

INVESTMENT BROCHURE

NICHE MARKET GLASS MANUFACTURING PLANT

KROSNO, POLAND



INVESTMENT SUMMARY

The investment opportunity is a functioning glass manufacturing plant located in Krosno in the Podkarpackie voivodship, Poland. The scope of investment includes purchase of a functioning enterprise including both property (real estate, machinery, equipment and tools) and an organisation driving the profits (people, processes and know how).

KROSNO - one of the most important and the fastest developing economic centers in south-eastern Poland, in the Podkarpackie voivodship.

Traditionally associated with glass industry, aircraft industry, automotive and plastic processing.



City of Krosno	46 775	Population	112 117	Krosno District
	61.3%	Population of economically productive age	62.4%	
	5 639	Number of business entities	7 616	
	56	Business entities with foreign capital	17	
	5.9%	Unemployment rate	13.8%	
	PLN 3 266.12	Average gross monthly remuneration	PLN 3 021.31	

GUS (Central Statistical Office), data for 2015

1 EUR = 4.3 PLN (exchange rate on 31.12.2018)

FUNCTIONING BUSINESS



- Functioning plant producing high-quality lighting and household glass
- Complete line for production and decoration of glassware
- The core of the plant furnaces for clear, opal and coloured glass with a total capacity of about 10 tonnes per day.
- Stable customer base
- Active environmental permits
- Experienced staff already available
- Plant space utilised in 60% only
- Plant capacity utilisation 70% only

REAL PROPERTY

Manufacturing plant



- 3,2 ha of a developed industrial plot in an industrial area of the town
- location near planned southern bypass
- The area adjacent to the airport
- 2 production halls ~9 000 m²
- High bay warehouse 1 800 m²
- 2 new warehouses 3 000 m²
- Raw material storage: 700 m²
- Office building: 700 m²
- 90 parking spaces

~4.5 MLN €

average consolidated yearly revenue thanks to a diversified product portfolio

>200 B2B customers

Company headquarters



The building at Lwowska 6 street:

- located in the center of Krosno on a plot of 2,512 m²,
- XIX century renovated a historical building
- updated to modern standards in accordance with the guidelines of the state historic preservation office
- total space of 256 m² with 4 separate apartments (109.88, 47.85, 51.9 and 46.44 m²)
- paved large parking lot

Other real estate

4 other real properties in separate locations in the town of Krosno with a total area of 3526 m².

On three plots there are buildings with space of 236 m², 52 m² and 12 m².

The fourth plot has a large building that is being claimed by the receiver in court under the claim the building was illegally sold.

PLANT OVERVIEW



Located in the Podkarpackie voivodship, in the town of Krosno - a region traditionally associated with manual glass production, the plant is located on a plot of over three hectares, in the immediate vicinity of the airport, in a location designated by the local zoning plan for innovative production and services.

Originally founded in 1994 as “Deco-Glass”, the plant survived its turbulent development in 1996-2004, employing over 1,500 people in its peak. The crisis of 2008 forced plant’s bankruptcy in 2009. The production was quickly resumed and the plant was, after an initial 3 years lease period, bought in 2013 by Milomax, who outsourced production activities to of Glass Sphere Sp. z o.o. company. Currently the plant is operated by a subsidiary of a German company based on a rental agreement with the court appointed receiver.

The plant employs approximately 200 non-unionized employees. The overall production capacity of the plant is about 3,500 tons of glass per year. In 2015 the plant capacity utilisation was at a level of 60%, which translated into over one million units produced. The capacity of the clear glass furnace is 9 tonnes per day, opal glass furnace (white lamp shades) roughly 1 tonnes per day and coloured glass pot furnaces’ capacities total to roughly ½ tonne per day.

Historically the company focused on niche glass sectors, i.e. lighting shades and high quality glass items. Lighting shades were sold mainly to Italian and German customers while glassware was sold all over the world. Exports constitute more than 70% of plant’s sales.

