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FOOD & AGRICULTURE

Lithuanian Norvelita fish processor firm eyes expansion to entrench position in Europe. Photo: Äripäev PAGE 6

POLAND

ENERGY DRINKS

Leading beverage group acquires top brand Tiger

Energy drinks, popularized around the world by Austria's **Red Bull**, are perhaps one of the last few segments of Poland's beverage sector where the number one spot belongs to a Polish brand. The trademark in question is **Tiger**, which has just changed owners in rather unusual circumstances.

Until recently, Tiger had been the crown jewel of Polish food producer **FoodCare**. The company introduced the brand in 2003 together with Polish boxing champion Dariusz "Tiger" Michalczewski, who gave FoodCare the right to use the trademark as well as his image to promote the products.

Recently, however, relations between the boxer and FoodCare have hiot the rock bottom and Michalczewski took his former business partners to court citing breach of contract. According to him, FoodCare failed to pay license fees on time, and made various modifications to the product and its packaging without the boxer's consent. Moreover, Michalczewski did not like FoodCare's decision to launch a second energy drink brand, N-Gine, this time in cooperation with Polish F1 driver Robert Kubica.

When in mid-December 2010 the court ordered FoodCare to halt production of Tiger, and seized the existing inventories, the news raised many an eyebrow. However, when only days later Poland's leading food group **Maspex** informed about a deal it had struck with Michalczewski, the shock was even greater.

"Under an agreement between Maspex and Mr. Michalczewski we hold the exclusive rights to use his image as well as the Tiger brand in promotion of food products, including energy drinks," Maspex spokesperson Dorota Liszka told news2biz. The new Tiger, made by Maspex and looking almost exactly like the old one, were to replace the beverage made by FoodCare on store shelves. The customers (and there are plenty Tiger aficionados across the country) will care about one thing only – the price, which is some 25% lower then before. All in all, situation is rather unusual, as currently Tiger is being made by two different producers, each claiming rights to the trademark.

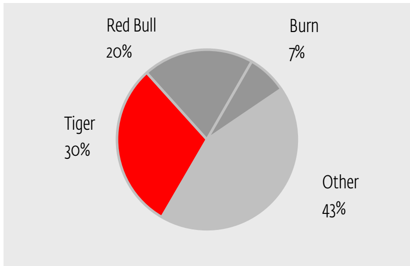
The privately-owned Maspex is one of the most experienced players in Poland's beverage industry and its decision to team up with Michalczewski had certainly been preceded by in-depth legal assessment of the case.

Court battles over the Tiger brand are likely to take years, while Maspex has added a yet another leading brand to its portfolio. Maspex and FoodCare (previously known as Gellwe) had already met in court once, and the outcome of that encounter cost the latter a pretty penny.

According to Nielsen, Poland's energy drinks market is worth some PLN 680m, with Tiger's share being estimated at more than 30%. Red Bull ranks second with 20%.

Tiger energizes a third of the nation

Poland's energy drinks market, Nov 2010



Source: Nielsen

Some observers argue that there may be more to the story than meets the eye. It's been rumored that the global beverage giant **PepsiCo** seeks to merge with Maspex as part of its global expansion strategy. The Americans have their own energy drink brand Moutain Dew, which currently has a negligible share in the Polish market. With Tiger in Mespex's portfolio, they would jump straight to the top position on the podium, ahead of Red Bull and **Coca-Cola**'s Burn.

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BOTTLED WATER

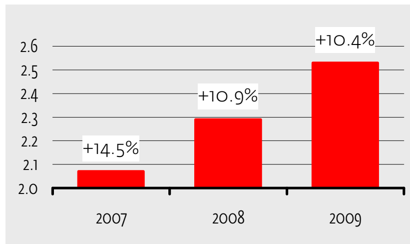
Key players invest in production facilities

Following years of double digit-growth (+17.3% in 2007 and +16.5% in 2008), the value of Poland's non-alcoholic beverage market rose by merely 4.3% in 2009, totaling PLN 11.3bn. As two of the leading categories (carbonated beverages and juices) are said to have reached he point of saturation, with year-on-year growth rate topping a symbolic 2.5% and consumption levels catching up with Western European standards, companies are turning to segment that still offer some decent growth potential.

Bottled water, which represents 22.5% of Poland's beverage market in turnover terms (and 41.1% in volume terms), and continues to expand at a robust double-digit pace (+10% in 2009 and +15% in Jan-Jul 2010 according to Nielsen), is perhaps the last significant segment with solid growth prospects. This has led to a number of major developments in the course of last year.

