

The DIY and Furniture Retail Sectors in Romania

January 2010

DEMO REPORT

by

**FRD CENTER MARKET ENTRY SERVICES
ROMANIA**

SUMMARY

1. DIY retail sector in Romania	3
1.1 Current situation of the DIY retail sector in Romania.....	3
1.2 Foreign DIY chains	4
1.3 Romanian DIY chains	7
1.4 Expected evolution of the DIY retail sector in Romania in 2010	10
2. Furniture and decoration retail sector in Romania.....	11
2.1 Current situation of the furniture and decoration retail sector in Romania	11
2.2 Foreign furniture and decoration stores	11
2.3 Romanian furniture and decoration stores	13
2.4 Expected evolution of the furniture and decoration retail sector in Romania in 2010	15

1. DIY retail sector in Romania

1.1 Current situation of the DIY retail sector in Romania

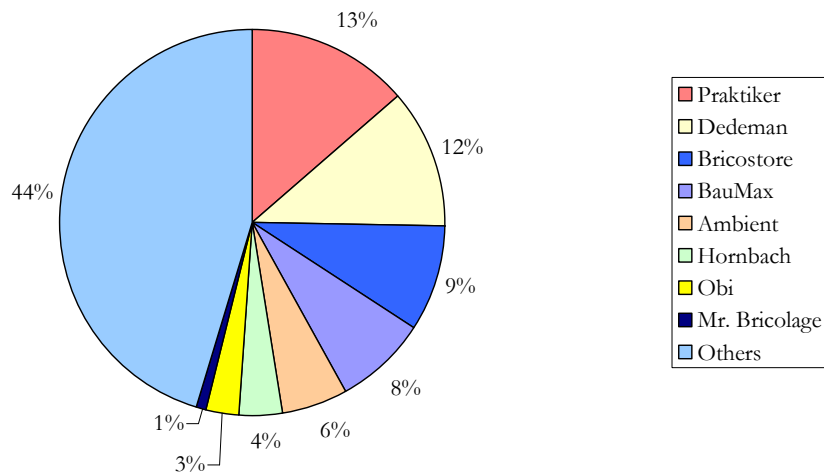
During the last years, the DIY retail sector in Romania recorded an average y-t-y growth of 20 - 30% per year. Due to the falling demand in 2009, the DIY retailers on the domestic market adjusted their short-term expansion plans in order to preserve their liquidities. Only 11 of the 23 initially announced new DIY stores were opened in 2009, with total investments worth 107 million EUR.

The DIY retailers on the domestic market started to evaluate the possibility to resize their store network. Both Praktiker and Bricostore launched in 2009 stores smaller than the networks average. Also, the DIY players use various methods to attract clients in the economic recession period, such as: buy-back programmes for electric equipment, generalised sales at season devices etc.

According to the Praktiker’s estimations, the DIY market in Romania decreased by 25% in 2009 compared to the previous year, reaching 2.1 billion EUR. This decline was recorded due to the consumption decrease, the difficulties faced by the constructions market and the freeze of the real estate sector.

The market share of the players on the domestic DIY market in 2009 is presented in the below chart.

The market share of the players on the domestic DIY market in 2009



*Source:
Market estimations*

The main foreign and Romanian DIY chains on the domestic market are profiled below.

1.2 Foreign DIY chains

1.2.1 Praktiker



The German chain Praktiker opened its first store in Romania in 2002. At present, Praktiker Romania is the biggest DIY retailer on the domestic market. The company recorded sales of some 187 million EUR in the first nine months of 2009, this representing a decrease by some 13.9% compared to the similar period of the previous year.

Currently, Praktiker operates 26 stores in Romania. In 2008, the company launched five stores, with investments of 8 - 15 million EUR per unit. Due to the market decline, Praktiker decided to reduce at minimum its expansion investments in 2009 in order to protect its liquidities and launched only one store located in Focsani and expanded one store in Craiova, following total investments of 13 million EUR.

The company's market share on the Romanian market increased from 11% in 2007 to 13.6% in 2009.

Praktiker Romania's financial data for 2008:

- Turnover: 305.7 million EUR
- Net profit: 8.7 million EUR
- No of employees: 2,576

1.2.2 Bricostore



The French chain, Bricostore, opened its first store on the Romanian market in 2002. At present, Bricostore has 14 units on the domestic market. Bricostore Romania estimates sales of some 240 million EUR in 2009.

