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GEORGIA'S WINE & SPIRITS SECTOR

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Eva Bochorishvili
Head of Research | evabochorishvili@gt.ge |

Bachana Shengelia
Head of Sector Research | bshengelia@gt.ge |

Tatia Mamrikishvili
Senior Analyst | tmamrikishvili@gt.ge |

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Executive summary

Georgia is considered the “cradle of wine”, with a rich, 8,000-year history of winemaking and home to more than 500 unique grape varieties. Over 280,000 tons of grape were processed in Georgia in 2020, quite a large production volume for a country with a small domestic consumption base. So, it's not surprising that on average c. 85% of the wine & spirits sector's revenue stream comes from exports, making it highly dependent on external markets.

World wine consumption trends are changing, with quality becoming a priority. Wine consumers drink less, but better, according to Wine Intelligence. Also, global consumers have become more health and lifestyle conscious, and are searching more for low-alcohol and 'organic' alternatives. People also pay more attention to wine labelling and design, particularly in the UK, US, Canada, Australia and Japan, according to Wine Intelligence.

Wine quality has become a priority for Georgia's wine and spirits sector, strengthening Georgia's global image as a producer of quality wine. Georgian wine has received numerous awards in international wine competitions in recent years, while the International Organisation of Vine and Wine (OIV) has added another Georgian wine to its list of special wines in 2020 (a total of eight Georgian wines as of 2021). And, in collaboration with private sector, Georgia's National Wine Agency (NWA) has introduced several initiatives to further improve wine quality in Georgia (i.e. mandatory quality control of wine intended for exports, tightened quality control on grapes, etc.).

Wine & spirits business is one of the most profitable sectors in Georgia. The sector posted 30.2% gross profit and 20.8% operating profit margins in 2019, 1.4x and 1.7x above the business sector averages, respectively. Notably, top 10 companies outperform the sector, with weighted gross profit and EBITDA margins averaging 41.2% and 24.9%, respectively, over 2017-20. Large companies accounted for c.41% of total wine and spirits sector turnover in 2020, up from 12% in 2015 and we see further consolidation potential.

The wine & spirits sector showed resilience to Covid-19 crisis, with a turnover down by just 2.1% y/y in 2020 thanks to external demand. Despite pandemic-related market disruption, wine exports reduced by just 5.6% y/y to US\$ 210.3mn in 2020, far below contraction level during previous crisis of 2015, when exports almost halved. Meanwhile, brandy exports increased by 6.7% y/y to US\$ 113.2mn. Notably in 2020, the wine exports growth continued to new target markets (particularly to Poland, US, UK and Baltic States), partly offsetting export decline to Russia. In 1H21 wine exports growth accelerated significantly, surpassing also pre-pandemic level.

Wine exporters entered new markets, but dependency on Russia and other post-Soviet countries remains significant. Exposure to new export markets (the US, UK, China, Japan, Germany, Poland and Baltic states) increased in recent years, accounting for 21.5% of total exports in 1H21 in value terms, up from 10.9% in 2013. However, Russia still absorbed c.58.1% of Georgia's total wine exports in 2017-20. This is a result of developed trading networks and benefits from widespread popularity of Georgian wine in Russia (removing additional marketing costs). Considering the painful effects of Russian 2006 embargo and unpredictability of this market, we believe that diversification to other markets should remain a number one priority for Georgian wine companies in medium to long term.

Wine companies should be more ambitious to grab a greater market share in new target export markets. Despite some success, Georgia still accounts for less than 1% of total wine imports in new target markets (excluding Poland, where Georgia holds 3%). One of the main obstacles behind low exports are high costs associated with marketing



and product shelving and companies' fear of investment failure. Notably, new state subsidy program aims to address the former with co-financing marketing expenses to new markets. Our expectations on exports are positive, supported by growing investments in vineyards, government support for the sector, healthy demand from export markets and free trade agreements with EU and China. We also anticipate the average export price to increase, along with gradual transition towards new export markets in the medium term. Considering this, we expect wine exports to almost double in next 5 years to c.US\$ 350mn in 2025.

Premium Georgian wines should mostly be targeted to wealthier export markets like the US and UK, mass-produced wines to China and both types to Germany, we believe. Considering the consumer profile of US and UK consumers (wealthy, mature and knowledgeable wine drinkers), we believe that unique, premium Georgian wines have the highest potential to compete with established wine varieties in these countries. Meanwhile, mass-produced wines like Saperavi, Alazani Valley, Kindzmarauli could be targeted to China, considering the lowest per capita wine consumption and evolving drinking preferences in this market. Besides, considering the maturity of German wine drinkers and the fact that women are more frequent wine drinkers who favor semi-sweet/sweet wines, both premium as well as mass-produced Georgian wines would be highly welcome in Germany.



Current trends and our expectations

World wine consumption trends are changing, with consumers drinking less, but better, paying more attention to packaging and alcohol content. According to Wine Intelligence, over the period 2007-19 wine consumption frequency decreased in many established markets (including the US, UK, Germany, the Netherlands and Australia), while spending per bottle of wine increased. Moreover, global consumers have become more health and lifestyle-conscious, and are searching more for low-alcoholic and 'organic' alternatives. Also, labelling and design have become increasingly important to consumers in major wine-consuming countries, particularly in the UK, US, Canada, Australia and Japan, according to Wine Intelligence.

An ageing global population will boost the number of mature, knowledgeable and more discerning consumers over the long term. Over 20% of regular wine drinkers are aged 65 or over in many established markets such as the US, UK and Netherlands, according to Wine Intelligence. The share of this group is projected to rise to 16% by 2050 from 9% in 2019 (6% in 1990), according to United Nations. These 'mature drinkers' are usually more wine-experienced and discerning, leading to increased competition among wine producers in the medium to long term.

Wine quality is becoming a priority for Georgia's wine and spirits sector, strengthening Georgia's global image as a producer of quality wine. Georgian wine has received numerous awards in international wine competitions in recent years. In collaboration with private sector, the National Wine Agency of Georgia (NWA) has introduced several initiatives to further improve the quality of Georgian wine (i.e. mandatory quality control of wine intended for exports, tightened quality control on grapes etc.). Georgian companies are also increasing investments in developing product quality and improving product mix (using unique Georgian grape varieties, mixing Georgian with French or other international varieties to receive unique flavors, etc.). We believe that these initiatives will help Georgia to further strengthen its global image as a producer of quality wine.

We expect grape productivity (yield per ha) to grow, supported by increased investments in vineyards by large wine companies. We estimate grape yield at 5.3ton/ha in Georgia, almost 2x lower than the world average in 2019. Low yield is mainly because the majority of vineyards are owned by households, using technologically unsophisticated production methods. In recent years, many large wine companies have increased their investments in vineyards (e.g. KTW, Teliani Valley, Telavi Wine Cellar, Tbilvino and others) to improve grape quality and productivity. Based on our information, large wineries enjoy c. 2-2.5x higher grape yields compared to country average. This will also improve gross profit margin by at least 10%, according to our estimates. However, individual improvements in profitability will depend on selected grape variety, company cost control mechanisms and varying grape prices.

The main headwinds to exporting to new markets (EU, US) are low awareness of Georgian wine, high competition from well-established wine producers such as Spain, France and Italy, high costs associated with marketing and product shelving in retail chain supermarkets and a fear of investment failure. Georgian companies also see high export potential in China, an emerging market where drinking preferences are evolving, but struggle to connect with stable trading partners.

Our expectations on exports are positive and see wine exports to almost double in next 5 years to c.US\$ 350mn in 2025. Growing investments in vineyards, government support to the sector, healthy demand from export markets and free-trade agreements with the EU and China (major wine consuming countries) provide an opportunity for further export growth. We also expect the average export price to rise, supported by a gradual transition towards new export markets. Notably, the average export price for Georgian wine is 26% higher in new target export markets (the US, UK, China, Japan, Germany etc.) than in Russia and other CIS markets.



