

# Czech Privatization: The Case of Filmové Studio Barrandov

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## *Introduction*

In 1991, when the former Czechoslovakia was carpetbagger heaven, I went to Prague as a privatization advisor under the auspices of the U.S. Agency for International Development.<sup>1</sup> My primary activity during an 18-month period was to lead a team advising the management of Filmové Studio Barrandov, the country's largest film studio, on the studio's privatization, which Barrandov's management hoped to accomplish through the sale of the studio to a group of investors known as Cinepont. Much of my work as an advisor centered around the issue of valuation, since it was in the interest of the Czechoslovak government to sell the studio at a fair price. Although the privatization of Barrandov presented a wide range of issues particular to the rarified backdrop of the European film industry, I believe that most of the problems encountered were common to privatizations across a broad range of industries in Eastern Europe at the time.

The issues raised during Barrandov's privatization fall into three broad, and occasionally, overlapping categories: (1) the information required to value the enterprise subject to privatization; (2) the impact of governmental and legislative initiatives on the value of the enterprise; and (3) the objectives and management of the privatization process. The first category addresses gaps in vital information and the lack of predictability regarding the enterprise. These problems were all too common in centrally planned economies that were thrown into disequilibrium by sweeping changes in policy. The second category addresses the changing legal and regulatory environment in which wide-scale privatization occurs. The third focuses on the tensions that may arise between the privatization advisor, the government that owns the enterprise to be privatized, the existing management of the enterprise and, on occasion, competing advisors.

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<sup>1</sup> Now two separate countries: the Czech Republic and Slovakia.

After a brief discussion of Barrandov and its history, this article will discuss some of the issues in each of these categories as they arose during the film studio's privatization. The article concludes with a brief survey of events at Barrandov since its sale to Cinepont in 1992 .

### ***History of the Filmové Studio Barrandov***

In 1991, Barrandov was the largest film studio in Czechoslovakia and provided a full range of production services to the Czechoslovak and international motion picture industries, as well as the television programming industries. Among the production services provided by Barrandov were the rental of sound stages and camera equipment and the provision of props, costumes, and sets. The studio also produced feature length films for domestic and international theatrical release, and owned a film library of approximately 350 titles. Through a sister company, Film Laboratories, Barrandov provided its clients with motion picture film processing services. Barrandov's activities can be placed in an appropriate context through a brief primer on the film industry.

The business of films involves three broad functional categories of activity: production, distribution, and exhibition. Production involves the actual making of the film; it encompasses the development of a script, the close of principal photography (the actual shooting), and the editing of a final cut. Film production is a risky business in which even successful producers often have a volatile record of hits and misses. Distribution involves contracting with exhibitors to show the film, producing and delivering prints, and advertising the film. Most U.S. film studios are involved in both production and distribution, although over the years they have found ways to reduce many of their traditional production costs. Major film studios typically have large film libraries that produce enough cash flow through rentals and royalties to cover studio overhead. Exhibition involves the operation of movie theaters, where the film is screened before a paying audience.

Barrandov was involved solely in film production, the rental of studio space, and the provision of production services to outside producers. Under state ownership, motion pictures produced by Barrandov were distributed through three Czechoslovak distributors: Lučerna Film, which had a monopoly on film distribution in the Czech Republic; Slovenska Požičovna Filmov (SPF),

which had a similar monopoly in Slovakia; and Film Export, which was the exclusive distributor of Barrandov films internationally. Following the 1989 Velvet Revolution, newly-formed distribution companies, the largest of which was Interama (a company founded by former employees of SPF), emerged to compete with these former monopolies.

Barrandov's production facilities were located approximately 15 minutes by car from the center of Prague. They occupied about 600,000 square meters of land and featured seven soundproof studios in four separate buildings covering an area of approximately 7,000 square meters. The studio was founded in 1931 by Miloš and Václav Havel, the uncle and father, respectively, of President Václav Havel. During the 1930s, the studio developed an international reputation, producing such films as the classic *Extase*, which featured the young Hedy Lamarr in a nude bathing scene, thereby exciting great scandal and, not coincidentally, launching her Hollywood career.

