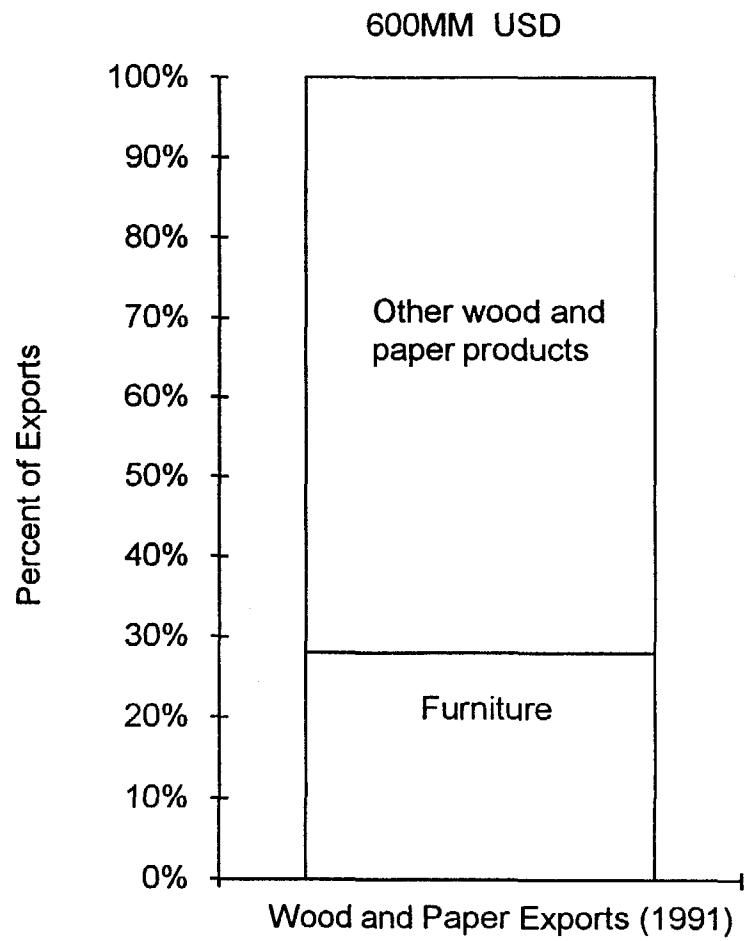
Executive Summary

- Zaklady Plyt Wirowych - Wieruszow panel board company is best suited for immediate capital privatization
  - Capable of finishing goods to customer's specification
  - Demonstrated cost advantage
- Twelve furniture enterprises are well suited for immediate capital privatization
  - Export quality products and established export sales
  - demonstrated cost advantage
  - apparent investor interest
- Furniture and panel board industries have had a number of transactions throughout the world in the past three years
- Several potential investors have been identified, including many KPMG clients

Importance to Poland

- Furniture and panel board industries provide substantial skilled employment and high export potential.





Source: GUS

Polish Furniture and Panel Board Privatization — Agenda

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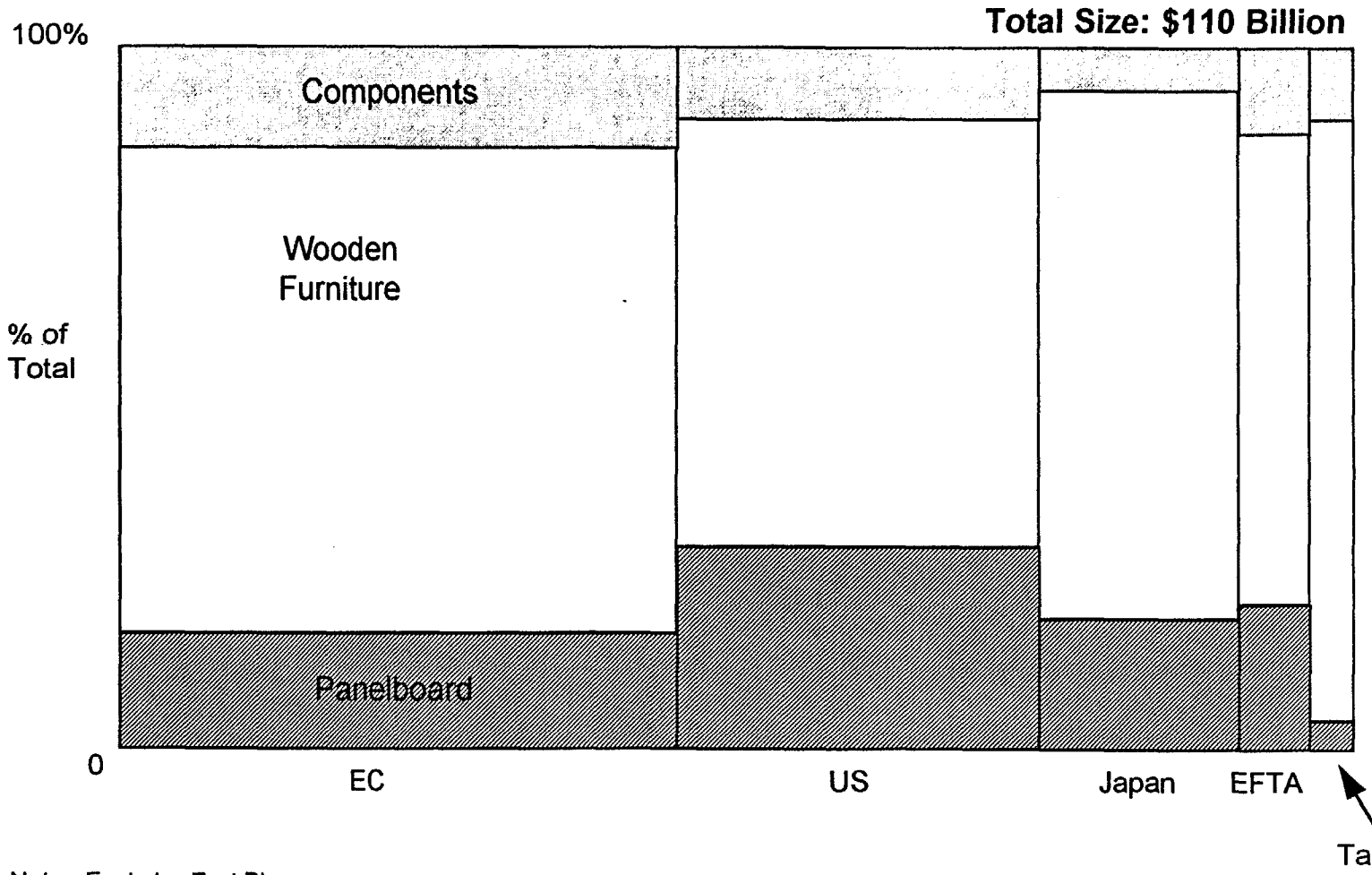
Global Wood Products Industry

1990 Production

•EC is the single largest producer of wooden furniture and panelboard, and the fastest growing region



1985-1990 CAGR:

	Furn.	PB
US	1.2%	1.0%
EC	7.0%*	1.2%
EFTA	4.3%**	1.1%
Japan	6.6%**	1.0%
Taiwan	6.0%**	N/A

Note: Excludes East Bloc

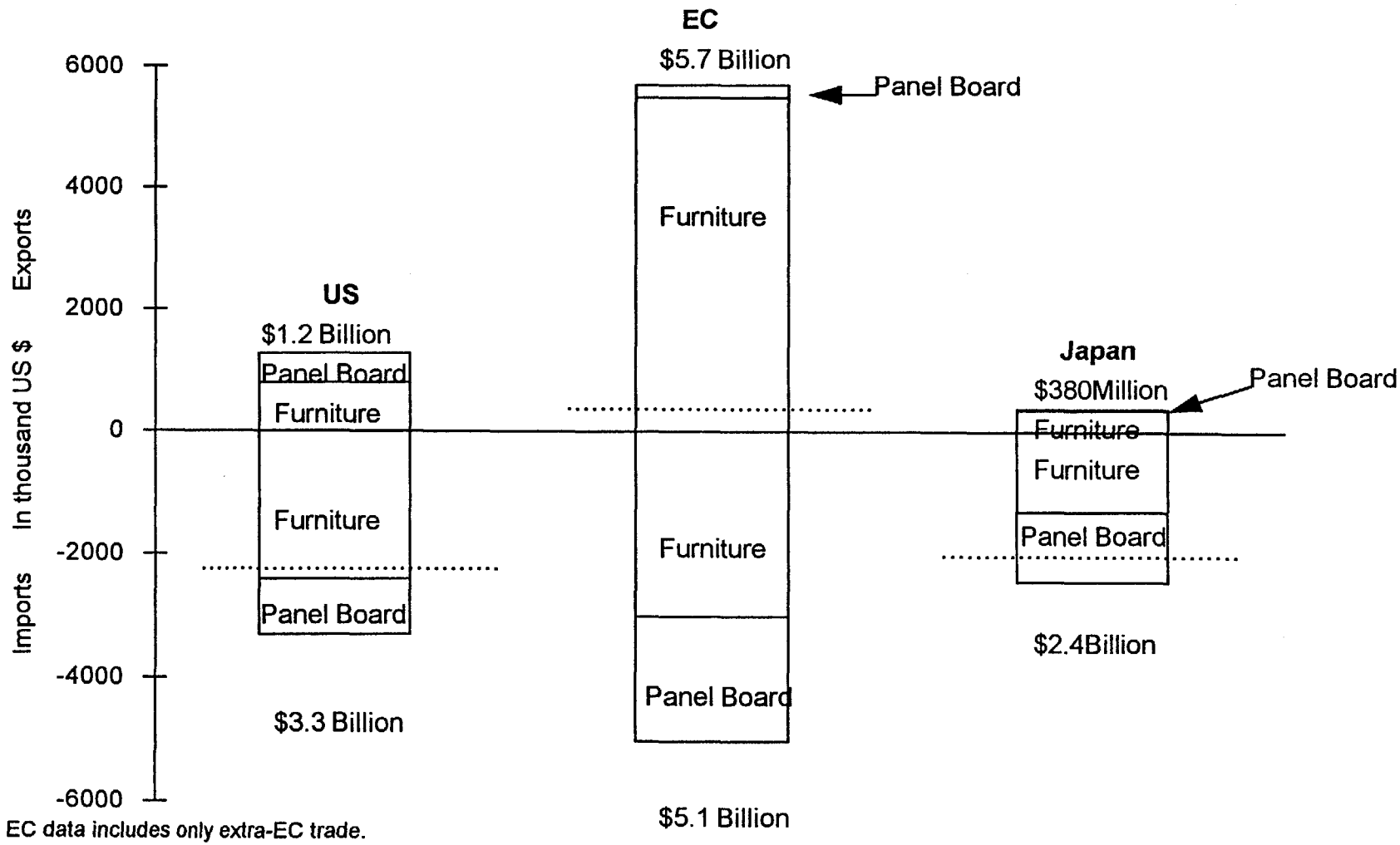
Source: AFMA, EFMA, Jaakko Poyry Cons., AG Raymond & Co., FAO Handbook

* 1986-1990 ** 1985-89 ***Estimate

Global Wood Products Industry

1990 World Trade by Product

- Furniture and, to a lesser extent, panelboard are heavily-traded
- The opportunity for Polish exports may be large, and there is a potential threat to the domestic market



Note: EC data includes only extra-EC trade.
Source: EFMA, Jaakko Poyry Consultants

Global Wood Products Industry — Value Chain

Logging → Sawmill → Particle board → Furniture

Key Success Factors:

- Tree land prices

- Proximity to trees
- Process equipment

- Low cost raw material
- Value - Added capability
- Scale
- Location to wood supply and customers

- Skilled Labor
- Material Yield

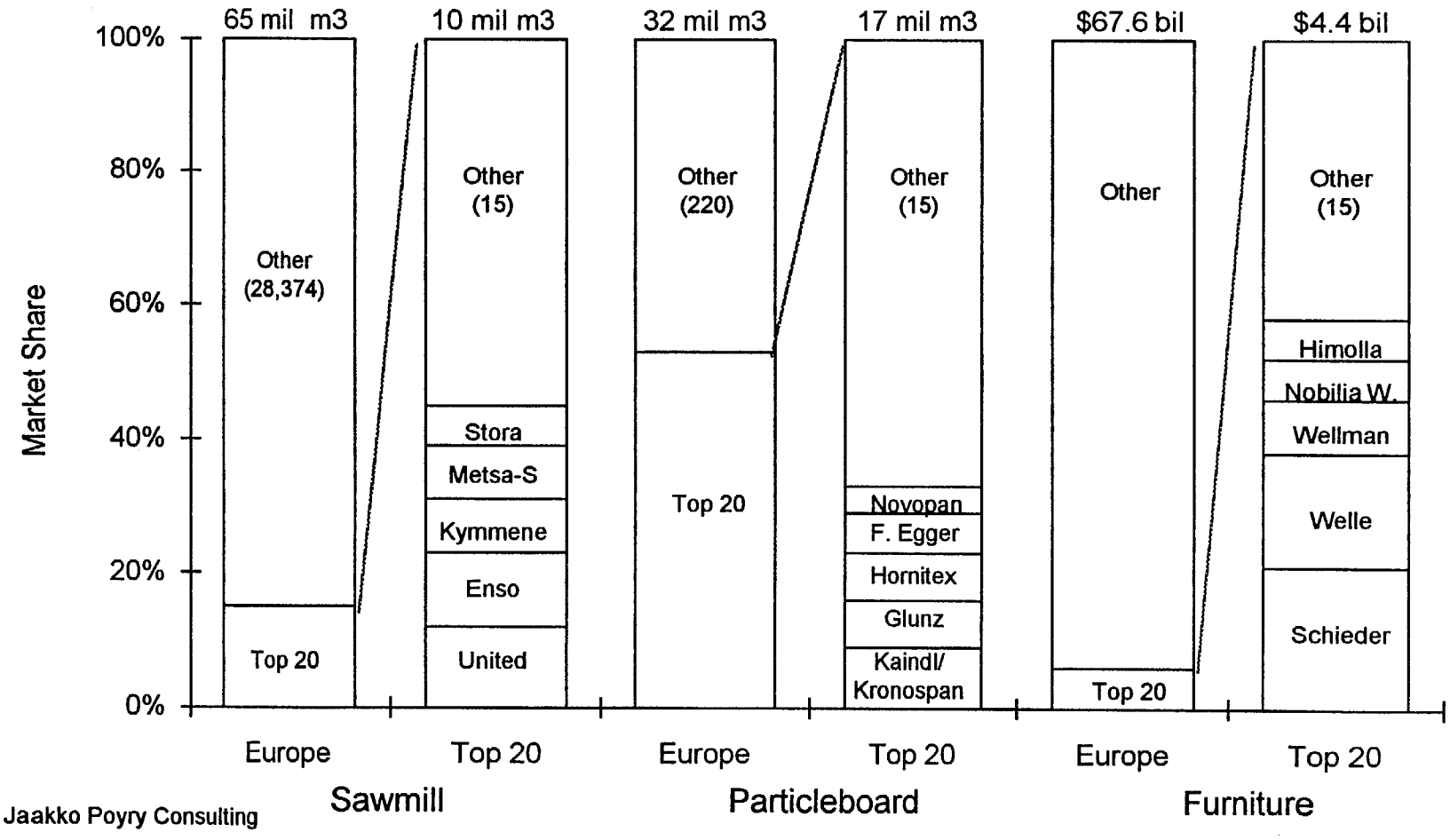
⇩

- Unique success factors
- Integrated value chain

Global Wood Products Industry

1991 Competitors

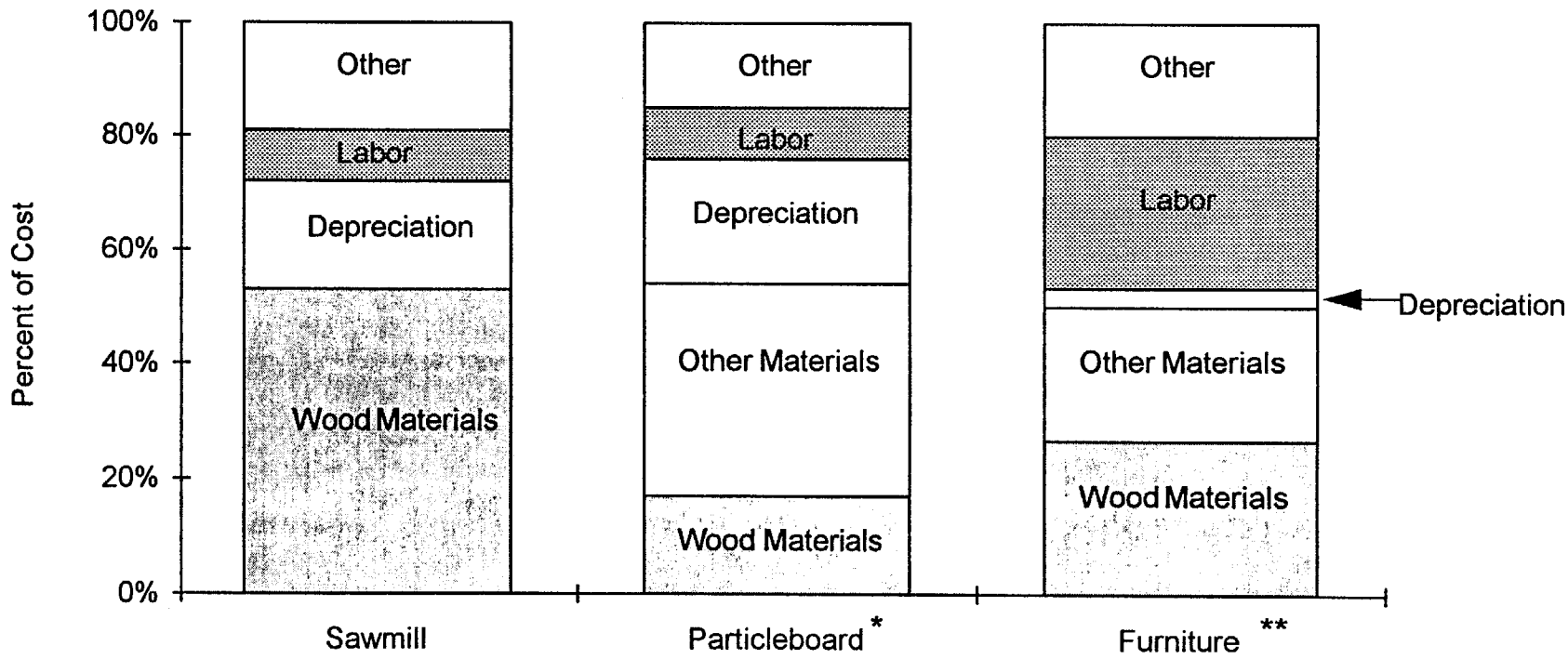
- Sawmills, Particleboard and furniture production has substantially different degree of consolidation and different competitors
- A few pan-European manufacturers exist in each industry