The plant is located in the immediate vicinity there is the Special Economic Zone EURO-PARK Mielec, offering exemptions and tax breaks, and the Investment Zone of Innovative Technologies “Szczepańcowa - Lotnisko”. The land value in the area is expected to increase in value due to a planned souther bypass road and proximity to a tax-exempt zone as well as high focus by the local municipality to develop this particular zone as a high-tech industrial zone and their willingness to negotiate tax levels for newcomers. The municipality intends to convert the airport to a transport hub by increasing the runway length from the current 1100 meters to 1710 meters to handle commercial Boeing 737-200 Advanced or cargo Boeing 757-200F.



REAL PROPERTY

PRODUCTION FACILITY

The plant is located on a **3.2161 ha** fenced plot located in an attractive industrial zone, with a **11 631 m²** total usable space.



The plant is composed of the following buildings:

- | | |
|--|---|
| 1. Production hall 1: 5102 m ² | 5. Front gate security |
| 2. Production hall2: 4016 m ² | 6. Transformer station |
| 3. Warehouse for finished goods: 1800 m ² | 7. Office building: 690 m ² |
| 4. Raw materials warehouse: 713 m ² | 8. Newly built warehouse 1: 1650 m ² |
| | 9. Newly built warehouse 2: 1350 m ² |
- Additionally parking spaces: fenced – 30, open – 60

Complete production line for hand made glass products consist of:

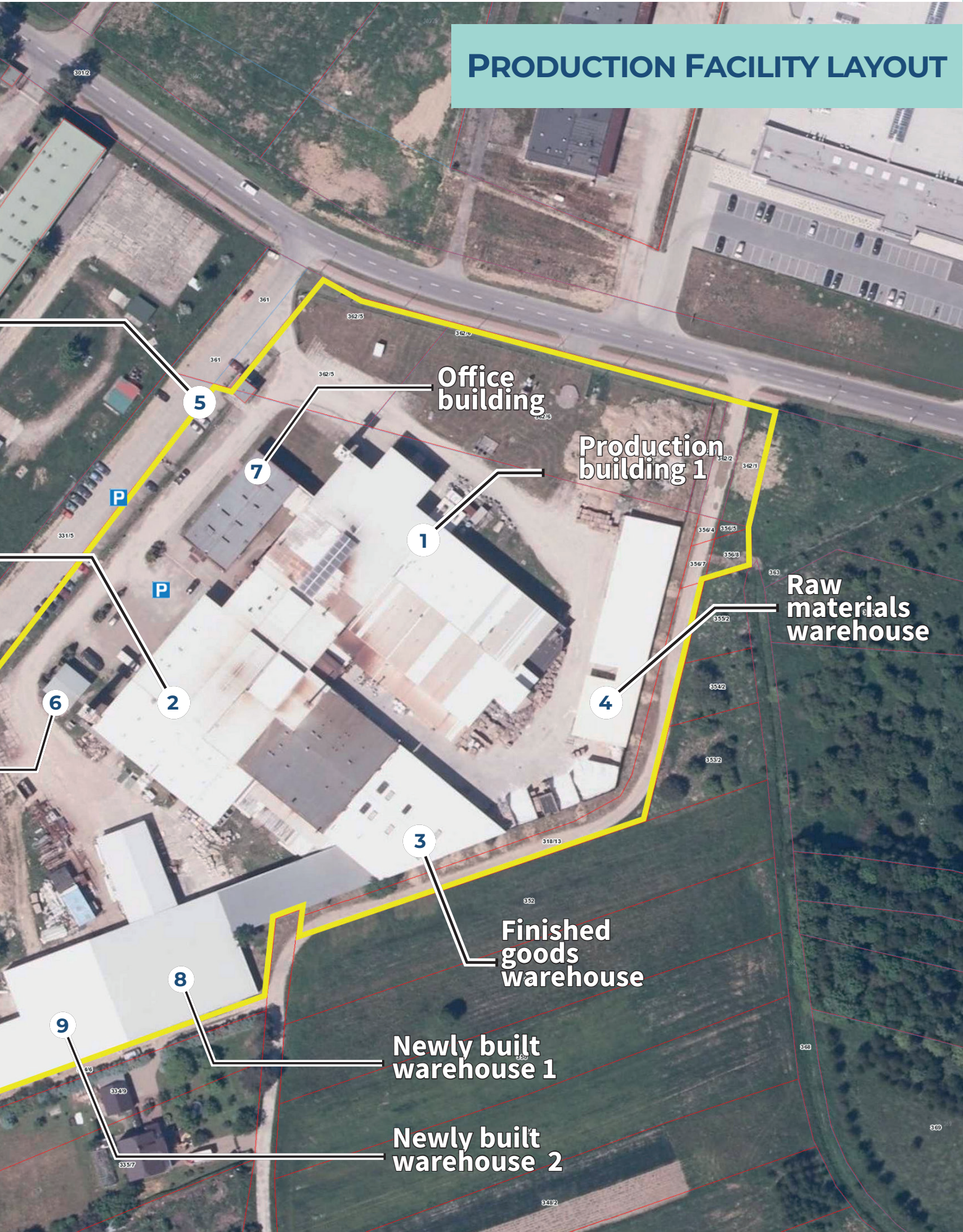
- clear glass, opal glass glass furnaces
- coloured glass pot furnaces
- annealing machines
- glass machining and finishing line
- acid etching manufacturing cell
- glass moulds and other production tooling



