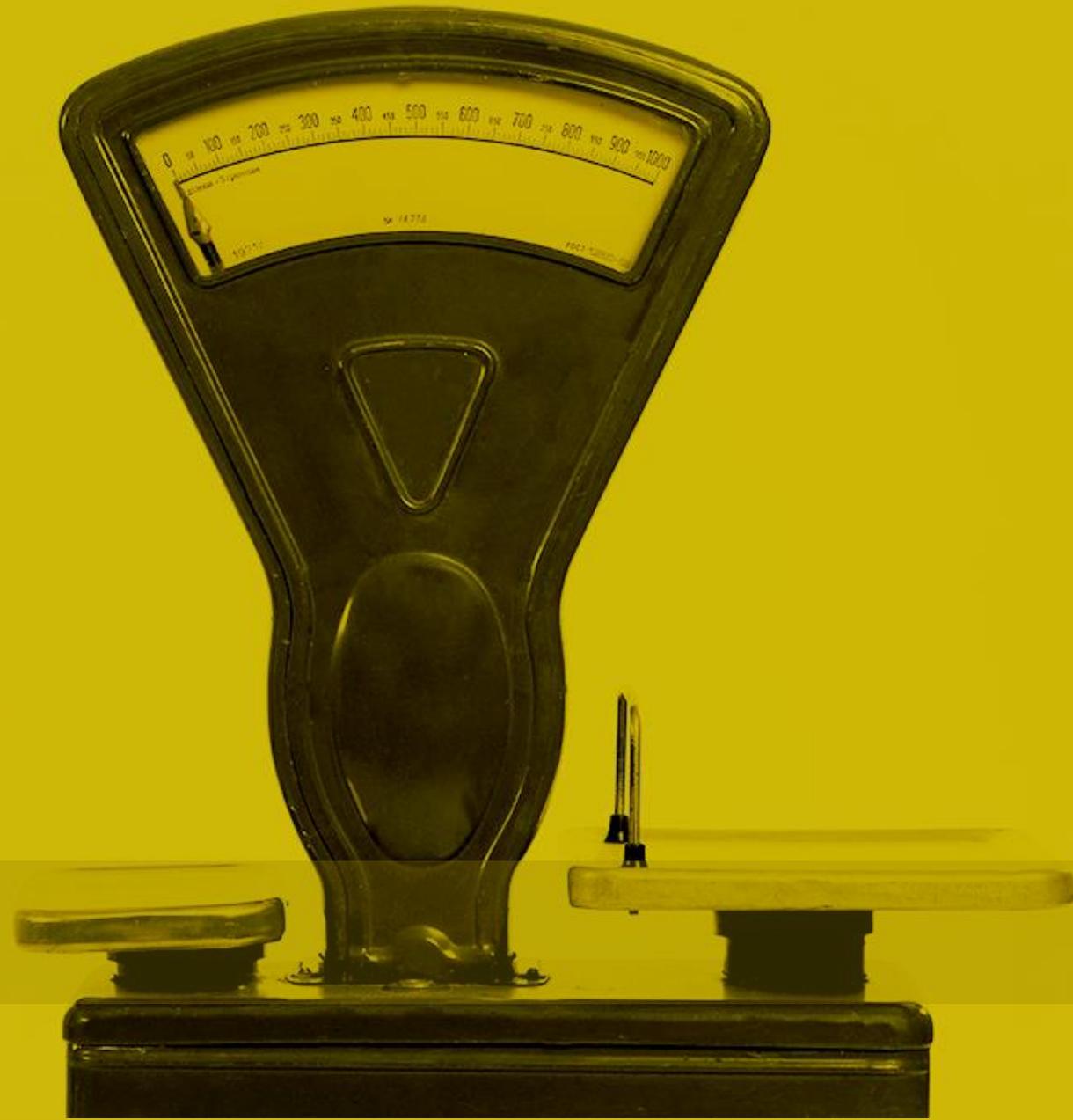




FMCG Sector in Georgia

January 26, 2024



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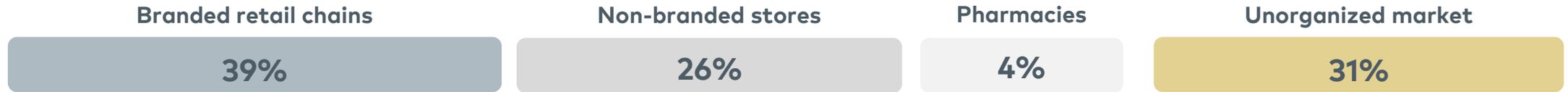
Regional expansion

Strategic development

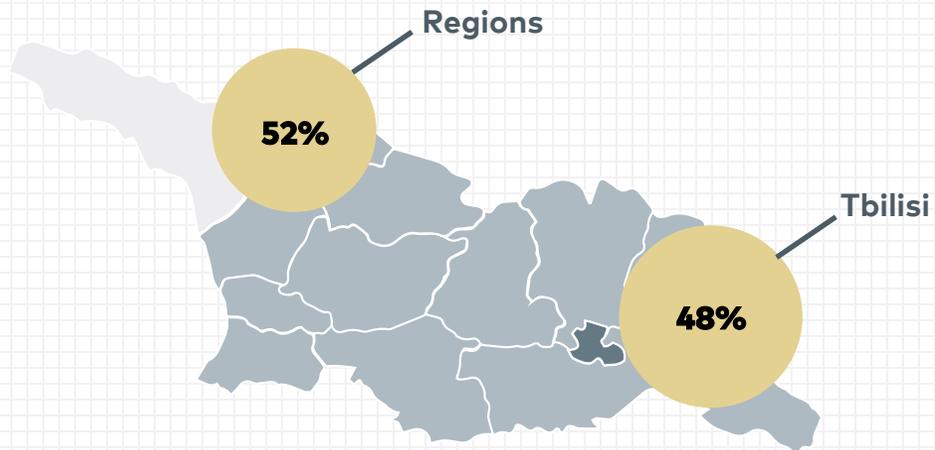
Key findings

FMCG sector revenue reached GEL 21.0bn in 2023

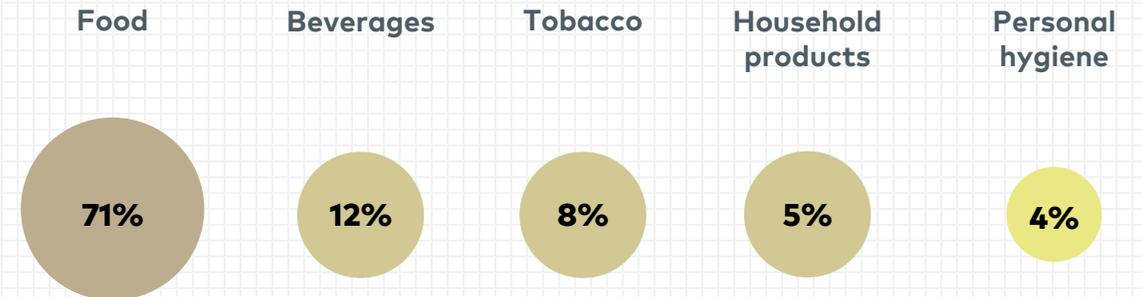
Retailer types



Sales geography



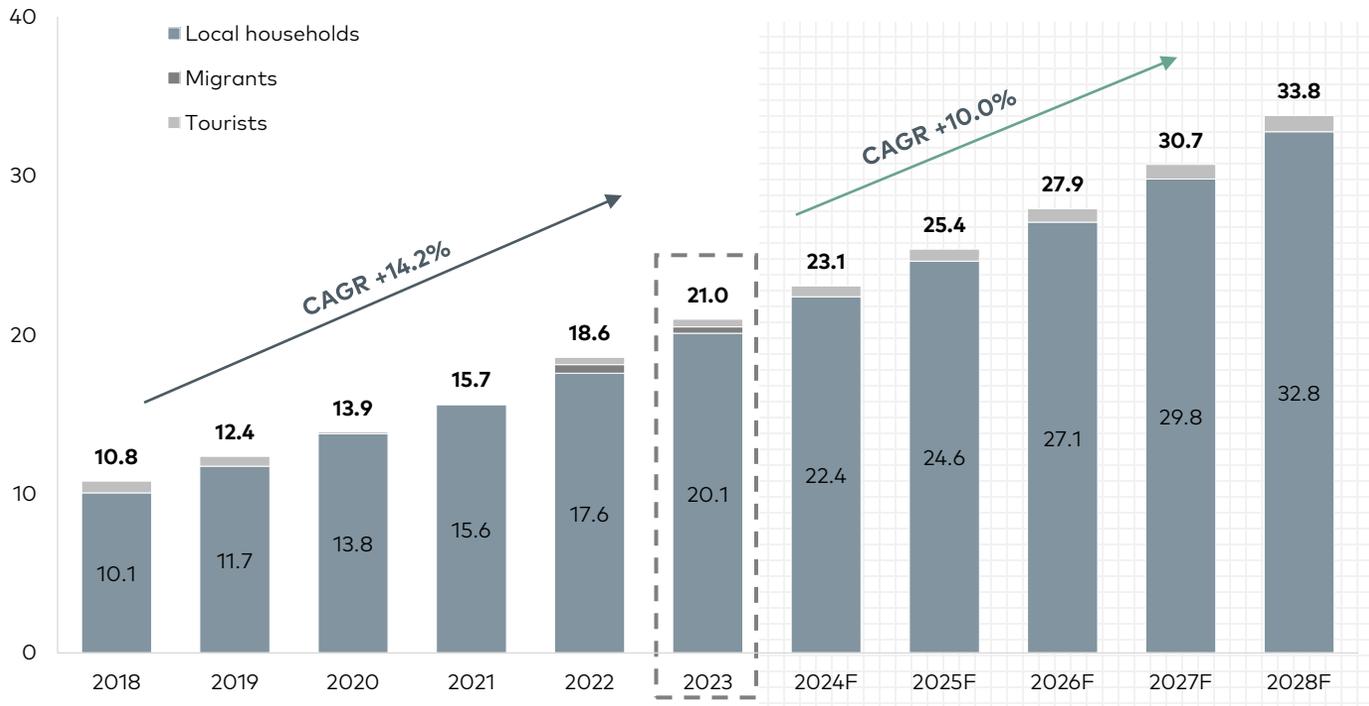
Product categories



FMCG market size

FMCG sector revenue was up 14.2% CAGR over 2018-23 and will continue to grow by 10.0% annually over 2024-28