Georgian wine industry enters new era

Georgian wine among OIV's special wine list in 2020. After almost three years of examination, OIV has included Georgian wine made on 'Chacha' among its list of special wines. As of today, a total of 8 Georgian wines are included in OIV's list of special wines, strengthening Georgia's image on the world wine map.

Georgian wine receives numerous awards in international wine competitions. Georgian wines won 13 gold and 1 silver medals at the 8th Sakura international competition held in Japan, where 32 countries with more than 4,000 types of wine were participating in 2021. Georgian wines were also awarded with gold and silver medals at International Rosé Championship held in Poland in 2020, where 32 countries were participating, with 220 types of wine. These awards indicate improving quality of Georgian wine and increase its worldwide awareness.

Wine marketing efforts have borne fruit in new target export markets. Since 2013, NWA has been investing heavily to popularize Georgian wine in new strategic markets, including the US, UK, China, Poland, Japan, Germany and others. Georgian wine companies have participated in more than 20 international exhibitions and 242 wine tasting events in 2019-20. As a result, wine exports increased at a CAGR of 22.0% to US\$ 13.3mn in China, 19.5% to US\$ 11.3mn in Poland, 28.9% to US\$ 4.2mn in USA, and 20.9% to US\$ 2.6mn Germany and 26.7% to US\$ 1.3mn in UK, over 2013-20.

Wine companies need to be more ambitious to grab a greater market share in new target export markets. Despite some success, Georgia still accounts for less than 1% of total wine imports in new target markets (excluding Poland, where Georgia holds 3%). We have interviewed a number of key market players to identify the main obstacles to stronger exports. Low awareness of Georgian wine, high competition from established winemakers (France, Spain, Italy, etc.) and a fear of losing investments were outlined as main reasons. The need for substantial funding and a fear of investment failure deter many companies from entering new export markets. To overcome this, NWA has initiated the state subsidy program which aims to co-finance marketing expenses in markets outside Russia and CIS. This is positive, but companies also need to increase investments in marketing and product shelving among large local retail chains. We believe that growing demand from new target markets coupled with increasing worldwide recognition of Georgian wine will help companies to achieve investment success and strengthen Georgia's positions in new target export markets.

Wine and grape quality has become a priority for Georgian wine sector's long-term development and sustainability. Wine quality control became mandatory for exports from 2018. According to NWA, leading French and Swiss international independent auditors are also involved in a wine control process since June 2021 to ensure an objective and transparent control of wine quality. Furthermore, NWA tightened quality control on grapes for the first time in 2021. Namely, at least 18% sugar content is required for grapes to be eligible for winemaking, otherwise grapes are classified as suitable for the production of spirits. Prices will vary according to the quality of grapes, incentivizing farmers to shift towards the 'quality over quantity' paradigm.

Georgian grape and wine increasingly used in cosmetic products. A couple of years ago, a Georgian company Schuchmann Wines started using Georgian grape seeds to produce cosmetic products, such as body scrubs and oils. Later, other Georgian and international companies also started using Georgian grapes, as well as Georgian wine in cosmetics. One recent successful example is a Korean company Dermasnatural that produces five types of cosmetic products (sunscreen, anti-age ampoule, hand cream, etc.) using the semi-sweet red Georgian wine 'Kindzmarauli'. This could be another untapped potential for Georgian grape and wine industry, as an increasing number of skincare brands are using grapes and wine in cosmetic products on account of their anti-ageing properties.



Wine & spirits business performance

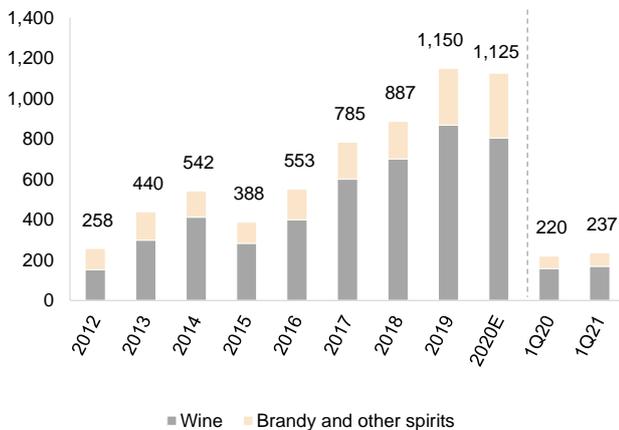
The wine & spirits sector showed resilience to Covid-19 crisis, with a turnover down by just 2.1% y/y in 2020. The Covid-19 pandemic caused the economy to contract by 6.2% y/y in 2020, with most of the sectors recording severe losses. In contrast, the wine & spirits sector performed relatively well, with turnover down by only 2.1% y/y to GEL 1.1bn in 2020, thanks to stable exports. Before 2020, the sector turnover was growing by 23.8% CAGR over 2012-19.

Exports are the main driver for sector revenue growth. The wine & spirits sector in Georgia is highly dependent on exports, with 82.4% of total turnover coming from export markets on average over 2012-20. Wine and spirit exports increased by 1.5% y/y in 2020, despite pandemic-related disruptions to the global market (wine exports were down by 5.6% y/y and brandy exports were up by 6.7% y/y).

The sector remains fragmented, but share of large companies is increasing. Out of 625 companies operating in the sector, only seven are large, 37 medium and 581 small, with small and medium companies generating c.59% of total revenue in 2020. However, share of large companies increased to c.41% of total turnover in 2020, from 12% in 2015. We see further consolidation potential which will improve sector's financial performance.

Figure 1: Wine and spirits sector turnover by source, GEL mn

Wine and spirits sector turnover by type, GEL mn



Source: Geostat

Wine and spirits sector turnover - local market and exports, GEL mn



Source: Geostat, Galt & Taggart Research

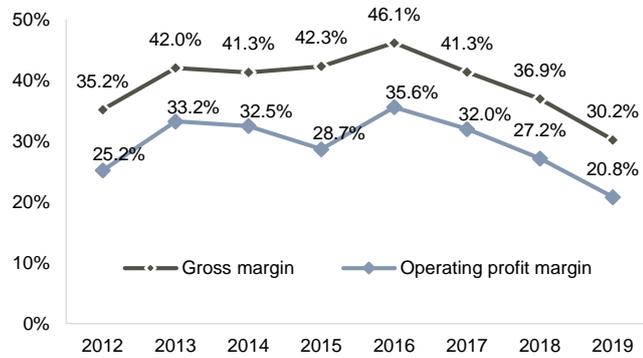
The wine and spirits sector is characterized by high profitability, but margins have been on a downward trajectory since 2016. The sector posted 20.8% operating profit margin in 2019, 1.7x above the average of business sector, and 30.2% gross profit margin, 1.4x above the average of business sector. High profitability and strong government support have attracted new investors and increased competition in the sector, i.e. the number of companies operating in the sector grew from 441 in 2017 to 625 in 1Q21. However, increased competition and rising grape prices have dragged down the profitability metrics in recent years.

Top companies in wine and spirits sector maintain stable profitability and outperform the market. We have selected the top 10 players operating in the wine and spirits sector and analyzed their profitability metrics over recent years. Although the sector's overall profitability is on a downward trajectory, the top players maintain stable margins, with weighted average gross profit and EBITDA margins averaging at 41.2% and 24.9%, respectively over 2017-20.