When the Nazis occupied Czechoslovakia in 1938, they expropriated the studio for use in the production of propaganda films. In 1945, Presidential Decree Number 50 nationalized the Czechoslovak film industry and Barrandov became a state-owned company.<sup>2</sup> Between 1948 and 1989—with the exception of a single, brief interval during the Prague Spring of 1968—the studio produced the sort of inspirational proletarian dramas that end with the heroic comrade kissing his tractor and chugging off into the sunset. During the Prague Spring, a period of relative creative freedom, Barrandov hosted a number of talented writers and directors and produced such notable films as Jiří Menzel's *Closely Watched Trains* and Miloš Forman's *Loves of a Blonde*.<sup>3</sup>

The collapse of communism ended the large governmental film subsidies averaging \$5.9 million per year, which had sup-

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<sup>2</sup> President's Decree Number 50 made it illegal for any person to produce a film outside the state-owned studio system. The decree continued to preclude the production of non-studio films until its repeal in 1992. In 1989, Bonton Records, a privately owned record and film producer, produced an illegal film *Tankovy Prapor*. The government refused to prosecute the company, and the film went on to become a success at the domestic box office, in part because of the notoriety generated by its illegal status.

<sup>3</sup> Forman left Prague following the Soviet occupation that toppled the Dubček government. Since taking up residence in the United States, he has directed such films as *One Flew Over the Cuckoo's Nest*, *Ragtime*, *Hair*, and *Amadeus*, which was shot in Prague, and, in part, at Barrandov. Mr. Forman's most recent film is *The People vs. Larry Flynt*.

ported much of the production at Barrandov. In 1990, with the studio on the verge of bankruptcy, a group of writers, directors and other creative artists employed by the studio asked Václav Marhoul, a producer who had led an anti-communist strike committee at Barrandov in 1989, to head the studio's management. A year after assuming his position, Mr. Marhoul had reduced Barrandov's work force from 2,700 workers to approximately 1,000. During this period, the studio's total revenues declined sharply from \$22.6 million in 1990 to \$11.3 million in 1991, largely due to a decrease in demand by foreign film producers for studio space rental and production services, which in turn was due to a recessionary climate in the United States.<sup>4</sup> Domestically, the studio went from producing approximately 24 Czechoslovak films in 1989 to approximately six in 1991.<sup>5</sup> Under the new regime, Barrandov derived its revenues and profits largely from its film library (a royalty stream of \$1.7 million per year in 1990), the rental of studio space to foreign film productions (\$16 million in 1990 and \$3.9 million in 1991) and production of advertising and television programming.

In 1991, the newly-elected conservative government headed by Václav Klaus decided to privatize Barrandov. Upon the heels of that decision, our team arrived at the studio.

### *The Valuation Process*

Our team was assigned three offices in Barrandov Studio's administration building. Much of our early work was devoted to gathering information on the studio and its current operations. We quickly learned that Barrandov's managers were unfamiliar with Western concepts of accounting and finance and that Barrandov lacked the management information systems and accounting controls that would have been found in a Western firm of its size. What financial statements did exist were in the form of tax records that the former communist regime had required its centrally planned enterprises to file. These records enabled us to

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<sup>4</sup> Unless otherwise noted, all amounts in Czechoslovak currency for the period from 1990 to 1992 are stated in U.S. dollars using an exchange rate of 29 Czechoslovak crowns (Kčs) per U.S. dollar.

<sup>5</sup> The approximation is due to the nature of the film production process, which occurs over time. A production may be started in one year and completed in another.

construct something resembling a Western income statement for the firm, but we lacked the information needed to create a balance sheet and statement of cash flows.

To begin the construction of a balance sheet, we requested lists of the studio's assets, including a list of accounts receivable. Often, the information was not forthcoming, or forthcoming only after a period of weeks. Part of the delay was caused, no doubt, by the need to compile much of the information without the aid of computerized records. But often the delay seemed to involve the additional factor of trust; the managers were unfamiliar with Westerners and their business methodologies, and were reluctant to give us information. Also at issue was a potential conflict between the management's plans to privatize the studio and the possible desire of the Czechoslovak government either to choose a competing privatization plan or sell the studio to the highest bidder. I do not pretend to have sufficient knowledge to speculate on the relative priority that the Czechoslovak government accorded to selling the studio at a profit, as opposed to maintaining control of the studio in Czechoslovak hands. Most European countries, at least, pay lip service to the notion that their film industries are valuable national assets that serve to keep the total Americanization of their culture at bay.