FMCG sector revenue, GEL bn (incl. VAT)



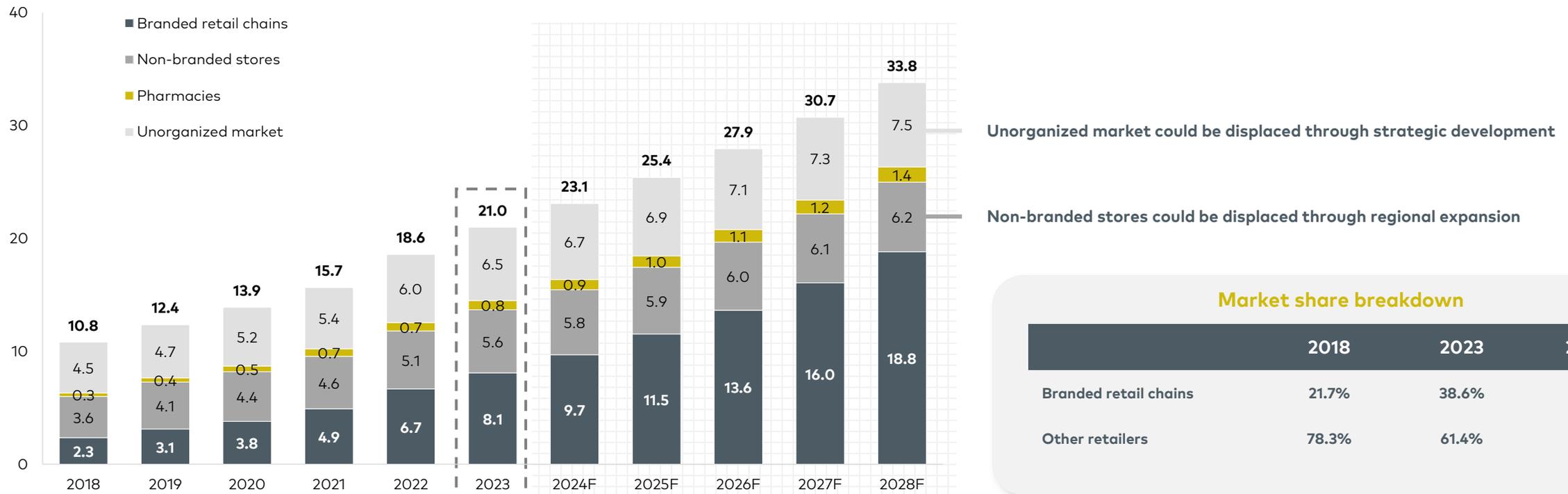
The FMCG sector grew mainly due to the increased consumption of local population, although tourism recovery and migrant influx had a significant contribution in 2022 (33.5% of total annual growth). This effect weakened in 2023 due to a high base.

- ● ● The monthly household FMCG expenditure amounted to GEL 1,450 in 2023 – 45.1% of total expenses.
- ● ● More than 80% of tourists' and migrants' expenses are spent in Tbilisi and Batumi.

FMCG market size

Revenue of branded retail chains was up 28.5% CAGR, outpacing 8.5% growth of other retailers over 2018-23

FMCG sector revenue by retailer type, GEL bn (incl. VAT)



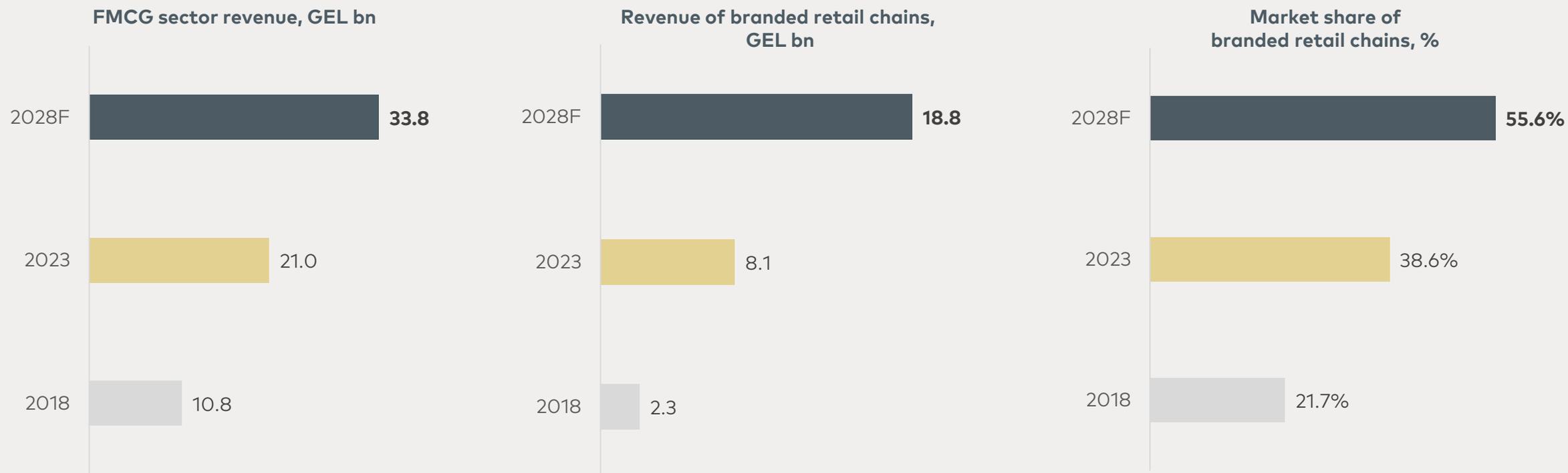
Market share breakdown

	2018	2023	2028F
Branded retail chains	21.7%	38.6%	55.6%
Other retailers	78.3%	61.4%	44.4%

The share of branded retail chains increased from 21.7% in 2018 to 38.6% in 2023. The revenue of branded retail chains is expected to grow 18.4% CAGR over 2023-28 due to geographic expansion and strategic development, lifting the market share to 55.6% in 2028.

FMCG market in 2028

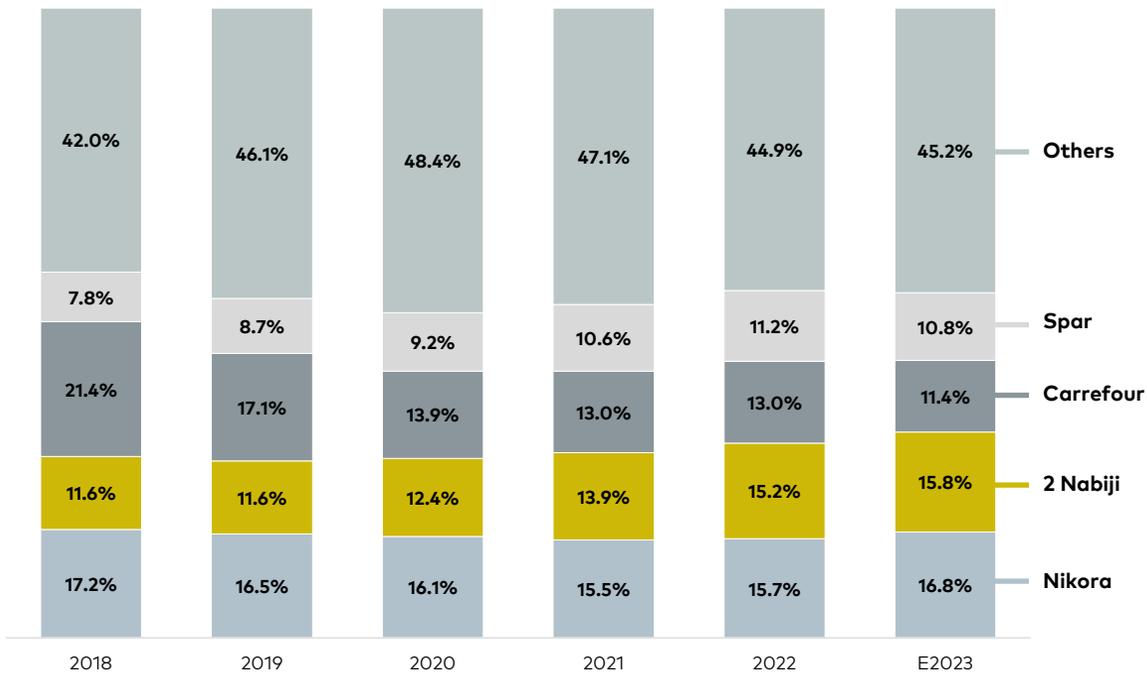
Sector will continue to grow at a high rate, driven by branded retail chains



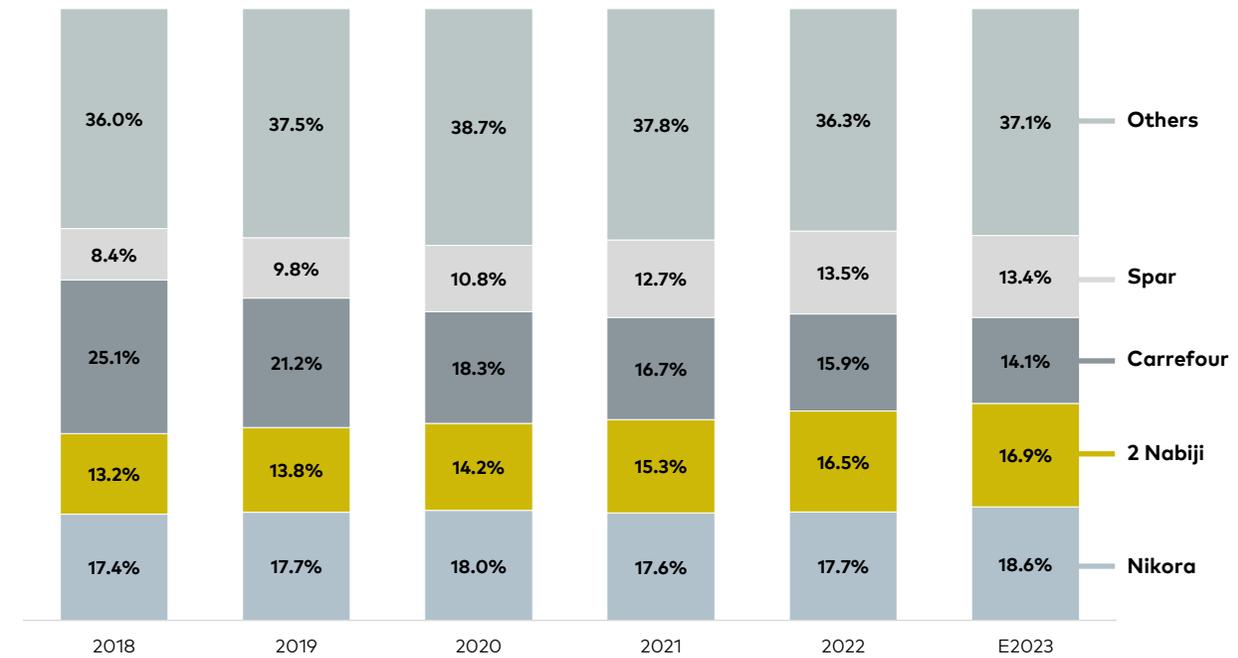
Branded retail chains

There are a total of 50 retail chains on the market, with the Big Four accounting for c. 55% of the market share

Market share of branded retail chains by revenue, Georgia



Market share of branded retail chains by revenue, Tbilisi



The share of top 4 branded retailers stood at c. 55% of branded retail market and c. 21% of the total FMCG market in 2023.