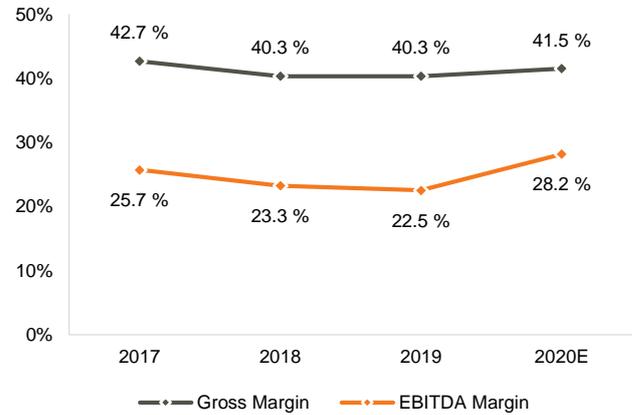
Figure 2: Wine and spirits sector profitability

Wine and spirits sector profitability indicators



Source: Geostat, Galt & Taggart Research

Weighted average margins of selected top 10 players in wine and spirits sector



Source: SARAS, Galt & Taggart Research

Domestic market almost halved in 2020 due to pandemic-related restrictions, closure of restaurants/cafes and a halt in international tourism. Store sales slightly increased at the beginning of pandemic, however this was not enough to compensate for the decline of sales in HoReCa sector. The domestic market expected to benefit from expected full recovery of tourism from 2022.



Production of grapes and wine

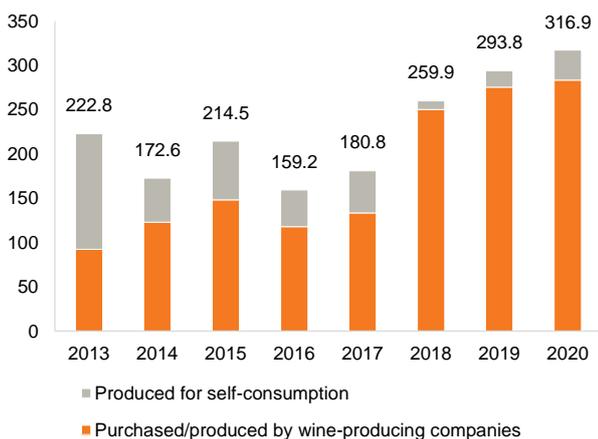
We estimate grape yield at 5.3ton/ha in Georgia, almost 2x lower than the world average in 2019. Low productivity in Georgia is mainly due to the majority of vineyards being owned by households, who lack technologically sophisticated production methods. Households are mostly focused on production quantity, leading to quality problems on the market. As market participants mentioned during our interviews, Georgia also lacks high quality grape seedlings, leading to the high rates of withering within 3-5 years after planting, and explaining why seedlings are mostly purchased from France, Italy and other countries. We believe that, increasing investments in vineyards by large wine companies (KTV, Teliani Valley, Telavi Wine Cellar, Tbilvino and others), should support to gradual improvement in grape quality and productivity in the medium-term. Based on our information, large wineries enjoy c. 2-2.5x higher grape yields compared to country average.

Grapes are almost entirely used for wine production. Grape production grew 5.2% CAGR over 2013-20 to 316.9k tons in 2020, supported by favorable climate conditions and growing demand from export markets. On average, over 90% of grapes were purchased by winemaking companies over 2018-20, while the rest was consumed by individuals.

The market for table grapes remains small and underdeveloped in Georgia. The consumption of grapes averages 11mn kg/year – a mere 5% of total grape production. Although Georgia has its own table grape varieties, quality issues and lack of storage facilities create need for imports. Imported table grapes accounted for 13% of total grape consumption over 2017-20. Imports are mainly from Armenia, with average price of US\$ 0.9 per kg over 2017-20.

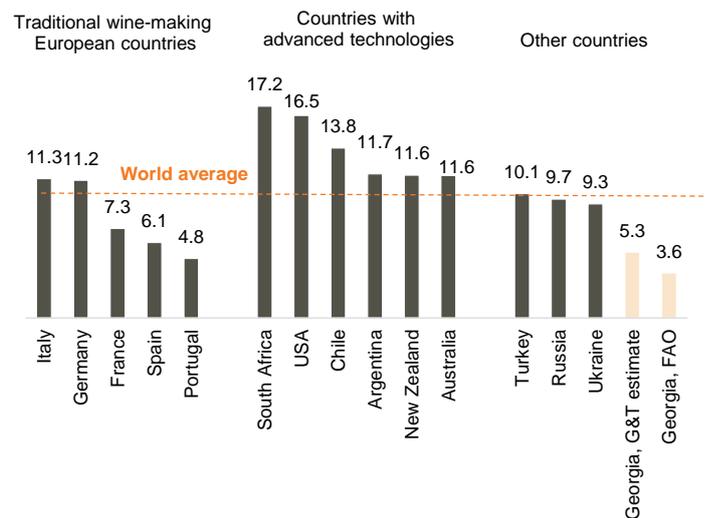
Figure 3: Grape production in Georgia

Grape production in Georgia, '000 tonnes



Source: Geostat, NWA, Galt & Taggart Research

Grape yields by countries in 2019, ton/ha



Source: FAO, Galt & Taggart Research

State subsidy returned in 2020. Government subsidized the grape harvest from 2008, until 2018-19, when subsidies were abolished given the strong demand on wine from export markets. As well as subsidizing grape growers, government has supported the sector through grants, subsidized loans and purchases of excess production. To offset the negative impact of Covid-19 pandemic, the state re-introduced the subsidy for wine producers in 2020. The total subsidies reached GEL 104mn in 2020 (including purchase of excess production) and is planned to hit a record GEL 138.4mn in 2021.



Wine and brandy exports

Wine exports

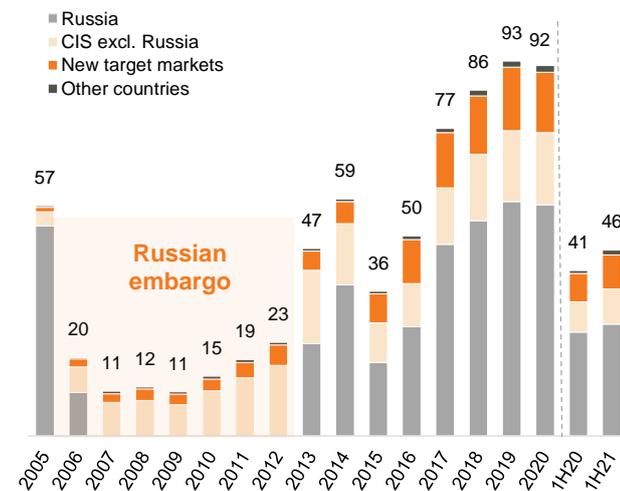
Exports reduced by just 5.6% y/y to US\$ 210.3mn in 2020 despite pandemic-related market disruption, far below contraction level during previous crisis of 2015, when exports almost halved to US\$ 95.8mn. Similar to 2015, Russia was the largest contributor to decline in exports in 2020 (however far below 2015 reduction – down 10.3% y/y in 2020 vs 61.1% y/y reduction in 2015), followed by China. Notably, exports growth continued to new target markets in 2020 (particularly to Poland, US, UK and Baltic States), partly offsetting export decline to Russia. In 1H21 wine exports growth accelerated markedly, up 14.1% y/y to US\$ 104.2mn, which is also up by 7.2% vs 1H19 exports.

New target countries accounted for 21.5% of total exports in value terms in 1H21, up from 10.9% of total in 2013. As mentioned previously, NWA has been actively promoting Georgian wine among new strategic export markets since 2013 (namely, the US, UK, China, Japan, Germany, Poland and the Baltic states). As a result, these countries grabbed 19.5% market share in total wine exports during 2014-20, further increasing to 21.5% in 1H21.

Despite entering new markets, dependency on Russia and other post-Soviet countries remains significant. Russia was almost the sole consumer of Georgian wine before the 2006 embargo, absorbing 92% of total wine exports volume. The re-opening of the Russian market in 2013 quickly made it largest single market again, absorbing c.62.4% of Georgia’s total wine exports volume during 2017-20 (in value terms Russia’s share was 58.1% during this period). This is due to well-established brand image of Georgian wine (removing additional marketing costs) and developed trading networks. However, considering the painful effects of Russian 2006 embargo and unpredictability of this market, we believe that export diversification should remain a number one priority for Georgian wine companies in medium to long term.