Source: Jaakko Poyry Consulting

Western Cost Structure

- Sawmills, Particleboard and Furniture production have substantially different cost structures



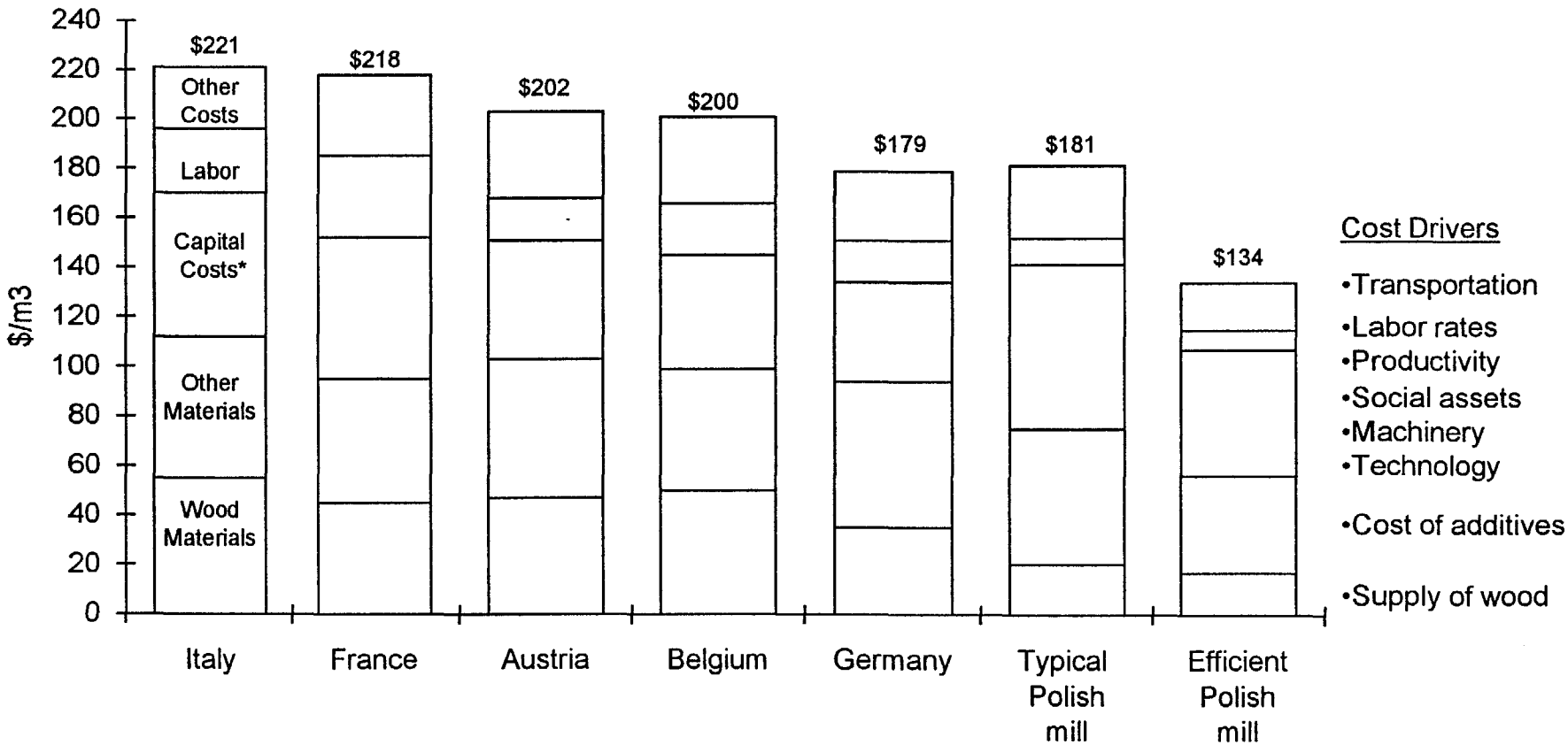
Source:
EFMA, Jaakko Poyry Consultants

* Laminated board
** Finished wood product

European Particleboard Industry

1992 Cost Structures, standard board

- Poland has the potential for a large cost advantage versus EC competitors.
- Cost advantage driven by relative wood prices, labor prices, and transportation costs.



Source:
Jaakko Poyry Consultants

*includes depreciation, workshops for manufacturing, social assets

European Particleboard Industry

Cost Advantage Sustainability

Current cost advantage sustainable through short and medium term:

- World Bank timber project to increase supply of timber for next five years
- World Bank project to increase long term supply of usable timber through rationalized growth
- Labor rate advantage likely to narrow but not equalize
- Central location to likely importers and large local market provides sustainable transport cost advantage

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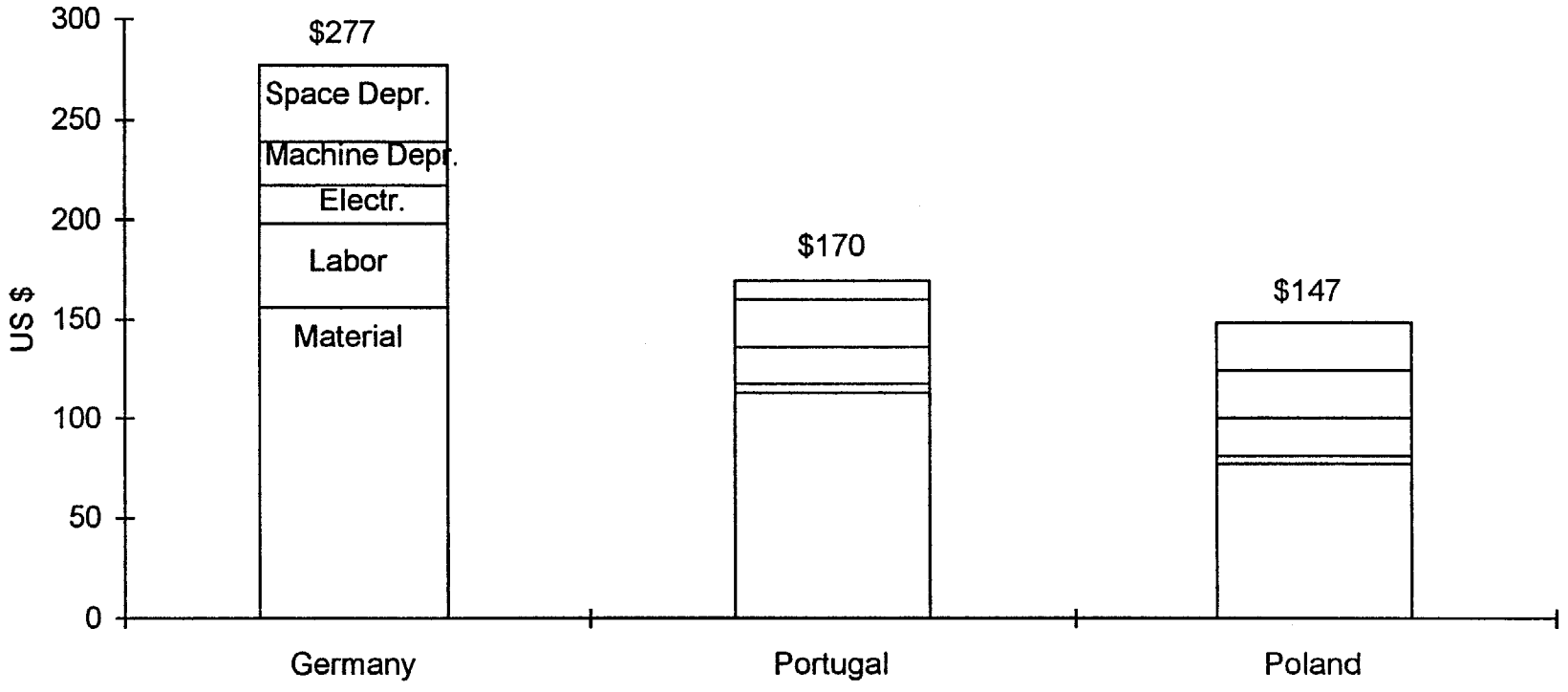
"Today we are in the situation where the efficient, good cost structure mills will survive...."

-- Jaakko Poyry Consultants

Wood Furniture

Cost Structure

Standard Finished Pine Dining Set



	Germany	Portugal	Poland
Unfinished Cost	$253	$156	$134

Model Assumptions:

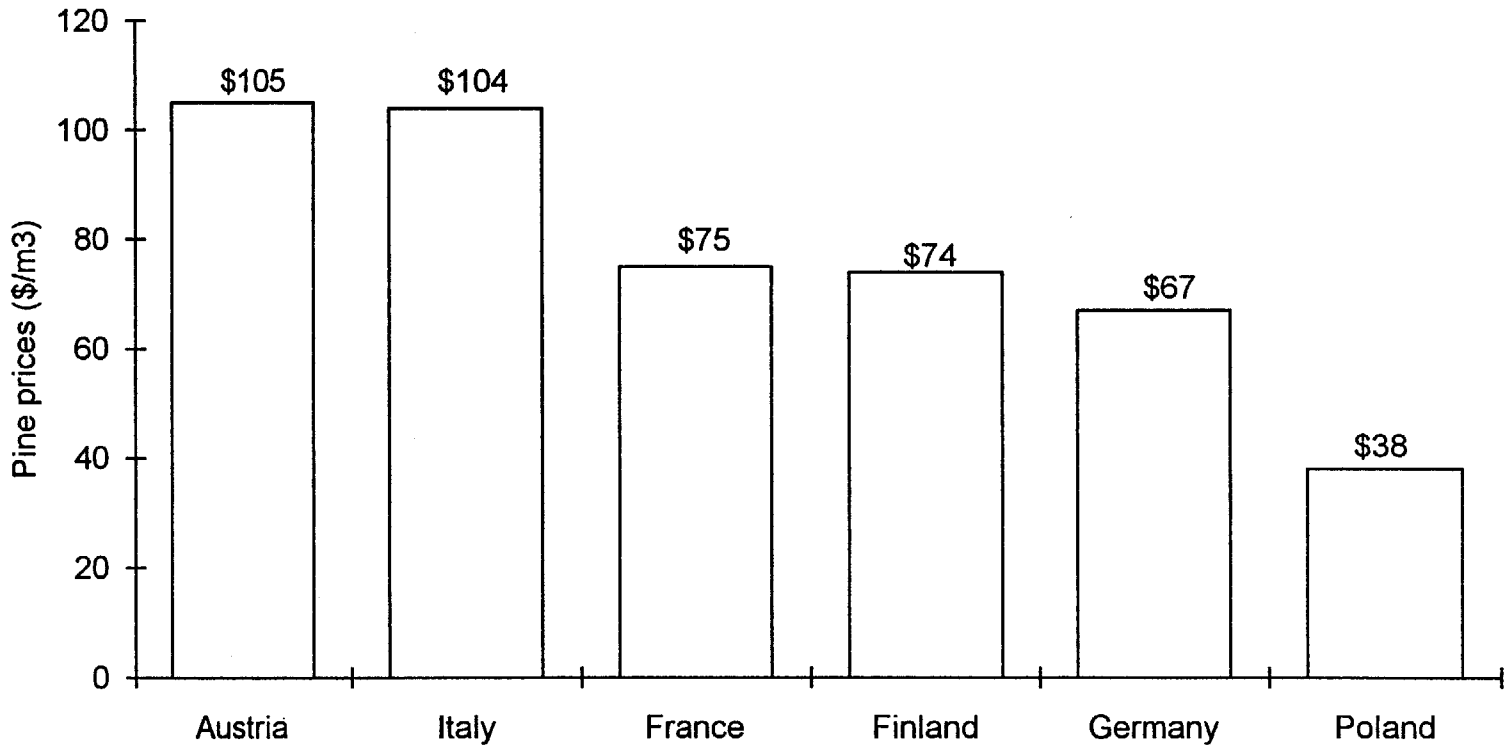
- Standard Finished Pine Dining Set of 4 Chairs and a Table.
- World class machinery and input factors.
- Same Admin. cost and same cost of electricity.
- Depreciation rate of 20% for capital equipment.
- 4% depreciation rate for space depreciation.
- 18% Interest Rate.
- Same factory space.
- 5% working capital.

Source: AJ Cons., Jaakko Poyry Cons.

European Particleboard Industry

Competitive Advantage

Price of Pine Timber

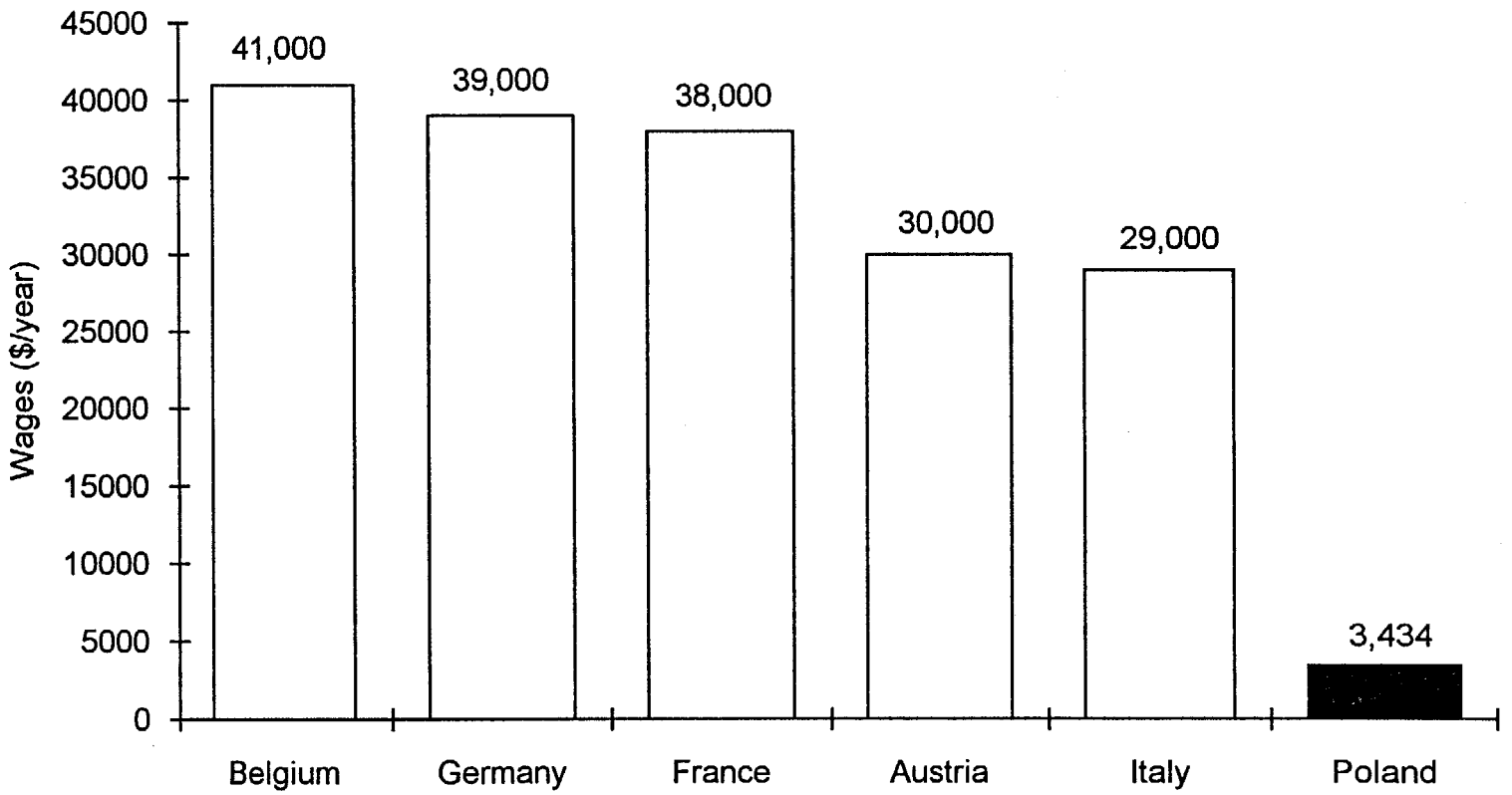


Source: Jaakko Poyry Consultants

European Particleboard Industry

Competitive Advantage

Wages



Source: Jaakko Poyry Consulting

Polish Furniture Sectoral Privatization Industrial Policy Issues

- Furniture manufacturing is a fragmented industry
- Technology improves at a relatively slow pace, and is a relatively low priority in determining competitive potential
- Scale economies are minor, so plant consolidation is less important than in other sectors
- There are many different segments with highly differentiated products
- The relatively low barriers to entry mean that an emerging private sector should provide market discipline for the SOE's