In 2008, Bricostore invested 50 million EUR in the launching of five new stores on the domestic market. The company has in progress two expansion projects of its network, in

A FRD Market Entry Services Romania Report

Deva and Satu Mare cities. The average investment in a new Bricostore unit is of 10 million EUR.

Bricostore Romania's financial data for 2008:

- Turnover: 243.7 million EUR
- Net profit: 26.6 million EUR
- No of employees: 1,503

1.2.3 BauMax



The Austrian chain BauMax entered the Romanian market in 2004. At present, BauMax Romania operates nine DIY stores. In October 2009, the company launched two new units, located in Ploiesti and Iasi, with total investments estimated at 30 million EUR. BauMax will enter the Bucharest market in 2010 through the launching of a new store located in the Sun Plaza Commercial Centre. Two new store openings that were planned for this year, located in Constanta and Pitesti, were postponed for 2010.

BauMax will launch in its entire store network a new credit service, BauMax Finantare, in partnership with EFG Retail Services (the division of the Greek Group EFG Eurobank), with the Effective Annual Interest Rate of 0.78% per year.

BauMax Romania's financial data for 2008:

- Turnover: 123.1 million EUR
- Net profit: 6.1 million EUR
- No of employees: 898

1.2.4 Hornbach



The German chain, Hornbach, opened its first store in Romania in 2007. At present, the company has three stores in Romania, out of which two are located in Bucharest and one in Brasov. The first two Hornbach stores, opened in Bucharest, entailed overall investments worth 63 million EUR. The store in Brasov, with the 22,000 sqm sales area, was launched in 2009, following an investment of 19 million EUR.

In 2007, Hornbach acquired the plots and the buildings of former Prisma complex near Bucharest, with 20 million EUR from two companies that entered bankruptcy procedures. The company will start the construction works of its own store on this land during the next period. The store will be launched in 2010 or 2011 and the investment in this project is estimated at 40 million EUR.

1.2.5 OBI



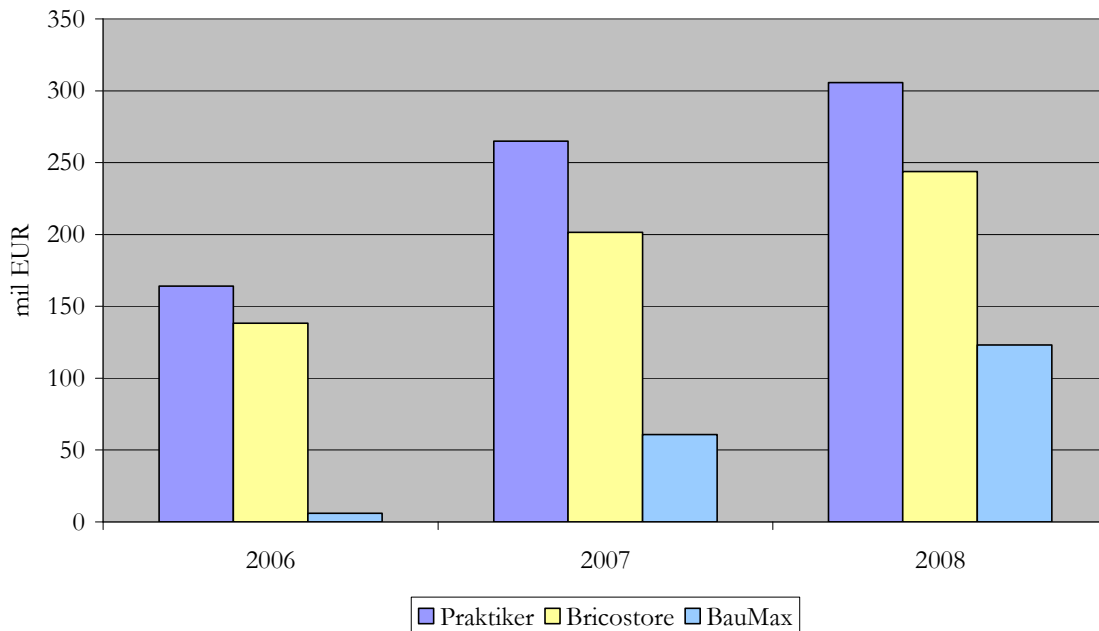
The Obi DIY retailer, part of the German Group Tengelmann, operates at present four stores in Romania. The first two Obi stores on the domestic market were launched in November 2008, at Oradea and Bucharest. The other two stores, located in Arad and Pitesti were opened in 2009. The average investment in an Obi unit is of some five million EUR.