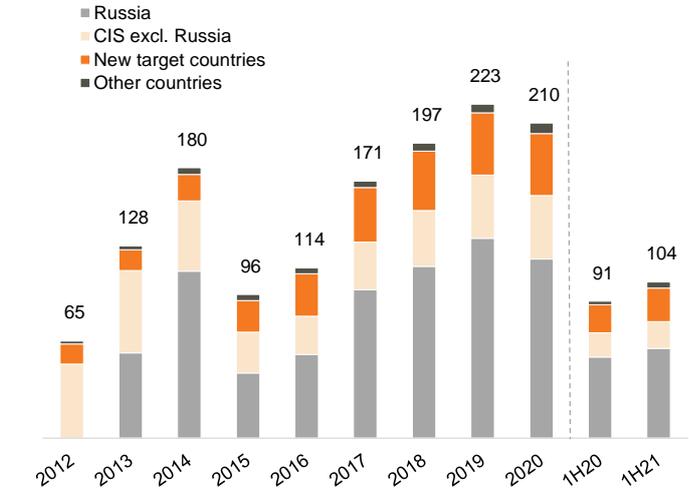
Figure 4: Georgian wine exports

Georgian wine exports, 0.75L bottles, mn



Source: NWA
Note: New target countries: US, UK, China, Japan, Germany, Poland and Baltic States

Georgian wine exports, US\$ mn

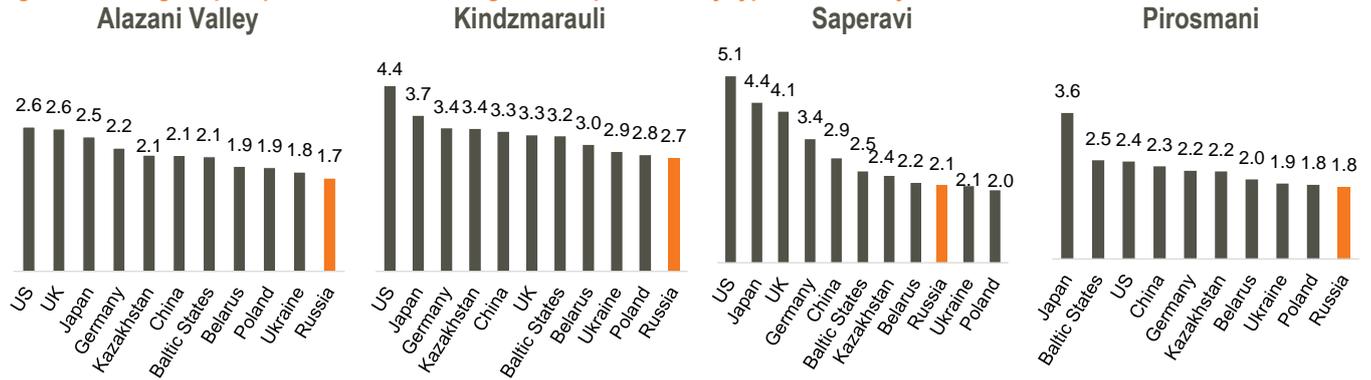


Source: Geostat
Note: New target countries: US, UK, China, Japan, Germany, Poland and Baltic States



Russia is the largest wine export market for Georgia, but cheapest. Alazani Valley, Kindzmarauli, Saperavi and Pirosmani were the top four varieties exported from Georgia, accounting for 74.6% (68.9mn bottles) of total wine exports in 2020. Russia was the top export market for all these varieties, however with lowest average export price in 2020 (e.g. average export price in Russia was 1.3x lower than in China and 1.7x lower than in USA; figure 5 provides further details on average export prices).

Figure 5: Average export prices in US\$ of Georgian wine per bottle by type and country, 2020



Source: NWA, Galt & Taggart Research
Note: FCA prices

Georgian companies see high export growth potential in China, but struggle to find a stable trading partner.

Mature markets such as the US, UK and EU are already well-saturated by established winemakers from countries such as Spain, France, Italy and others, making the competition fierce and time-consuming for Georgian wine. China, on the other hand, is an emerging market, where wine imports increased 5x over 2009-19 to US\$ 2.4bn, before falling back to US\$ 1.8bn in 2020. As China has the lowest per capita wine consumption but evolving drinking preferences, we believe that positioning should be relatively easier, with Georgia somewhat on an equal footing with other established winemakers in trying to gain a foothold in this market. China has introduced tariffs of over 200% on Australian wine (top wine import source country for China in 2019-20) for a five-year period, giving other source markets opportunity to increase their exports to China.

Chinese consumers mostly prefer Georgian red semi-sweet and red dry wines, similar to Russia and CIS.

Red semi-sweet and red dry varieties accounted for 73.6% of total wine exports to Russia in 2020-1H21, 55.0% to other CIS countries and 88.9% to China, where red wine is associated with health benefits and hence is most favored. Saperavi, Alazani Valley, Kindzmarauli and Mukuzani are the most popular wines, accounting for 89.1% of total exports in this category.

Consumer preferences are somewhat different in new target export markets.

White dry wine was the most popular type of Georgian wine exported to USA and Japan, followed by red dry and red semi-sweet wines in 2020. UK mostly imported red and white semi-sweet wines, followed by white dry and red dry varieties. Poland mostly imported red semi-sweet and red semi-dry wines, while the Baltic States favored red semi-sweet wine, followed by white semi-sweet wine.



Brandy exports

Georgia was 7th-largest exporter of brandy globally in 2020, being top brandy source market for Ukraine and Armenia, as well as one of the top brandy suppliers for Russia, France, Belarus and other countries. Georgia accounted for 54.9% of brandy imports in Armenia, 54.8% in Ukraine, 20.9% in France, 18.4% in Belarus and 9.6% in Russia in 2020.

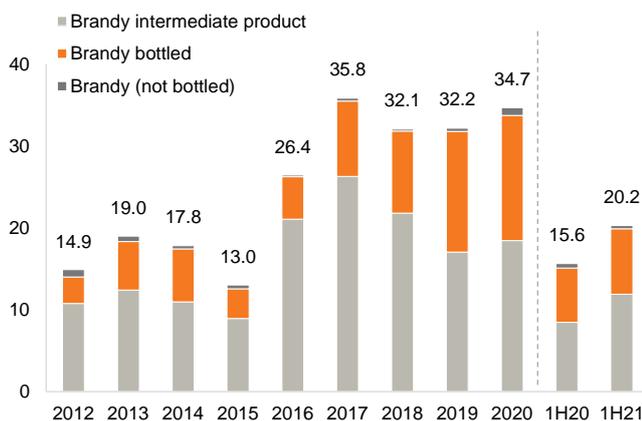
Brandy (bottled, not bottled and brandy spirits) exports increased at 8.9% CAGR over 2012-20, reaching US\$ 113.2mn or 34.7mn liters in 2020. Notably, brandy spirits (intermediate product of brandy) is the most popular brandy export category. However, its share is decreasing gradually, reducing to 53.2% of total brandy exports in 2020 from 79.6% of total in 2016. Ukraine, Russia and France are the top three export markets for Georgian brandy, accounting for 73.5% (or US\$ 83.2mn) of total exports in 2020. Brandy exports are on an upward trajectory in 2021, posting impressive growth of 26.0% y/y (US\$ 59.4mn) in 1H21.

On average, bottled brandy is 1.6x more expensive than brandy spirits. In 2020, the average export price of bottled brandy was US\$ 4.3 per liter (down from US\$ 6.0 in 2013), while the average export price of brandy spirits was US\$ 2.6 per liter (down from US\$ 3.9 in 2013). The reduction in average export prices for both bottled brandy and brandy spirits was due to a fall in ethyl alcohol prices globally.

KTW, Bolero & Company and Askaneli brothers are the largest exporters of bottled brandy, according to our estimates.