⇩

Polish furniture industry does not require forced consolidation, substantial capital investment or other industrial policy action

Summary

- The European market for wood products is the largest and fastest growing market worldwide
- There is significant trade in the wood products, especially in the furniture sector
- The wood products value chain reveals several distinct but interrelated businesses: sawmill, particleboard, and furniture
  - Competitive advantage differs for each business
  - Competitors and cost structures differ
- Of the distinct businesses
  - furniture offers the highest value-added export product and supports the highest level of employment
  - a competitive particle board industry significantly contributes to a successful furniture industry
- Poland appears to have a sustainable competitive advantage in each industry
  - low cost wood raw material
  - low cost labor
  - large local and regional export markets
  - sufficient scale plants

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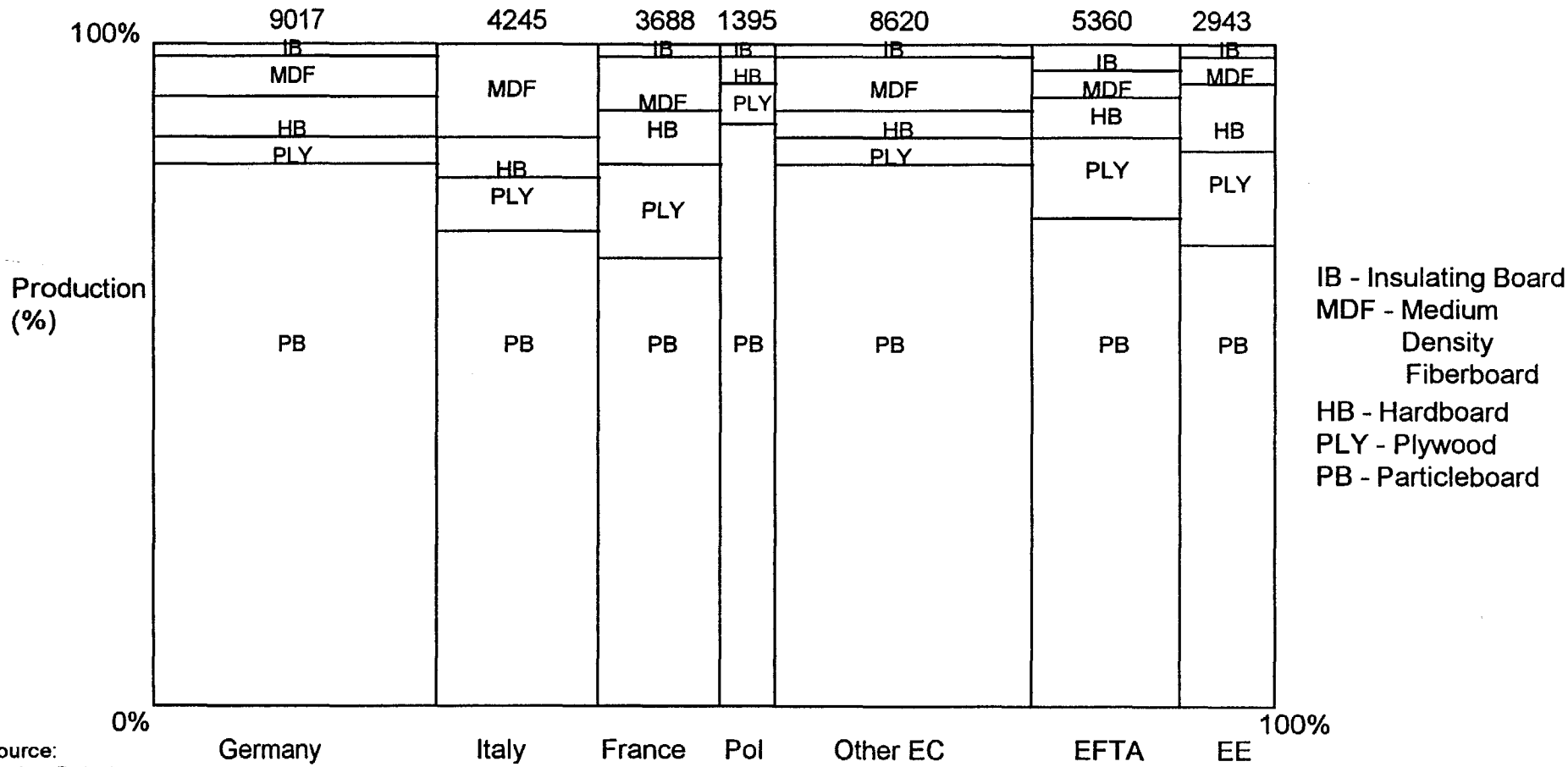
Policy Economics Group

European Panel Board Industry

Panel Board
1991 Production

- Particleboard is the dominant panelboard product, substituting for solid wood
- Germany is the largest EC panelboard producer.

Total Production: 35.3 million m3



Source:
Timber Bulletin,
Vol. 8, 1992

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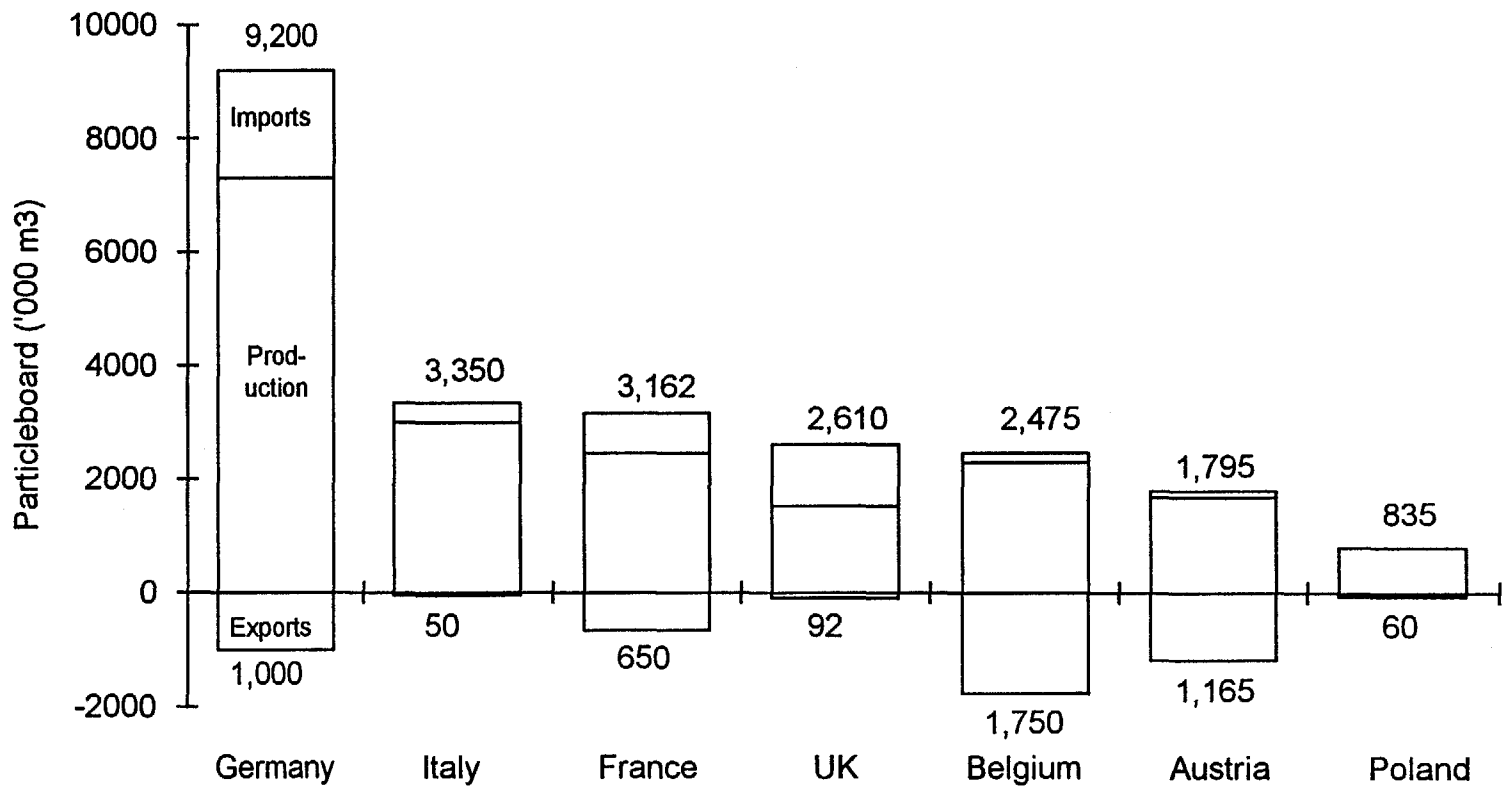
European Particleboard Industry

1991 Production and Trade

- Some inter-european trade exists in particleboard, but limited due to relatively high transport costs.
- Germany is a substantial importer, despite large produciton, and is well-situated for imports from Poland



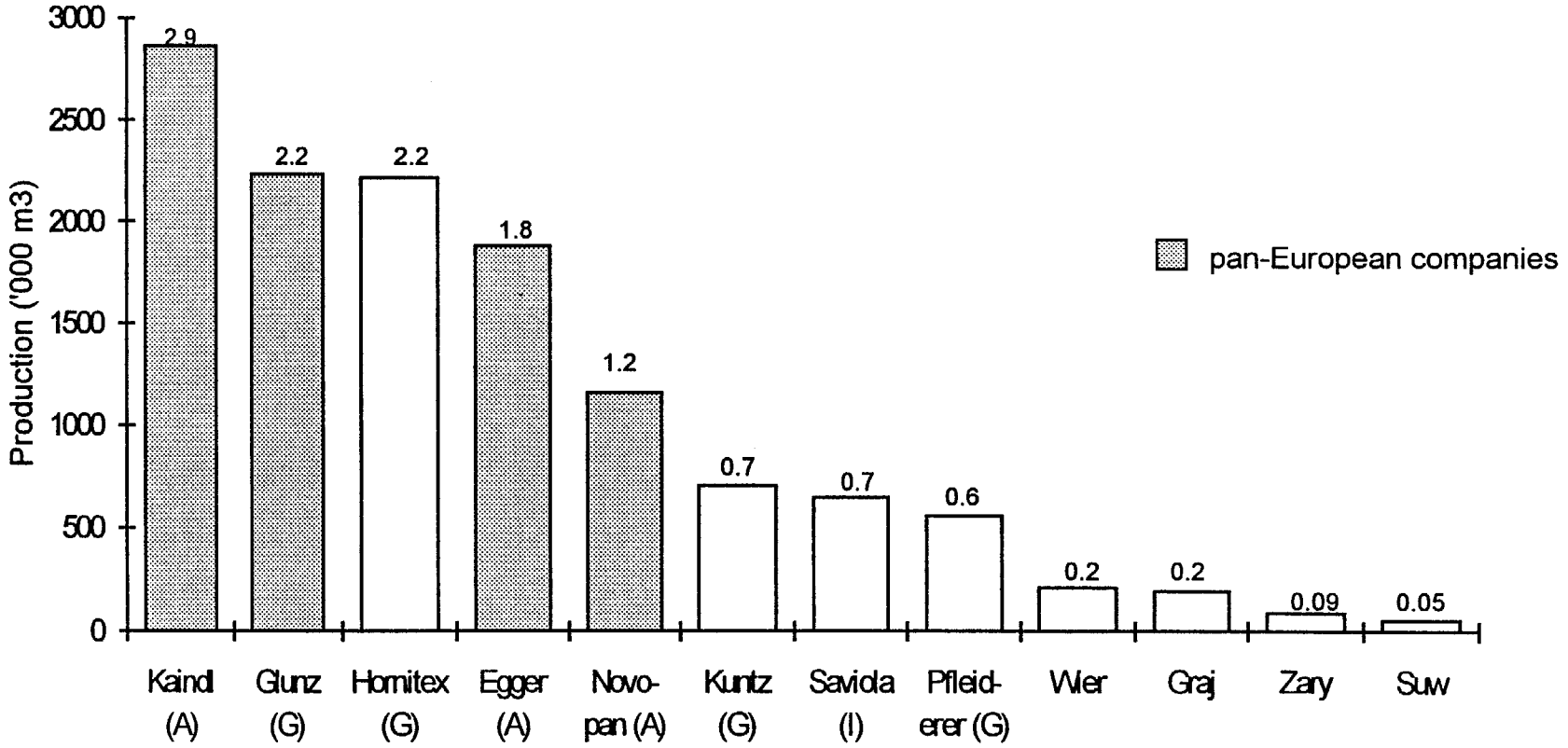
	Germany	Italy	France	UK	Belgium	Austria	Poland
Net Consumption: ('000 m3)	8,200	3,300	2,512	2,518	725	630	740

Source: UN Timber Bulletin, Vol. 8, 1992

European Particleboard Industry

1990 Competitors

- Several large pan-european companies dominate particleboard production
- Polish companies are relatively small, but have sufficient plant economies of scale



	Kaindl (A)	Glunz (G)	Hornitex (G)	Egger (A)	Novo-pan (A)	Kuntz (G)	Saviola (I)	Pfleid-erer (G)	Wier	Graj	Zary	Suw
No. of Mills:	5	9	4	8	7	2	1	6	1	1	1	1
Avg. plant size:	.58	.24	.55	.23	.17	.35	.70	.10	.20	.20	,09	.05

Source:
KPMG Questionnaire, NPA, Jaakko Poyry Cons.