The plant is currently operated by a subsidiary of a German company based on a rental agreement with the court appointed receiver.



PRODUCTION FACILITY LAYOUT





FUNCTIONING BUSINESS

**~150 EMPLOYEES PROFITABLY GENERATING
4.5 MLN EURO REVENUE ANNUALLY**



SELECTED HISTORICAL FINANCIAL DATA

Currently the plant is rented by a subsidiary of a German company ASA Glass Sp. z o.o. (Polish registration number KRS: 0000686226). Publicly available data show yearly revenue in year 2018 at the level of 5.6 million EUR with net profit despite the initial investment needed to restart the factory after insolvency.

As the data disclosed by the tenant is limited in time the data presented below depict historical consolidated data from entities operating in the above-mentioned plant in Krosno - Glass Sphere operating as a producer and Milomax S.A. functioning as a distributor / leaseholder of infrastructure. Consolidated sales are presented from the beginning of distribution by Milomax (2012) until the end of cooperation (2016) and indicators for 3 full years of operation, i.e. 2013-2015.

Following page presents outline of the factors that allowed to reach the below results.



+27.0 %
CAGR (3 years
revenue growth)



~4.5 MM€
average consolidated
yearly revenue



+21.6 %
3 year average
yearly ROE

QUARTERLY REVENUE 2012-2016 (MILLION PLN)





451 K€

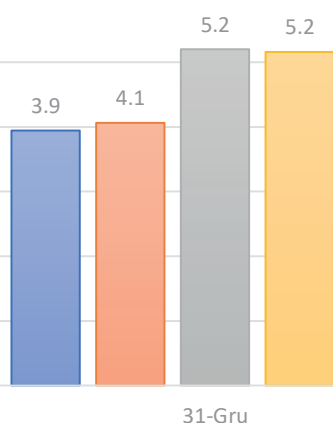
**average yearly
consolidate EBIT**



544 K€

**consolidated total
net cashflow
(3 years)**

Effective implementation of the right strategic assumptions



CONSOLIDATED EBIT (‘000 PLN)

2013	2014	2015
1875	1509	2353

The plant generated profits before interest and tax (EBIT) on an average level of ~ 1.9 million PLN (EUR-PLN xrate = 4.3) a year mainly due to the increase of the number/ volume of high-margin clients and at the same time activities increasing production efficiency, including reduction of energy and material purchase prices or optimization of service costs.