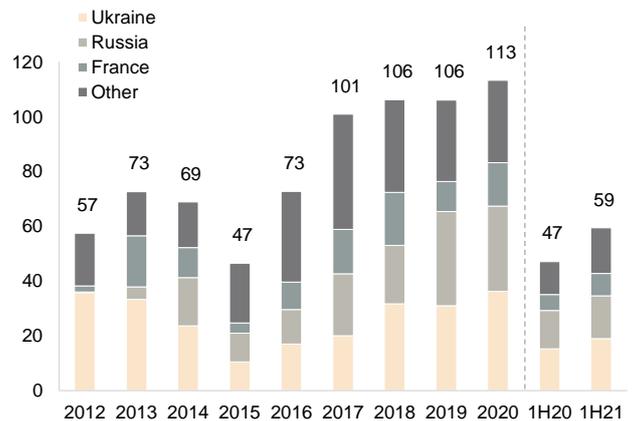
Figure 6: Georgian brandy exports

Georgian brandy exports, mn liters



Source: NWA

Georgian brandy exports by country, US\$ mn



Source: Geostat



Consumer profiles of selected target export markets

We have selected the top four wine consumers worldwide (the US, UK, China and Germany), where Georgia aims to increase its exports. We have analyzed wine drinking habits, spending patterns and factors affecting purchasing decisions in these countries, and formed wine consumer profiles based on the findings. Below we summarize our suggestions for Georgian companies who intend to grow exports to these countries.

We believe that Georgian wine companies should target unique and premium wines to US and UK markets. US is the wealthiest wine consumer among the four selected target export countries, spending US\$10-15 per bottle of wine on average. UK is the second wealthiest wine consumer, spending US\$ 8-11 for a bottle of wine on average. Both the US and UK are mature markets, with the largest cohort of wine drinkers being people aged 55 and over. This cohort is knowledgeable and highly demanding, who hardly favor new types of wine. Considering the purchasing power and 'maturity' of wine drinkers in US and UK, we believe that premium wines, including unique Georgian flavors (like Usakhelouri, Krakhuna, Khikhvi, Khvanchkara, Qvevri wines and others) have high export potential to US and UK in the medium term.

Mass-produced wines like Saperavi, Alazani Valley, Kindzmarauli should be mostly directed to China, we believe. With lowest per capita wine consumption, Chinese wine consumer preferences are evolving, with no need to differentiate Georgian products with unique, indigenous varieties (however these wines would also be welcome in China due to large market size and varied consumer preferences). Most Chinese consumers perceive imported wine to be of better quality, place most importance on a good taste of wine rather than its quality and prefer red wine because of its association with health benefits.

Germany would welcome both Georgian mass-produced wines and unique, indigenous varieties, according to our view. Germany is the world's 4th biggest wine consumer (1,980mn liters of wine consumed in 2020), with high per capita wine consumption, standing at 28.3liters/year. Notably, wine is mostly consumed by German women, while nearly half of the men have never drunk wine, according to Geisenheim University survey among 2,063 respondents. Considering the maturity of German wine drinkers and the fact that women are more frequent wine drinkers who favor semi-sweet/sweet wines, both premium as well as mass-produced Georgian wines would be highly welcome in Germany, according to our view.

US wine consumer profile

USA – World's biggest wine consumer, with **3,300mn liters** of wine consumed in 2020.

Low per capita consumption - **12.3 liters/year** in 2019, 4.6x lower than Portugal, 4.0x lower than France and 3.5x lower than Italy.

US\$ 5.9bn imports of wine in 2020, down 9.3% y/y, 4.5% CAGR over 2009-19.

Georgia's share in total wine imports in 2020 – **0.1%**.

Every 1 in 3 American adults is a regular (monthly) wine drinker. Out of 241mn adults (aged 21+) in US, 118mn drank wine at least once a year and 84mn were regular wine drinkers in 2019, according to Wine Intelligence Research Agency estimates.

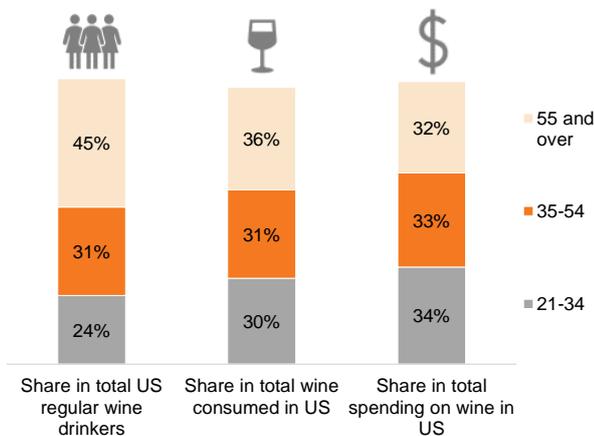


People aged 55 and over are the largest cohort of wine drinkers in US, however they drink and spend substantially less on wine than younger peers. Almost half of US regular wine drinkers were 55+ years old, however they accounted for only 32% of total spending on wine in 2019.

Most US regular wine drinkers spend US\$10-15 for a bottle of wine, with younger generations spending the most per bottle. According to Wine Intelligence, 42% of 21-54 year old regular wine drinkers spend more than US\$15 for a bottle of wine vs 26% of 55+ years old. This may be because older wine consumers are mature and knowledgeable wine drinkers, and therefore are less experimental, while younger consumers are more likely to be higher-priced “premium” wine drinkers.

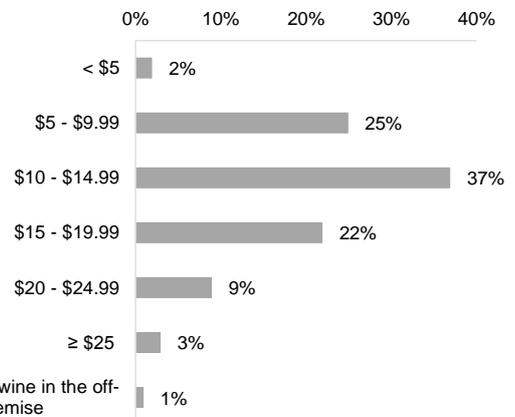
Figure 7: US regular wine drinker profile, 2019

US regular wine drinkers by age, their share in wine consumption and spending



Source: Wine Intelligence survey, n = 3,000

US regular wine drinkers' off-premises spending per bottle of wine



Source: Wine Intelligence survey, n = 7,000

Semi-sweet, smooth and fruity are most preferred wine styles in US, according to survey conducted by Wine Business Institute of Sonoma State University in 2018. Wine Business Institute conducts this survey in every few years and results are mostly similar, with semi-sweet, smooth and fruity wines scoring highest in recent years. Sweet and dry (no sugar) are other types of wine that US consumers enjoy most.

Merlot, Cabernet Sauvignon and Pinot Noir are three most popular red wine varietals in US. According to Wine Intelligence, more than half of US consumers preferred Merlot, followed by Cabernet Sauvignon (48%), Pinot Noir (46%), Zinfandel (34%), Malbec (25%), Shiraz (21%) and other types of red wine in 2019.

Regular drinkers decrease the frequency of wine drinking in the US, driven by gradual transition towards low or no alcohol options. US regular wine drinkers consume wine on average 9.1 times per month in 2019, down from 10.6 times per month in 2008, according to Wine Intelligence. The fall in consumption is driven by younger consumers, who are substituting wine for lower alcohol options or non-alcoholic beverages.

US regular wine drinkers are equally likely to swap wine for lower-alcohol hard seltzer and beer, according to Wine Intelligence. Hard seltzer has become as popular as beer in US in a past few years, driven by health and wellness trends. Hard seltzers are promoted as gluten-free, lower-alcohol beverage (with 4.5%-7% abv), with no more than 100 calories and zero artificial additives. UBS estimates US Hard Seltzer market to quadruple over 2019-21, reaching US\$2.5bn in 2021.



UK wine consumer profile

UK – World’s fifth biggest wine consumer, with **1,330mn liters** of wine consumed in 2020.

Per capita consumption - **23.5 liters/year** in 2019, 2.4x lower than Portugal, 2.1x lower than France and 1.8x lower than Italy.

Imports of wine in 2020 were **US\$ 4.4bn**, down 0.6% y/y, -1.3% CAGR over 2009-19.