Obi Romania's financial data for 2008:

- Turnover: 5.0 million EUR
- Net loss: 9.2 million EUR
- No of employees: 135

The turnover dynamics of three main foreign DIY retailers on the domestic market, during the period 2006 - 2008, is presented in the below chart.

The turnover dynamics of three foreign DIY retailers in Romania



Source: Ministry of Public Finances

1.3 Romanian DIY chains

1.3.1 Arabesque



Arabesque, owned by Mr. Virgil Cezar Rapotan, was set up in 1994. The company is mainly specialised on the sales of the construction materials.

In the first eight months of 2009, the company's sales recorded a decrease by 20% compared to the similar period of the previous year. Arabesque is active also on the foreign markets, in Serbia, Ukraine, Bulgaria and Republic of Moldova.

In 2009, Arabesque launched three commercial centres in Pitesti, Oradea and Baia Mare, with total investments of 24 million EUR.

Arabesque's financial data for 2008:

- Turnover: 473.1 million EUR
- Net loss: 1.7 million EUR

- No of employees: 3,715

1.3.2 Dedeman



The DIY network Dedeman, owned by Mr. Adrian Paval and Mr. Dragos Paval, was set up in 1992. At present, Dedeman operates 16 stores, with over 3,000 employees. In 2009, the company launched four stores, out of which two in Bucharest, with total investments estimated at some 50 million EUR. The chain's latest opening was in Bucharest, in a retail park developed together with the cash & carry store chain Selgros.

Dedeman has recently started the construction works of two stores, located in Craiova and Brasov. The investments in these units are estimated at 15 million EUR and do not include the lands price. The two stores will be launched in 2010. The unit in Brasov will be the company's biggest store, with the built surface of 17,700 sqm. The company's expanding strategy at national level targets a network of 30 stores by 2015.

Dedeman's financial data for 2008:

- Turnover: 247.2 million EUR
- Net profit: 18.9 million EUR
- No of employees: 2,233

1.3.3 Ambient



Ambient, controlled by Mr. Ioan Ciolan (75%), was set up in 1993. At present, the network operates 15 commercial centres, eight small size stores and four logistics warehouses in Romania. In 1997, Ambient started partnerships with local investors.

In order to expand its network, Ambient negotiated with the Swedish Investment Fund EQT in 2008, but the project was postponed due to the global financial crisis.

In 2009, the company started a restructuring process that included closing of some stores, located in Arad, Oradea, Satu Mare si Borsa.

Ambient's financial data for 2008:

- Turnover: 231.4 million EUR
- Net loss: 10.1 million EUR
- No of employees: 2,543

1.3.4 Mr. Bricolage



The French Mr. Bricolage chain is active on the Romanian market starting with 2006, through **Brico Expert** (a partnership with Mr. Virgil Cezar Rapotan, the owner of the Romanian DIY chain Arabesque). Brico Expert operates two Mr. Bricolage stores, in Bucharest and Pitesti, launched with total investments of 14 million EUR.

The retailer's long term plans include a network of 30 stores on the domestic market, with total investments of some 220 million EUR.

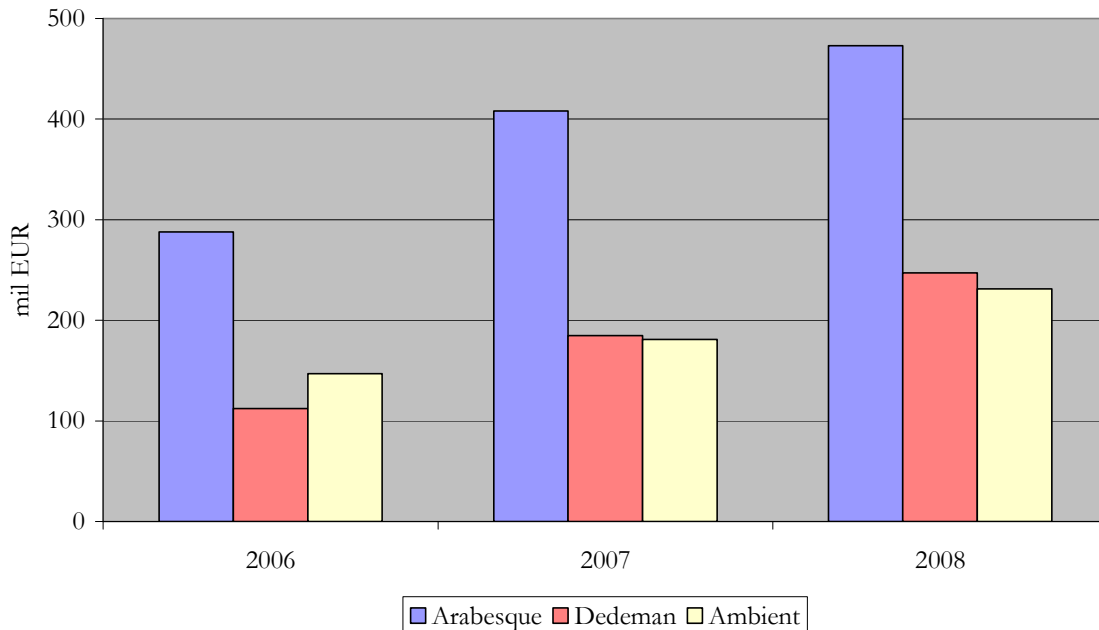
Brico Expert's financial data for 2008:

