



**TBC CAPITAL**

# **GEORGIAN WINE INDUSTRY OVERVIEW**

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Sector Report

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# GEORGIAN WINE INDUSTRY IN BRIEF

**The worldwide wine industry's export** has seen remarkable growth due to the increased global wine consumption. World wine production slightly decreased owing to the unfavorable weather conditions in several dominant wine-producing countries. The share of Georgian wine export is negligible in top wine importer countries, while in Russian wine import Georgian wine amounted to 19% in USD terms.

In 2021, the **Georgian wine export reached the highest number** amounting to USD 234 MLN. Russia remained the dominant buyer of Georgian wine. Its share in total Georgian wine export significantly decreased and amounted to 56%, the lowest percentage since the resumed export to Russia.

Poland, the USA, the UK, Japan, Germany, China, and the Baltic countries are the target markets for Georgian wine. Due to the slow diversification efforts, the value of these markets slightly increased. We expect more active diversification in strategic markets in the following years.

**Ukraine and Russia remained the top export destination countries in 2021.** The war in Ukraine had dramatic outcome for the Georgian wine market in the first months. By precise observation of the first half of 2022, the wine export to Ukraine practically vanished in 2Q of the year. However, the cumulative drop in total Georgian wine export was negligible relative to the previous year in the same period as producers managed to direct their produce to other markets. Although the YoY growth rate of the wine export to Russia is also in the negative growth territory amounting to -3%, an increase is expected by the end of 2022.

Throughout the years red wine exports from Georgia have significantly outpaced white wine exports. 2021 was not an exception and red wine amounted to 75% of the export. Although the primary strategic markets' tastes are diverse, the red semi-sweet remains the favorite wine variety for international consumers.

**Georgian wine production posted a noticeable increase in 2021** due to the fruitful harvest of 2020 and possible stocks of natural wine\*. Grape harvest posted a significant decline in 2021 owing to the heavy hailstorm in the Kakheti region, therefore low wine production is expected. Rkatsiteli and Saperavi remained the dominant grape varieties on the market.

**Domestic wine consumption** decreased throughout the years and reached the lowest point in 2021, with 24 MLN liters. The wine remains the most popular alcoholic beverage among Georgian households, with an 87% share in total domestic alcohol consumption in 2021. The consumption of own-produced wine represents 99% of the Georgian wine consumption per household.

The increase of price of Georgian wine is lower than the general inflation in the country. However, the average retail price of bottled wine increased significantly in 2021 relative to 2020. The positive YoY growth trend continues in 2022 1H on the back of rising production and marketing costs.

Note: in international trade (export, import) of wine is always considered still wine <2L, excl. sparkling wine.  
Production of wine in Georgia includes only formal production, excl. sparkling wine.  
\*Natural Wine - unadulterated fermented grape juice with no additives in the winemaking process.

# GEORGIAN WINE INDUSTRY IN BRIEF

**The turnover of Georgian wine producers skyrocketed in 2021**, with 76% of the export share. The number of active registered businesses in the wine industry has an increasing trend reaching the highest point in 2021. Profitability metrics show that profitability has been slowly declining since 2017, with the worst performance recorded in 2020 due to the pandemic-related difficulties, such as growing administrative expenses, higher borrowing with increased financial costs, and larger exposure to foreign exchange risk. The reduction in profitability is the most evident in the Net Profit Margin, which turned negative as many of the wine producers reported period losses. The 2021 figures indicate that profitability has significantly improved since 2020, with a Gross Margin of 41%, EBITDA Margin of 26%, and Net Profit Margin as high as 22%.

The Georgian wine sector is highly vulnerable to global political and economic factors considering the large share of exports in Georgian wine turnover. **The rest of 2022 is expected to be turbulently** driven by the war in Ukraine and the energy crisis. We forecast that Georgian wine will be sold in negligent volume to Ukraine by the end of 2022, demand in the Russian market and slow diversification to other markets should partially compensate for this loss for the Georgian wine market. We expect that by the end of 2022, the Georgian wine export will decrease, followed by a slow increase in 2023 and a 9% growth in the following years.



**THE GLOBAL TENDENCIES IN  
THE WINE INDUSTRY**

# Production and Consumption

In 2021 wine production decreased in several top export countries of the EU and increased in Italy, Australia, Chile, and etc. Ultimately, the global wine production slightly decreased relative to the previous year, amounting to 260 MLN hectoliters, in 2021.

In 2021, production of wine in Italy, France, and Spain together amounted to 123 MLN hectoliters resulting in 47% of the whole world's wine production. Among the top 3 wine-producing countries, only Italy posted high growth, while, due to the unfavorable weather conditions, Spain and France recorded negative results.