Georgia’s share in total wine imports in 2020 – **0.004%**.

Every 1 in 2 UK adults is a regular (monthly) wine drinker. Out of 51.3mn adults in UK, 28.6mn were regular wine drinkers, while 22mn drank wine at least once a week in 2019, according to Wine Intelligence Research Agency estimates.

Similar to US, most of the UK regular wine drinkers are aged 55 and over, however they drink and spend substantially less on wine than their younger peers. Despite 43% of UK regular wine drinkers being 55+ years old, they accounted for only 31% of total spending on wine in 2019.

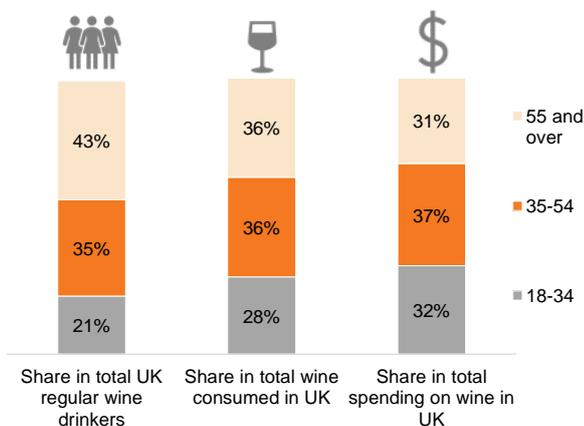
Most UK regular wine drinkers spend £6-7.99 for a bottle of wine, with 18-34 year old consumers spending highest per bottle. According to Wine intelligence, 37% of 18-34-year-old regular wine drinkers spend more than £8 for a bottle of wine vs 29% of 35-54 year olds and 21% of 55+ year olds.

Wine bottle appeal/label design is important for UK consumers. According to Wine Intelligence survey of 1,000 UK regular wine drinkers in 2019, 38% state that the appeal of the bottle and/or label design is important when choosing a wine, up from 26% in 2009.

Crisp white, full bodied red and Prosecco are the UK wine drinkers’ preferred types of wine. According to Wine Drinkers UK, crisp white (e.g. Sauvignon Blanc, Pinot Grigio etc.), full bodied red (e.g. Malbec, Shiraz etc.) and Italian Prosecco are among UK consumer’s top wine preferences, followed by Champagne, light bodied red (e.g. Pinot Noir), Blush Rosé and others.

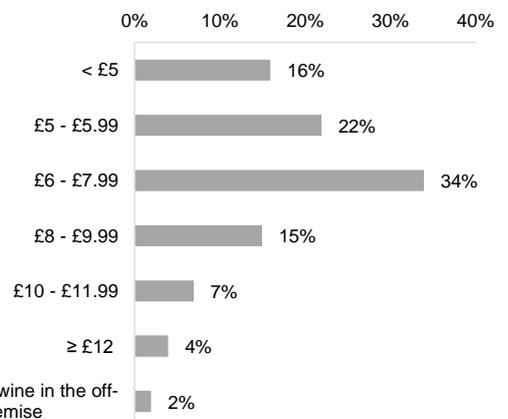
Figure 8: UK regular wine drinker profile, 2019

UK regular wine drinkers by age, their share in wine consumption and spending



Source: Wine Intelligence survey, n = 3,000

UK regular wine drinkers’ off-premise spending per bottle of wine



Source: Wine Intelligence survey, n = 1,000

While there is a Seltzer boom in the US, gin is the strongest competitor to wine in UK. According to Wine Intelligence survey of 1,000 regular wine drinkers, gin is at the



top of 10 wine alternatives preferred by UK consumers, followed by brandy, vodka, beer, cocktails, rum, cider and others in 2019.

UK alcohol drinkers are interested in switching to lower alcohol alternatives for health and sobriety reasons. According to YouGov and Portman Group survey of 1,705 UK alcohol drinkers, almost quarter were likely to switch or have already switched most of their drinking to lower alcoholic options in 2019. These results were similar to a previous survey conducted in 2018, showing that interest in low alcoholic drinks persists among UK consumers. Main reasons for switching include the ability to drive home from social events, participate in social events without drinking excessive amount of alcohol and the possibility of reducing short and long-term physical health problems (such as hangovers, liver disease etc.).

Average frequency of wine drinking among UK regular wine drinkers decreased to 9.1 times per month in 2019, from 11.0 in 2007, according to Wine Intelligence. This also supports the changing preferences of UK consumers towards low or no alcohol alternatives.

China wine consumer profile

China – World's sixth biggest wine consumer, with **1,240mn liters** of wine consumed in 2020.

Lowest per capita consumption – **1.5 liters/year** in 2019, 37.6x lower than Portugal, 33.0x lower than France and 28.7x lower than Italy.

Imports of wine in 2020 were **US\$ 1.8bn**, down 25.3% y/y, 18.2% CAGR over 2009-19.

Georgia's share in total wine imports in 2020 – **0.8%**.

Although China is world's sixth largest wine consumer, its per capita wine consumption is one of the lowest at 1.5 liters/year in 2019, creating significant room for growth. For comparison, per capita wine consumption stands at 19 liters/year in Georgia, 56.4 liters/year in Portugal, 49.5 liters/year in France, 43.0 liters/year in Italy and 27.8 liters/year in Spain.

As opposed to established markets (US, UK, etc.), Chinese regular wine drinkers are increasing their wine consumption. According to Wine Intelligence survey of more than 1,000 regular wine drinkers in Australia, Brazil, China, South Korea, Sweden, the US and UK, most of the Chinese consumers (35%) had increased their consumption, while participants in other countries either did not change or had reduced the amount of their wine consumption in 2019.

Health factors drive wine consumption in China. The Hong Kong Trade Development Council (HKTDC) conducted a survey among 1,440 mainland wine and spirits consumers in May 2020. Of the respondents, 54% cited health benefits as the main reason for buying and drinking wine, followed by taste (39%), stress relief (37%) and other factors.

Red wine is associated with health benefits and hence is most favored in China. Red wine was purchased and consumed by the largest number of HKTDC respondents (94%), followed by white wine (35%), Champagne/sparkling wine (25%) and rosé (13%).

Imported wine is perceived to be of better quality. Mainland wine consumers buy both imported and domestic wine, however more than half of HKTDC survey respondents believed that imported wine has a better taste and is made of high-quality raw materials.



Taste is a decisive factor when purchasing imported wine, far more important than presence of quality certificate (ISO, HACCP etc.). According to HKTDC survey, when purchasing imported wine, 42% of respondents pay most attention to its good taste (including sweetness, acidity and tannin content), followed by brand (32%), production region (31%), grape varieties (30%), quality certification (27%), aroma (19%) and other characteristics.

German wine consumer profile

Germany – World's fourth biggest wine consumer, with **1,980mn liters** of wine consumed in 2020.

Per capita consumption - **28.3 liters/year** in 2019, 2.0x lower than Portugal, 1.7x lower than France and 1.5x lower than Italy.

Imports of wine in 2020 were **US\$ 2.9bn**, down 0.2% y/y, 0.2% CAGR over 2009-19.