- Turnover: 20.9 million EUR
- Net loss: 3.9 million EUR
- No of employees: 264

A FRD Market Entry Services Romania Report

The turnover dynamics of three Romanian DIY retailers on the domestic market, during the period 2006 - 2008, is presented in the below chart.

The turnover dynamics of three Romanian DIY retailers on the domestic market



Source: Ministry of Public Finances

1.4 Expected evolution of the DIY retail sector in Romania in 2010

Despite prospects of the demand decline on short term on the Romanian DIY market, the French Group Adeo, one of the European retail giants, with annual turnover worth over nine billion EUR, decided to enter the domestic market, by opening the first Leroy Merlin store in Romania in 2010. The French Group has already started the recruitment process and the local subsidiary of Leroy Merlin currently has some 30 employees.

The first Leroy Merlin store in Romania will be opened in the Bucharest area, either in the Colosseum Mall in Chitila or in another location. The French Group will open this year most likely only this store, with the next few stores planned also for the Bucharest area.

The company has become the second player to enter the domestic DIY segment since the beginning of the economic crisis, following the launching of the Obi stores at the end of 2008 and in 2009. The DIY sector was among the few segments that have registered new players entering the Romanian market, since the onset of the economic crisis.

2. Furniture and decoration retail sector in Romania

2.1 Current situation of the furniture and decoration retail sector in Romania

In the last years, the furniture and decoration retail sector in Romania recorded a constant growth, being sustained mainly by the high number of the constructed office buildings and dwellings.

The Romanian furniture market is estimated at approximately 1.13 billion EUR in 2008. The sector is forecasted to record a decrease by some 15% in 2009 compared to the previous year.

In 2009, the majority of the furniture and decoration retailers on the domestic market reduced the number of their employees and renegotiated the rents in order to reduce their expenditures.

The most significant foreign and Romanian furniture and decoration players on the domestic market are presented below.

2.2 Foreign furniture and decoration stores

2.2.1 Ikea



Moaro Trading is the company that owns the IKEA franchise for Romania. The IKEA store on the Romanian market was launched in 2007 near Bucharest.

During the period September 2008 - August 2009, the IKEA store in Romania was visited by some 3 million persons. The store recorded sales of some 95 million EUR in the first eight months of 2009.

IKEA Group acquires products from various Romanian producers: furniture from Sortilemn, Ecolor, chairs from Plimob, cups and plates from Cesiro etc.

Last year, the retailer recorded total sales of some 83 million EUR on the domestic market. The company's best selling products in 2009 were the accessories in the IKEA 365+ range, bulbs, pillows and duvets. In 2009, the retailer sold some 200,000 accessories in the IKEA 365+ range, some 160,000 bulbs and some 140,000 pillows and duvets. Also, the retailer's

A FRD Market Entry Services Romania Report

restaurant, which generates annual sales of some five million EUR, sold over 2.2 million Swedish rissoles in 2009.

Moaro Trading's financial data for 2008:

- Turnover: 88.2 million EUR
- Net profit: 3.9 million EUR
- No of employees: 553

2.2.2 Neoset



The furniture producer and retailer Neoset Romania is the subsidiary of the Neoset Group Greece. Neoset has been present on the Romanian market starting with 1991.

Neoset has ten stores on the domestic market, out of which four in Bucharest. Also, the company has two plants in Romania: a factory of finished items from melamine chipboard (launched in 1999) and a sofa factory (launched in 2006).