Polish Panel Board Privatization

Panel Board Database

	Plant	Total sales in mls zl for I-VI 1992	Total sales annualized in mls $	% of sales to furniture companies	Number of employees	Revenue per employee	Core operating margin	Capacity utilization	Inventory days	Receivable days	Debt to sales
1	"Prospan"- Wieruszow	318 613	48,3	57,0%	1 035	602,2	23,1%	90,8%	49,5	58,4	38,8%
2	Elckie Zaklady Przemyslu Sklejek	18 326	2,8	20,0%	0	196,1	26,2%	98,1%	46,5	19,1	54,2%
3	Zaklady Plyt Wiorowych - Grajewo	273 920	41,5	90,0%	925	559,6	21,7%	89,5%	57,9	81,2	50,9%
4	Piskie Zaklady Przemyslu Sklejek	140 336	21,3	75,0%	1 012	273,1	25,1%	86,0%	52,2	37,9	0,0%
5	Zaklady Plyt Pilsniowych - Czarna Woda	85 103	12,9	16,0%	797	208,5	10,8%	89,2%	24,2	56,4	5,1%
6	Zaklady Plyt Wiorowych - Suwalki	32 968	5,0	82,0%	203	306,8	-6,9%	59,9%	52,8	137,1	26,8%
7	Zaklady Przemyslu Sklejek - Bialystok	38 673	5,9	15,0%	0	0,0	24,7%	62,8%	84,3	36,9	50,6%
8	Zaklady Plyt Pilsniowych - Krosno Odrzanskie	68 540	10,4	15,0%	0	0,0	14,2%	83,7%	62,4	58,7	0,0%
9	Piotrkowskie Zaklady Przemyslu Sklejek	23 357	3,5	20,0%	350	130,7	6,0%	51,3%	59,0	25,7	3,8%
10	Mazurskie Zaklady Przemyslu Sklejek - Morag	57 860	8,8	10,0%	660	172,4	10,3%	73,4%	85,4	75,6	43,8%
11	Zaklady Plyt Wiorowych - Zary	48 444	7,3	77,0%	537	170,6	-48,4%	39,9%	58,5	90,5	0,0%
12	Zaklady Plyt Pilsniowych - Przemysl	65 295	9,9	9,0%	0	0,0	9,3%	56,1%	45,9	40,9	1,5%
13	ZPSiChPD Bydgoszcz	61 536	9,3	0,0%	0	0,0	18,6%	0,0%	41,3	60,7	21,1%
14	Zaklady Plyt Pilsniowych - Czarnkow	93 397	14,2	0,0%	0	0,0	10,2%	0,0%	45,9	63,6	7,5%
15	Koniecpolskie Zaklady Plyt Pilsniowych	76 572	11,6	0,0%	0	15,0	0,0%	0,0%	34,4	45,0	0,0%
16	Zklady Plyt Pilsniowych - Swieradow-Zdroj	10 933	1,7	0,0%	0	0,0	4,9%	0,0%	55,8	74,1	67,3%

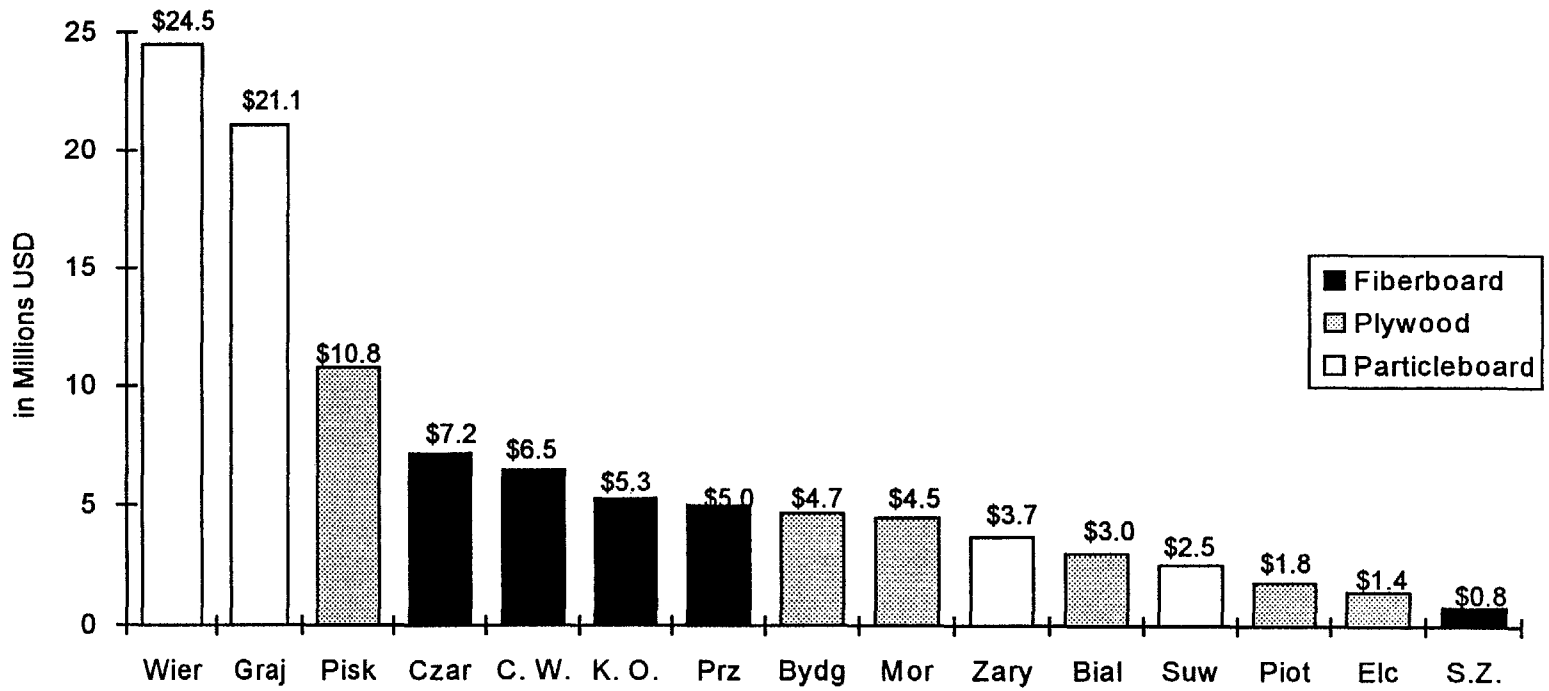
Source: FO1 for I-VI 1992 and KPMG questionnaire

Polish Wood Products Industry

Panel Board

1992 Sales (6 Months)

•Wieruszow and Grajewo are by far the largest Polish panelboard companies



Source: KPMG Questionnaires

Polish Panel Board Privatization

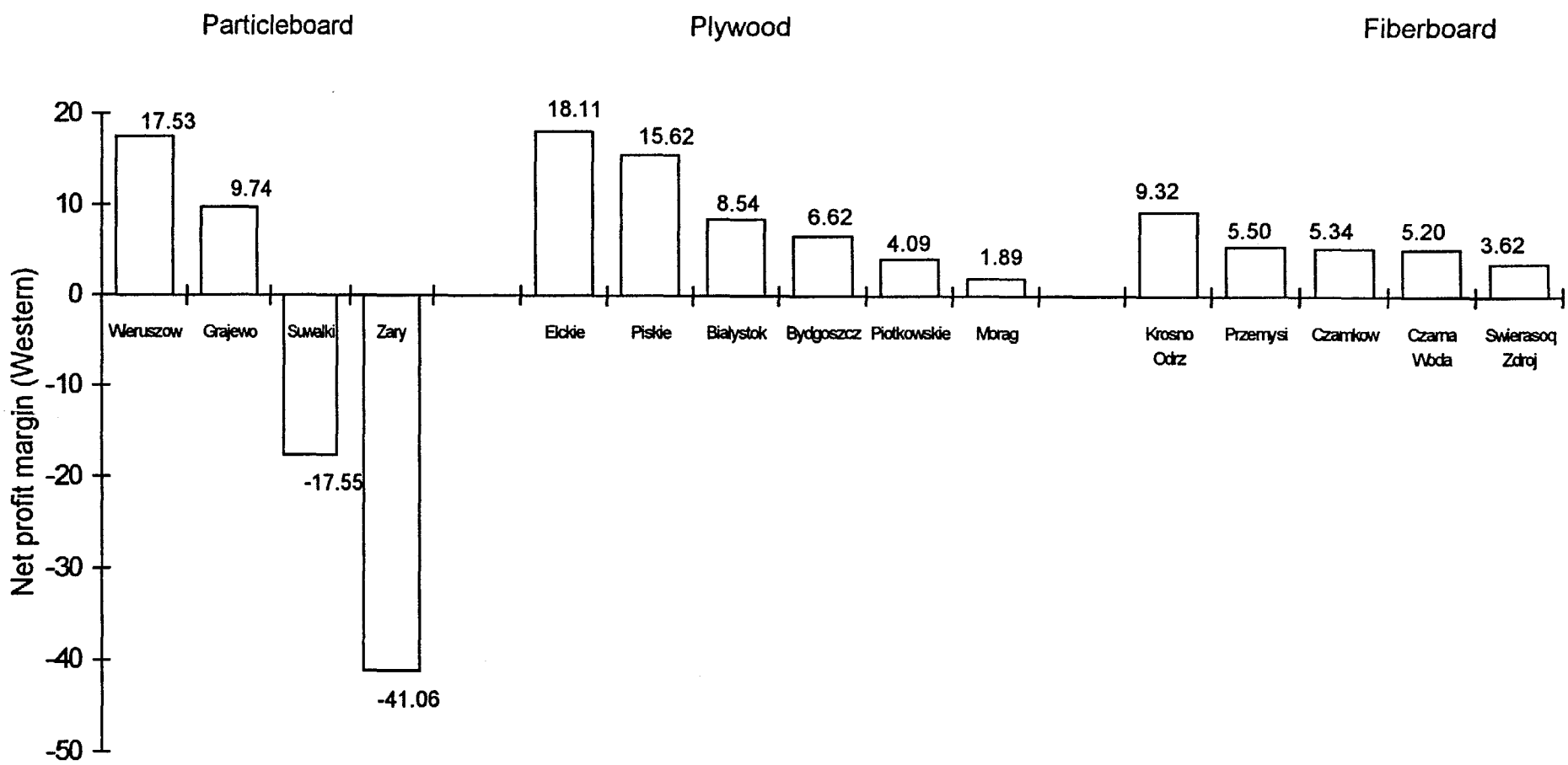
Enterprise Selection Criteria

Key Success Factors	Enterprise Data
•Finishing Capabilities	
•Flexibility →	Range of Board Sizes
•Quality Standards →	% Sales to Furniture Customers
•Market Potential →	Ability to meet customer demands
•Cost Competitiveness	
•Cost Advantage →	Core Operating Margin
•Materials Management →	% round wood used
•Productivity →	Production per Employee
	Capacity Utilization
•Fixed Asset Base	
•Process Efficiency →	Age of Mill and Equipment
•Production Efficiency →	Energy as % of COGS
•State of Technology →	Origin of Equipment
•Ease of Privatization	
•Speed to transaction →	Legal Status
	Privatization Path Chosen
	Founding Organ Cooperation
	Management Interest
	Workers' Council Cooperation
•Financial Strength	
•Liquidity →	Accounts Receivable Days
•Management Skill →	Inventory Days
•Financial Burden →	Debt/Sales

Source: AG Raymond & Co. , Jaakko Poyry Consulting

Polish Panel Board Industry

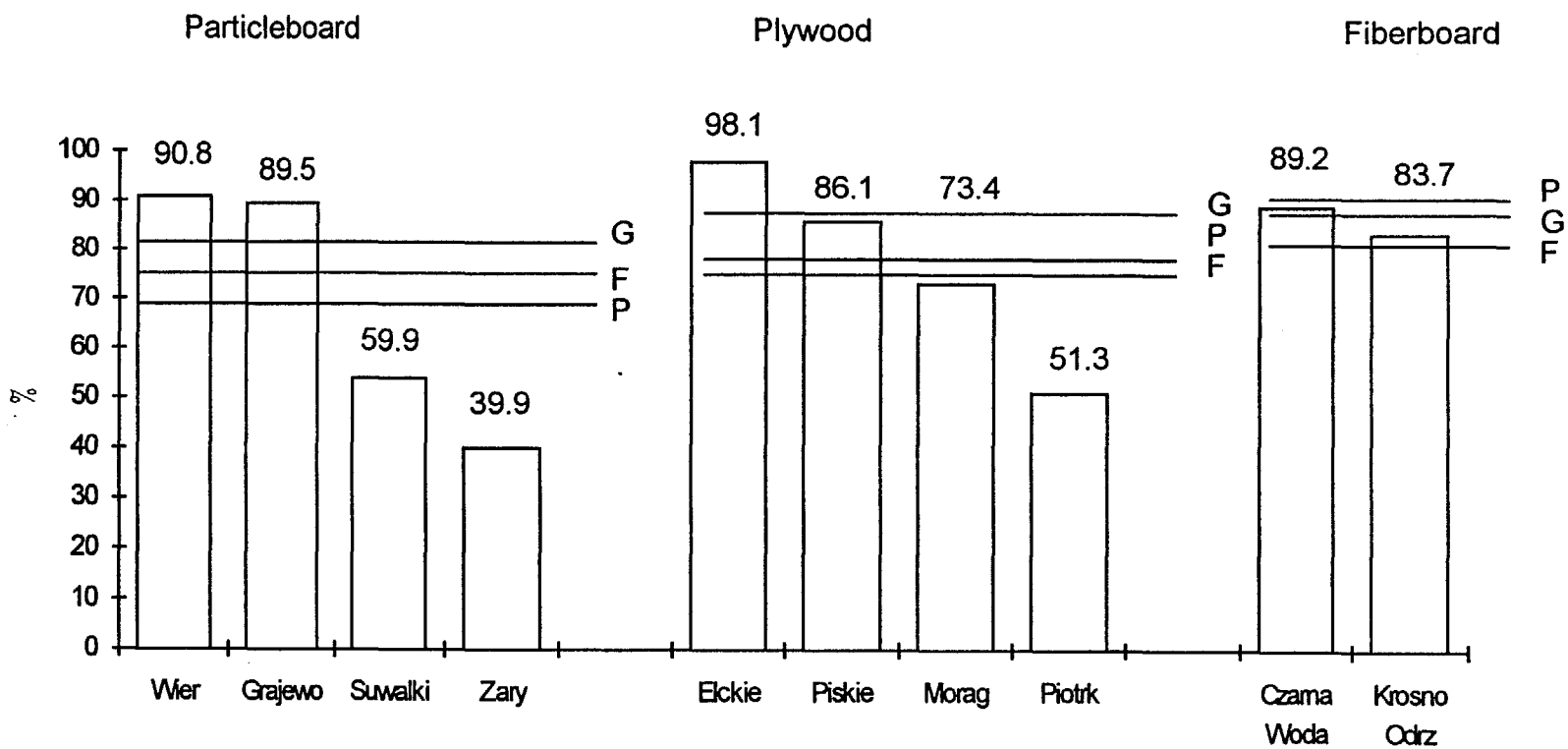
Profitability



Source: KPMG Questionnaires
Jaakko Poyry Consult.