Growing at double digit pace

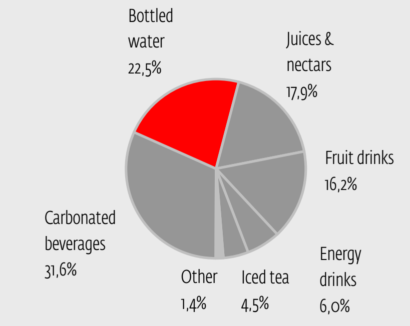
Poland's bottled water market in PLN bn



Source: Nielsen

First sugar & bubbles, then water

Poland's soft-drinks sector in 2009, market share turnover-wise



Source: Nielsen

The leading water bottlers in Poland are French **Danone** (26%), Polish Polskie Zdroje (8%), **Nestle Waters** (7%), and the **Coca-Cola Group** (5%), followed by a number of smaller, domestic players, together holding more than a half of the market. There are still some 200 brands available on the market, even though experts believe that in the long-run only a tenth can survive the natural selection.

All in all, consolidation seems inevitable. The average annual per capita consumption of bottled water tops 58l in Poland, compared to nearly 122l in Germany, 117l in Spain, but only 38l in the UK. Market insiders argue that the Poles are increasingly health-conscious and therefore a growing number will be switching from sugar-filled carbonated drinks to the most natural choice- water.

In December last year Danone acquired Womir SPA, producer of the Dobrawa brand. The transaction, details of which have not been disclosed, has strengthened Danone's market position by less than one percentage point. What matters, however, is that the company got access to Womir's bottling facility in Rzeniszow near Czestochowa, which seems to be the new top destination for Polish mineral water makers, due to high quality of the local spring water.

Danone's key brand in Poland is Zywiec Zdroj, which alone claims more than a quarter of the country's bottled water market.

Danone's key brand in Poland is Zywiec Zdroj, which alone claims more than a quarter of the market.

Image: Danone

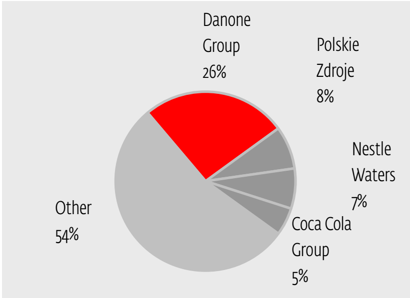
Earlier last year, Nestle Waters Polska, a subsidiary of the global food industry giant, had completed a new water bottling facility in Rzeniszow. Built at the cost of EUR 5m, the plant will support the development of Nestle's home & office delivery arm in the highly-industrialized region of Silesia.

With a workforce of 45 employees, the facility can produce up to 40m liters of water per annum. Encased in large 18.9-liter bottles they will be distributed to businesses and homes in southern Poland. So far, Nestle Waters Polska has relied solely on its bottling plant in Czestniewo near Warsaw, which was opened 17 years ago.

Last year Nestle Waters Polska turned over approximately EUR 90m. The company's key retail brands are Naleczowianka and Nestle Aquarel, as well as Dar Natury & Nestle Aquarel in the home & office delivery sector. The company distributes also a number of global brands (Perrier, Vittel, Aqua Panna and S. Pellegrino) on the Polish market.

Global giants quench Polish thirst

Poland's bottled water market, Jan-May 2010, shares in %



Source: Euromonitor International, volume-wise

Interestingly, Nestle has recently lost its number two position on Poland's water market to **Polskie Zdroje**, a Polish maker, whose Cisowianka brand has taken the market by a storm, thanks to very effective marketing. Cisowianka's sales rose by nearly a third last year, and its producer hopes to make it the number one water brand in Poland in 2-3 years.

UKRAINE

MEAT PRODUCTION

Largest Danish investor in Lviv region to buy new farm

As the European meat industry is breaking new ground in Eastern Europe, the Danish-owned pig producer **Halychyna Zahid** has become one of the two largest Danish investors in the Lviv region.

"We have invested around EUR 30m in the reconstructions and re-equipment of our Ukrainian farm over the past five years," says Ole Jorgensen, general manger of Halychyna Zahid, to news2biz, adding that his company may purchase another farm in Ukraine in some three or four years.

Doubling capacity

According to him, Halychyna Zahid has been backed by two funds, the Danish **Investment Fund for Central and Eastern Europe (IØ)** and the **Nordic Environment Finance Corporation (NEFCO)** established by the five Nordic countries.

Halychyna Zahid started its activity in Ukraine in 2006, when it acquired a 417 ha farm, including 47 ha of the production area inside fence, in the village of Kavsko, some 70 km southwest of Lviv.

"Since that time, we have almost doubled the farm's annual capacity to 100,000 heads," the general manger states, "and are now going to add some 3,200 ha of production area."

Operating at its full capacity since 2008, the enterprise sells Landrace, Yorkshire and Duroc youngsters (weighing 20-25 kg each), as well as fattens up porkers.