The Tbilisi market is relatively more saturated than the entire Georgia. The top 4 branded retailers collectively hold c. 63% market share in Tbilisi.

Source: SARAS, Company Survey, Galt & Taggart

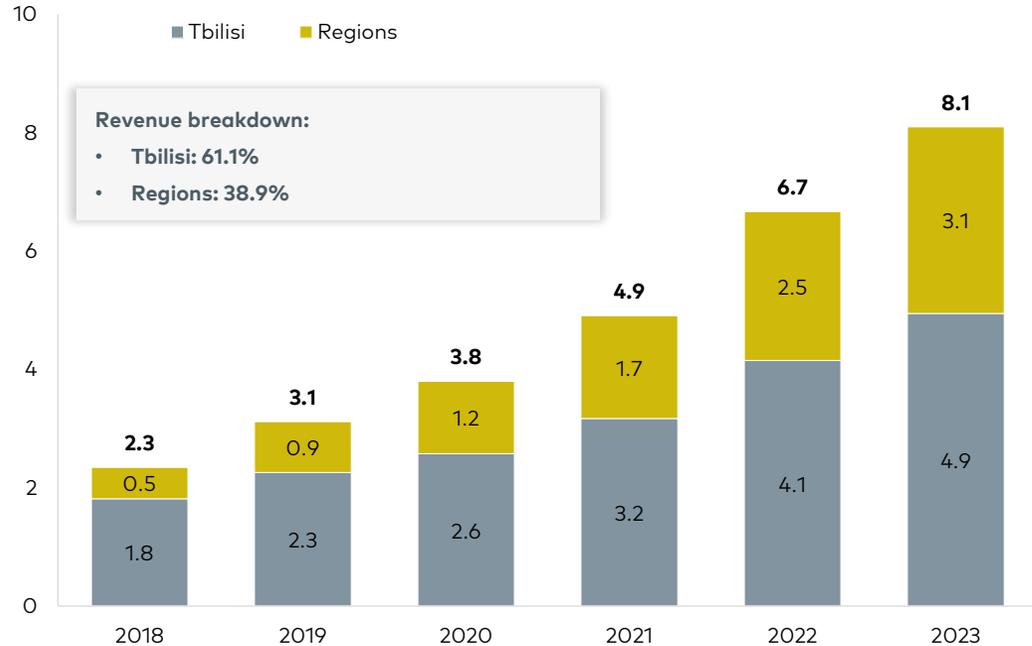
Note 1: Non-audited figures for 2023, which are subject to revision

Note 2: Spar includes franchises and excludes Daily, as Daily is not Spar franchise since 2023

Branded retail chains

Due to active expansion, share of regions in the revenue of branded retail chains is on the rise

Revenue breakdown of branded retail chains, GEL bn (incl. VAT)

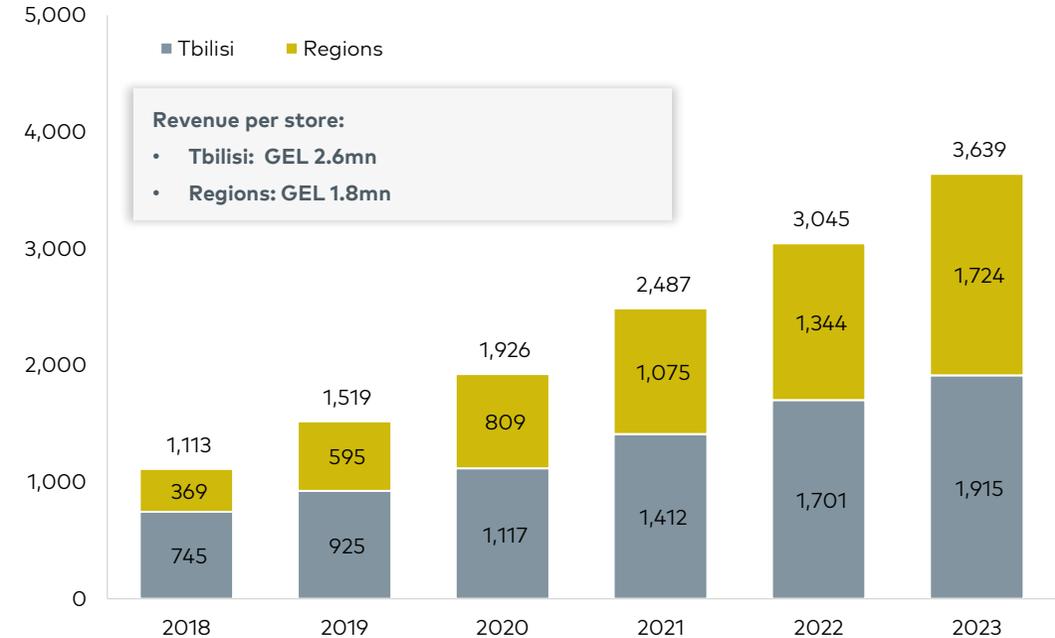


The revenue of branded retail chains grew faster in the regions (+42.7% CAGR) than in Tbilisi (+22.2% CAGR) over 2018-23. As a result, the share of regions in the revenue of branded retail chains increased from 22.7% to 38.9%.

Source: SARAS, Company Survey, Galt & Taggart

Note: Non-audited figures for 2023, which are subject to revision

Number of branded stores in Tbilisi vs regions

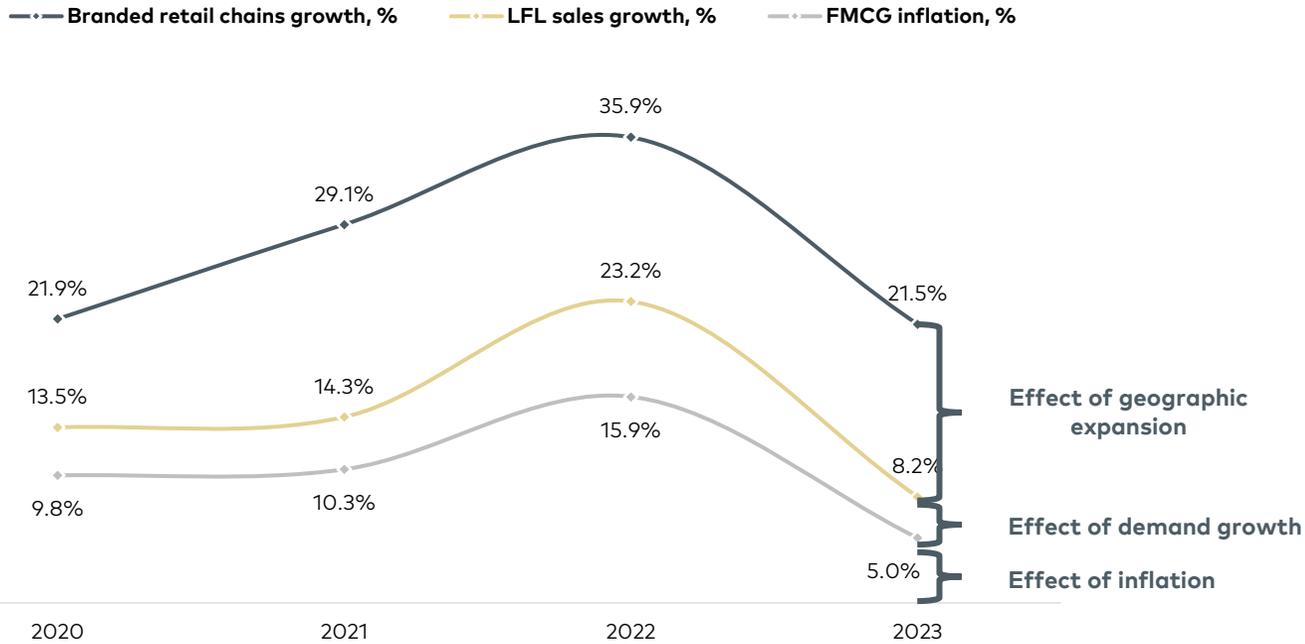


The number of branded stores in the regions is getting close to Tbilisi, but the average annual revenue per store remains smaller. This can be attributed to variations in store formats and the lower expenditures of regional population.

Branded retail chains

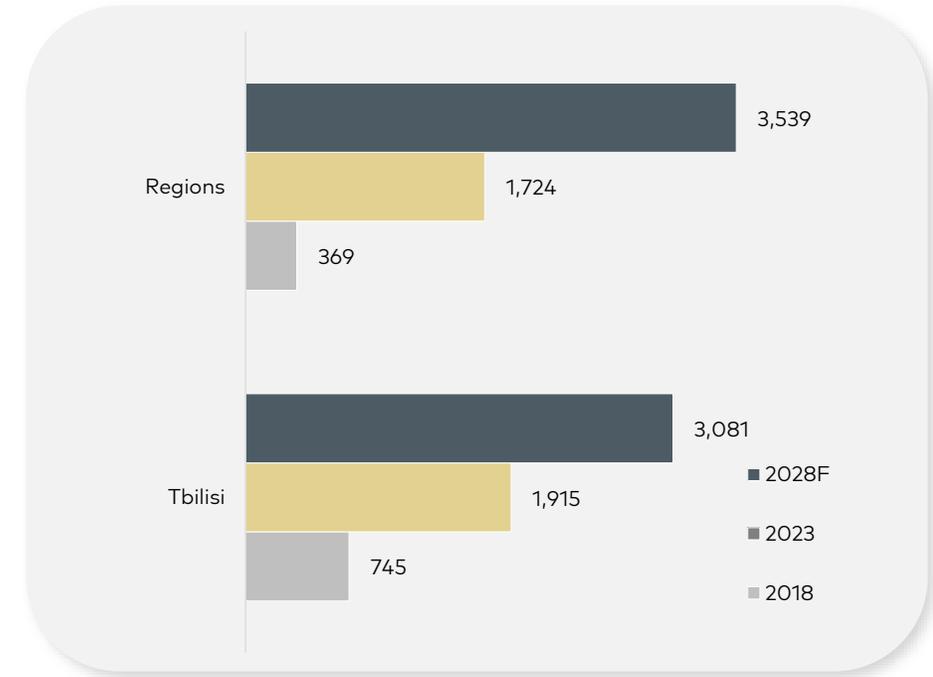
The growth of branded retail chains is mainly driven by store openings

Growth decomposition of branded retail chains, %



The growth of branded retail chains is driven by 3 key factors: inflation, demand growth and geographic expansion. The opening of new stores had the biggest impact on growth in 2023.

