

## Case Study: Żabka (Poland)

### Żabka's Story

Following a wave of privatizations in 1990, the Polish retail market was highly fragmented, with more than 90% of the market consisting of small grocery shops. As international firms and investors such as Groupe Auchan, Billa and Carrefour descended upon Poland to capitalize on the country's economic growth and rising consumer income, they focused their attention on large-scale super- and hypermarkets.

In the early 1990s, Polish entrepreneur Mariusz Switalski seized an opportunity to build a chain of cash-and-carry warehouses (Eurocash)—the first in the CEE region—and subsequently went on to found Biedronka, the largest discount store chain in Poland with more than 1,700 outlets. After selling the Biedronka chain to Jerónimo Martins, the Portuguese food distribution company and hypermarket operator, Switalski and his team scoured the Polish retail market for the next great business idea.

In 1998, Switalski and his business partners reflected upon the strong tradition among Polish consumers to shop in small neighborhood groceries, and zeroed in on the concept to create a national network of convenience stores. That year, they founded Zabka and opened the company's first eight stores; in 1999, the Zabka network expanded to 50 stores.



By 2000, Zabka had expanded rapidly, with roughly 400 stores located throughout the country. However, the company needed capital to finance further expansion. Zabka confronted the “finance gap” common to small- and medium-sized enterprises in emerging markets: local banks and financial institutions were unwilling to lend to the company. Zabka needed an alternative source of capital.

### The Role Played by Private Equity

**Zabka hired an advisor to identify sources of financing. Neither Switalski nor his business partners had heard of private equity, but the advisor suggested the Zabka team look into PineBridge Investments—a private equity investor that was actively sourcing deals in the CEE region—not only as a source of capital, but also as a partner that could build Zabka's credibility with local financial institutions.**

From PineBridge's perspective, Zabka offered a compelling investment thesis. Switalski and his

team had proven themselves to be capable entrepreneurs given their previous successes with Eurocash and Biedronka. Moreover, Switalski had invested US\$13 million into Zabka, creating a favorable alignment of incentives. Finally, the Zabka concept had demonstrated its potential through the solid performance of its initial eight-store pilot program.

Between 2000 and 2002, PineBridge invested US\$24 million to acquire a 46% stake in Zabka and quickly set about working with the company's management team to scale its operations and create value. ►

#### The Company



#### Essentials

**Company:** Zabka S.A., [www2.zabka.pl](http://www2.zabka.pl)

**Country:** Poland

**Sector:** Retail

**Business focus:** Convenience store operator

**Size:** Turnover of US\$400 million (FY 2007)

**GP:** PineBridge Investments, a global asset manager committed to sustainable private sector growth in emerging markets ([www.pinebridge.com](http://www.pinebridge.com))

**Date of investment:** 2000

**Investment:** PineBridge invested US\$24 million out of its New Europe Fund I for a 46% stake

#### Impact Highlights

With support from PineBridge, Zabka developed over 1,400 stores and increased its revenues from US\$50 million in 2000 to roughly US\$400 million in 2007; it is now one of the largest convenience store networks in Europe

PineBridge helped to increase sales per store by expanding the product mix, improving inventory management and pursuing an advertising campaign

During PineBridge's involvement, Zabka restructured and reduced the costs of store owners (“Agents”) and company management (“Partners”), and reduced store operating costs

PineBridge helped to professionalize Zabka's business by driving improvements in corporate governance and strengthening the Board of Directors

# The Company View

"Thanks to the fruitful collaboration with PineBridge, Zabka was able to implement international accounting standards and efficient management systems. These initiatives helped us increase our credibility among local financial institutions and prepared the company for sale."

"We are proud of the achievements we accomplished with PineBridge. Our history together gives us confidence in our subsequent projects, including our latest company, Czerwona Torebka, and we know that our greatest successes are still ahead of us."

Mariusz Świtalski,  
Founder, Zabka



"Mariusz is an inspiring entrepreneur. Our investment in Zabka was a resounding success, so when we learned of his latest retail concept, both sides were delighted at the idea of joining forces together again and bringing this new concept to the market without delay."

Pierre Mellinger, President & CEO, PineBridge Investments Central Europe

▶ As a first order of business, PineBridge worked with Zabka to develop a corporate strategy and expansion plan. The deal team's sensitivity analysis on the investment revealed that the capital required to scale up Zabka's footprint was highly dependent upon some key variables, including the pace of the roll-out, sales per store and supply chain efficiencies. As a result, the team implemented SAP management information systems to monitor company performance.

In the first half of 2000, Zabka had been launching more than 50 stores per month; as the roll-out pace increased following PineBridge's investment, Zabka's management faced high rotation among its pool of "Partners"—one-third of them were replaced during the first six months. To deal with this churn, the company adopted a new incentive system that enabled it to scale up its staff of "Partners" while maintaining low fixed costs.

As the company scaled its footprint, its annual sales per store were running lower than the assumed figure, which was a key driver of the project's economics. To counter this

trend, PineBridge and Zabka embarked upon a marketing campaign to increase brand recognition, expanded the assortment of products on offer in each store and extended the operating hours to capture the market for middle class customers who worked long hours.

At the same time, PineBridge worked with Zabka to adopt International Accounting Standards (IFRS) and improve corporate governance. These enhancements were critical as Zabka sought to acquire bank financing for its continued growth, and as PineBridge and Switalski sought to exit the company.

The efforts paid off. Zabka secured debt from local banks, and PineBridge and Switalski exited Zabka in 2007 in a secondary sale to Penta Investments, realizing an IRR of 22% and a 3.5x cash-on-cash return.

Following their successful partnership, PineBridge recently invested in Switalski's most recent business endeavor, Czerwona Torebka, a new platform for specialty retailers, including banks, flower shops, butchers and fast food operators.

## Beyond the Bottom Line

**While convenience stores can be found in most developed countries, the history, culture and regulatory environment in Poland—an economy that was in transition from communism to capitalism—created unique challenges.**

The Zabka concept proved to be successful because it targeted a broad customer base, and it offered convenient shopping for the average Polish family. Moreover, the company adapted its business model to respond to the needs and expectations of its customers.

PineBridge's support to Zabka was critical to the company's growth. Without the improvements to corporate governance and the introduction of IFRS, Zabka would have been shut off from bank loans and faced a muted growth trajectory. Yet, as a result of the professionalized controls and reporting, Zabka expanded its footprint and created a number of jobs for Polish entrepreneurs—the majority of Zabka's stores are family-run businesses.