The farm features state-of-the-art production technologies and equipment, has its own feed mill and a laboratory for analysing ready-made food or ingredients.

Halychyna-Zahid has invested EUR 30m in the reconstruction of its Ukrainian farm. Photo: Halychyna-Zahid

"While Ukraine imports pig meat from Europe, we produce the very same meat of the highest European quality for the Ukrainian market," Ole Jorgensen declares proudly.

In his opinion, the Ukrainian agrarian sector needs governmental support for its steady development.

"The government is supposed to boost domestic food producers, just like it is done in Russia. Instead, the Ukrainian authorities cannot find a long-awaited solution to the VAT reimbursement and other pressing problems," he emphasises.

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SPO

MHP attracts USD 165m through SPO

Yuriy Kosiuk, the principal shareholder and CEO of **Myronivka Hliboproduct (MHP)**, Ukraine's largest poultry and major grain producer, has sold his 10% stake in the company in the course of its SPO held in December last year on the London Stock Exchange (LSE).

Before the transaction he controlled some 75% of MHP's shares, with the remaining 25% free-floated on the LSE.

"We are very pleased to have successfully completed this placement, which has increased our public float by almost 50% and should provide for an increase in the trading liquidity of our GDRs," Yuriy Kosiuk is quoted as saying by MHP's press release.

Fact

35%

increase in revenues was posted by MHP in the first 9 months of 2010.

MHP's strategic goal is to expand its annual chicken meat production from 350,000 to over 550,000 tonnes by 2015. To achieve this, the company is going to build **Vinnytsia Broiler**, the poultry plant to be launched in the town of Ladyzhyn (Vinnytsia region) in four stages by 2018.

As each of the plant's phases is capable of producing 110,000 tonnes of chicken meat per annum, it is planned that MHP will be able to increase its current annual production of 350,000 tonnes to exceed 550,000 tonnes, once the plant's first two stages have been put into operation in 2014.

MHP will produce over 550,000 tonnes of chicken meat a year.
Photo: Sven Arbet/Äripäev

In an attempt to saturate the growing internal demand for maize and sunflower, as well as to increase its grain export volumes, MHP declared its readiness to expand the land bank to 300,000 ha by the end of 2010 and up to 400,000 ha by 2013.

In November last year, MHP acquired three farms in the Khmelnytsky region with the total land bank of 12,000 ha. In October 2010, the company purchased yet another grain producer in the same region, who used to control more than 11,000 ha of land (see news2biz UKRAINE no. 4, page 5)

MHP unites a total of 20 enterprises producing poultry, beef and sausages, grain, potato and vegetable oil.

During the first nine months of the last year, MHP increased its gross revenues by 35% year-on-year to USD 676m, while its bet profit grew by 54% to USD 158m.

FAST FOOD MARKET

Burger King vs. local market king?

Ukraine's fast-food market seems to have recovered from the economic recession, which has somewhat changed its trends though.

It is a strong and undersaturated demand that remains unchanged and attracts new players. Catching the trend, Burger King may be soon ready to enter the market.

Market king

In late December last year, **McDonald's Ukraine** opened its first restaurant in the country's south-eastern industrial city of Mariupol, having invested around USD 1.5m in the project.

With its floor space exceeding 490 sq.m, the new restaurant is situated on the ground floor of the Ukraina shopping mall in the centre of half-a-million strong Mariupol.

"This is our 70th fast-food outlet in Ukraine," says McDonald's Ukraine's PR director Mikhail Shuranov to news2biz. "Earlier in 2010, we opened a new food court in Kyiv's Sky Mall shopping mall."

The Golden Arches opened its first restaurant in Ukraine back in May 1997, being the first international fast-food operator to have appreciated the huge potential of the almost 50-million European market (see new2biz UKRAINE no.1, page 8).

McDonald's opened its 70th restaurant in Ukraine. Photo: McDonald's

Since then, the company has invested more than USD 100m of own funds in the development of its nation-wide network and indis-putable dominance on the Ukrainian fast food market.

New players

The advance of McDonald's brought the fast-food culture into Ukraine and catalysed the birth of a handful of locally-owned fast-food chains.

However, the global downturn screened out the least professional players, while McDonald's was forced to change its tactics after 2008 and shift emphasis from launching new sites to revamping the existing ones.

As a result, the market supply shrank substantially, while the demand for inexpensive fast-food, already undersaturated, was rapidly growing.

That could not last forever and the Ukrainian market saw the arrival of the world's leading pizza deliverer **Domino's Pizza** in October last year (see news2biz UKRAINE no. 4, page 8).