CONSOLIDATED CASHFLOW (‘000 PLN)

2013	2014	2015
542	415	896

The plant generated free cash flow at an average level of ~ 600 thousand PLN annually. Almost 100% of the free cash was left to the leased plant - Milomax S.A., which allowed the company to show PLN 2.9 million in cash at the end of 2015 on top of PLN 1.7 million PLN of investments in real estate.

The results were achieved by the implementation of a strategy based on a few pillars:

- 1) The company product portfolio was enhanced to **include colorful furnace-melted glass**. Due to the fact that most manufacturers of coloured glass went bankrupt during the 2008 crisis, having such products on offer gives the plant a competitive advantage.
- 2) The second pillar were **gross margin increases resulting from decorating** universal, widely available on the market clear and white-glass products, either by sandblasting popular motifs or by decorating with Swarovski crystals to generate additional value.
- 3) The third element of the strategy was an **active use of global macroeconomic trends**, namely dynamic changes in key global clients' strategies towards the Chinese market who started changing their structure of suppliers by focusing on European markets and reducing the share of the so-called long-term orders (with a lead time of 3-6 months) to below 60% - a proactive sales approach allowed to capture some of the volumes resulting from those global changes.
- 4) Another important component of the strategy was the **diversification of the client portfolio**. In the past, the company focused on providing large volumes to one key customer and thus becoming sensitive to price pressure. Changing the strategy and placing more emphasis on increasing sales to the lighting market segment to other customers resulted in increased margins.
- 5) The fifth pillar was the **customer service quality** measured by timely delivery of orders, response times to requests for quotations and the level of customer complaints. In order to improve the aforementioned indicators, an IT system was implemented together with a reporting system that would allow the management team to react prior to order fulfillment delays.

Effective implementation of all of the above elements has had a significant impact on the increase in revenues and allowed for a significant increase in the scale of business, as well as minimized working capital requirements due to the reduction of work in progress and a significant reduction of losses related to customer complaints.

MARKET NICHE

The plant specialises in precision components made of mouth-blown glass.

Main categories of products produced in the plant:

- Lamp shades
- Water pipes bases
- Speciality vases / other glass products on request

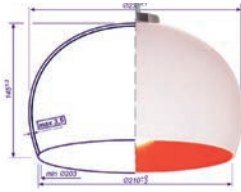
The first two categories require precise dimensions (wall thickness tolerance ± 1 mm) due to the fact that the glass element is only a part of the final product (e.g. the shade must fit the lamp fixture precisely). In the same time the plant has both melting process and worker's know-how in forming of the so-called "Long glass", i.e. products made of glass mass that can be formed by the blower longer than usual. Such glass allows for more complicated and unusual shapes. To achieve this type of glass, the right mix of substrates must be melted so that the glass mass reaches these properties. Specialization in "stop blowing" (non-rotating products) combined with the above-mentioned "Long glass" and a high degree of flexibility regarding the minimum order quantities distinguish the plant on the market. An additional advantage of the glass mixture is high transparency of the glass that makes the products close to the transparency levels of crystal (lead-based) glass.

In addition, the plant has a decorating department (painting, machining, sandblasting) having experience in making a wide range of techniques, which allows customers to create a rich portfolio of product families based on many variants of the same shape.

The above, coupled with the possibility of personalized packaging, makes the plant able meet almost all the needs of its customers in one place with the "one stop shop" clearly written in the strategy.