Number of branded stores in Tbilisi and the regions

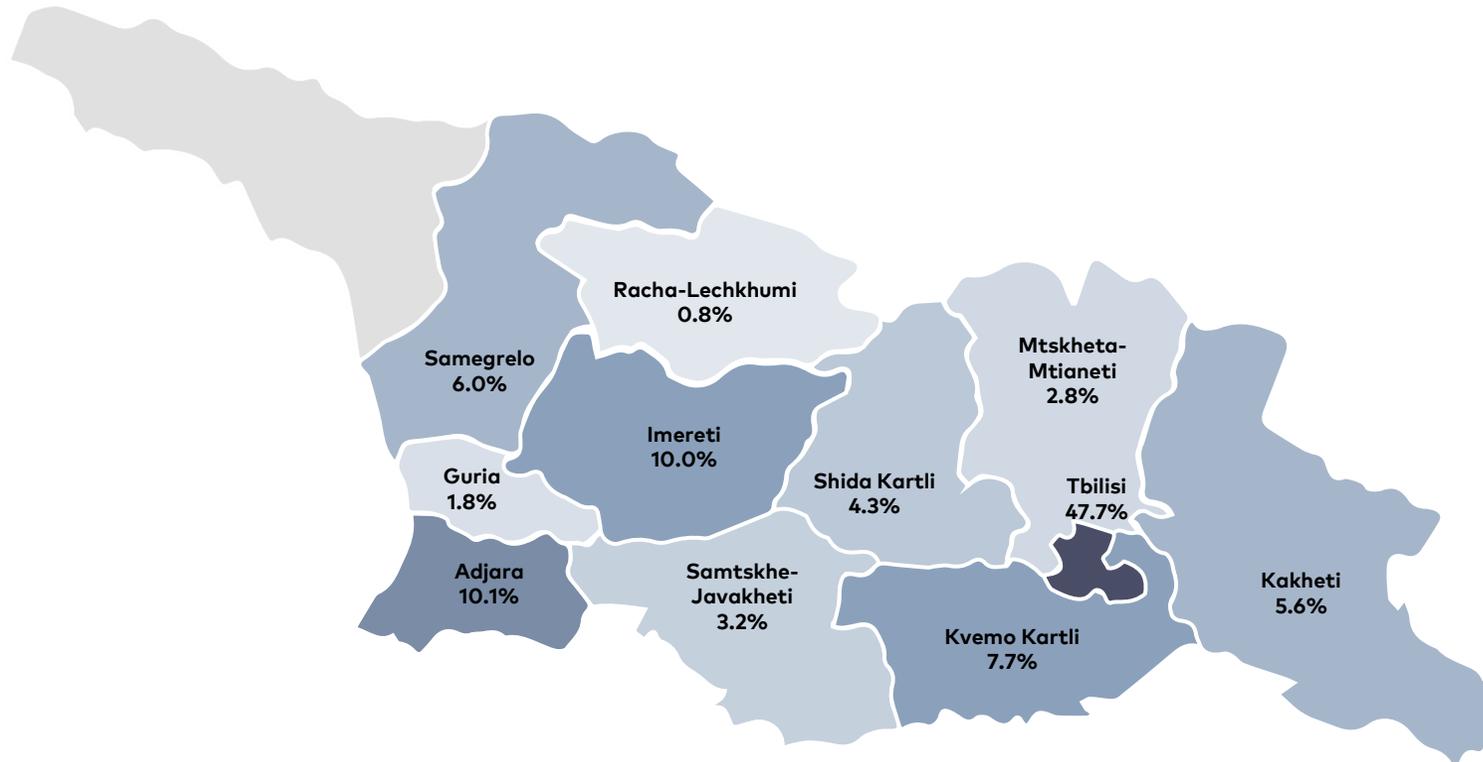


Market trends show the possibility of opening 1,100 additional stores in Tbilisi and 1,800 in the regions by 2028.

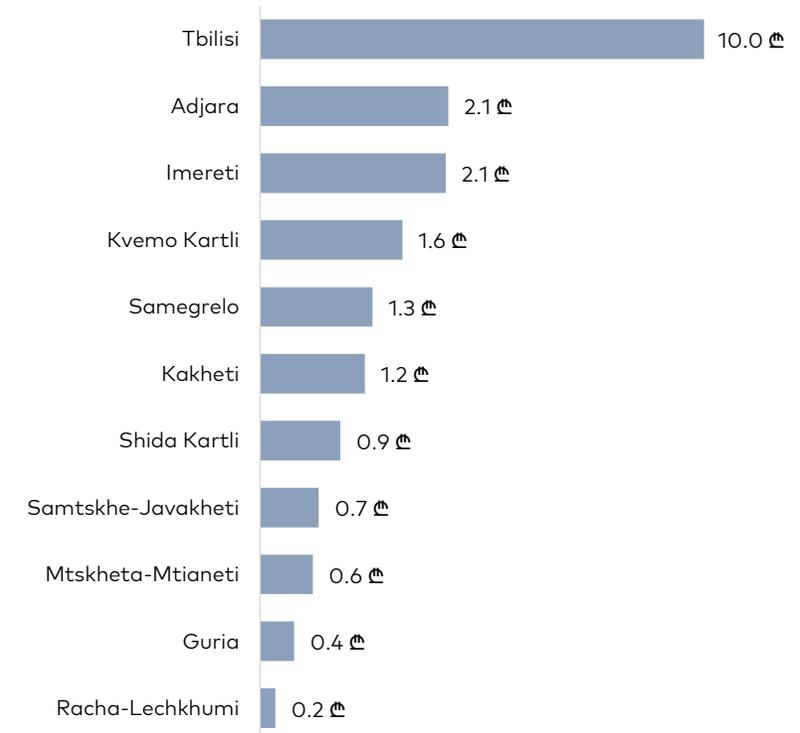
Regional expansion

Tbilisi accounts for 47.7% of the FMCG market revenues

FMCG market size by region in 2023, % share of total



FMCG market size by region in 2023, GEL bn (incl. VAT)

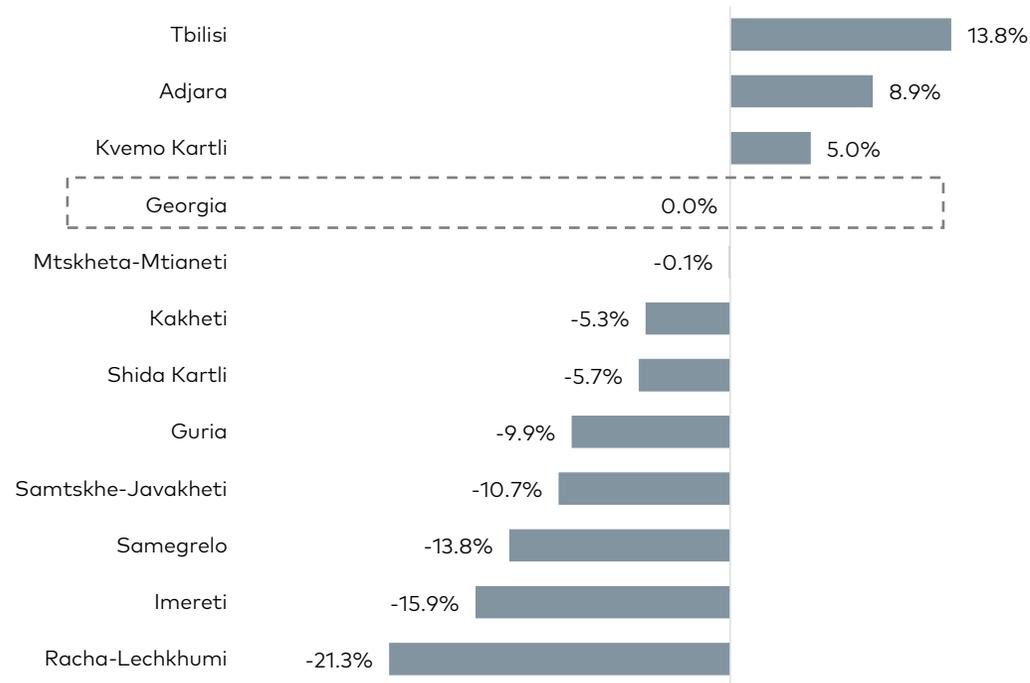


The FMCG market in Tbilisi reached GEL 10.0bn in 2023 (47.7% of total), while the market size in other regions stood at GEL 11.0bn. Tbilisi's significant share is attributed to its population size, high purchasing power, and density.