2.2.3 kika



The Austrian furniture retailer kika opened its first store on the local market in December 2008. The company invested 31 million EUR in a 27,000 sqm store located in Bucharest.

According to market estimates, the company posted monthly average sales worth 1.2 million EUR in 2009. Kika registered some 60,000 shoppers every month and the average value of a cash receipt stood at 15 - 30 EUR.

kika's financial data for 2008:

- Turnover: 1.7 million EUR
- Net loss: 4.0 million EUR
- No of employees: 82

2.2.4 Natuzzi

NATUZZI

Natuzzi Group entered the furniture production market in Romania in 2002, through a Greenfield investment in Italsofa producer in Baia Mare. Natuzzi invested over 40 million in this plant. The sales of the Baia-Mare-based manufacturer recorded a decrease by 50% in the first half of 2009 compared to the similar period of the previous year.

Class Mob, a distributor of luxury furniture, owned by Ms. Camelia Sucu, opened in 2007 the first Natuzzi store in Romania, located in Bucharest, with investments of 600,000 EUR. By 2006, Class Mob was the luxury furniture division of the Mobexpert Group.

2.2.5 Bamboo

bam boo

The home decor chain bam boo is administrated by **Andromede Decor**, a company with French capital. The chain includes 19 stores in Romania, located in Bucharest, Timisoara, Cluj Napoca, Suceava, Pitesti, Iasi, Constanta, Brasov and Arad. The majority of stores are located in malls (e.g. Plaza Romania, Bucharest Mall, Iulius Mall Iasi, Iulius Mall Timisoara, Euro Mall Pitesti).

Andromede Decor's financial data for 2008:

- Turnover: 11.8 million EUR
- Net profit: 1.4 million EUR
- No of employees: 234

2.3 Romanian furniture and decoration stores

2.3.1 Mobexpert

MOBEXPERT

The Mobexpert Group, owned by Mr. Dan Sucu, is a furniture producer and retailer. The Group includes a retail network of 34 units and eight production plants.

In 2009, Mobexpert launched one store in Iasi, with investments of two million EUR. The unit is located in the Era Shopping Center Iasi, covers 7,000 sqm and has 50 employees. The

A FRD Market Entry Services Romania Report

Mobexpert expansion in the last period targeted stores with the surfaces of 6,000 – 7,000 sqm, located in commercial centres. For 2010, Mobexpert intends to open one new store.

The Group's biggest three stores, all located in Bucharest area, recorded the following financial figures in 2008: Mobexpert Pipera (turnover: 29.8 million EUR; net profit: 3 million EUR; 207 employees); Mobexpert Baneasa (turnover: 18.9 million EUR; net profit: 1.3 million EUR; 164 employees); Mobexpert Militari (turnover: 9.8 million EUR; net profit: 0.3 million EUR; 100 employees)

Mobexpert Group's financial data for 2008:

- Turnover: 169 million EUR
- Net profit: 17 million EUR

2.3.2 Elvila



The Elvila Group, owned by Mr. Viorel Catarama, is a furniture producer and retailer. In the first six months of 2009, Elvila recorded a sale decrease by 12% compared to the similar period of the previous year. In 2009, the Elvila retail network was expanded with two new units and one store was closed. At present, there are 53 Elvila stores on the domestic market, including the franchises.

The furniture producers, part of the Elvila Group are: Elmoberom Beius, Relaxa Mizil and Carpatina Babeni.

Elvila Group recorded a turnover of 115 million EUR in 2008.

2.3.3 Staer



Staer, owned by Mr. Nicolae Stefan, was set up in 1992, under the Prodex AER name. At present, the company has a plant with the surface of 39,000 sqm in Galati and a network of 27 own stores all over the country.

At the beginning of 2009, the company launched a store with the surface of 4,000 sqm in Brasov, following investments of one million EUR.