20 countries produced 92% of the total global wine output in 2021. Georgia took 20th place among these countries. In 2021, the production of wine, including sparkling wine, in Georgia posted 16% growth relative to the previous year and amounted to 1.8 MLN hectoliters.

In 2021, after uplifting COVID-19 pandemic restrictions, reopening of the HORECA sector, and slow recovery of tourism, the global wine consumption posted positive growth and reached to 236 MLN hectoliters.

The USA maintained its status of a top wine consuming country. Among the world regions, EU was a leader with 114 MLN hectoliters of wine consumption and a 48% share in global wine consumption.

Georgia, with a small size of population and developing economy, traditionally, has been consuming much less wine compared to the top wine-consuming countries. Loosening of COVID-19 restrictions and recovery of tourism benefited domestic wine consumption and resulted in 17% growth in 2021 relative to 2020, according to OIV methodology\*.

Figure 01. Main Wine Producing Countries, 2018 - 2021 (MLN, HL)

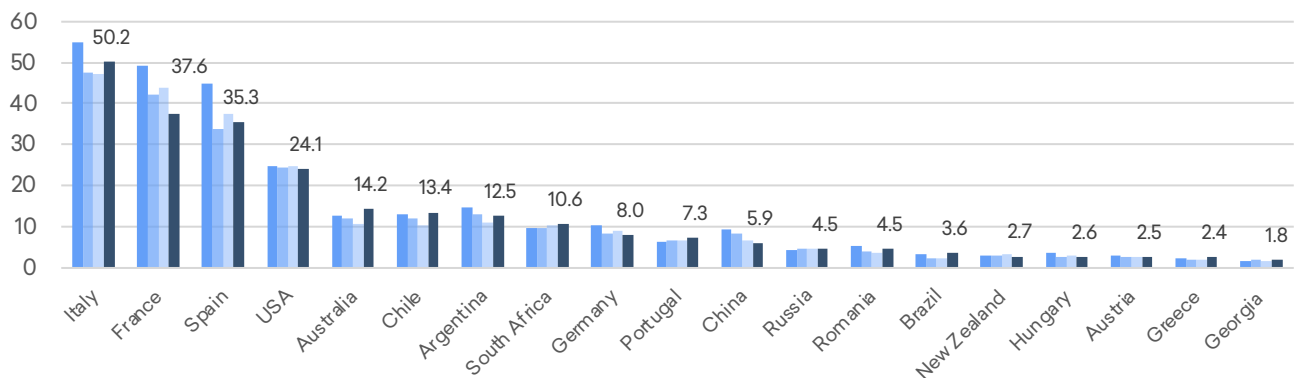
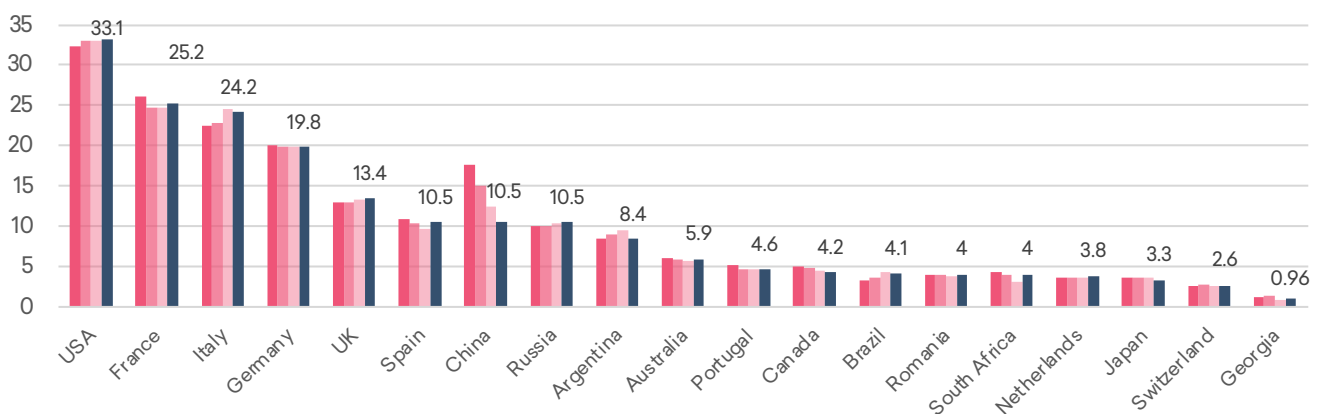


Figure 02. Main Wine Consumer Countries and Georgia, 2018- 2021 (MLN,HL)



Source: OIV, Geostat, TBC Capital.  
 \* Georgian Wine consumption is calculated based on OIV Methodology. OIV: "Apparent wine consumption is a proxy measure for consumption defined as production plus imports minus exports adjusting for changes in inventories".  
 HL- Hectoliters.  
 Data labels on the figures 01 and 02 indicate the values reached in 2021.