Regional expansion

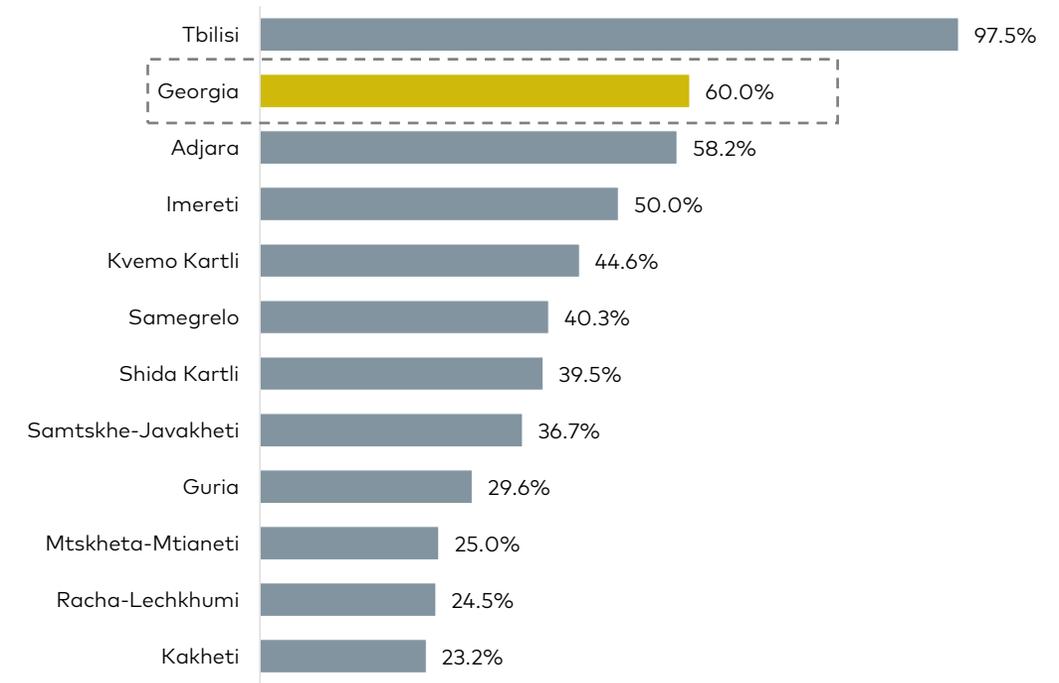
Regional expansion largely depends on demographic trends

Population change by regions over 2012-23, %



The population of Georgia was stagnant over 2012-23. Notably, population is decreasing in most of the regions and growing only in Tbilisi, Adjara and Kvemo Kartli.

Urbanization rate by regions in 2023, %

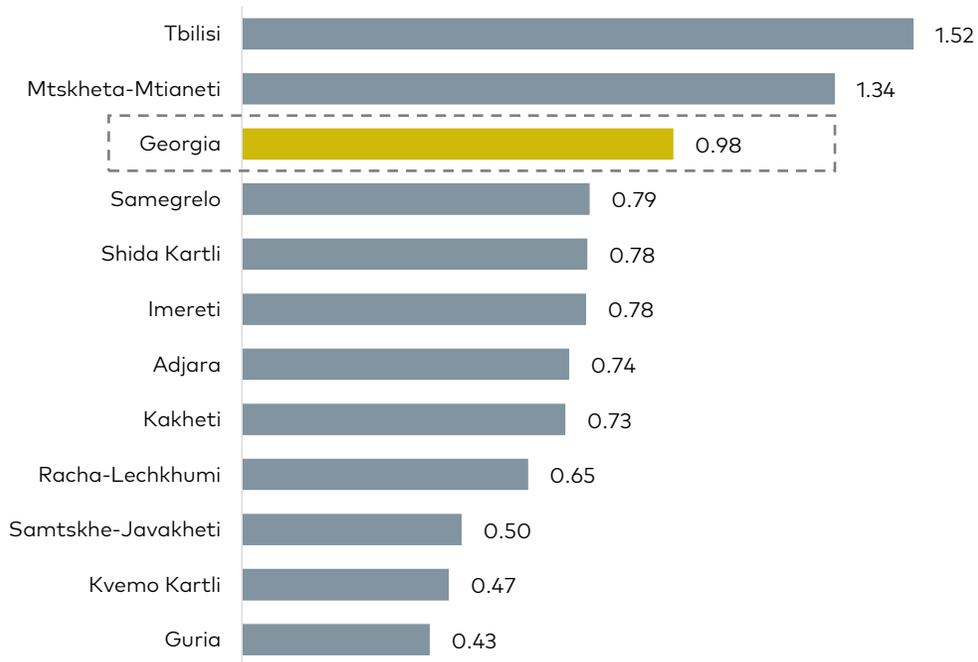


High urbanization level is beneficial for trade, as large share of population is concentrated in densely populated areas.

Regional expansion

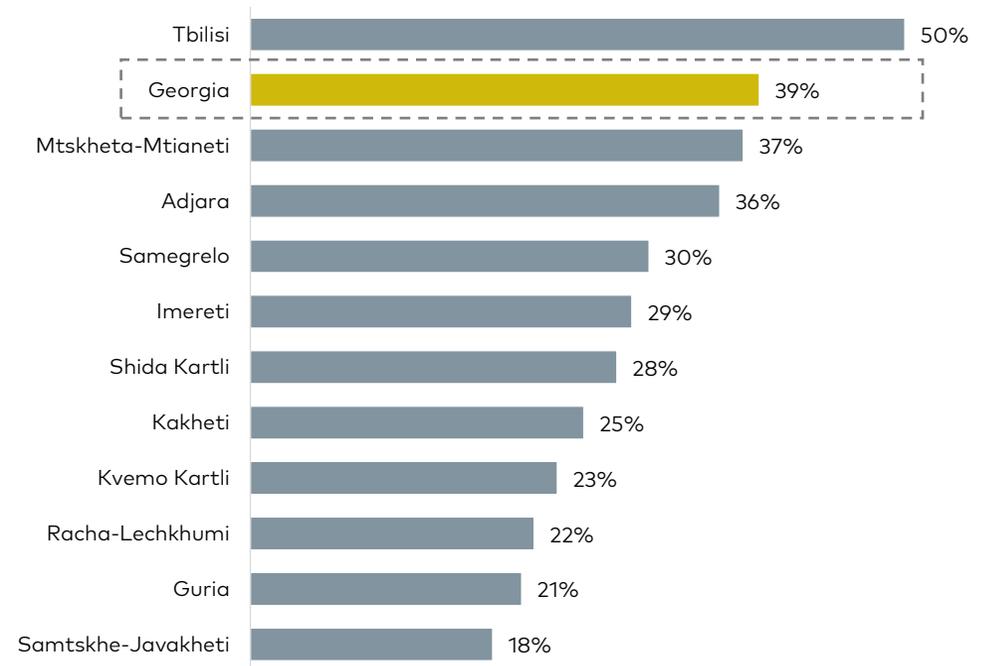
The number of branded stores per 1,000 inhabitants and the branded market share are highest in Tbilisi

Brand stores per 1,000 inhabitants, 2023



The highest number of branded stores per 1,000 inhabitants after Tbilisi is in Mtskheta-Mtianeti, primarily due to the high penetration rates of branded retail chains in the outskirts of Tbilisi.

Share of branded retail chains in FCMG revenue by regions, 2023

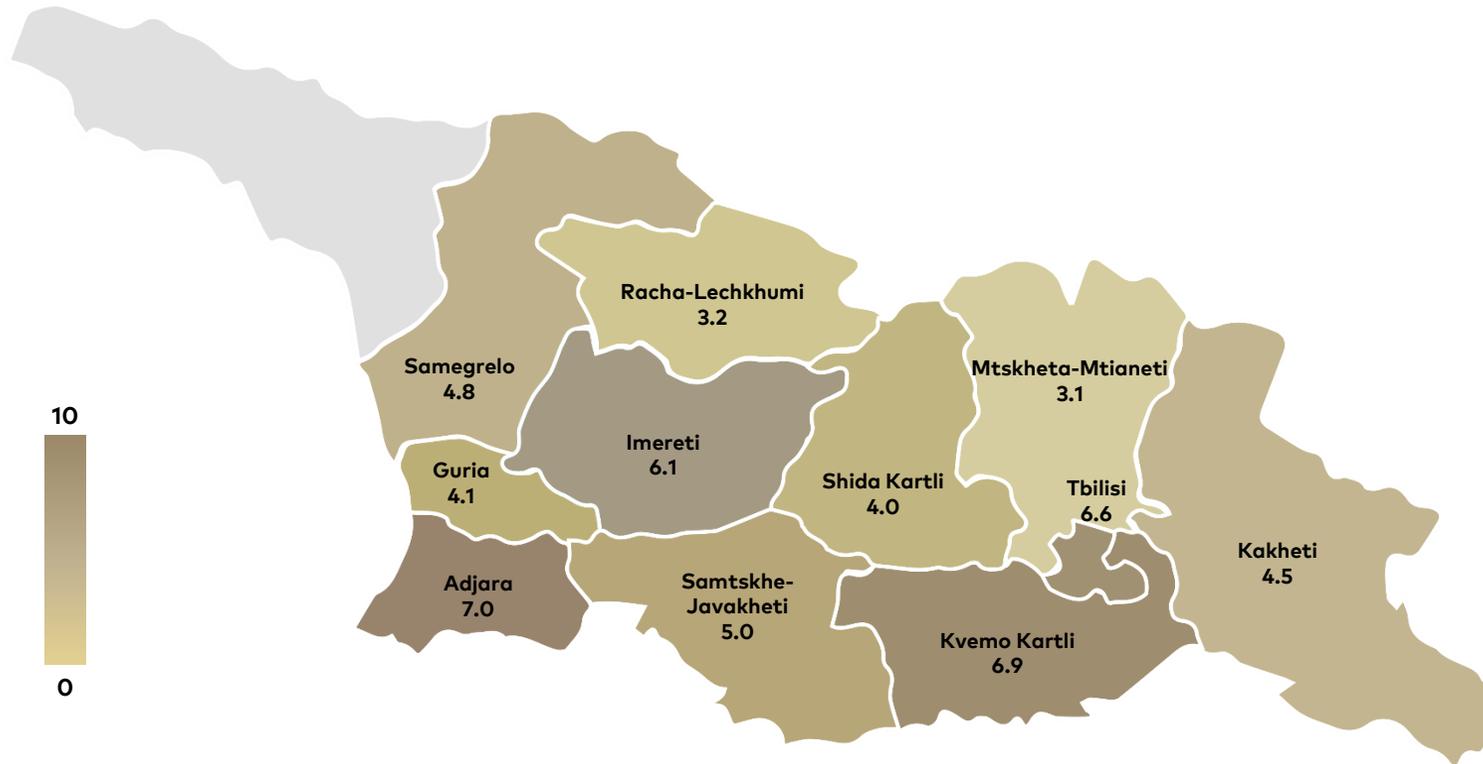


The share of branded retail chains is highest in Tbilisi, Mtskheta-Mtianeti and Adjara, driven by the high level of urbanization and the relative saturation of the market by branded retail chains.