Polish Wood Products Industry

Panel Board
Capacity Utilization

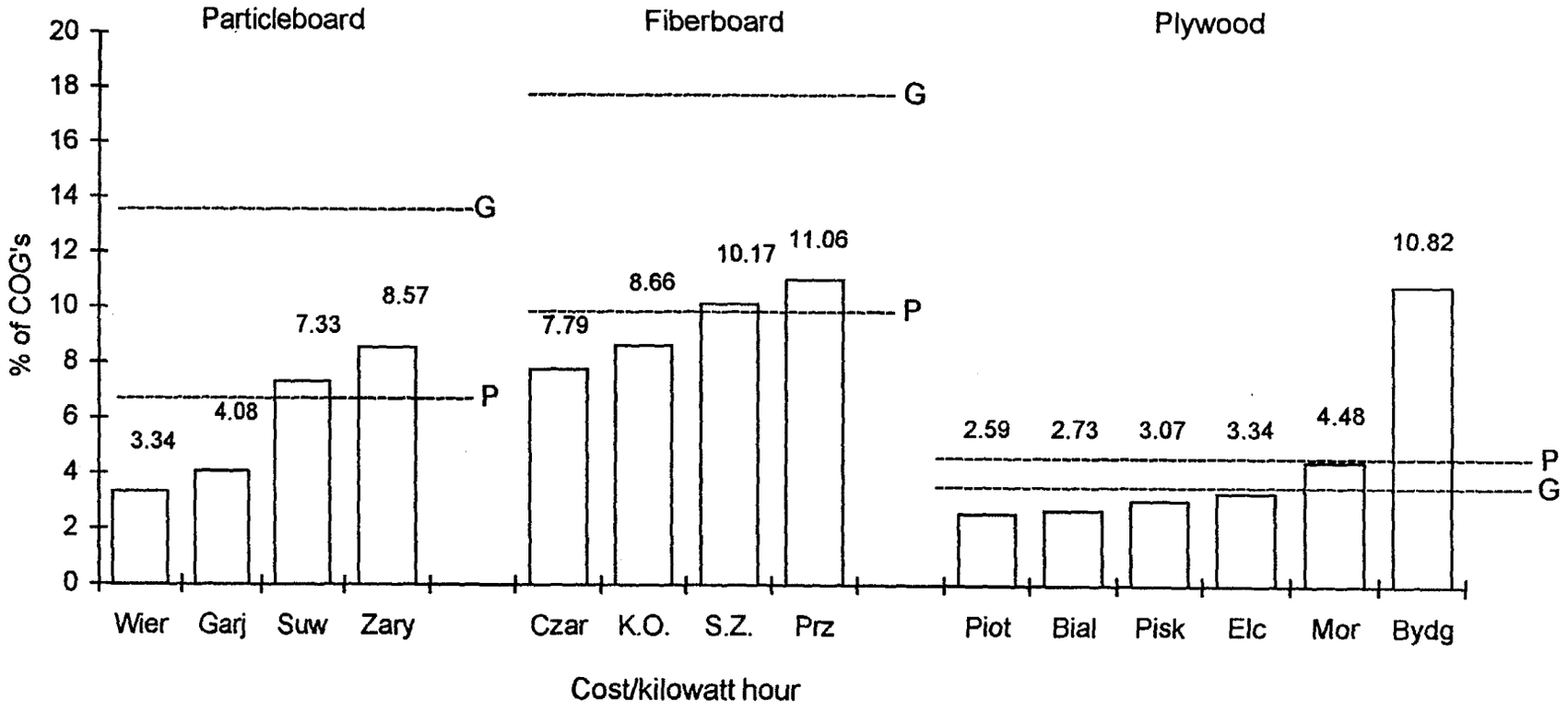


Key: P = Poland
G = Germany
F = Finland

Source: KPMG Questionnaires
Jaako Poyry Consultants

Polish Panel Board Industry

Energy Costs

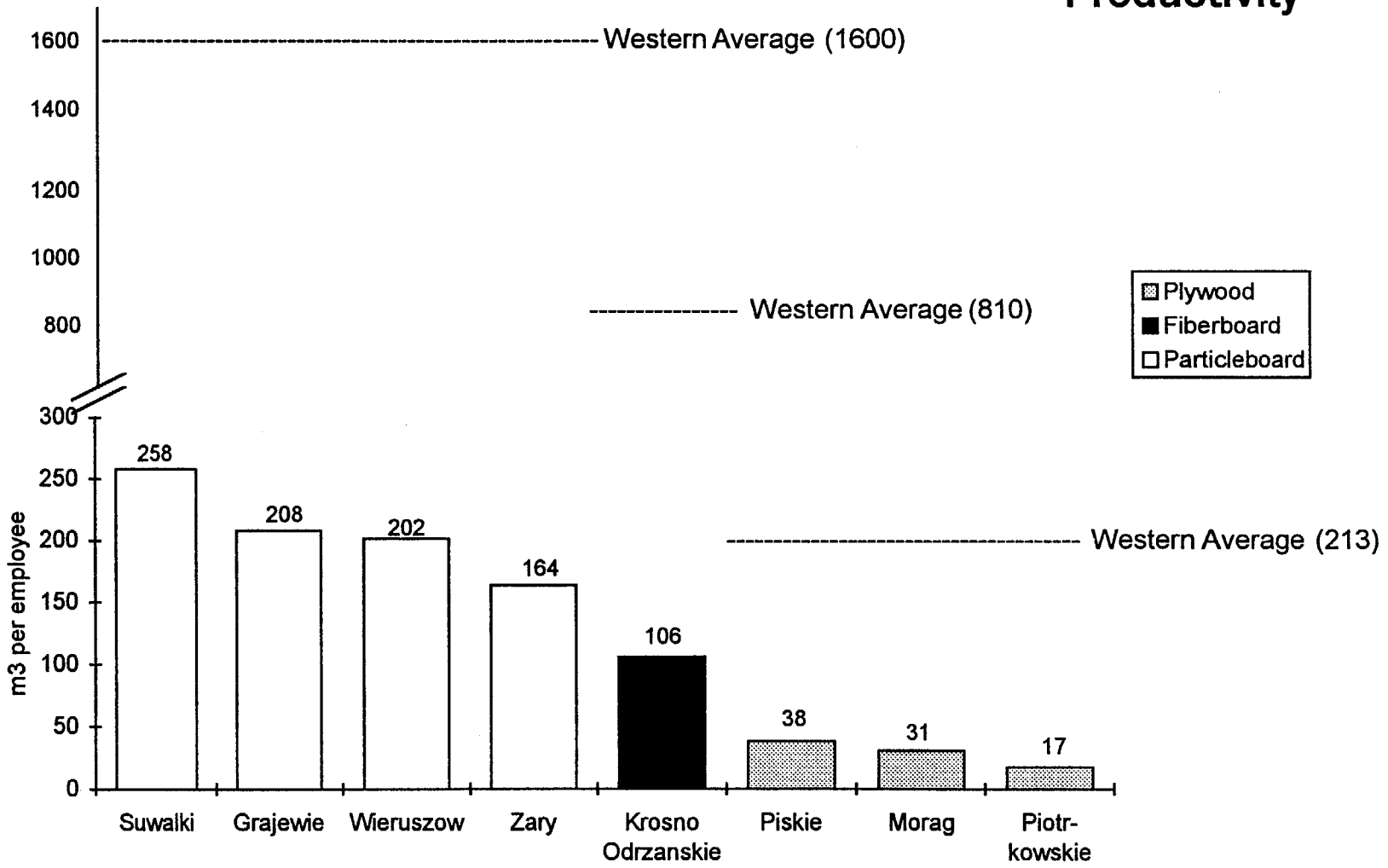


G = Germany
P = Poland

Source: FO2 Data , Jaakko Poyry Consultants

Polish Panel Board Industry

Productivity



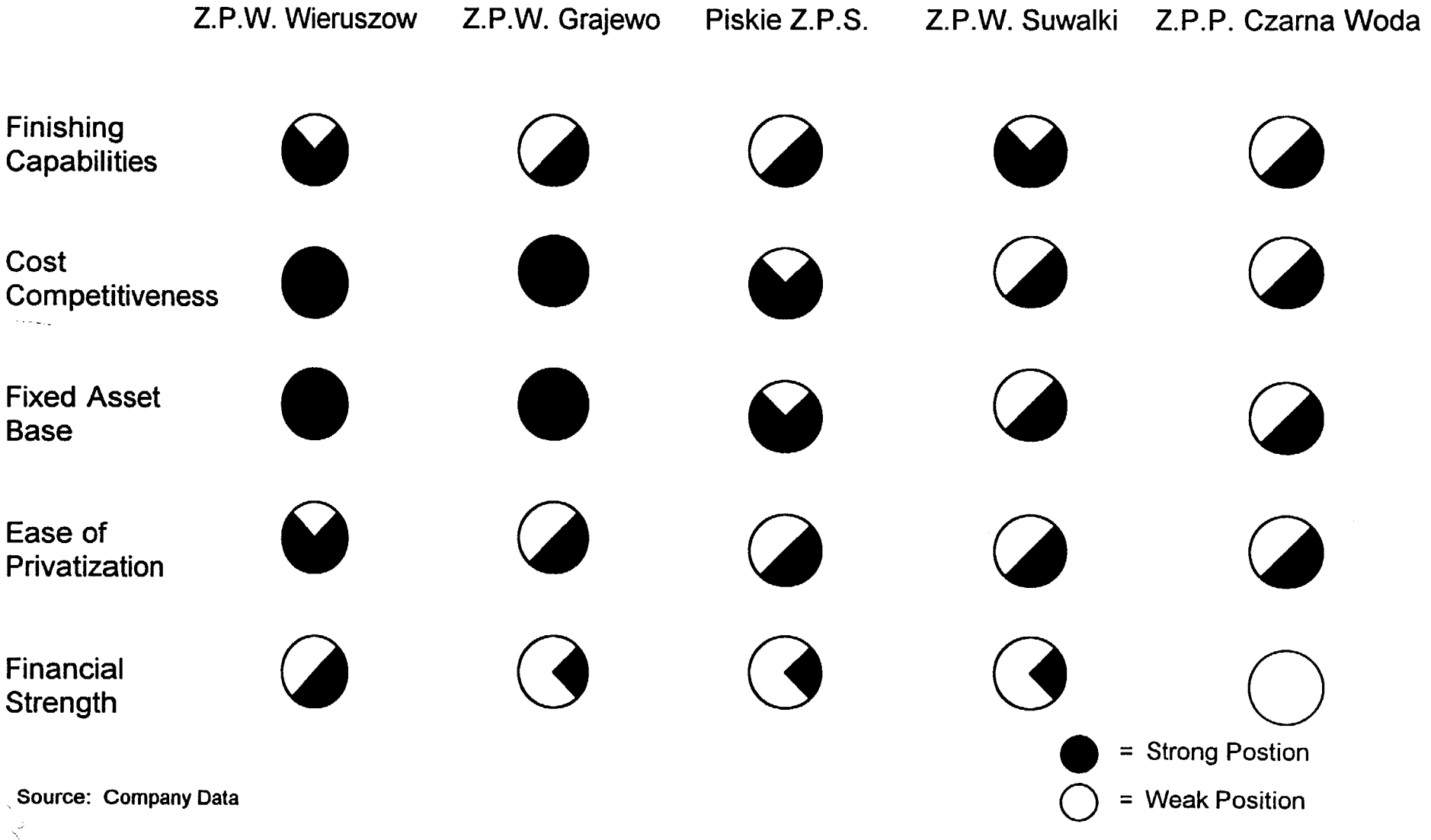
Source: KPMG Questionnaire, Jaakko Poyry Consultants

Polish Wood Products Industry

Panel Board

Strategic Assessment (Top 5)

•Wieruszow is the most competitive panel board company



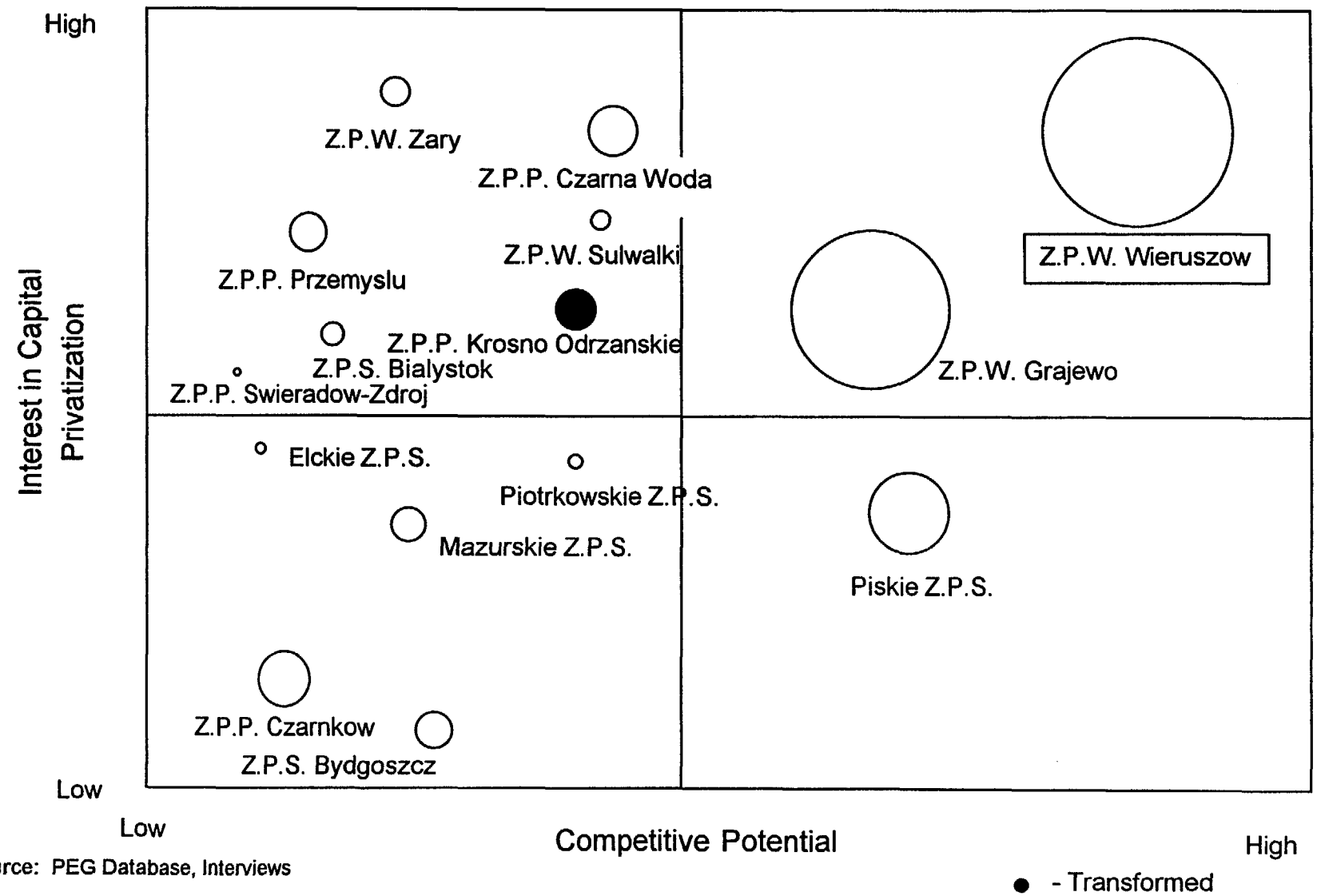
Source: Company Data

Polish Furniture Sectoral Privatization

Panel Board

Enterprise Mapping

•Z.P.W. Wieruszow is an immediate candidate for capital Privatization



Source: PEG Database, Interviews

● - Transformed

Polish Panel Board Sector

Wieruszow

- **Built in** 1974 - 1976
- **Labor Force:** 1,035 employees
- **Equipment:** modern German machinery and production lines
- **Product Quality:** good quality; can successfully compete with Western firms; recognizes need to expand finishing capabilities
- **Production Capacity:**
  - Raw Particle Board -230,000 m3
  - Laminated Board - 100,000 m3
  - Finishing Foil -30,000 m2
  - Edge Paper - 12,000,000 m2
  - Edge Tape - 1,200,000 m2
- **Domestic Market Share:** 30% of particle boards

- **Total Sales (in millions Zl):**
  - 1990 - 459,828
  - 1991 - 566,261
  - 1992 - 601,892 (estimate)
- **Exports to Western Europe** (as % of total sales):
  - 1990 - 4.6
  - 1991 - 9.6
  - 1992 - 20.0 (estimate)
- **Gross Profit (in millions Zl):**
  - 1990 - 35,258
  - 1991 - 48,446
  - 1992 - 67,631(estimate)
- **Gross Profit Margin:**
  - 25% on domestic sales
  - 8% on exports
- **Management:** skillful, open-minded, and devoted staff; willing to undertake privatization and negotiate with a potential foreign investor

"Well maintained plant ... and good product quality"

Zoltan Nyeki - JAAKO POYRY

Global Panel Board Industry

High Potential Investors

	Company	Sales	Description of Activities
Austria			
	Fritz Egger	$512 M	•Concentration in particleboard
	Kaindl/Kronospan	$600 M	•Manufacturer of raw, thin and laminated particleboard •Manufacturer of laminates •70% of operations outside Austria •Joint venture in Hungary. •Acquisitions in Poland (paper, particleboard)
	Novopan	NA	•Pan European activities •Concentration in particleboard
Germany			
	Bison	NA	•Recent investment in former East Germany
	Glunz	$741 M	•Largest European wood processor •Recent acquirer of largest French panel board manfuacturer
	Hornitex	$506 M	•Recent investment in former East Germany
	Kunz	$48 M	•Third largest German particleboard manufacturer
	Pfleiderer	$723 M	•Wood based panel and lamination manufacturer •New investment in 1991/92 totaled $77 million •Diversifying operations

Source:
Timber Trades Journal

Global Panel Board Industry

Potential Investors

	Company	Sales	Description of Activities
Germany	Rauch	NA	•Recent investment in German particleboard mill •Manufacturer of furniture
	Werzalit	$133 M	•Recent acquisition in former East Germany
Italy	Gruppo Maurio Saviola	NA	•7th largest European particleboard manufactuer
	Sonae Industrae Investments	NA	•Recent investment in British panel board manufacturer
Sweden	IKEA	$1bil	•Estimated $30 million investment in Polish furniture industry
	IOY Danborn	NA	•Recent investment in British panel board manfacturer
U.S.	Georgia Pacific	$12.7 bil	•International operations
	International Paper	$13 bil	•$325 million present and future investment in Polish pulp and paper manufacturer •World's largest pulp, paper and forest products company
	Medite Corp	$130 M	•European operations •Recent investment activity

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Global Panel Board Industry

Recent Transactions (1989 - 92)

Acquirer	Target	Description of Target	Date of Transaction	Value of Transaction
Glunz (Germany)	Isoroy (France)	Largest French panel board manufacturer	1992	$275 M
Sierra Pacific (US)	Bohemia (US)	MDF mill	1992	N/A
Werzalit (Germany)	Eichsfelder Sperholzwerke (Eastern Germany)	Plywood manufacturer	1991	$12 M
Willamette Ind (US)	Bohemia (US)	Particleboard mill	1991	N/A
Noranda (Canada)	Plum Creek (US)	MDF mill	1990	N/A
IOY Danborn (Swed)	Interwell (UK)	Hardboard manufacturer	1992	$3.4 M
Fibreboard Corp (UK)	Arrowood Tech (US)	Manufacturer of wood products for structural applications	1989	$6.3 M
Sonae Industrae (Italy)	Spanboard (UK)	Hardwood, plywood and lumber manufacturer	1989	$14.2 M
Medite Corp (US)	Montanna de Fibra (US)	MDF mill	1989	N/A

Source:
A. Raymond Consulting, Boersen Zeitung, SDC Database

Global Panel Board Industry

Recent Eastern European Investment

Company	Target	Project
International Paper (US)	Kwidzyn (Poland)	Acquisition of 80% of bleached pulp and paper mill for $120 million, with an additional investment of $175 million by 1996
Kaindl (Aust)	Fabryka Papieru Malta(Poland)	Acquisition of 80% of papermill for $1.2 million. Additional investments totaling $10 million over 3 years
Bison (Ger)	Horida (Ger)	Developing MDF production lines
Hornitex (Ger)	Beeskow (Ger)	Upgrade particleboard mill (flooring line)
Rauch (Ger)	Gotha (Ger)	Converting and upgrading particleboard mill to a 16 press mill
Kaindl (Aust)	Hungary	New particleboard mill