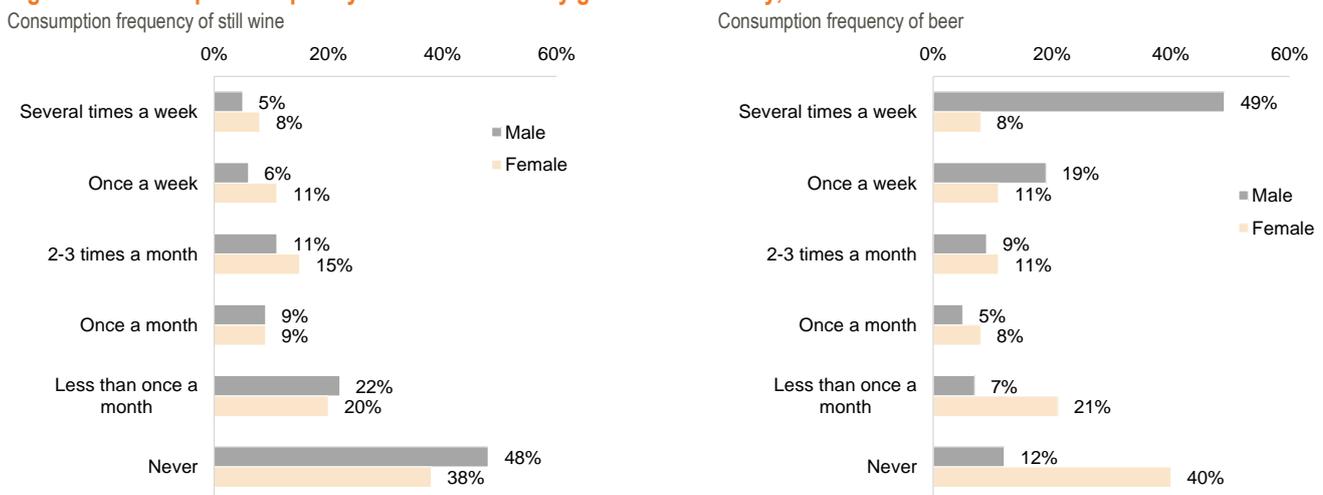
Georgia's share in total wine imports in 2020 – **0.1%**.

Every 1 in 3 German adults is a regular (monthly) wine drinker. Out of 68.6mn adults in Germany, 24.7mn were regular wine drinkers, while 9.6mn drank wine at least once a week, according to Geisenheim University Wine Consumer Analysis in 2018/19.

Although Germans love wine, beer is much more preferred, with a 99.7 liters/year per capita beer consumption in 2019, 4x higher than wine. According to The German Wine Institute (DWI), beer is the favourite alcoholic drink for German consumers, followed by wine, spirits and sparkling wine as of 2019.

Wine is most favored by German women, while men prefer beer. According to Geisenheim University survey among 2,063 people (1,052 female and 1,011 male), 34% of females drank wine at least 2-3 times per month vs 22% of males. Half of the male respondents had never drunk wine vs 38% of the women, and taste was named as main reason for rejecting wine.

Figure 9: Consumption frequency of wine and beer by gender in Germany, 2018/19



Source: Geisenheim University, n=2063

Source: Geisenheim University, n=2063



Wine consumption frequency positively correlated with age growth. In Germany, as age increases, so does the frequency of wine consumption. According to Geisenheim University survey, 34% of 65 and older consumers drink wine at least once a week vs an average of 23% among 16-65-year-old consumers.

Older generations prefer local wine, while younger (16-29 years old) consumers are neutral between local and imported wine. Half of 16-29-year-old wine drinkers prefer imported wine vs 43% of 30-65 year olds, and 32% of consumers aged over 65+ years, according to the Geisenheim University survey.

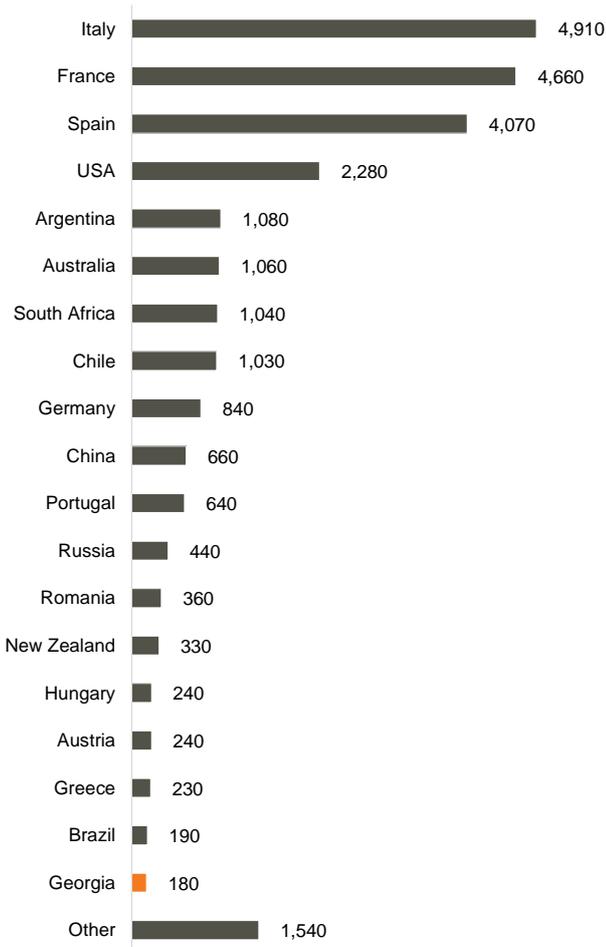
On average, German wine drinkers spend €5 per liter of wine, with older generations spending highest per liter. Average spending on wine rises with increasing age, i.e. 16-29 year old wine drinkers spend on average €4.48 per liter vs spending of €4.98 by 30-49 year olds, €4.94 by 50-65 year olds and €5.29 by those 65 and over, according to Geisenheim University.



Annexes

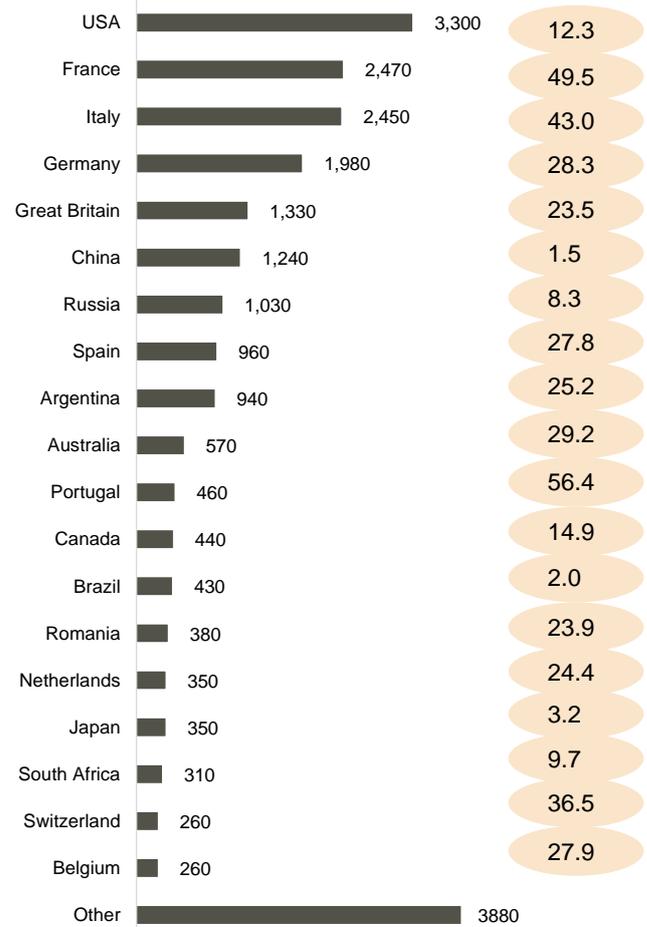
Annex 1: World wine production and consumption, 2020

World wine production, 2020, mn liters



Source: OIV

World wine consumption, 2020, mn liters



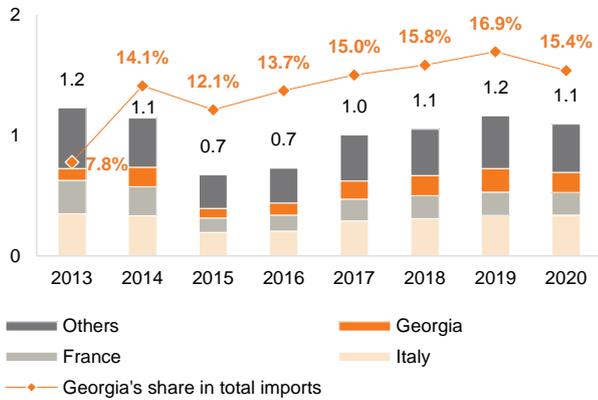
Per capita wine consumption, 2019, liter/year