Regional expansion

Adjara, Kvemo Kartli and Tbilisi are the most attractive for further expansion of branded retail chains

Assessment of expansion potential by region, most attractive = 10



Assessment criteria

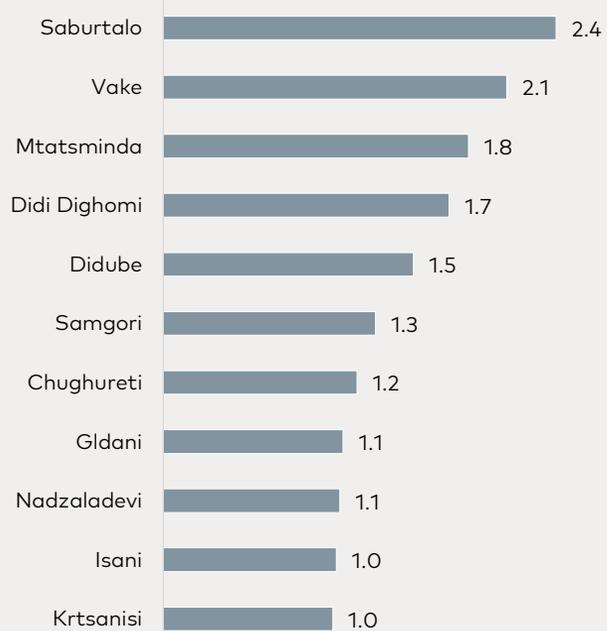
- GDP per capita
- Regional FMCG market size
- Population
- Population change over 2012-23
- Population density
- Urbanization
- Branded stores per 1,000 inhabitants
- The share of branded retail chains

Adjara, Kvemo Kartli and Tbilisi are the most attractive regions for future branded retail chain expansion. In contrast, highland regions and Guria are relatively less attractive for expansion.

Regional expansion

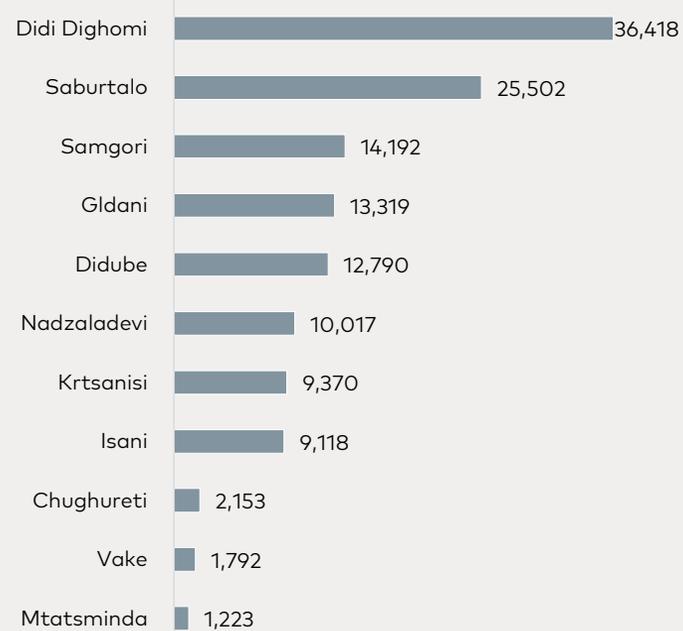
Real estate development and demographic trends determine attractiveness of different districts in Tbilisi

Brand stores per 1,000 inhabitants, 2023



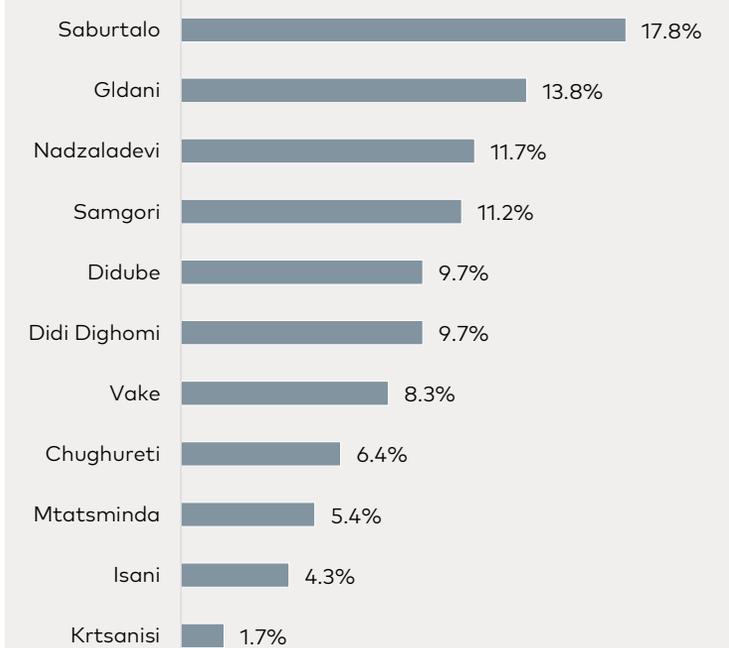
The number of branded stores per 1,000 inhabitants is low in the suburbs and higher in the central districts.

Population change over 2023-28



High population growth is expected in Didi Dighomi and Saburtalo, driven by the issued permits.

Non-brand stores with GEL 1mn+ turnover by district

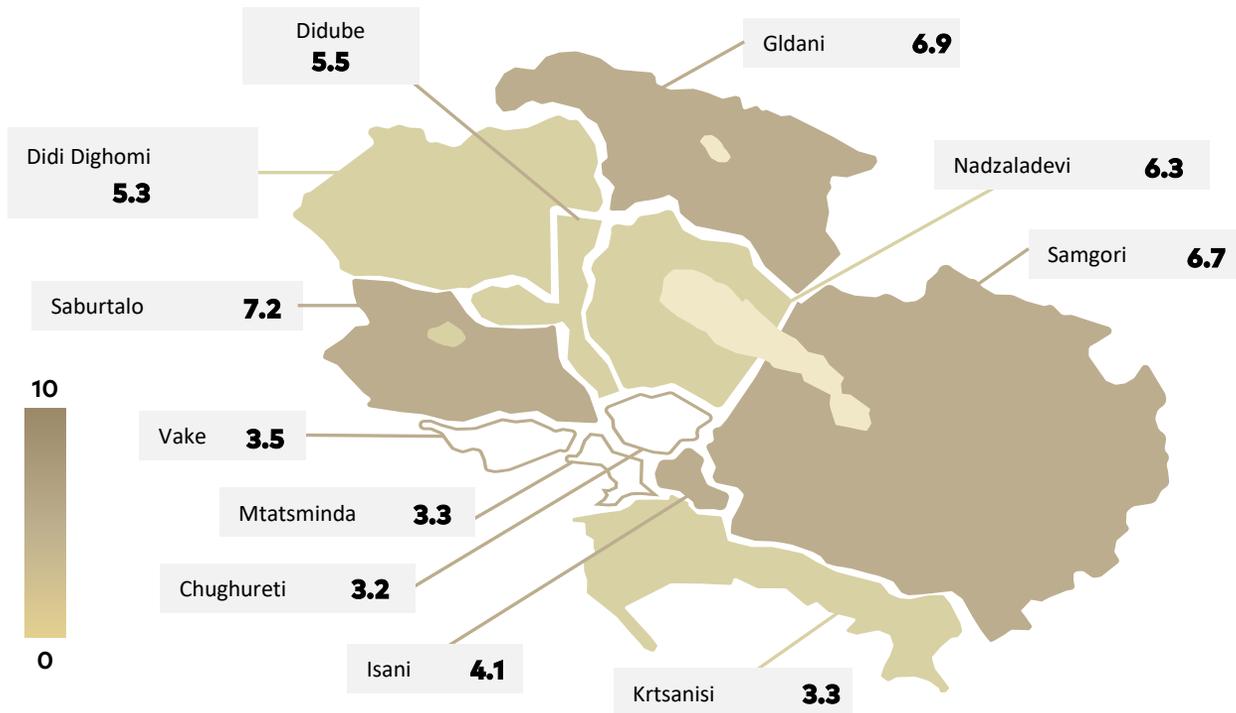


The number of large non-branded stores is high in Saburtalo and the suburbs.

Regional expansion

Saburtalo, Gldani and Samgori are the most attractive districts for further expansion of branded retail chains

Assessment of expansion potential by districts in Tbilisi, most attractive = 10



Assessment criteria

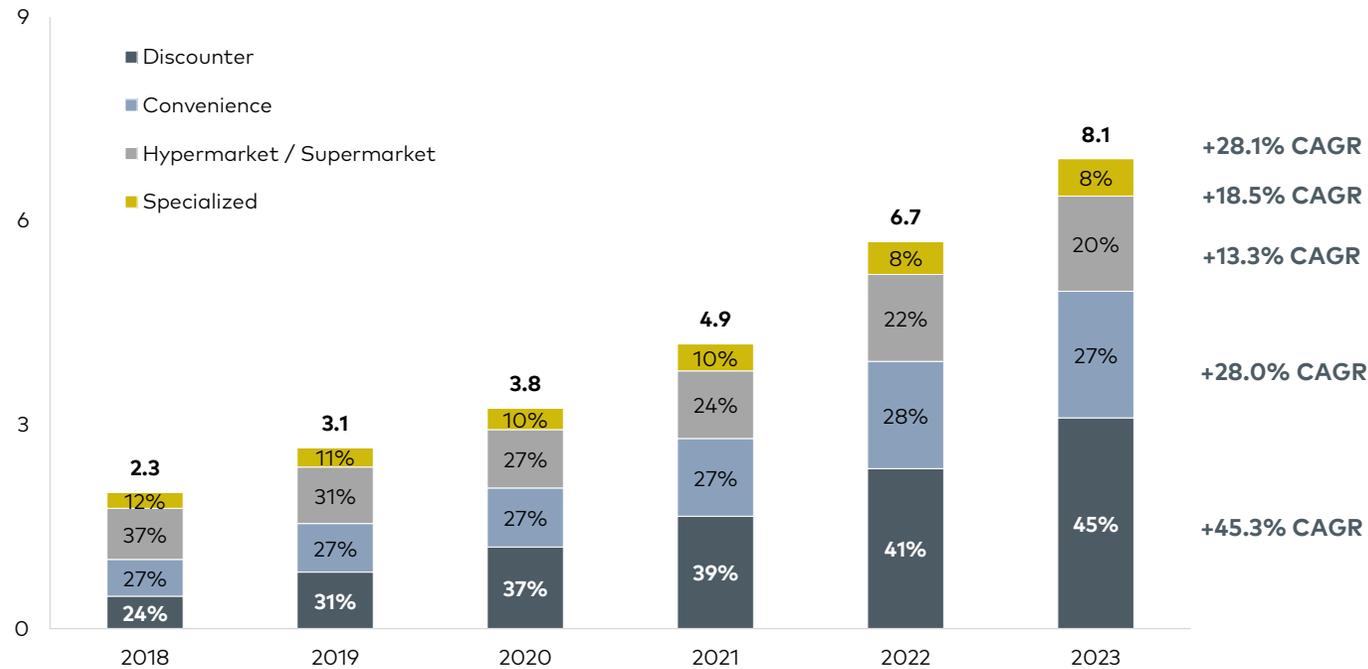
- Population
- Population change over 2023-28
- Purchasing power
- Non-branded stores per 1,000 inhabitants
- Non-brand stores with GEL 1mn+ turnover
- Branded stores per 1,000 inhabitants

Saburtalo, Gldani and Samgori are the most attractive districts for the future development of branded retail chains due to population size, population growth, and the substantial presence of large non-branded stores.