Rather symptomatically, before coming to Ukraine, Domino's had firmly established its presence on the neighbouring Russian market, the pattern to be likely followed by other global fast-food chains. At least, the US-based Burger King Corp. seems to be the first in this imaginable line.

Burger King

Having appeared on the Russian market just in early 2010, **Burger King Corp.**, the world's second largest fast-food chain, has, according to its Russian subsidiary director Yana Pesotskaya, already found one more franchise partner in the country and is going to double the number of its Russian outlets.

In the meantime, Burger King Corp. has also been negotiating its arrival in Ukraine. According to Vitaliy Boyko, director of the **Ukrainian Trade Guild** (UTG), his company has been in talks with Burger King Corp., **Galeries Lafayette, Harvey Nichols**, **New Yorker**, **Starbucks**, **Decathlon**, **H&M**, **Armani Cafe**, **Nordsee** and other international operators over the possible lease of floor spaces (totally 30%) in the Kyiv-based **Ocean Plaza** (131,000 sq.m of GLA).

> **We have identified Ukraine as a potential market for the expansion of the Burger King brand.**
>
> Andrea Ungereit-Hantl, Burger King Corp.'s communications & public affairs manager for Central Europe

"In the course of normal business, Burger King Corp. continuously reviews its worldwide restaurant portfolio and makes strategic decisions regarding expansion of the brand based on many factors, including possible development opportunities, market conditions, restaurant profitability, consumer research and overall brand presence," says Andrea Ungereit-Hantl, Burger King Corp.'s communications & public affairs manager for Central Europe, to news2biz, when answering the question of her company's possible arrival in Ukraine.

"Based on these criteria, we have identified Ukraine as a potential market for the expansion of the Burger King brand and we are currently evaluating the opportunity in more detail."

Founded in Miami, Florida in 1954, today the Burger King system operates approximately 12,000 restaurants in all the US states and in 73 countries and U.S. territories worldwide.

Approximately 90% of Burger King restaurants are owned and operated by independent franchisees, many of them family-owned operations that have been in business for decades.

In 2008, Fortune magazine ranked Burger King Corp. among America's 1,000 largest corporations and Ad Week named it one of the top three industry-changing advertisers within the last three decades and it was recently recognized by Interbrand on its top 100 Best Global Brands list.

Deemed to expand

According to Mikhail Shuranov, Ukraine's fast-food market will certainly keep growing, as the present-day supply barely meets half of the existing demand.

Ukraine's and specifically Kyiv's growth potential (at least 180 restaurants more) is often compared with that of Moscow. Indeed, the Russian capital's fast-food industry has been rapidly developing in the recent years.

The annual growth is estimated by Russian experts at 15-25% and even 30% for 2010, when Moscow's fast-food market was entered by Burger King Corp. and **Dunkin Donuts**, the transnational giants looking for new market on the back of the sales recession in the USA and

Europe. According to some experts, the full saturation of the Russian and Ukrainian fast-food market is not expected earlier than 2012, but if people's incomes grow, the full saturation will keep running away.

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LITHUANIA

POLISH EXPANSION

NDX biggest shareholder in Mispol foods firm

Lithuanian private equity company **NDX energija**, linked to owners of the country's leading supermarket chain **Maxima**, has achieved some initial success in its bid to gain a strong foothold in the Warsaw-listed ready meals maker **Mispol** that it plans to use as the basis for a would-be Central European food industry major (see no 306 page 5).

The Lithuanians had sought to boost their stake in Mispol from 5% to 33%, but their hostile bid prompted a speedy reaction of Mispol's management, which was eager to orchestrate an equity boost and mergers. Mispol shareholders seem to have taken to the idea, which made the Lithuanian offer of PLN 7.2 per share (very close to the market valuation) rather unimpressive.

NDX Energija has managed to raise its ownership in Mispol to 14.5% as a result of its recent bid. This makes NDX the biggest shareholder in the company.

"Under Polish regulations, a 10%+ stake in a listed company obliges us to submit to the stock market watchdog our considerations as to what we intend to do with such a position. Therefore we will send a letter that will state our determination to raise this stake further," Petras Jasinskas, CEO of NDX energija, told news2biz in December right after the firm's offer for Mispol shares expired.

He would not say how the firm intends to carry out the plan, neither he would comment on Mispol's defence strategy. The strategy of Mispol's Polish shareholders representatives envisaged merging with one of Poland's leading pasta producers **Makarony Polskie**. Since the 2007 acquisition of ready meals maker **Stoczek**, Makarony Polskie's products range also includes ready meals, canned meat products, and preserves.