Source: OIV



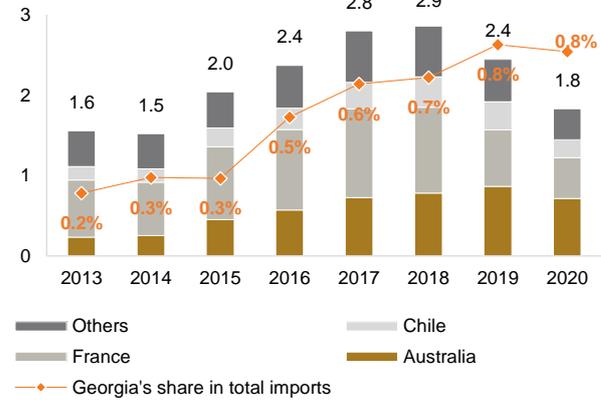
Annex 2: Total wine imports in Georgia's selected key export markets

Wine imports in Russia, US\$ bn



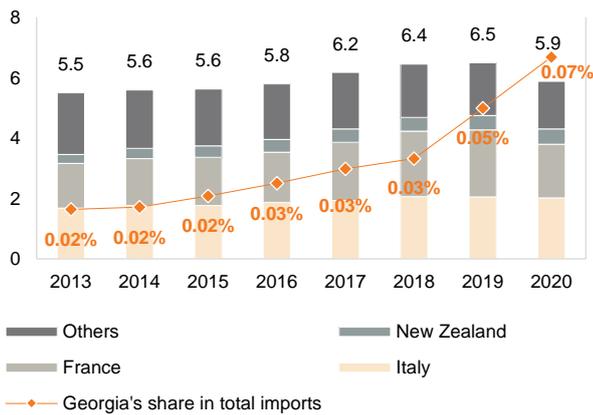
Source: Trademap

Wine imports in China, US\$ bn



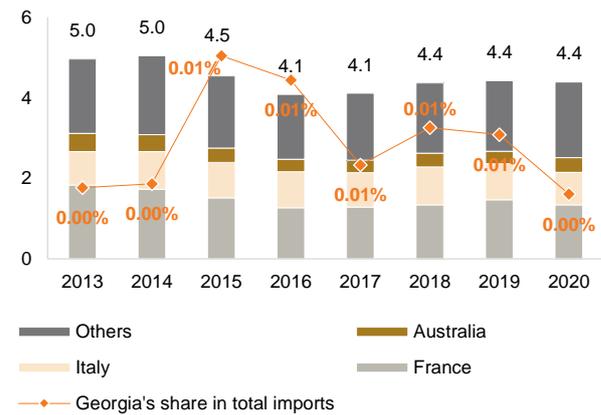
Source: Trademap

Wine imports in USA, US\$ bn



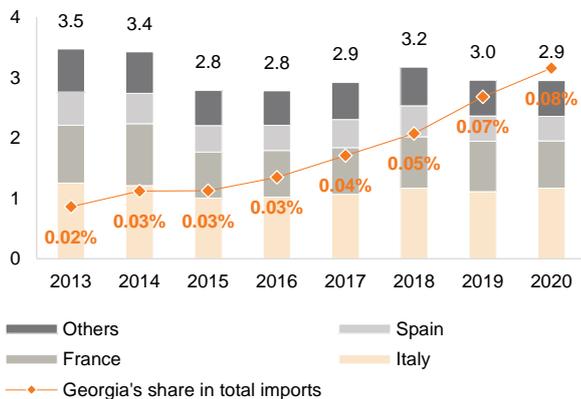
Source: Trademap

Wine imports in UK, US\$ bn



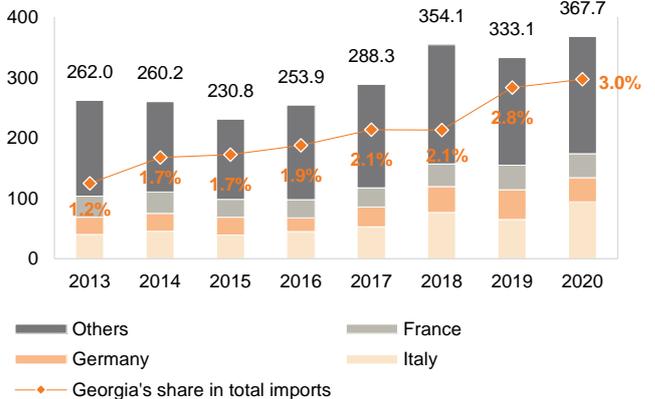
Source: Trademap

Wine imports in Germany, US\$ bn



Source: Trademap

Wine imports in Poland, US\$ mn



Source: Trademap



Annex 3: Wine exports from Georgia by country, 0.75l bottle, mn

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1H20	1H21
Total	14.9	19.0	23.3	46.7	59.1	36.1	49.8	76.7	86.2	93.5	92.4	41.2	46.3
of which:													
Russia	Embargo	Embargo	Embargo	23.0	37.6	18.3	27.2	47.8	53.7	58.4	57.6	25.9	27.9
Ukraine	7.6	9.2	11.0	11.8	7.7	3.4	5.8	8.5	10.7	10.3	10.7	4.6	5.3
China	0.2	0.6	1.2	0.9	1.2	2.7	5.3	7.6	7.0	7.1	4.6	2.5	2.8
Poland	0.9	0.8	1.1	1.3	1.5	1.6	2.3	2.7	3.5	4.1	5.2	2.2	2.9
Kazakhstan	2.1	3.2	4.4	4.5	5.4	5.2	3.4	3.3	3.6	3.6	2.9	1.2	1.9
Belarus	1.2	1.5	1.6	1.6	1.8	0.9	1.2	1.8	1.6	2.8	3.7	1.3	1.1
Latvia	0.6	0.7	1.0	0.9	1.1	1.1	1.3	1.5	1.7	1.5	1.6	0.8	0.8
Lithuania	0.4	0.7	0.7	0.8	0.6	0.7	0.6	0.4	0.5	0.7	0.7	0.3	0.5
Estonia	0.1	0.2	0.4	0.3	0.3	0.5	0.6	0.5	0.6	0.7	0.7	0.3	0.3
USA	0.4	0.4	0.2	0.2	0.2	0.2	0.3	0.5	0.5	0.7	0.9	0.4	0.5
Germany	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.5	0.7	0.7	0.4	0.4
Moldova	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.3	0.2	0.1
Israel	0.1	0.2	0.1	0.1	0.0	0.0	0.1	0.2	0.2	0.3	0.3	0.2	0.3
Mongolia	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.2	0.1	0.2
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Great Britain	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Canada	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Kyrgyzstan	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.1	0.1	0.0	0.2
Azerbaijan	0.4	0.5	0.4	0.2	0.3	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1
Turkmenistan	0.0	-	-	0.0	0.1	0.0	0.0	0.1	0.2	0.1	0.2	0.1	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: NWA



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Head of Research

Eva Bochorishvili | evabochorishvili@gt.ge

Address: 3 A. Pushkini street, Tbilisi 0105, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge

Head of Macroeconomic Analysis and Forecasting

Lasha Kavtaradze | lashakavtaradze@gt.ge

Head of Analytics

Giorgi Iremashvili | giremashvili@gt.ge

Head of Sector Research

Bachana Shengelia | bshengelia@gt.ge

Senior Associate

Mariam Chakhvashvili | mchakhvashvili@gt.ge

Senior Associate

Ana Nachkebia | ananachkebia@gt.ge

Senior Associate

Kakhaber Samkurashvili | ksamkurashvili@gt.ge

Senior Analyst

Tatia Mamrikishvili | tmamrikishvili@gt.ge

Senior Analyst

Nino Peranidze | ninoperanidze@gt.ge

Analyst

Nikoloz Ghambashidze | nikolozghambashidze@gt.ge