Strategic development

The discounter format expanding fastest, while share of big formats decreasing

Revenue breakdown of branded retail chains by store formats, GEL bn (incl. VAT)



Most companies operate in specific segments, while the number of multi-format chains remains limited.

Format diversification will help attract consumers with varying preferences, especially in the non-growing population environment.

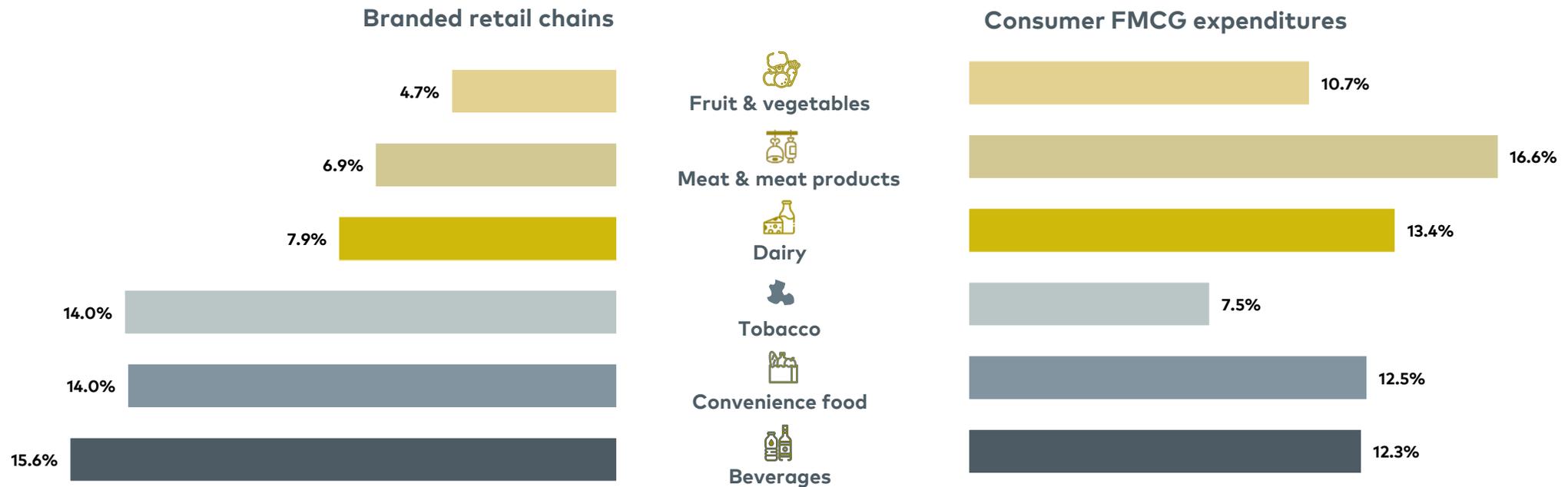
Consolidation could be a potential strategy to achieve format diversification.

Discounters have the highest market share, in line with global trends. The rapid growth of discounters has been further accelerated by high inflation in recent years.

Strategic development

Consumer expenditures on agricultural products is high, while branded retail chains have limited supply

Share of select product categories in branded retail chain sales vs consumer FMCG expenditures, 2023

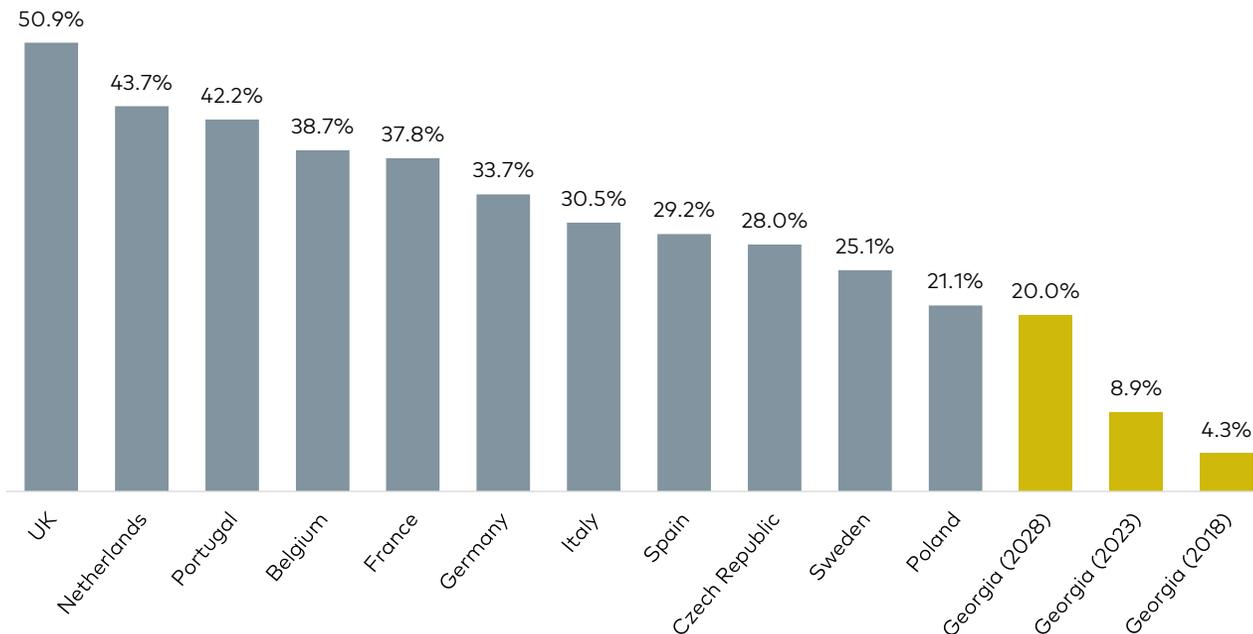


Meat and dairy products, fruits and vegetables account for 40.7% of consumer FMCG expenditures, while the combined share of these categories in the revenues of branded retail chains is only 19.5%, indicating substantial untapped potential.

Strategic development

Vertical integration will help companies to optimize costs and profitability

Share of private label in FMCG sales, 2022



The share of private label in Georgian FMCG sales is low, expected to increase to c. 20% by 2028.

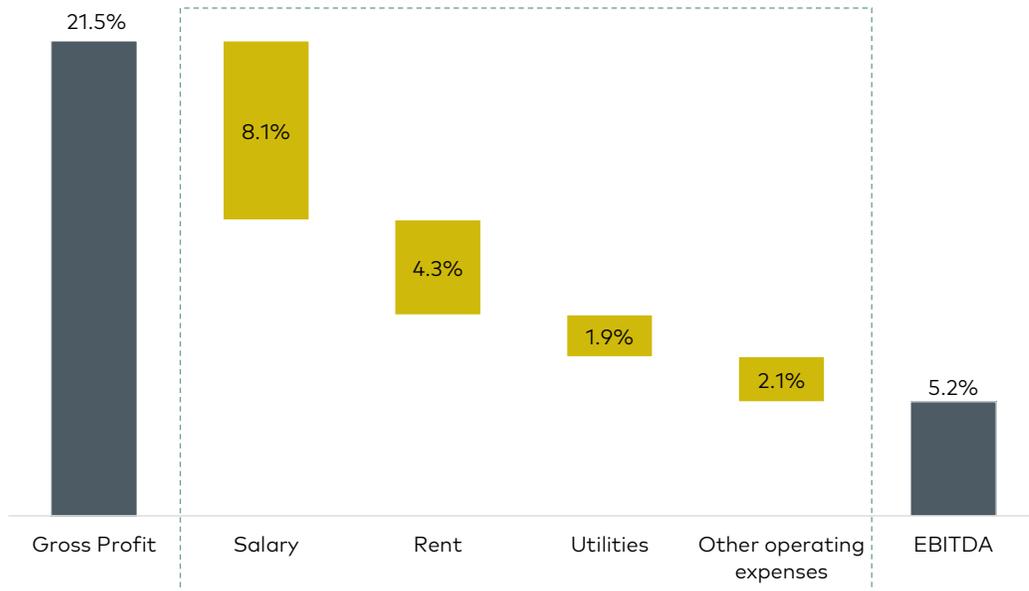
● ● ● Georgia's agricultural sector is highly fragmented, with households constituting over 85% of the sector.

● ● ● 63% of European customers consider private label and branded products equal in quality, per McKinsey & Company survey.