The merger of Mispol and Makarony Polskie would mark just the beginning of their expansion, however, as the two are to team up with one of Poland's leading meatpackers **PMB Bialystok**. The company produces 200 tonnes of cold cuts and meat products daily, a fifth of which is being exported, mainly to other EU markets. Its Bialystok facilities total some 11ha and employ more than 1,000 workers. PMB Bialystok is the only meatpacker in Poland with a kosher slaughterhouse. The company is developing its own chain of butcher shops, which by the end of this year is to include 200 outlets.

In the first three quarters of 2010 Mispol turned over PLN 214m, while Makarony cashed in PLN 112m. PMB's sales revenues came to PLN 315m in 2009. Together, the three companies would create a major player in the food sector with a combined turnover of more than PLN 0.8bn.

M&A strategy to be reviewed

Now these, or any other merger plans, would have to be reworked with NDX participation: at the 4 January extraordinary shareholder meeting, two NDX representatives were elected to the 7-seat supervisory board while the important motion to increase the capital was voted down.

"As a new shareholder we do support Mispol's strategic goal to expand, also by way of acquisitions, but we want to get a more detailed view on any such option," says Ignas Staskevicius, chairman of NDX and now a member of Mispol's representative board, to news2biz while on his way to Mispol to meet the firm's management.

"So while we support the direction in general, it is too early for any specifics," he says adding that NDX will keep looking for ways to raise its Mispol stake further.

The Lithuanians already own the Polish sweets maker **Mieszko** (see no 307 page 5).

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SALMON PRODUCTS

Norvelita eyes expansion to entrench position in Europe

After producing a 56% turnover growth in 2009 when Lithuania's economy was knocked down by deep recession, Lithuanian **Norvelita** fish processor plans expanding its production capacities.

Based near Raseiniai 80 km west of Kaunas, Norvelita is now fully utilising its capacities – and that after opening a new unit in 2009.

"When we expanded back then we could not foresee that demand for our products will reach our physical production limits so quickly. The new expansion plan envisages raising the processing capacity by as much as a third, that should allow us to take in all potential new orders and leave some space for future," says Jordanas Kenstavicius, CEO and key shareholder of Norvelita, to news2biz.

Aid would cover 60% of costs

To help finance the expansion project, the company plans to apply for EU aid under the support for food processors scheme. EU aid could cover up to 60% of the estimated LTL 15-18m investment budget. Norvelita's fish processing capacities would then increase by some 30% from today's 12,000-13,000 tonnes per month. Staff would rise from 750 today to around 900.

The company's main output is smoked salmon products around 90% of which is exported. "During these years we have expanded the sales geography from Germany to Italy and Belgium. There are still plenty of opportunities in these countries for us but in the long run we would like to gain foothold in other big EU markets, such as Spain and France," Kenstavicius says. Today Norvelita's main competitors are in Poland. "Western European salmon industry has migrated to lower-cost Poland from Denmark and Germany. In recent years our firm too has accommodated orders that used to be carried out in Germany," Kenstavicius adds.

> **We could not foresee that demand for our products will reach our physical production limits so quickly.**
>
> Jordanas Kenstavicius of Norvelita

He says that Norvelita's rise to a major European player began around 2005 after years of experimenting with products. "Eventually we settled on salmon and in the course of several years managed to earn reputation of a reliable supplier among European retailers. We still produce salmon that is sold under private labels and plan to continue with this set up because promoting our own brands would be too costly and time consuming without guarantee for success. We have seen such attempts end up in tears for some other Lithuanian companies," Kenstavicius explains.

In 2009, Norvelita raised turnover by 51% to LTL 186m. In 2010, the plan was to achieve a further 18% increase.

Norwegian investors exited

Originally set up 15 years ago as a Lithuanian-Norwegian joint venture, Norvelita has been a local capital company for 5 years.

"Our former foreign shareholders, Norwegian private persons from the fisheries industry, saw that the company is doing quite well in Eastern Europe at that time, for instance in Ukraine and Romania. They decided to make a short cut and try their luck on their own in those markets but eventually burnt their fingers because they wanted to do business in the East the way they used to do it in the West. Fish would be delivered but money would not come. Financial troubles forced them to sell their share in Norvelita," Kenstavicius recalls.

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IN BRIEF

ALT files for bankruptcy

Vilnius-listed ALT investicijos has declared itself insolvent and filed for bankruptcy after being notified about a EUR 68m fine imposed by the Serbian privatisation agency over the breach of privatisation terms of a major Serbian brewery (see no 291 page 6). The move is likely to deal a blow to the Vilnius-listed Alita alcohol maker owned by the same owners as ALT because the two firms are co-debtors towards Swedbank that extended a loan for the Serbian purchase.