LAMP SHADES – SELECTED CLIENTS



- Prandina (prandina.it)
- Trio (trio-leuchten.de)
- Roll&Hill (rollandhill.com)
- Oluce (oluce.com)

WATER PIPES BASES – SELECTED CLIENTS



- ASA GmbH (asa-europe.com)
- Kaya shisha (kaya-shisha.de)
- La Mar (shisha-king.de)

OTHER PRODUCTS – SELECTED CLIENTS



- Villeroy&Boch (villeroy-boch.com)
- LSA (lsa-international.com)
- Rosenthal (rosenthal.de)
- Tk maxx (tkmaxx.com)

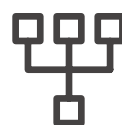
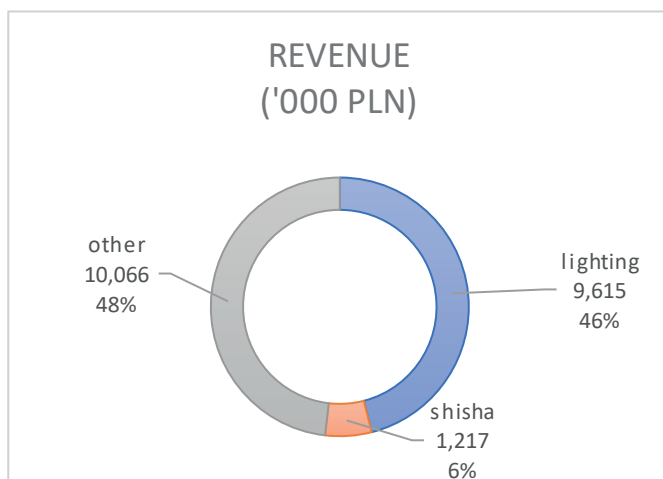
Financial data for specific categories on the following pages.



Products requiring precise measurements with complicated shapes based on „long” glass

„One stop shop“

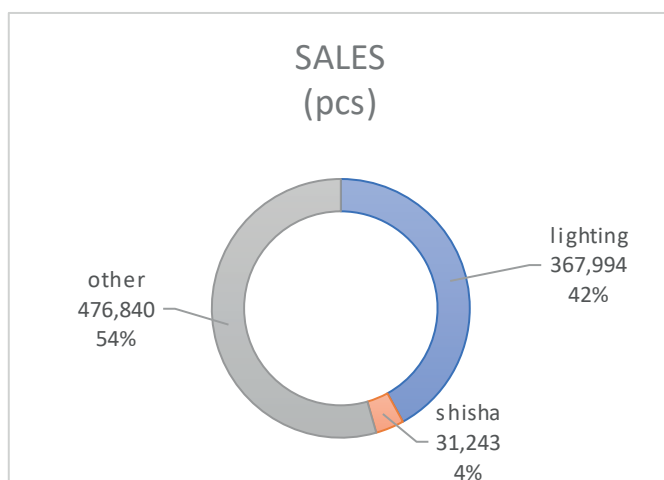
SALES STRUCTURE



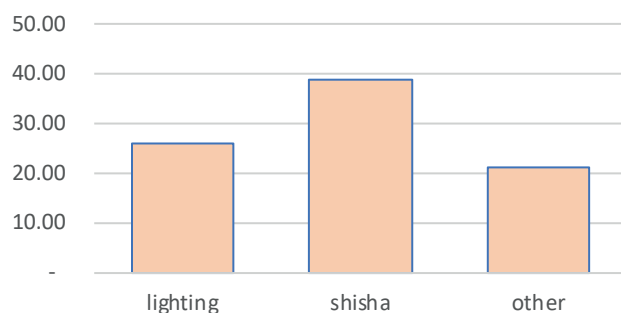
diversified portfolio of

>200

B2B clients



AVERAGE PRODUCT PRICE PER CATEGORY (PLN)