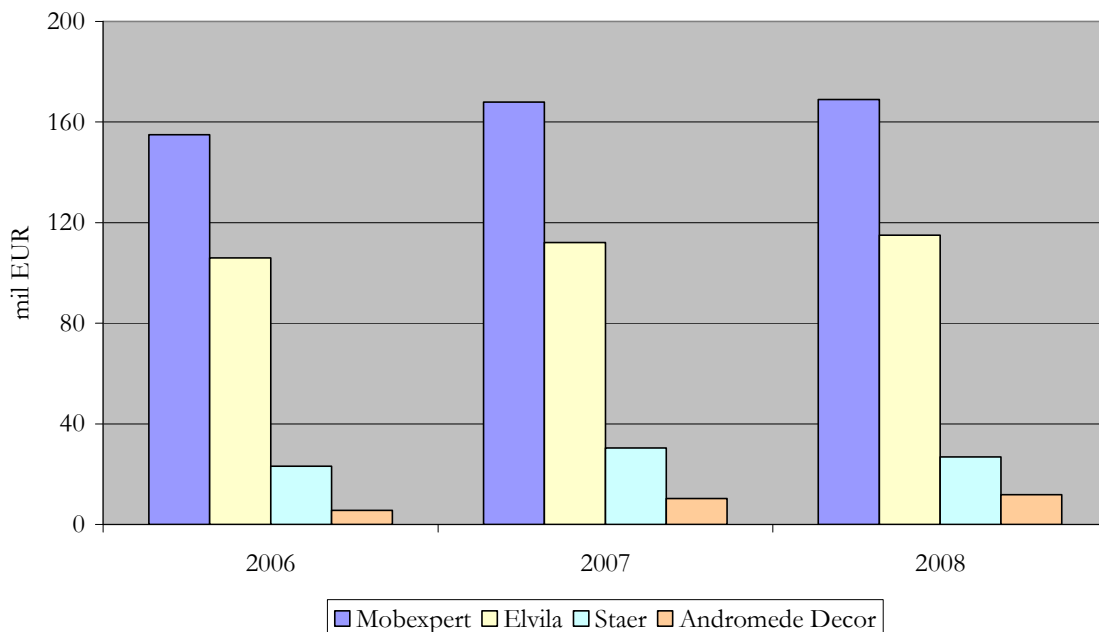
A FRD Market Entry Services Romania Report

Staer's financial data for 2008:

- Turnover: 26.8 million EUR
- Net profit: 0.4 million EUR
- No of employees: 704

The turnover dynamics of four foreign and Romanian players, which are active on the furniture and decoration retail market in Romania, during the period 2006 - 2008, is presented in the below chart.

The turnover dynamics of four foreign and Romanian players on the furniture and decoration retail market in Romania



Source: Ministry of Public Finances and market sources

2.4 Expected evolution of the furniture and decoration retail sector in Romania in 2010

The forecasted main trends for the Romanian furniture market in 2010 are: y/y sale decrease by some 5% (in terms of sold volumes), slow improvements of the profit margins in case of the better control of the costs, taking over processes of furniture factories that face financial problems.

According to market sources, the furniture retail sector in Romania is estimated to reach some 910 million EUR in 2010.

A FRD Market Entry Services Romania Report

This demo report is produced by FRD Center Market Entry Services – www.frdcenter.ro - a privately owned market entry consulting firm based in Romania. Sources of information for this report include: mass media, the companies, official sources etc.

FRD Center offers tailor-made market intelligence, B2B matchmaking and market access consulting services to foreign companies interested to enter the Romanian and regional market as exporters, consultants, investors or joint-ventures, to relocate their manufacturing or to source in CE and SE Europe.

Since 2000, FRD Center has been the trade consultant for the Irish Government Agency, Enterprise Ireland. Other clients include companies from: Argentina, Austria, Canada, Czech Republic, Denmark, Germany, Greece, Ireland, Israel, Jordan, Lithuania, Norway, Poland, UK, USA, South Africa, Spain, Switzerland etc.

Our services include:

- market research, investment opportunities assessment, sectorial studies, market briefs
- identification and qualification of B2B distributors, importers, suppliers etc.
- product introduction
- market opportunity assessment
- pre-M&A business support and research
- identification of market opportunities: exports, sourcing, B2B sales etc.
- trade missions, business itineraries, inward buyer missions

FRD Center is the Global Intelligence Alliance Research Partner for Romania, a member of the Global Consulting Network-GCN, of the Expansion Alliance Group and of EMERGY network.

Disclaimer:

Whilst every care is taken in compiling this report, no responsibility is taken for errors or omissions. FRD Center guarantees that this information, collected and generated, has been operated in a professional manner and best efforts were applied with a view to offering accurate and complete results. However, FRD Center will not be held liable for any damage or loss resulting from the use of the information contained herein.

FRD Center Market Entry Services Romania

Str. Gabroveni 2 Fl. 4
Bucharest ROMANIA

Contact: Jackie Bojor, Director
europa@frdcenter.ro