LATVIA

UNFAIR PRACTICES

Competition watchdog: Rimi bullies food producers

The customers may enjoy the low prices of **Rimi Latvia**, the Swedish-owned supermarket chain, but **Konkurences Padome** (KP), the Latvian competition watchdog, says that the chain is not playing fair and using its dominant position to force discounts on its suppliers. Specifically, the watchdog has ruled that Rimi Latvia has forced unjustified payments on the local dairy producer **Valmieras Piens** and has fined Rimi LVL 62,275. The retailer also is obliged to stop the practice.

Another case against Rimi Latvia for similar practices has been dropped due to lack of facts.

Unfairly low prices

Rimi Latvia, owned by Sweden's retail chain Ica, operates shops under two brands: Rimi and its discount shop chain Supernetto, with Supernetto being the larger chain of the two. Altogether Rimi owns 108 shops in Latvia, which makes it the second-largest chain by the number of outlets (the Lithuanian-owned Maxima takes the first place with 130 shops), albeit it is the largest chain by floor space and turnover.

According to KP, Rimi abused its dominant retail status and requested Valmieras Piens discounts for placing its products in Supernetto shops. The KP report says: "Rimi Latvia sets a lower purchase price for Supernetto stores, stressing that the discount chain strategy, which includes lower prices for end users, cannot be ensured simply by decreasing the retailer's profit share."

Too cheap: Valmieras Piens has been forced to sell its products at a loss or lose an important retail outlet. Photo: Valmieras Piens

This is exactly what Rimi has done with Valmieras Piens: as Rimi Latvia provides an indispensable outlet for Valmieras Piens, it requested the company to provide discounts.

The report notes: "If Valmieras Piens is excluded from the list of Rimi Latvia suppliers, it would find it relatively hard or even impossible to sell that amount of its products to another retailer. [...] Adding new products to the existing product range may result in additional costs, not increasing the overall turnover, but just dividing it between the existing products."

The report also notes that, even though Valmieras Piens is working in other sectors such as HoReCa and also exporting some of its production, local retail sales still remain a very important outlet both for Valmieras Piens and food producers in general.

> **If Valmieras Piens is excluded from the list of Rimi Latvia suppliers, it would find it relatively hard or even impossible to sell that amount of its products to another retailer.** Konkurences Padome on Rimi

On the other hand, Rimi Latvia is in a much more comfortable position: its 2009 turnover reached LVL 404.38m, whereas Valmieras Piens' 2009 revenues stood at LVL 27.24m, 15 times less. Moreover, Valmieras Piens is not the largest dairy supplier for Rimi Latvia.

The unfair discounts resulted in losses for Valmieras Piens, which, in turn, raised its prices for smaller retailers. As a result, Rimi kills two birds with one stone: not only it provides lower prices for its customers, but its competitors are also forced to raise the prices for theirs.

Don't ask, don't tell

Rimi's response has been notably blunt. "Rimi Latvia has acquainted itself with the KP decision, finds it to be unjustified and is planning to appeal it," says Dace Valnere, spokesperson for Rimi, to news2biz. "Every year Rimi Latvia negotiates and agrees upon co-operation with its suppliers, finding the best possible terms for both sides and keeping KP guidelines in mind."

Valmieras Piens has refrained from any comments.

In fact, refraining from comments is what another Rimi supplier has done: dairy producer **Rigas Piensaimnieks**, now owned by the US-based **Darby Overseas Investments** (see the next story), also has a similar contract with Rimi, which includes two discounts: a volume discount and a "promotion discount" applied for the goods sold at Supernetto shops.

However, Rigas Piensaimnieks did not fully provide the information KP requested from it, and, even though KP had established that Rigas Piensaimnieks is also dependant on Rimi Latvia, it decided to drop the case due to insufficient data.

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COFFEE SHOPS

British Costa Coffee comes to Latvia

UK-based **Costa Coffee** café chain, owned by the British hospitality company **Whitbread**, has announced that it will start operations in Latvia under its own Costa Coffee brand.

The company already is present in the Latvian market through the

Coffee Nation chain, which it acquired when it took over the Polish café chain **coffeeheaven international** in 2009 (see news2biz POLAND no 426 page 4). In turn, coffeeheaven acquired Coffee Nation in 2004, but preferred to keep the old brand (see no 193 page 8).

Coffee Nation has seven outlets, including two in Riga International Airport. In addition to that, Costa Coffee has already opened one café under its own brand in Riga, and its immediate plans include adding another café in Spice shopping mall.

No changes in Poland

So far, Costa has already rebranded the four coffeeheaven shops in Bulgaria.

"As far as other countries (Czech Republic and Hungary) are concerned, it is not certain at the moment. We are evaluating the current situation, looking at the possibilities, but no decisions have been made yet," says Silvestrs Savickis, spokesperson for Costa, to news2biz. "Coffeeheaven in Poland is prospering greatly and there are no plans for rebranding in that market."