Strategic development

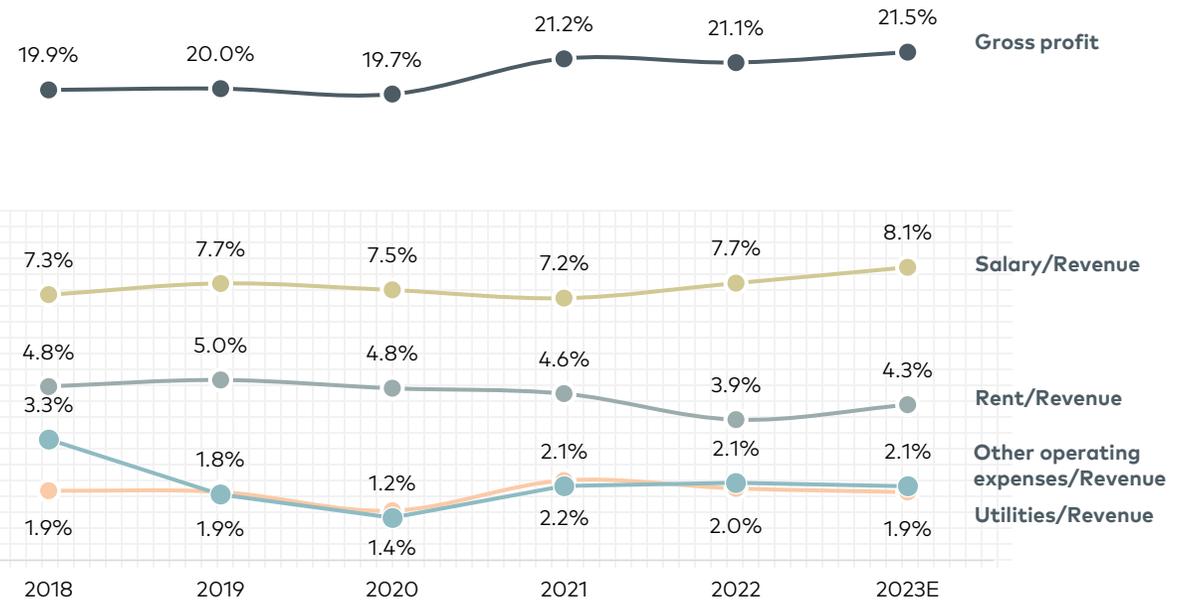
Salary is the largest and growing component of operating costs

Profit margins of branded retail chains and the ratios of operating expenses to revenue, 2023



Salary expenses hold the largest share in total operating expenses of branded retail chains, with the ratio of salary expenses to revenue standing at 8.1% in 2023.

Ratios of salary, rent and utility costs to revenues of branded retail chains, %



The ratio of main operating expenses (including salaries, rent, and utilities) to revenues remained relatively stable over 2018-23.

Source: SARAS, Company Survey, Galt & Taggart

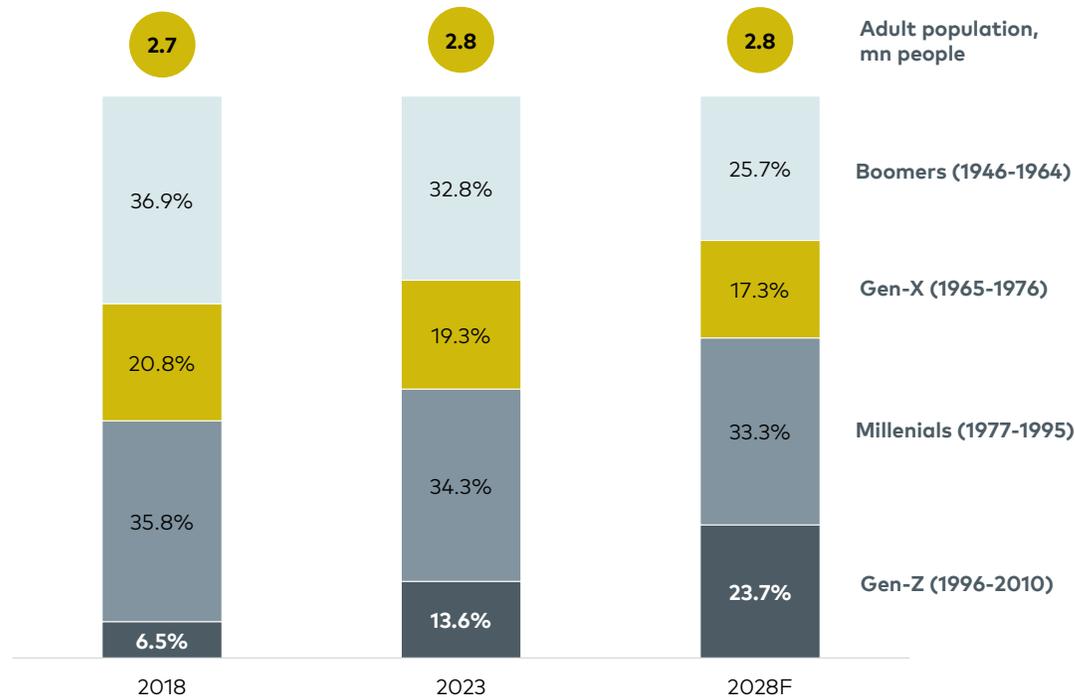
Note 1: Excluding IFRS-16 effect

Note 2: 2023 figures are estimated based on unaudited results and are subject to revision

Strategic development

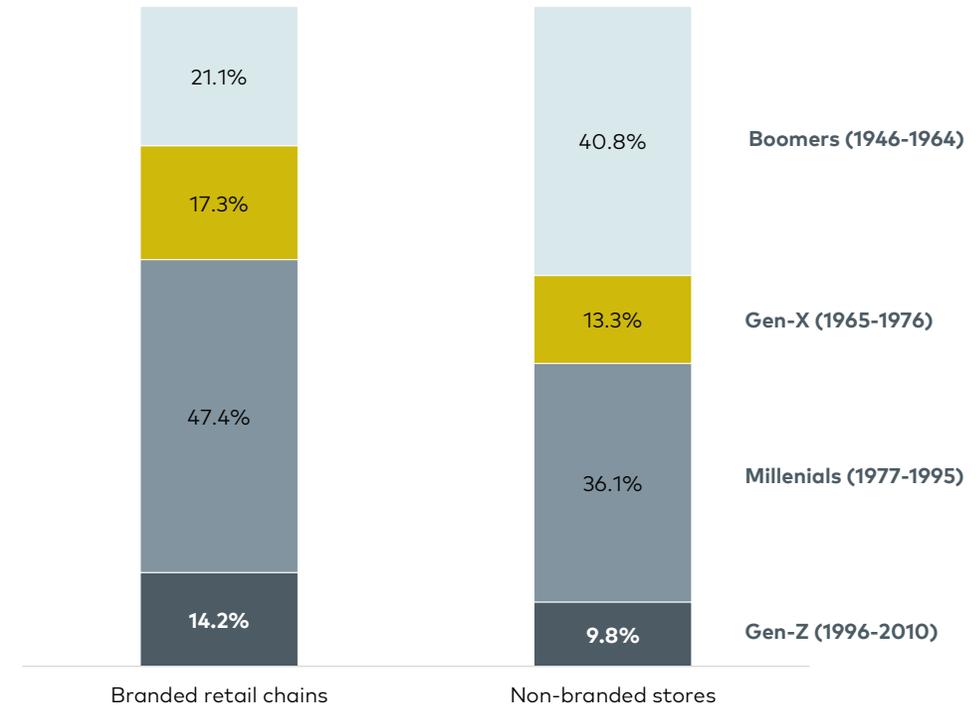
Gen-Z will represent a quarter of Georgian adult population in 2028

Share of age groups in adult population, %



Gen-Z represents 13.6% of the adult population in 2023, but will account for 23.7% by 2028.

Share of consumers by age groups in branded and non-branded stores, 2023

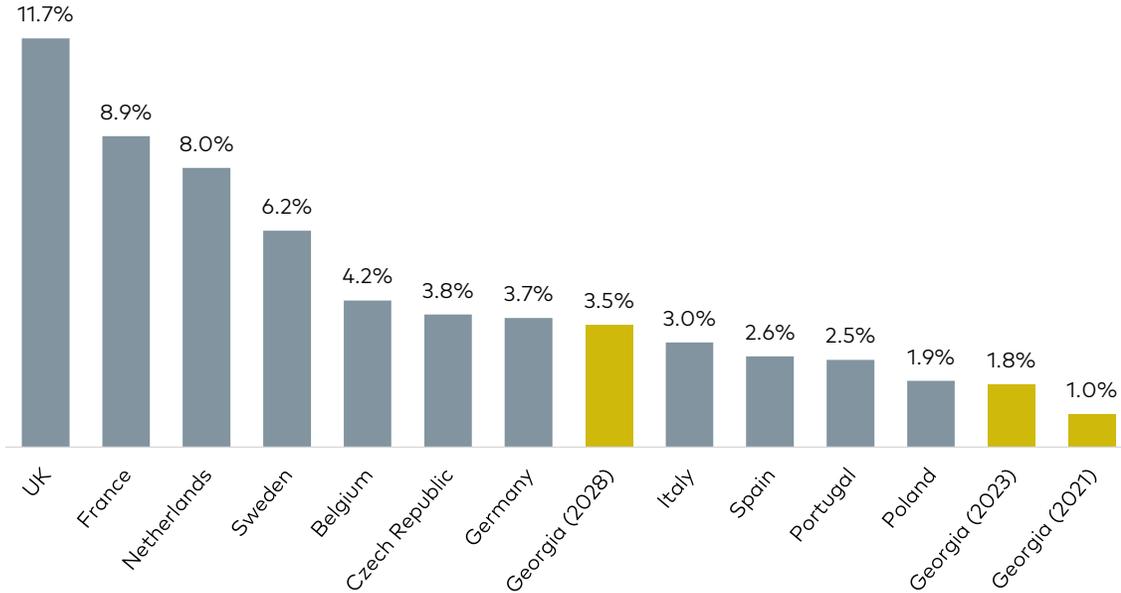


Young consumers mostly favor shopping in branded retail stores, while the share of older consumers is higher in non-branded stores.

Strategic development

The use of e-commerce, data analytics and social media is low in Georgia

Share of e-commerce in FMCG sales, 2022



Share of e-commerce in retail sales remain low in Georgia and significant growth is not expect by 2028.

E-commerce

Despite popular opinion, the younger generation prefers physical shopping, but they also actively use online channels for informational purposes.

Data analysis

Branded retail chains can analyze 45% of consumers' regular monetary expenditures.

Social media presence

	Mobile App	Instagram	TikTok
Georgian companies	20%	75%	23%
10 European companies	100%	90%	80%

FMCG market over 2023-28

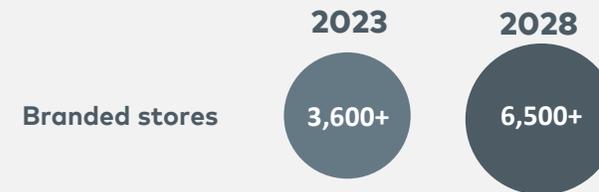
Branded retail chains

FMCG sector will grow 10.0% CAGR, while branded retail chains by 18.4%.



Regional expansion

Adjara, Kvemo Kartli and Tbilisi are most attractive for regional expansion.



Format diversification

Population will stay the same by 2028 and for the attraction of new customers, it is important to:

- Diversify formats and consolidate
- Develop data analysis and personalize

Strategic development

To gain additional market share and optimize costs, it is important to:

- Develop private label
- Expand product assortment



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