Source:
Timber Trades Journal
Jaakko Poyry Consulting

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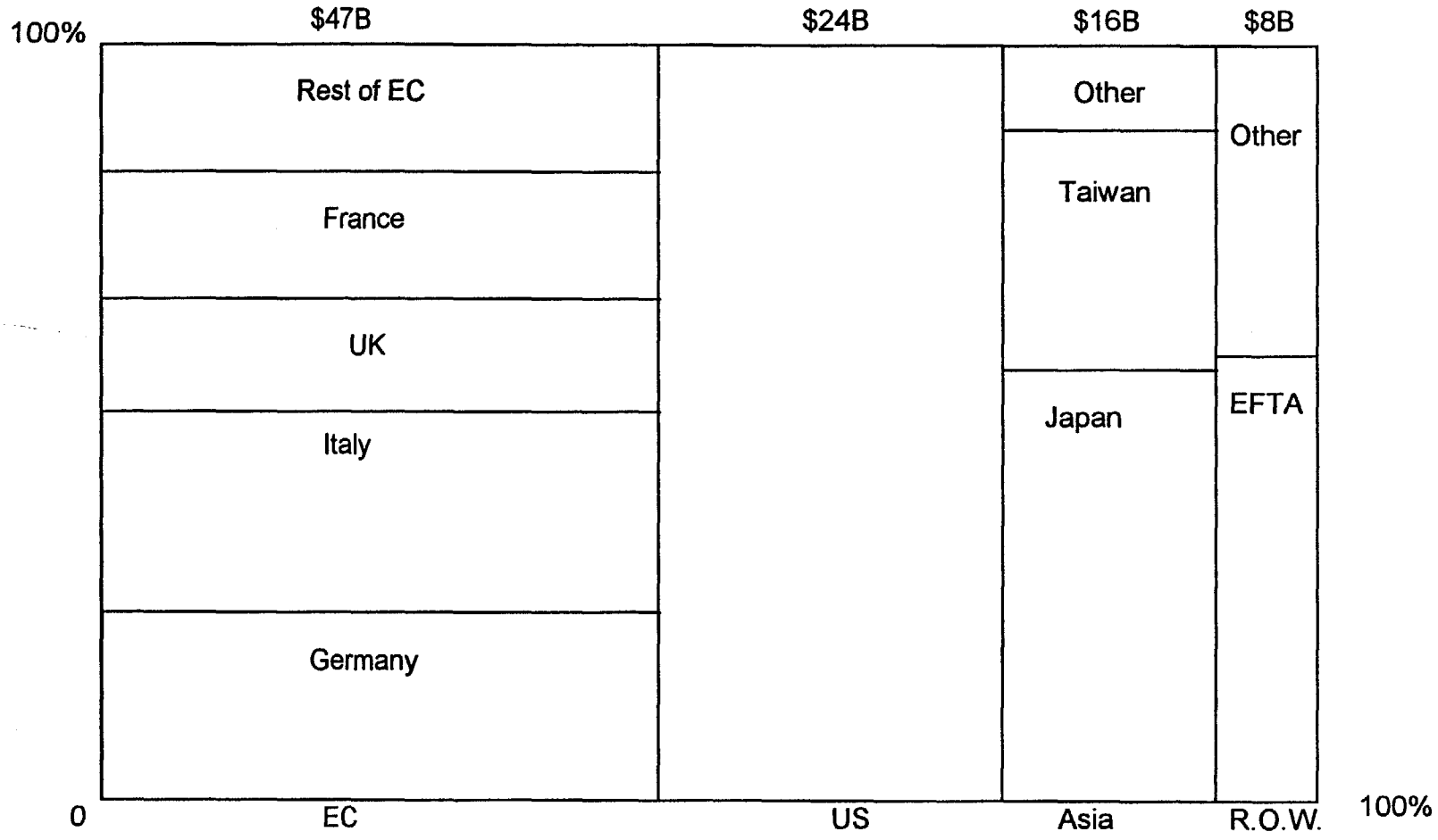
Global Wood Products Industry

1990 Furniture Production

Total Market Size: $90 Billion

- The U.S. is the single largest furniture producer
- The EC is the largest producing region
- Germany and Italy dominate EC furniture production

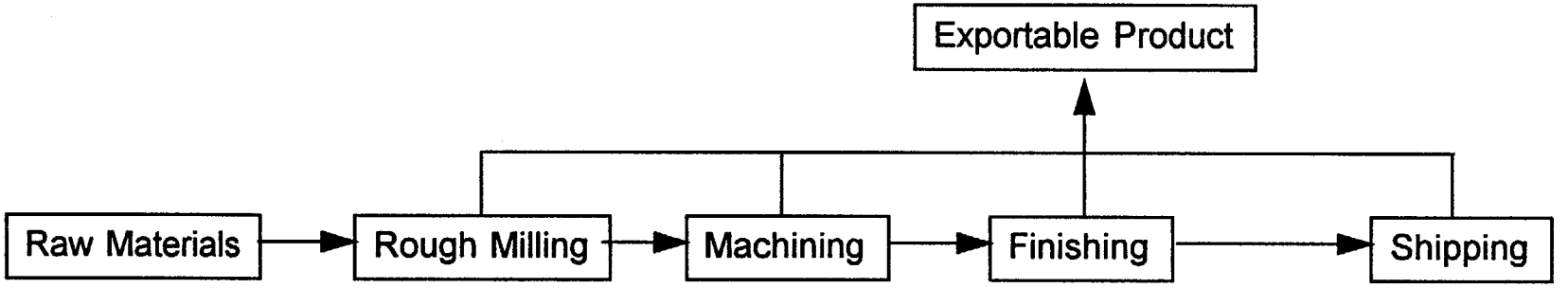


Note: Excludes East Bloc production
Source: EFMA, AFMA

*Sales Value

Wood Furniture

Value Chain



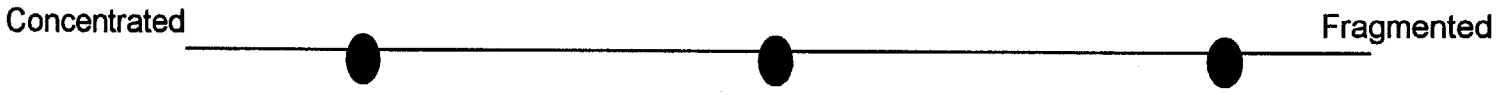
Key Success Factors:

	Raw Materials	Rough Milling	Machining	Finishing	Shipping
Quality:	Solid Woods: • Species • Color •Moisture Content Composites: • Density •Smoothness •Machinability	•Edge Glueing Technology	• Skilled Operators • Tooling • Abrasives	•Hardware/Fixtures • Finishing Technique: -- Finishing Materials -- Application Skills	• Product Engineering • Flat Finish
Cost:	• Price of Timber (Price/m3) - Supply - Land Price	•Material Yield	• Labor Cost • Material Yield	• Materials Management • Reject Rate	• Container Utilization • Proximity to Markets

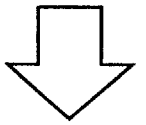
Source: KPMG Peat Marwick

Wood Furniture

Value Chain
Country Models



	Germany	Poland	Italy
Level of Integration	High	Low	Very low
Dominant Enterprise Size	>100 employees	>700	<10
Quality	High (Price/Value)*	Low-Medium	Very High
Technology	Modern Technology	Standard	Workshop Methods



Country Advantage	**Economies of Scale**	**Low Labor Cost**	**Product Differentiation**

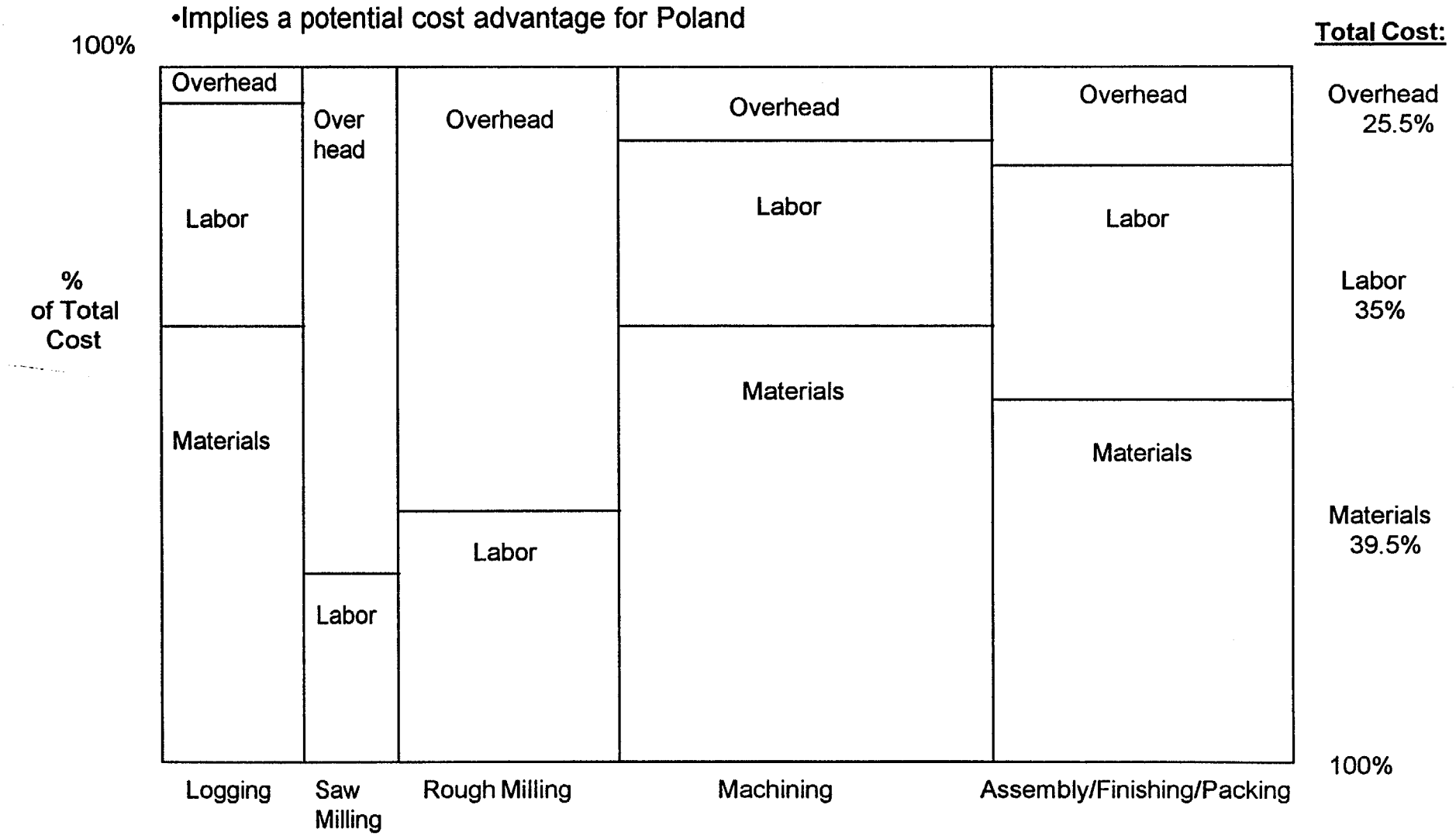
Source: EFMA, AJ Cons., KPMG Peat Marwick

Wood Furniture

Value Chain

Value-added Cost Structure

- Relatively high percentage of Labor costs and wood material in furniture production
- Implies a potential cost advantage for Poland



Note: Average Western Cost Structure Source: AG Raymond & Co., AJ Consultants

Wood Furniture

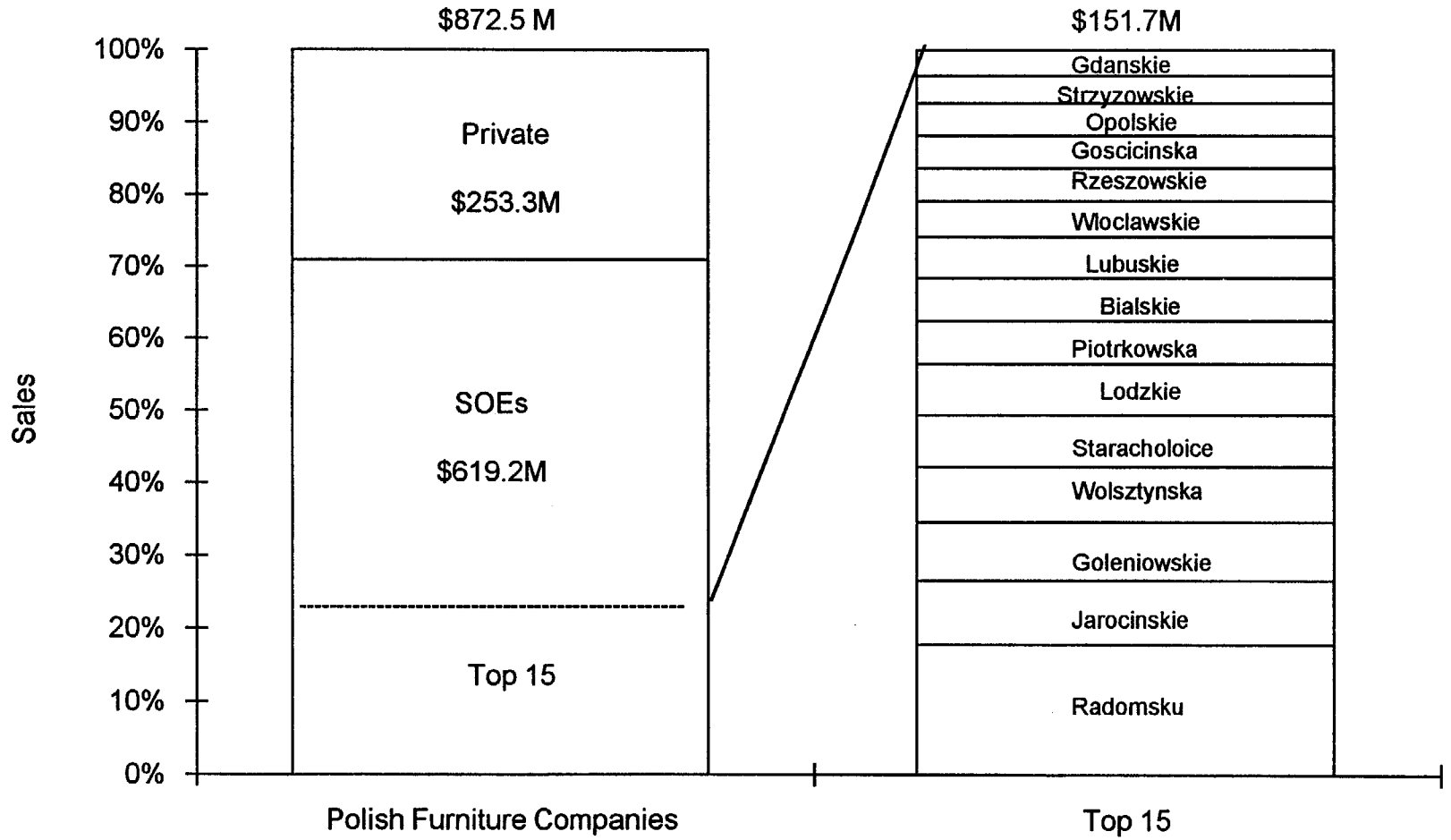
Summary

- **Poland's Competitive Advantages:**
  - Low Cost, Skilled-Labor similar to the East Asian Manufacturers
  - Low Timber Cost
  - Physical Proximity to Western Europe, the World's Largest Furniture Market
  - These advantages appear sustainable in the short to medium term

- **Recommended Strategy:**
  - Develop and defend the large local market
  - Export unfinished furniture to companies in Western Europe
  - Export finished product through Western European wholesale distribution system where adequate finishing capability exists
  - Create allainces with Western companies to provide:
    - Improved design
    - Improved export distribution
    - Know-how for improved productivity and quality
    - Capital for improved equipment, and working capital where necessary