Fact

2,000

Is the approximate number of Costa cafés around the globe

Until the takeover, coffeeheaven was the leading café chain in Poland and a well-established brand. The situation is different in Latvia: although Coffee Nation is also a well-known brand in Latvia – the company was established in 2001 – it is not as large as the market leader, locally-owned **Double Coffee**, which boasts 14 shops in Riga, one in Jurmala and also has cafés in Lithuania, Ukraine and Belarus, with upcoming outlets in Russia.

The Coffee Nation brand only operated in Latvia, even though Coffee Nation is also the name of an unrelated British coffee vending machine chain.

Coming soon to a café near you: Costa enters Latvia with a total of nine shops.
Photo: Whitbread

Costa will also have to compete with Lithuanian **Coffee Inn** chain, which currently has two outlets in Riga. However, Costa is by far the most internationally-renowned brand in the Latvian coffee shop market.

Focusing on Latvia

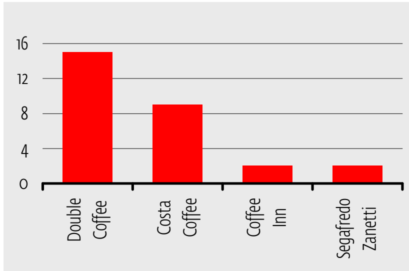
When asked about Costa's possible growth plans, Savickis explains that the current focus is on rebranding and opening the new café in Spice, although he says that Costa eventually plans to become "the favourite coffee destination, and this often translates directly into growth."

As to Costa's plans for the Baltic market, he says: "It is too early to say that. Of course, we are looking at possibilities for growth, but Latvia is our main priority at the moment in the Baltic markets region."

Founded in 1971, Costa Coffee currently has more than 1,100 shops in the UK, making it the largest British chain. It also operates more than 600 shops in 25 other countries.

A strong entrance

Café chains by the number of stores in Latvia



Source: Double Coffee, Costa Coffee, Coffee Inn, Segafredo Zanetti

Whitbread boasts an impressive history: it was founded in 1742. For most of its existence it was best known as a brewery, but, having sold its brewery and pub businesses in 2001, it decided to focus on hotels and restaurants. It currently owns UK's largest budget hotel chain Premier Inn as well as a number of restaurant chains, altogether making it the UK's largest hospitality company. It took over Costa Coffee in 1995.

Whitbread is listed on the London Stock Exchange, its 2009 turnover reached GBP 1.33bn and its net profits stood at GBP 90.3m.

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IN BRIEF

Estonians exited Rigas Piensaimnieks

Along with the sale of 100% of shares of the Latvian milk producer **Rigas Piensaimnieks** to the US investor **Darby Overseas Investments**, the Estonian private investors, who had a stake in **RPS Holding**, a former owner of 80% of Rigas Piensaimnieks, exited the company as well. RPS Holding was established in 2009 to represent the debtors of the busted holding **Alta Capital** (see no 287 page 5). **Swedbank** had 41% of RPS Holding, while **Gild Arbitrage** had 26% and the rest were private investors. The exact details of the deal are not disclosed. However, while Alta Capital acquired Rigas Piensaimnieks for approximately EUR 50-60m, the current sale has brought back about a third of the original investment, according to estimates.

ESTONIA

FARMING

Agricultural activities concentrate in large farms

The agricultural activities in Estonia are concentrating more and more into large holdings, according to the preliminary data extracted from the agricultural census conducted in the end of 2010 by the statistical office Eesti Statistika.

According to Eesti Statistika, the number of agricultural holdings has decreased by almost threefold in comparison to the previous agricultural census in 2001. In 2010, there were 19,700 agricultural holdings in Estonia, which had at their disposal at least one hectare of agricultural land or produced agricultural products mainly for sale – compared to 55,700 in 2001. Thus, in nine years, 36,000 holdings have abandoned agricultural activities or their agricultural land usage has dropped below one hectare.

The decrease in the number of agricultural holdings has occurred mostly on account of smaller holdings using less than 10 hectares of arable land. The medium segment (holdings with land usage of between 10 and 100 hectares) has decreased as well. At the same time the number of holdings using above 100 hectares of arable land, has almost doubled.

While the number of farms is decreasing, the total area of land used for agricultural activities increases – by 8% in 2010 compared to 2001. According to the census, nearly 938,800 hectares of agricultural land is utilised in Estonia.

While the growth can be partly explained by the change in methodology – since 2007, maintained permanent grassland is considered to be agricultural land as well – the arable land area has increased also at the cost of fallow land newly taken in use.

Concluded from the above, the agricultural area has concentrated at the disposal of large farms. According to the census of 2010, the segment of larger holdings (above 100 hectares) use almost three-quarters of agricultural land.