Eventually, we managed to obtain enough information to construct a reasonable financial picture of Barrandov for 1990, the year preceding our arrival, and to begin making estimates of revenues and earnings for 1991. Arriving at a value for the studio, however, required more than historical financial information, which we found to be virtually useless due to radical changes in the Czechoslovak and world economies; valuation would require a forecast of the studio's financial prospects for the next several years.

Creating forecasts for the film studio presented several difficulties. Czechoslovak industry, in general, had been centrally planned; firms had been given incentives through a tax system designed to foster adherence to a quota system of production.<sup>6</sup> As a result, failure to obtain the supplies necessary for production

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<sup>6</sup> In general, a firm was assessed a lump-sum tax set according to its quota. The tax rate, therefore, increased if the firm produced less than its quota, since the fraction having the lump-sum tax as its numerator and output as its denominator increased as output decreased.

<sup>7</sup> Vertical integration refers to the integration of a single economic activity along the

could easily result in a failure to meet the year's quota. To safeguard against such an eventuality, Czechoslovak industry relied on vertical integration and excess capacity.<sup>7</sup> A motor company, for example, might ensure a reliable supply of metal housings by casting its own housings rather than purchasing them from an outside source. Barrandov, too, had originally been more vertically integrated than a Western film studio; many of the development and technical functions that were performed within the Czechoslovak studio would have been subcontracted out if the studio were in the West. The industrial structures promoted by this system were extremely inefficient and proved unstable when exposed to the rough winds of the free market.<sup>8</sup>

The routine of central production planning was firmly entrenched in the thinking of Barrandov's managers. Faced with the task of forecasting financial statements for the newly restructured studio, they appeared nervous and uncertain. The team decided to help them with their forecasts and began researching the markets for Czechoslovak films and for studio space rental.

With regard to the market for Czechoslovak films, the situation was bleak. The elimination of \$5.9 million per year in government subsidies put Barrandov at a disadvantage relative to its European competitors, since almost all European countries provide subsidies to their film industries.<sup>9</sup> The German film industry at the time received approximately \$60 million per year in subsidies from the Federal Film Board, television, the Bonn government and city and state film commissions. The French film industry received up to \$75 million per year in production subsidies, financed in part by a ticket tax. In addition, the film

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value chain from basic production to point of sale. For example, a firm that manufactures bicycles and sells them through its own retail outlets is more vertically-integrated than a firm that simply manufactures bicycles and sells them to a wholesale distributor. Excess capacity, in this context, refers to the practice of operating a business at less than full capacity. Firms occasionally maintain more capacity than is necessary to meet current demand so that they can anticipate and meet sudden future increases in demand or, in a quota system, in order to run production at full capacity when scarce factors of production suddenly become available.

<sup>8</sup> The quota system also promoted a rather interesting work pattern on the part of management and employees: the amount of energy expended by the work force was in direct proportion to the size of the quota. This pattern extended to even the small businesses. For instance, travelers to Prague in the early 1990s were regularly refused service in nearly empty restaurants on the grounds that they lacked reservations. The reservations for the evening comprised a given restaurant's quota.

<sup>9</sup> If \$5.9 million sounds like a small subsidy, keep in mind that the average budget of a Czechoslovak film at the time was less than \$300,000.

industries of Czechoslovakia's Eastern European neighbors, Hungary and Poland, continued to enjoy state subsidies.

In addition to the loss in subsidies, Czechoslovak-produced films faced a climate of precipitously declining domestic ticket sales. In 1990, Czechoslovakia had approximately 2,666 cinemas with a capacity of 801,161 seats. However, cinema capacity was expected to decrease by 30 to 70 percent due to a loss in subsidies and declining attendance. During the 1985 to 1989 period, gross proceeds from ticket sales rose steadily to a high of 122 million Czechoslovak crowns. Ticket sales in 1990 declined by 52 percent in gross revenue and 47 percent in unit volume from the prior year. Barrandov's management attributed the decline in ticket sales to a decrease in disposable income and an increase in television viewing—a result of the economic and political changes then taking place.