Polish Wood Products Industry

Furniture Market 1991



Source: GUS, KPMG Database

Polish Furniture Sectoral Privatization

Furniture Database

	Enterprise	Total sales in mls, I-VI 92	% of Sales Exported	Growth in Exports	Number of Employees	% of Materials in Core Costs	Core Operating Margin	Inventory Days	Receivable Days	Debt to Sales
1	Bystrzyckie Fabryki Mebli	26 640	47,8%	189,8%	302	59,5%	11,7%	39	67	17,5%
2	Opolskie Fabryki Mebli	170 446	52,1%	0,0%	1 845	57,8%	14,3%	62	57	31,4%
3	Goscicinska Fabryka Mebli	42 829	49,4%	-10,7%	778	43,5%	8,3%	105	42	21,9%
4	Czerskie Fabryki Mebli	24 260	53,0%	-17,0%	343	54,3%	18,0%	45	73	16,9%
5	Goleniowskie Fabryki Mebli	89 829	26,0%	32,3%	681	58,3%	8,8%	41	47	7,5%
6	Dobrodzienskie Fabryki Mebli	21 954	78,6%	-66,1%	264	67,0%	0,4%	49	28	2,1%
7	Bielska Fabryka Mebli	16 626	69,0%	-5,8%	135	62,5%	23,1%	74	44	23,6%
8	Fabryka Mebli Gietych - Jasienica	76 034	57,7%	-8,1%	1 307	42,6%	12,5%	80	46	25,1%
9	Zwierzynieckie Fabryki Mebli	15 239	55,0%	-2,9%	335	47,9%	2,7%	46	59	3,5%
10	Fabryka Mebli w Rzemieniu	4 156	11,4%	278,1%	75	65,9%	1,6%	76	77	0,0%
11	Dolnoslaska Fabryka Mebli	22 069	20,0%	149,0%	335	56,7%	1,2%	65	114	21,4%
12	Zaklady Mebli Gietych w Radoms	186 703	59,0%	-13,7%	2 775	58,5%	9,5%	92	39	13,6%
13	Krosnienskie Fabryki Mebli	18 953	9,7%	73,5%	230	44,8%	6,9%	62	88	13,6%
14	Slupskie Fabryki Mebli	64 568	37,7%	30,7%	1 114	53,6%	3,6%	69	76	21,4%
15	Bilgorajskie Fabryki Mebli	18 241	55,3%	-14,7%	219	62,1%	-3,2%	65	83	41,3%
16	Jarocinskie fabryki Mebli	148 111	44,0%	-13,5%	1 918	67,5%	14,0%	75	51	33,0%
17	Piotrkowska Fabryka Mebli	55 729	31,0%	-28,2%	631	57,4%	7,1%	64	45	18,6%
18	Bialskie Fabryki Mebli	51 229	30,0%	-20,3%	658	47,2%	4,8%	77	44	34,7%
19	Lubuskie Fabryki Mebli	53 664	36,1%	-74,5%	482	57,8%	10,8%	52	50	0,0%
20	Czestochowskie Fabryki Mebli	4 188	51,3%	0,0%	110	38,3%	-30,0%	89	117	0,0%

Source: FO1 for I-VI 1992 and KPMG questionnaire

Polish Furniture Sectoral Privatization

Furniture Database

	Enterprise	Total sales in mls zl, I-VI 92	% of Sales Exported	Growth in Exports	Number of Employees	% of Materials in Core Costs	Core Operating Margin	Inventory Days	Receivable Days	Debt to Sales
21	Pilskie Fabryki Mebli	76 684	41,5%	-10,2%	1 489	44,6%	1,0%	94	64	35,1%
22	Zamojskie Fabryki Mebli	67 554	37,0%	-15,0%	841	71,9%	12,3%	75	72	31,5%
23	Olszynskie Fabryki Mebli	61 666	21,0%	75,4%	862	67,2%	18,1%	125	88	55,5%
24	Wolsztynska Fabryka Mebli	81 279	15,0%	-65,0%	673	79,6%	8,8%	71	63	38,0%
25	Grudziadzkie Fabryki Mebli	13 801	33,3%	-12,2%	272	50,8%	3,3%	83	91	35,6%
26	Lodzkie Fabryki Mebli	44 476	10,3%	15,1%	1 162	38,8%	-20,5%	97	91	40,1%
27	Starachowice	34 838	51,5%	-5,1%	3 820	30,4%	-27,3%	87	178	53,0%
28	Wloclawskie Fabryki Mebli	34 091	19,0%	41,3%	617	50,4%	-14,9%	121	77	32,4%
29	Gdanskie Fabryki Mebli	31 772	41,0%	-4,3%	504	51,1%	-9,8%	110	49	0,0%
30	Zielonogorskie Fabryki Mebli	95 105	51,0%	-9,8%	2 600	68,4%	19,1%	115	115	51,0%
31	Suwalska Fabryka Mebli	18 341	5,5%	246,2%	777	21,4%	-9,8%	201	114	75,8%
32	Rzeszowskie Fabryki Mebli	35 975	15,0%	-76,6%	769	47,0%	0,0%	59	130	175,0%
33	Strzyzowskie Fabryki Mebli	25 371	5,0%	0,0%	422	54,8%	10,1%	60	74	9,9%
34	Wielkopolskie Faberyki Mebli	89 993	0,0%	0,0%	1 147	56,1%	9,6%	47	55	16,9%
35	Wroclawskie Fabryki Mebli	32 377	42,2%	-51,0%	615	44,6%	-37,4%	139	155	12,6%
36	Lomzynskie Fabryki Mebli	19 633	3,0%	-20,2%	254	62,8%	7,5%	58	65	6,5%
37	Bialostockie Fabryki Mebli	21 677	15,0%	0,0%	653	48,7%	12,9%	198	250	74,1%
38	Gorzowskie Fabryki M ebli	63 526	0,0%	0,0%	743	56,5%	3,2%	51	45	17,0%
39	Katowickie Fabryki Mebli	43 545	0,0%	0,0%	324	47,6%	-11,3%	161	54	21,0%
40	Fabryka Akcesoriow Meblowych-	60 532	0,0%	0,0%	0	48,2%	7,4%	56	86	16,3%
41	Przedsiebiorstwo Produkcyjno-Usl	19 134	0,0%	0,0%	242	52,1%	5,9%	65	114	27,4%

Source: FO1 for I-VI 1992 and KPMG questionnaire

Polish Furniture Sectoral Privatization

Furniture

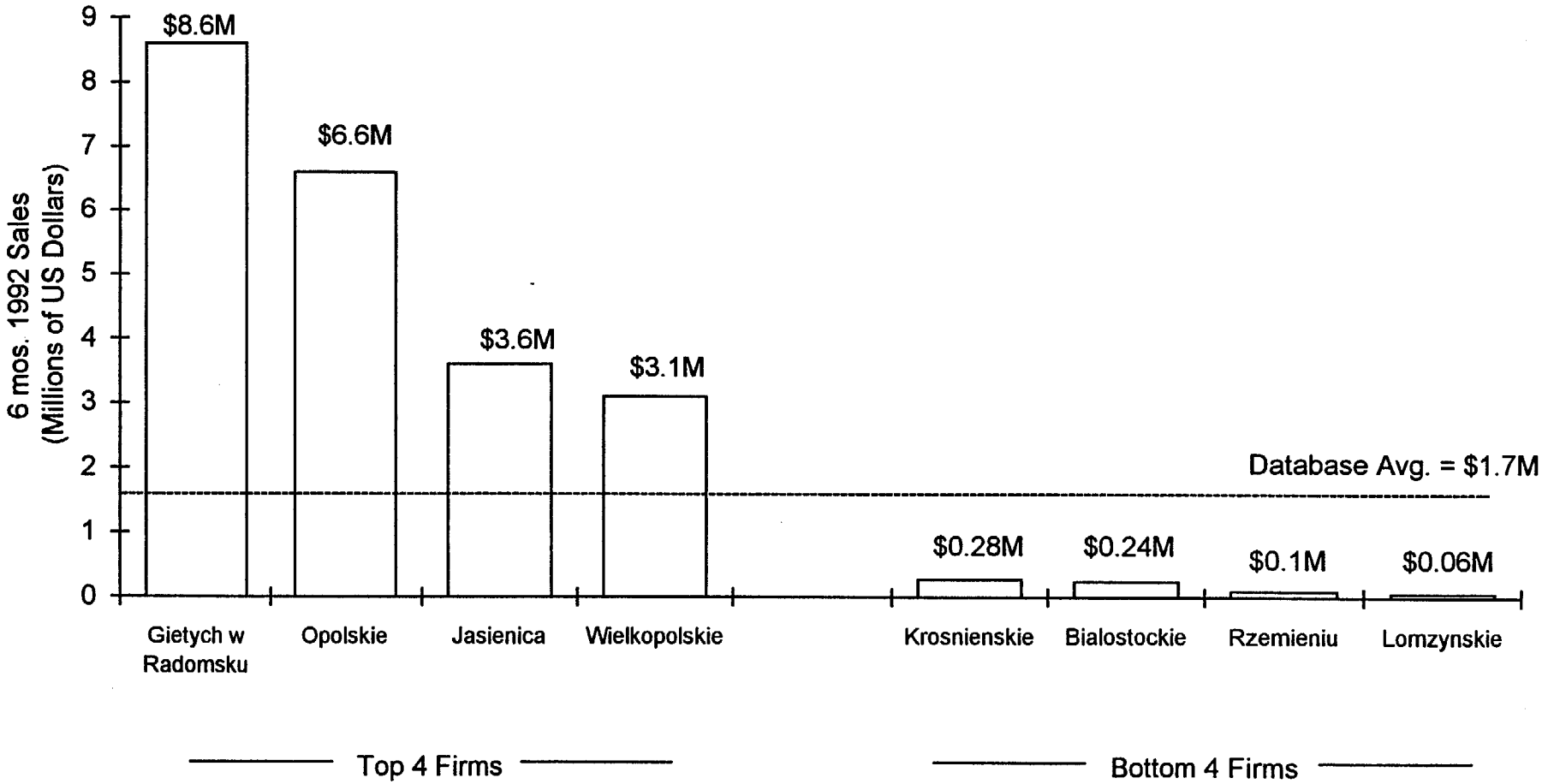
Enterprise Selection Criteria

Key Success Factors	Enterprise Data
•Export Performance	
•Western Quality →	Export/Sales
•Export Potential →	Change 1991-1992 YTD Exports
	Size of Exports
•Cost Competitiveness	
•Cost Advantage →	Core Operating Margin
•Material Yield →	Materials/COGS
•Productivity →	Revenue/Employees
•Ease of Privatization	
•Speed to Transaction →	Legal Status
	Privatization Path Chosen
	Management Interest
•Financial Strength	
•Liquidity →	Accounts Receivable Days
•Management Skill →	Inventory Days
•Financial Burden →	Debt/Sales

Source: Jaakko Poyry Consulting, A.G. Raymond & Co.

Polish Furniture Sectoral Privatization — Range of Outcomes

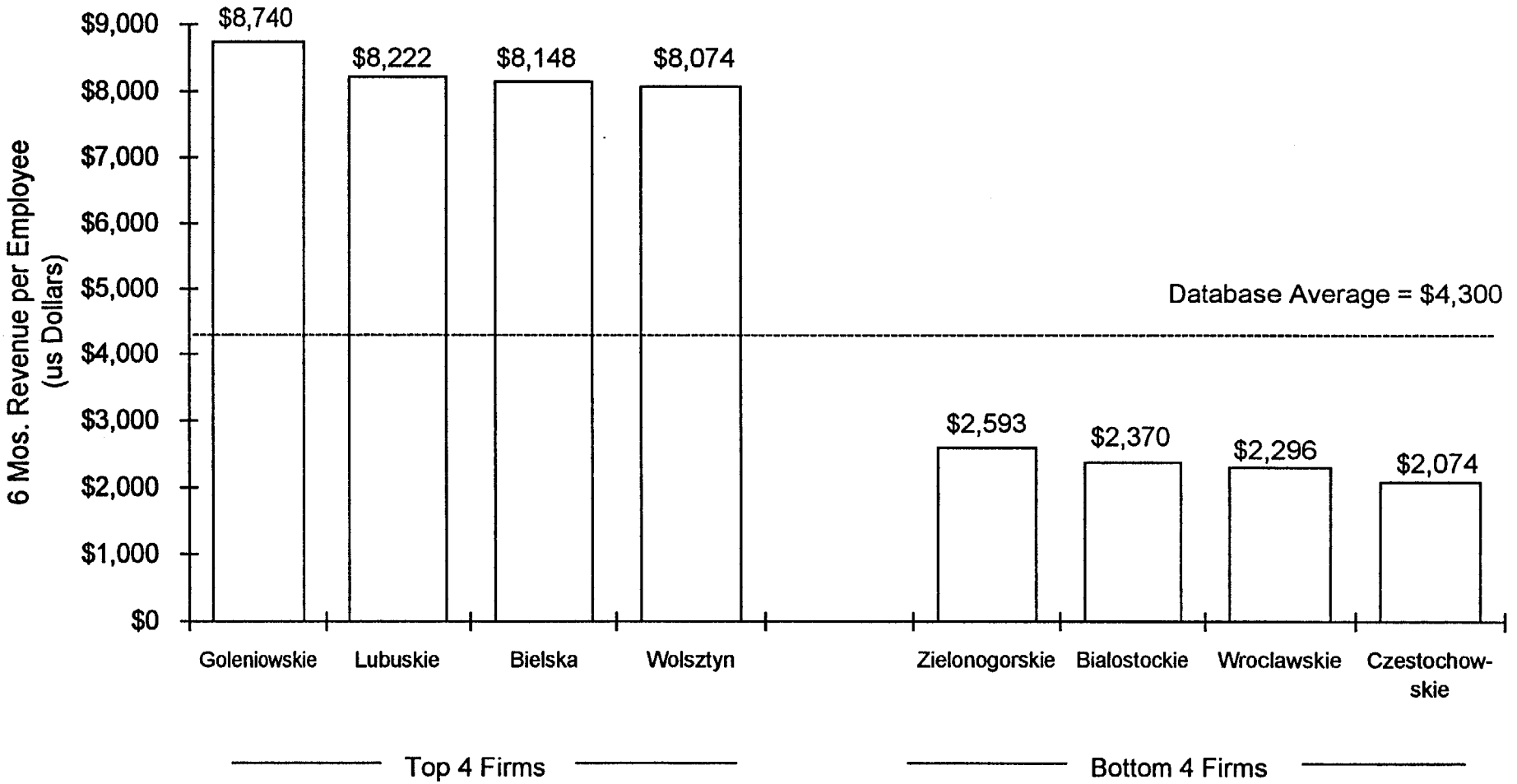
Total Exports (Jan-June, 1992)



Source: F01's

Polish Furniture Sectoral Privatization — Range of Outcomes

Revenue per Employee (Jan-June, 1992)



Source: F01's

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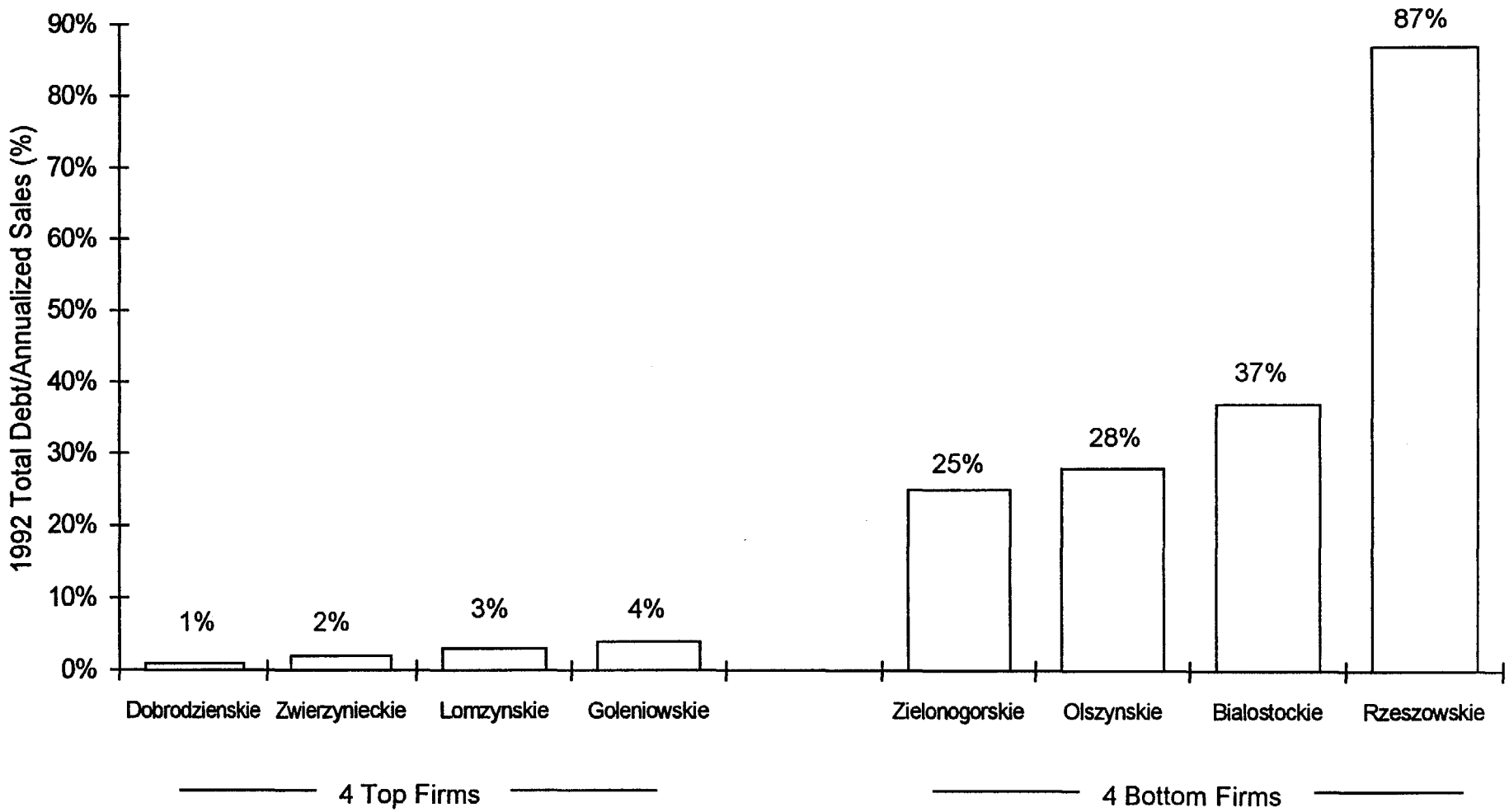
Polish Furniture Sectoral Privatization — Range of Outcomes