Similar trend is spotted by Eesti Statistika in farms dealing with livestock: over three-quarters of the total cattle are held in herds with more than 100 bovine animals.

Concentration in progress

Total usage of agricultural land by farms of different size

Source: Eesti Statistika

While the final results of the recent census are yet to appear, and the data from similar censuses in other member countries of the EU is not yet published, the development of Estonia's agricultural sector cannot put in the proper context.

Still, when comparing Estonia's preliminary results from the census of 2010 with the data available for other countries from 2007, several observations can be made.

The average size of Estonian agricultural holding has increased within nine years from 16 to 48 hectares, four times larger than the EU average (13 ha in 2007). In terms of the average size of agricultural holding, Estonia stands in the same league with Germany, France and the UK, behind the Czech Republic and Denmark.

In the EU in average, the holdings having above 100 hectares had at their disposal 47% of the agricultural land, while in Estonia the respective share accounts for 73%. The concentration of agricultural land into large farms is bigger only in Slovakia, Czech Republic and Bulgaria. Also by the concentration of cattle breeding in hands of large-scale farmers, Estonia is one of the leaders in the EU.

The process of concentration of agricultural activities into larger holdings is characteristical for the EU in whole. However, in Estonia, the process has been several times faster than in the EU on average.

FARMING MACHINERY

Linas Agro starts agri machinery trade in Estonia

Lithuanian **Linas Agro Group**, the farming and farming supply, agricultural commodity trading company that less than a year ago debuted in the Vilnius stock exchange (see news2biz LITHUANIA no 290 page 6), has established presence in Estonia where it will start with farming machinery trade.

So far Linas Agro has covered Estonia rather episodically and only through sale of certified seeds via local partners.

In the new market, Linas Agro will be represented by a local subsidiary of Lithuanian **Dotnuvos projektai** that is 50/50 owned by its management and Linas Agro. Last year Dotnuvos also set up a machinery sales operation in Latvia.

Best time for expansion

"Conditions for the Baltic expansion of Dotnuvos' machinery sales business have been very good as the economic crisis has undermined the positions of local sales agents that represent Dotnuvos' brands," says Andrius Pranckevicius, deputy managing director of Linas Agro Group, to news2biz.

"After intensive talks with the machinery brand owners, Dotnuvos has been granted a licence for pan-Baltic representation."

Dotnuvos represents such brands as US **Case IH**, Norwegian **Kverneland Group**, and Danish **Cimbria**.

Previously, Case IH was represented in Estonia by a local agri machinery dealership called **Uhtna Talutehnika**. However, the company went bust in 2009 when **Swedbank** declined to extend its credit line.

In Estonia Dotnuvos is now buying 2,500 sq.m of warehousing and office area near Tartu. Later the firm will invest into a network of semi-mobile sales and service units.

Linas Agro's subsidiary Dotnuvos projektai starts to represent Case IH tractors in Estonia. Photo: Case IH

"It will not be a capital intensive expansion as skilled staff is here the main asset," Pranckevicius explains. "Both in Latvia and Estonia we have employed staff from the local firms that used to represent the machinery brands, so we already have a good base to start from. We also considered buying existing players but eventually decided to start on our own in order not to be burdened by potentially bad balance sheets of prospective targets."

Tartu, Estonia's second largest city 185 km southeast of Tallinn, has been selected due to its good logistics connections but also because of its advantage of hosting Estonia's life sciences university.

In Latvia, where Dotnuvos has been for less than a year, the firm has managed to beat its own sales target by 50%, reaching EUR 3.3m.

"In agriculture, various indicators show that Lithuania is as big a market as Latvia and Estonia together. But when it comes to machinery, the two other countries are bigger," Pranckevicius comments. "Otherwise, the three markets are rather similar in terms of competition level and Western machinery brand penetration."

Good growth in agri inputs

Based in central Lithuania, Dotnuvos projektai is staffed by 190 employees and runs a chain of five trade and service centres throughout the country (it will grow to six in March).

In 2009, the firm turned over EUR 28m, in January-November 2010 the figure went up to EUR 30m. The company annually sells around 11,000 tonnes of seeds and 700 units of farming machinery. Additionally, it installs some 30 silos of various sizes.

During its last 2009/2010 financial year Linas Agro Group suffered a 25% decrease in turnover to EUR 184m due to low grains and milk purchasing prices, while gross profit dropped by a more modest 7% to EUR 17m.

Seeds and farming machinery sales, as well as that of fertilisers and plant protection products, fall under agricultural inputs, one of Linas Agro's four main business lines. Last financial year agricultural inputs were the group's only successful activity and reported an almost three-fold growth to EUR 21m, or from 3% to 12% of the group's total turnover.

We have talked to

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