While demand for filmed entertainment undoubtedly suffered from depressed economic conditions in Czechoslovakia, the extent to which per capita film revenues decreased is demonstrated by the comparison of per capita annual film consumption between Czechoslovakia and West Germany for the period 1989 to 1990. In addition to declining ticket sales, Czechoslovak films faced increased competition from American films, which held the major share of the country's domestic box office revenues. Given industry conditions, Barrandov would be lucky if it were able to produce four films a year and break even on its production costs.

The outlook for the rental of studio facilities appeared more positive than the outlook for film production. Given the state of the Czechoslovak film industry, the demand for facilities would have to come from foreign producers. Barrandov already had a number of U.S. and other foreign productions booked into its facilities, mostly because production costs in Prague were lower than in the United States and Western Europe.<sup>10</sup> In addition, Prague's beautiful and unique architecture made it a natural location for certain films, a factor that was expected to benefit Barrandov.

We obtained data on the locations used by major U.S. studios over the years and found the decision to use a foreign location seems to depend on two factors: the relative strength of the U.S. dollar—a strong dollar appears to be positively corre-

<sup>10</sup> As late as 1994, production costs in Prague were estimated to be 20 to 50 percent lower than in the West. Jeremy Battis, "Czechs Account for Film Biz Advantages," *Variety* 21 March 1994, p. 10.

West German Box Office Statistics  
(US\$)\*

	1989	1990
Admissions	12,543,209	12,654,320
Receipts	61,575,757	62,121,000
Per Capita	1.0	1.02
GDP per capita	--	18,360

Czechoslovak Box Office Statistics  
(US\$)\*\*

	1989	1990
Admissions	9,760,000	4,684,800
Receipts	4,206,897	2,019,310
Per Capita	0.27	0.13
GDP per capita	--	6,410

\*Assumes a \$/DM exchange rate of 1.65 and a population of 61 million for West Germany

\*\*Assumes a \$/Kčs exchange rate of 29.00 and a population of 15.6 million for Czechoslovakia



lated with the use of foreign locations—and size of the budget—the larger the budget, the less likely a studio is going to risk the use of a foreign location. With respect to high budget features, considerations of timeliness of service often outweigh those of price, and here Barrandov was at a disadvantage since Czechoslovak film crews had a reputation for being inefficient.<sup>11</sup> We also looked at competition, since production facilities were available to rent elsewhere in Czechoslovakia, as well as in Poland, Hungary, Germany and the rest of Europe. A British owner of studio facilities who toured Barrandov while our team was there believed that Barrandov had taken a significant amount of its business, largely as the result of a favorable exchange rate between the dollar and the Czechoslovak crown. After analyzing the data, we thought it safe to assume that Barrandov could capture at least some of the market for rental facilities. The forecasts are illustrated below for the years 1991 and 1992:

**Filmové Studio Barrandov**  
Statement of Estimated and Projected Operating Earnings for the Years  
1991 and 1992  
(Kčs in thousands)

	Estimated 1991	Projected 1992
<b>REVENUES</b>		
Foreign	113,734	210,000
Czechoslovak	48,743	80,000
Film Labs	108,790	110,000
Other	<u>56,000</u>	<u>55,000</u>
Total	327,267	455,000
<b>COSTS</b>		
Foreign	132,510	189,000
Czechoslovak	33,127	60,000
Film Labs	67,877	71,500
Other	<u>82,013</u>	<u>47,999</u>
Total	315,527	368,499
<b>GROSS PROFIT</b>	11,740	86,501
<b>SELLING, GENERAL &amp; ADMINISTRATIVE</b>	35,999	40,950
<b>OPERATING PROFIT</b>	(24,259)	45,551

Once we had developed our estimates and forecasts, we applied two valuation techniques to the numbers: (1) the comparable companies method and (2) discounted cash flow analysis. Both techniques are widely used in the West to value companies.