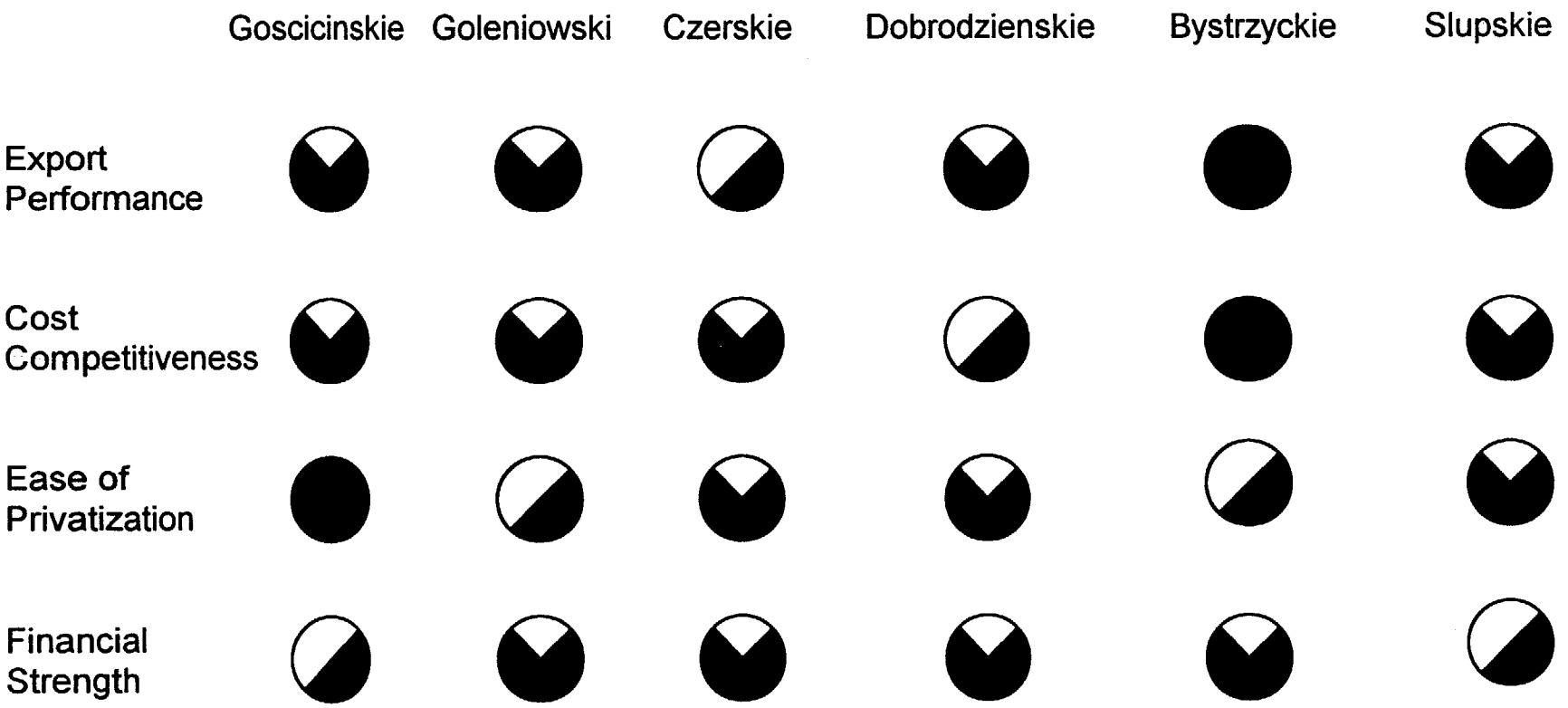
1992 Total Debt/Annualized Sales



Source: F01's

Polish Furniture Sectoral Privatization

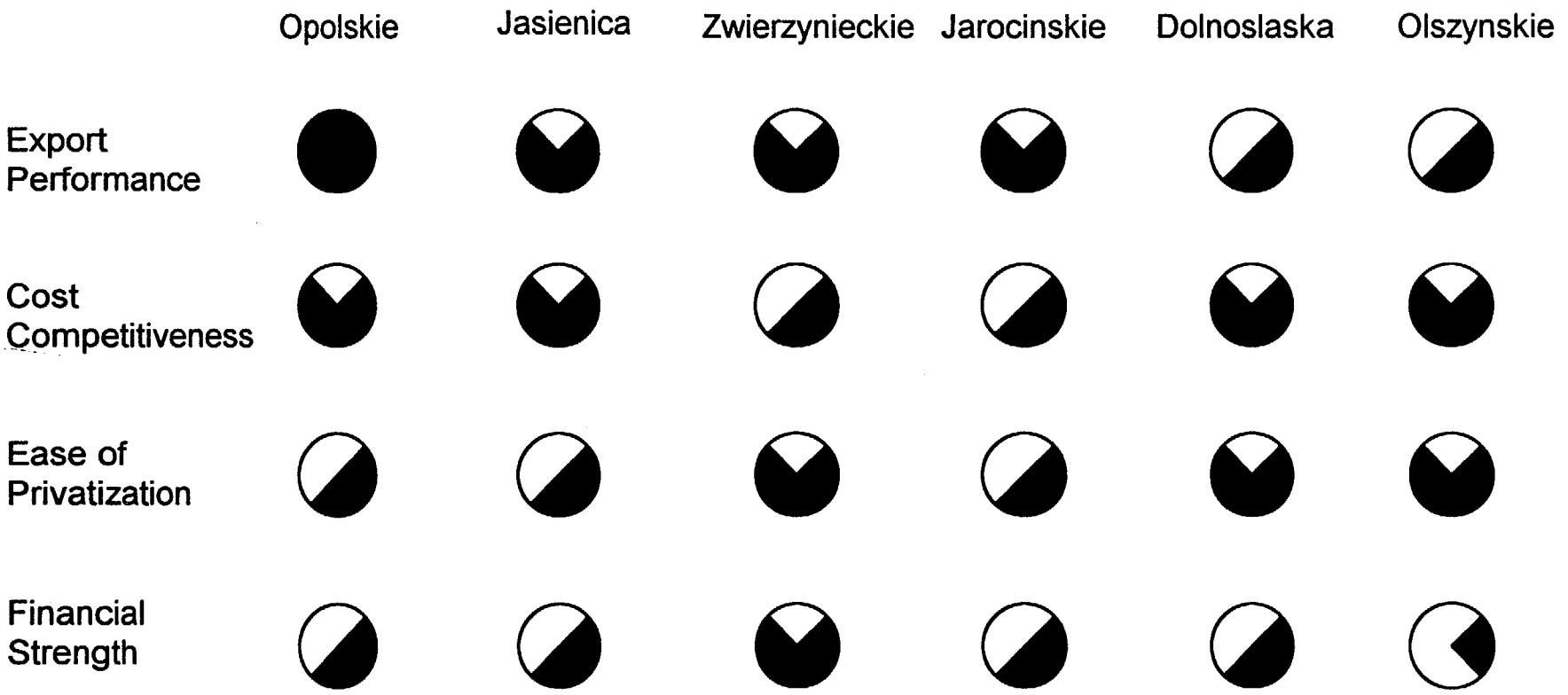
Strategic Assessment



Source: PEG database, Company Data

Polish Furniture Sectoral Privatization

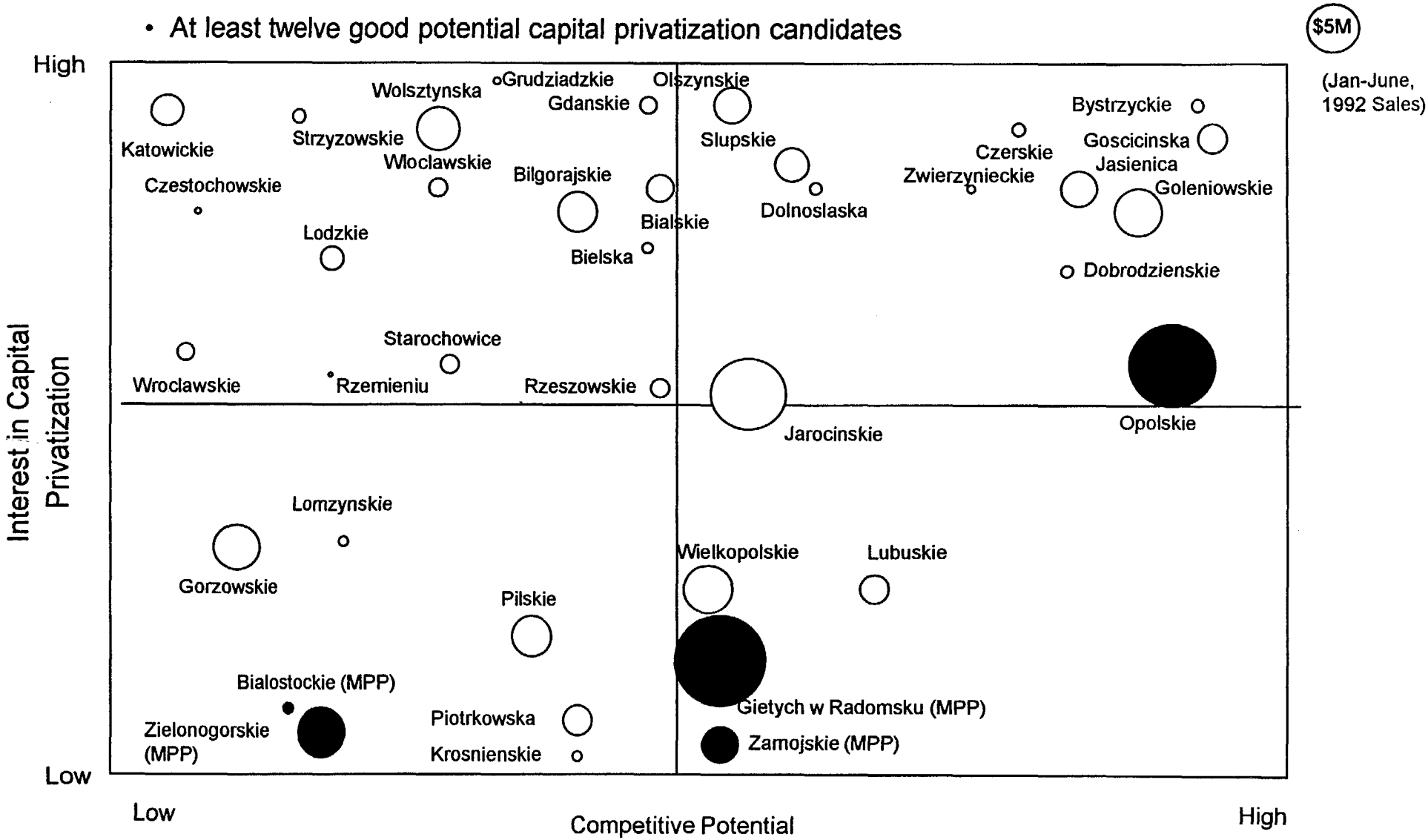
Strategic Assessment



Source: PEG database, Company Data

Polish Furniture Sectoral Privatization — Evaluation

- At least twelve good potential capital privatization candidates



Note: Firms with incomplete data were excluded
Source: KPMG database

Polish Furniture Sectoral Privatization — Investor Interest

Potential Investor

Ikea	Sweden	Steffen	Germany
Strongweld	Germany	Schieder	Germany
Parisat	France	L. Gutmann ONG	Germany
IMK Directa	Germany	PAGED Westphalen	Germany
Firmengrappe Steinhoff	Germany	Klose	Germany
P. Nicolaysen	Danemark	Perstorp	Sweden
Baby Dan	Danemark	Kronospan Sanolebeck	Germany
VMI	Danemark	Weerschild Aluminum Constructies B.V.	Netherland (Holland)
Velda N.V.	Belgium	Barro	Netherland (Holland)
Brianza Cucine	Italy		
Alzate Brianza	Italy		

Source: KPMG Database

Polish Furniture Sectoral Privatization

Enterprise Profile

Goscicinske Fabryki Mebli

- **Type of Products:**
  plain and upholstered chairs
- **Labor Force:** 802
- **Capacity Utilisation:** 70%
- **Equipment** western origin, drying and rough millin requires investment to provide efficiency gains, machining satisfactory
- **Product Quality:** high quality products meeting western standards
- **Management:** experienced and poised for transformation;maintaining product focus in chair production; possesses rich export market knowledge.

- **Total Sales (in millions Zl):**
  1990 - 242 976
  1991 - 254 282
  1992 - 140 000(estimate)
- **Exports to Western Europe**
  1991 - 49%
  1992 - 60%(estimate)
- **Gross Profit (Loss) in millions ZL:**
  1991 - 3992
  1992 - 1598 (estimate)
- **Gross Profit (Loss) Margin:**
  1991 - 4%
  1992 - 2%(6 months)
- **Investor Interest:** Klose - Germany

"There is a window of opportunity for good chair companies in Europe" - Art Raymond; A.G. Raymond & Co.

Wood Furniture

International M&A Transactions 1989-92

Europe

Acquirer	Target(s)	Price US $
Strafor (France)	Gordon Russel PLC (UK)	95.6
	AF Sistemas (Spain)	61.4
Alan Cooper Holdings (UK)	Mayfield PLC (UK)	38.3
TIP Europe (Holland)	Mobiel Beheer (Holland)	10.4
Silentnight Holding (UK)	SNE Bedding Co. (UK)	9.1
	Matthias Houben (Germany)	7.7
Colefax & Fowler (UK)	Jane Churchill Ltd. (UK)	1.2
	LM Kingcome (UK)	2.2

Source: SDC Database

Wood Furniture

International M&A Transactions 1989-92

North America

Acquirer	Target(s)	Price US $
GGVA Acquisition Co	Ohio Mattress*	980
Green Mountain Holding	Ethan Allen*	388
LADD	Maytag Furniture**	213.4
Westinghouse Electric***	Shaw-Walker Co.	72.5
	Reff Inc.	99.3
Riverside Holdings	Riverside Furniture	50
Acton Corp.	Hickory Furniture	44.5
Kohler Interiors	McGuire Furniture	24
Leggett & Platt	Dresher Inc.	11.4

* LBO ** Gunlock, McGuire, Kittinger later divested. *** Office Furniture co.
Source: SDC Database

Polish Furniture and Panel Board Privatization — Agenda

October 8, 1992

- Executive Summary
- Business Definition and Competitive Advantage
- Panel Board Industry Evaluation and Assessment of Privatization Candidates
- Furniture Industry Evaluation and Assessment of Privatization Candidates
- Next Steps and Schedule

KPMG Peat Marwick
Policy Economics Group

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Polish Furniture and Panel Board Sectoral Privatization

Immediate Privatization Candidates

Firm	Products	1992 6 MonthSales	Projected Start Date
Z.P.W. Wieruszow	Raw Particleboard, Paper Laminated Board	23.6	10.06.92
Goscicinskie F.M.	Chairs, Upholstered Chairs	3.2	10.13.92
Czerskie F.M.	Dining Room cabinets and other case goods	1.8	
Goleniowskie F.M.	Bedroom sets, Kitchen cabinets	6.7	2 in mid-November
Opolskie F.M.	Upholstered furniture	12.63	
Jarocinskie F.M.	Office Furniture and other case goods	10.97	

Polish Furniture Sectoral Privatization

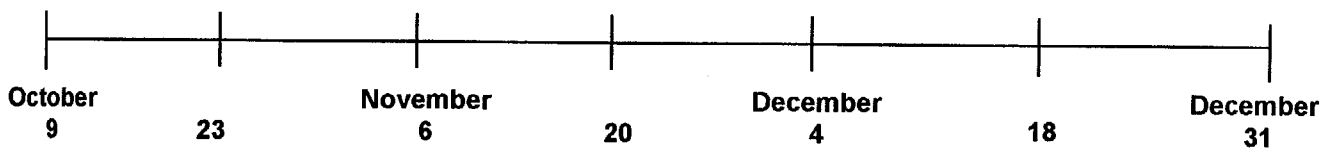
Timeline

A. Enterprise Preparation - Wieruszow, Goscicinskie

B. Deliver Information Memorandum to Miinistry and Enterprises

C. Select Second Tranche Enterprises

D. Enterprises Preparation Second Tranche

E. Deliver Information Memorandum to Ministry and Enterprises

F. Commence Marketing and Sales Process (next phase, separate agreement)