USA
383 k EUR



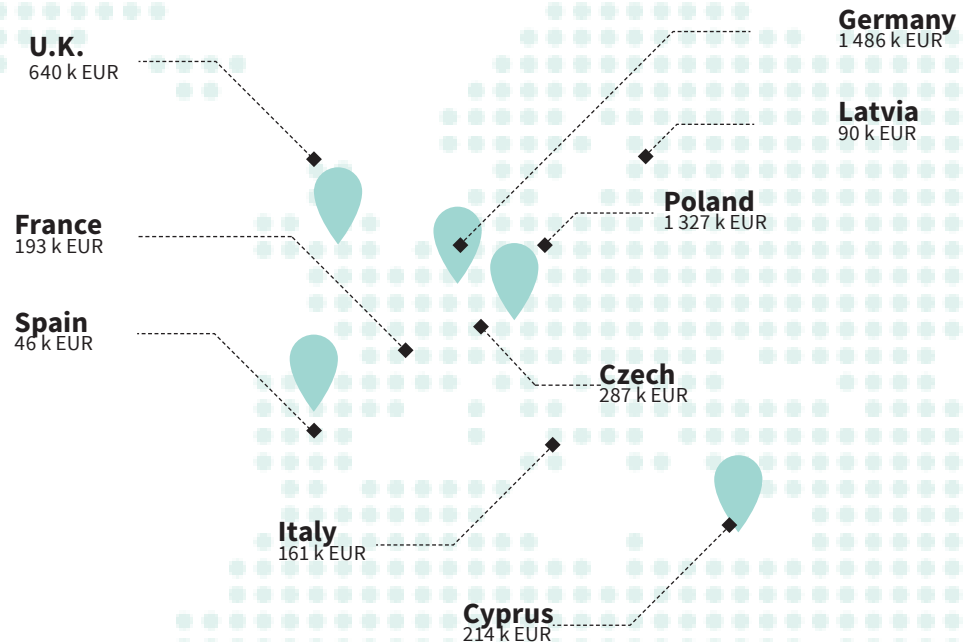
Revenues are generated from two key, roughly equal volume-wise sectors: household and lighting glass. The share of sales in the sectors differs between quarters, however, it fluctuates around 50%.

In the household sector, the water pipe base (shisha) segment is highlighted due to its high margins, which allows to achieve high revenues with relatively low human resources (the main cost component in manual production).

Revenue sources were diversified within the three years to ensure the stability of the plant's operation primarily by increasing the sales volume to existing customers who were previously placing small orders but also by new customers acquisition.

The geographical presence mainly includes Europe and the USA. The plant also delivered marginal quantities to the Asian market (China and Japan) and to Australia.

The following figure illustrates the top 10 countries where products were sold in 2015.



SUMMARY

The brochure presents a business opportunity in the form of investment in a functioning glass manufacturing plant with a solid, thanks to operating in a niche market with over 200 customers located all over the world, historical financial performance:

- average yearly revenue 4 500 k €
- average yearly consolidated EBIT 451 k €
- average yearly net cashflow 180 k €

The plant is on the run so there is no need for a large investment in the initial setup, customer acquisition, organizational ramp-up, environmental permits, etc. The plant has order backlog allowing for break-even operations from the start with a solid potential to generate profits as in years 2013-2015 shown above as the capacity of the plant about 1 million pieces of high quality products per year with current utilization at around 70%.

The unused space in the plant (~40%) allows for both increasing the production capacity of the current business and diversification of the company profile to include for instance complete lighting manufacturing/ assembly.

The investment is backed by real assets in form of real property:

- core business industrial plant
 - 3,2 ha of a developed industrial fenced plot
 - Production halls ~ 9000 m²
 - Warehouses ~ 5500 m²
 - Office building ~700 m²
 - 90 parking slots
- Other real estate
 - 11 plots aggregated in 4 locations all over city of Krosno with three buildings placed there with a total area of 0.35 ha

The legal status of the assets (insolvency) guarantees no financial surprises after the purchase as the assets purchased from the receiver have all the collaterals automatically removed. Moreover the sale is VAT free therefore the capital needed for the investment is kept to the minimum.

The plant is located in an attractive business area adjacent to the airport and a tax-exempt Special Economic Zone.

The region – podkarpackie voivodship has preferential rates when it comes to EU subsidies, which lowers own capital requirements for EU-funded business investment projects.

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