Using the comparable companies method involves the construction of a series of financial ratios from which the company is to be valued, thus enabling them to be compared with the same financial ratios of publicly traded companies or companies acquired by similar firms.<sup>12</sup> The comparable companies method of valuation was of limited utility in Czechoslovakia in 1991 and 1992, mainly because no public trading markets existed for the shares of Czechoslovak companies. Furthermore, only a handful of the strategic investments and acquisitions that had been undertaken had yielded any public data that could be used for valuation purposes. Two of the more notable transactions accomplished at the time were Proctor & Gamble's acquisition of a stake in Rakona, a Czechoslovak consumer products company, and Volkswagen's acquisition of a stake in Skoda MI Boleslav, an auto manufacturer. Privatization advisors at the time often used very crude heuristics, such as two to four times book value of assets, when negotiating sales of Czechoslovak enterprises to foreign investors. On occasion, advisors would attempt to use European or U.S.-based companies in a comparative analysis, and weight the resulting multiples by a percentage factor taking into account country risk.

In valuing Barrandov, we looked at comparable company acquisition data for Czechoslovak companies and for a number of foreign publicly traded companies. Among the foreign firms were film producers and distributors, including Carolco Pictures Corporation (U.S.), New Line Cinema Corporation (U.S.),

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<sup>11</sup> Peter Schaffer, the author of *Amadeus*, said of his experience shooting the film version of his play with Milos Forman, "...in Prague, the river of time does seem to run slower."

<sup>12</sup> The numerator of these ratios is almost always the value of the enterprise and the denominator is operating data, such as sales, or balance sheet data, such as net assets. For example, Company A with a total enterprise value of \$20 million and revenues of \$5 million would be said to be trading (or, if the target of an acquisition, acquired) at a multiple of four times revenue (\$20 million/\$5 million). If, for example, Barrandov were strictly comparable to Company A and had revenues of \$6 million, *ceteris paribus*, the comparable company method of valuation would attribute a value of \$24 million (4 x \$6 million) to Barrandov.

Gaumont, S.A. (France), and Shaw Brothers, Ltd. (Hong Kong). The valuation multiples derived from our attempts to make sense of the resulting data were factored into our valuation analysis, both directly and through the use of the multiples to create terminal values in our discounted cash flow analysis.

Discounted cash flow analysis is commonly used in finance to value streams of cash flows. A discount rate, reflecting the risk associated with the particular cash flow stream, is selected and applied to determine a value for the stream. When valuing an enterprise, a terminal value reflecting a sale of the company is generally applied in the third to the fifth year. In our projections for Barrandov, we developed different scenarios and valued them by using the multiples derived from our comparable companies analysis to derive a terminal value. Our resulting values for Barrandov on a going concern basis were between \$12 million and \$17 million in 1991.

A wild card with regard to the valuation of Barrandov was its real estate holdings. During the period of our assignment, real estate prices in Prague enjoyed a phenomenal rise due largely to the action of speculators, even as many Czechoslovak businesses became insolvent and lost their leases. In downtown Prague, the convergence of these two phenomena created a real estate market characterized by a remarkable combination of rising prices and rising vacancy rates. A local appraiser had provided to Barrandov's management an appraisal that assigned the studio's real estate a value of \$37.9 million, a value much greater than what we believed the studio to be worth as a going concern. After speaking to some real estate experts in an attempt to get behind the methodology of the appraisal, we decided to discount the appraiser's conclusion with respect to the value of Barrandov. We came to this conclusion based on several factors that indicated the value of the land had been overestimated. For example, the appraiser had used statutory minimum land prices established by the state for land sales in Czechoslovakia. The appraiser then increased these prices by a factor of 1.4 to reflect the value of local amenities, such as water and sewer service. The statutory land prices were not binding on parties buying or selling land in Czechoslovakia, and furthermore they did not take into account such factors as distance from a city center or alternative uses to which land could be put. Ultimately, we estimated a high end (valuations are usually stated in ranges) liquidation value of \$19 million for Barrandov's studio complex.

The final, and, in some ways, most important factor to be considered in the valuation was Barrandov's library of Czechoslovak films, which had generated most of the studio's cash flow during the period immediately preceding our arrival. The library, generated approximately \$1.7 million per year through video rentals, video sales, and distribution for theatrical exhibition. In the opinion of our advisory team, this cash could be used to cover studio overhead or could be placed in a trust for reinvestment in new film production. Under emerging privatization legislation, however, a challenge arose as to the ownership of Barrandov's library.

### ***Legislation and Governmental Initiatives in the Privatization***

Rights to the films contained in the library had become a subject of dispute between Barrandov's management and the former writers, directors, composers, and other creative artists who had originally worked on the films. Under the communist regime, the films had belonged to the state, and other revenues from the films had accrued to the film studio producing them. However, privatization in Czechoslovakia at that time was more than just a sale of assets to private investors or firms. In many instances, it involved the restitution of previously nationalized assets to their former owners. Barrandov, for example had owned a movie theater located in a magnificent historic building in downtown Prague, suitable for conversion to commercial use. Under the restitution program, the land and building were returned to the family of their former owner.

The creative artists who had authored the films advanced a restitutionary argument with respect to the film library. Under their proposal, the copyright of each film would be vested in the creative team responsible for it. The screenwriter, director, producer and certain other creative personnel would divide future royalties from the exhibition of the film based on certain legislatively set percentages. Of course, Barrandov wanted to maintain ownership of the entire film library, and argued that the proceeds derived from the library could be used to fund new domestic films. In the end, the creative community's restitutionary arguments won the day with the legislature, and Barrandov lost control of the library.<sup>13</sup>

## *Objectives and Management of the Privatization Process*

During our work on the Barrandov privatization, we encountered tension between our work with management and our responsibilities to the state owners of the enterprise. This raised some interesting issues that could easily surface in other privatizations. The crux of the problem was friction related to the conflicting goals of the owners and the management. It would appear that in any privatization, the state, as the owner of the privatized enterprise, has an interest in maximizing the value received for the enterprise. In other words, the owner wants to obtain the highest price possible. Managers, on the other hand, want to retain their jobs and advance their economic interest in the enterprise.

In practice, the state often has competing objectives with respect to privatization. It may want to foster investment and employment in the economy and may therefore accept a lower price for an enterprise if the buyer agrees to invest in the enterprise or maintain employment at certain levels. The state may also view certain enterprises as having an inherent strategic or cultural value and, as a result, may want to sell them to buyers who will foster and promote any such values.

This latter argument was advanced by Barrandov's management in the plan they put forward to the government. Under its management plan, Barrandov would be sold to a holding company called Cinepont, a company headed by Václav Marhoul and 23 other members of Barrandov's management team. In addition to Václav Marhoul, Cinepont's board of directors would include Miloš Forman and Josef Skvorecky, a prominent Czech novelist and screenwriter. The 24 owners would each hold equal shares in the enterprise.

Cinepont's management planned to fund the purchase of Barrandov through a combination of bank financing and private equity.<sup>14</sup> Following approval of its privatization project, Cinepont planned to streamline Barrandov through a series of asset sales and cost cutting measures. Management would then focus on

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<sup>13</sup> The creative community also had the support of a large portion of the population. The legislature did not want to risk losing the support of these potential voters.

<sup>14</sup> In any event, there was no domestic public capital market for equity in Czechoslovakia at the time.

selling Barrandov's services to foreign film productions and co-productions. In addition, Cinepont planned to produce approximately five Czechoslovak films per year and to develop Barrandov's excess real estate into homes, shopping centers and a hotel for foreign film crews and visitors.

In putting forth the Cinepont plan, management argued that the government had an interest in keeping control of Barrandov in Czechoslovak hands, since the studio would then produce entertainment reflecting and promoting Czechoslovak culture. A similar argument was advanced to justify the disposition of Barrandov's film library in an appendix to the Cinepont privatization plan: Cinepont would donate Barrandov's film library to a trust, the proceeds of which would be used to finance Czechoslovak films with the proviso that such films be made at Barrandov.

The alternative course of action would be to sell the studio to an outside buyer, most likely another film studio. Certain foreign film studios, including Paramount Motion Pictures (U.S.) and Pinewood Studios (U.K.), expressed an interest in investing in Barrandov and came to tour the studio, but never made a formal proposal.<sup>15</sup> There was, in addition, a competing privatization plan advanced by a group of Czechoslovak film makers. This plan was weighted more heavily than the Cinepont plan toward the production of domestic films. In the end, the Cinepont plan prevailed against these alternatives.

Cinepont purchased Barrandov on 1 January 1993 for \$22 million. The funds for the purchase were obtained from a local bank on very favorable terms; there was no cash interest payable on the loan until its maturity. Given our valuation of the studio as a going concern, the \$22 million purchase price for the film studio, without the entire rights to the film library, was very generous. In light of the values we had placed on Barrandov using various analyses and perspectives, the privatization was a great success for the Czechoslovak government.

Finally, I should mention that, on two occasions, our team encountered competing groups seeking to advise Barrandov's management. Advisory firms of various types sprang up like mushrooms in Prague during the early 1990s, and the local in-

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<sup>15</sup> The difficulty of obtaining financial and other information on Barrandov for due diligence purposes may, in part, have been responsible for the lack of formal interest.

habitants seemed alternately puzzled and amused by various investment bankers, accountants, lawyers and management consultants seeking to lead them into the promised land of the free market.<sup>16</sup> Often, however, the experience of Czechoslovak managers gave them little basis to distinguish between competing advisors and their advice. At best, this led to an environment in which packaging enjoyed an advantage over substance. Two of the more high profile firms in Prague during this time were the Harvard Fund and Crimson Capital, apparently so named because, despite any connection to Harvard University, they were aware that association with this revered academy carried a certain marketable value.

### *Conclusions*

Since its privatization in 1992, Barrandov has undergone another shift in ownership. Václav Marhoul, the studio's head during our tenure at the studio, was fired after what he described as a "fifteen month power struggle".<sup>17</sup> Reports in the press indicate that this power struggle resulted from Mr. Marhoul's attempts to go forward with plans for the studio, which some of his fellow shareholders viewed as too aggressive. With the help of First Silas, a Czech financial institution with interests in diverse enterprises including factories and banks, Mr. Marhoul was later able to purchase enough Cinepont shares to regain control of the studio. Many of Barrandov's managers and employees welcomed his return, since the studio had again started to lose money during his absence.

Mr. Marhoul's colorful recounting of this episode is worth quoting in full:

I hawked around my business plan for Barrandov and found a Prague bank willing to lend me \$5 million...I was determined to buy out my enemies,

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<sup>16</sup> These firms were of the view that the vast wave of privatization taking place in Czechoslovakia would create the opportunity to sell advisory, legal and accounting services and to get on the ground floor of a rapidly expanding economy. Czechoslovakia, among its Eastern European counterparts, was particularly attractive, since prior to the Second World War it had the fifth largest industrial base in the world.

<sup>17</sup> Alan Riding, "For a Czech Film Executive, It's All Business," *New York Times* (8 April 1996) p. B9.

so I hired a man to buy the shares on my behalf without identifying me. I had grown a beard; I was driving a motorbike; I rolled my own cigarettes. They thought I was finished. When I had seventy-five percent of the shares, I returned and sacked all my enemies.<sup>18</sup>

He has since raised additional funds and has plans to invest in television and radio stations and a theme park. He believes that Czech-language films will have great difficulty penetrating foreign markets, and Barrandov has only four in production this year. The Czech film industry remains healthy, with about 22 films in production for the coming year. Most of these films are distinctly low budget and produced outside of Barrandov.

The studio, according to Mr. Marhoul, had \$2.5 million in profits last year on revenues of \$28 million.<sup>19</sup> Much of this revenue came from foreign productions, including Paramount's *Mission Impossible*, produced by and starring Tom Cruise. The *Mission Impossible* team complained that local Prague companies engaged in price gouging after the cast and crew had arrived in Prague for shooting. One can only reflect that capitalism has taken firm root in the Czech Republic.

In conclusion, the experience of our team demonstrated that, when an economy is in transition from state to private ownership, special demands are made upon financial advisors. To some degree, the advisors must begin to take over management's role in providing basic information upon which pricing and valuation decisions are to be based. They must be creative in their approach to financial forecasting and sensitive to potential conflicts between management and governmental objectives. In an ideal situation, they should be in continuous communication with the state's representatives as well as with management. Finally, the advisors must guard against impatience, especially in cases where procedures and methodologies that are familiar and commonplace to them are unfamiliar and incomprehensible to their clients. ❖

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<sup>18</sup> *ibid.*

<sup>19</sup> *ibid.*