# International Trade: Export

The wine sector has proven to be less vulnerable to the current crisis. The restrictions imposed due to the pandemic devastated many industries globally and only marginally affected worldwide wine export in 2020. Ecommerce, new packaging solutions, and relatively stable domestic consumption in major wine-consuming countries contributed to the industry's resilience.

The lifting of COVID-19 restrictions in 2021, of course, had a positive impact on the global wine export value and volume. In terms of volume, the world wine export amounted to 56.6 MLN hectoliters with a +3% YoY growth. The global wine exports reached a record high value of USD 27.5 BN, resulting in a 10% and 15% rise compared to 2019 and 2020, respectively.

France remained the market leader, with a wine export value of USD 8 BN, followed by Italy and Spain. These three countries amounted to 58% of global wine exports. All the top 10 wine export countries have significant rises in export value, except Australia posting a 26% reduction relative to the previous year. The decline is a result of high deposit tariffs on Australian bottled wine imported to mainland China, one of the top wine destinations for the country.

Georgian wine export continued to increase and remained among the top 20 wine exporter countries.

Figure 03. Global Wine Export and Import Trend (BN, USD)

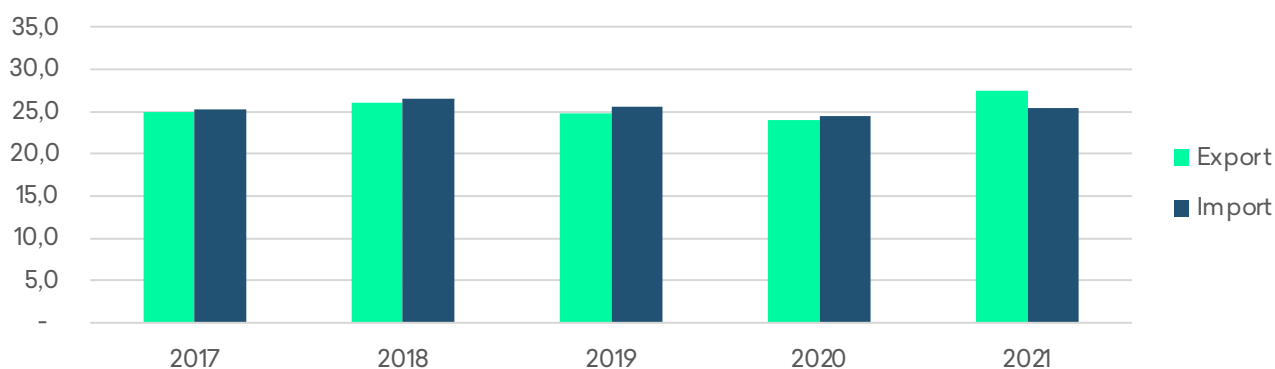
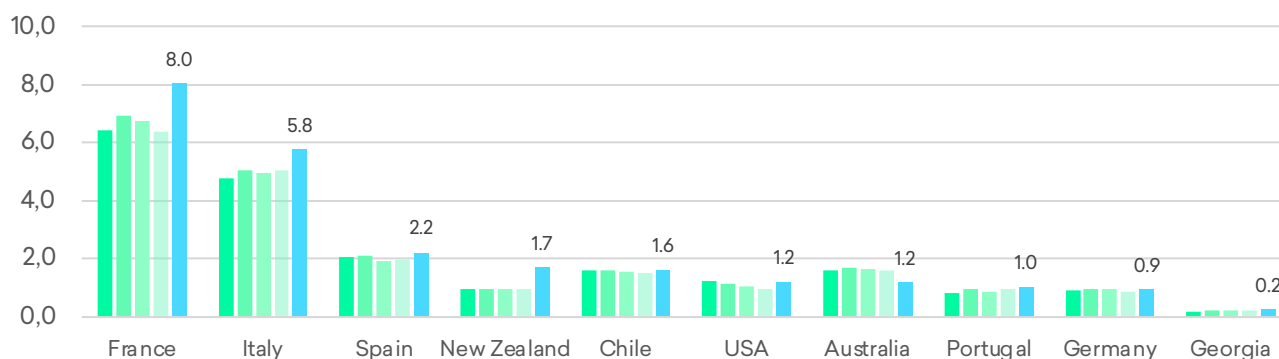


Figure 04. Top Wine Exporter Countries in 2017-2021 (BN,USD)



Source: Comtrade.

Note: export of wine = export of still wine, <2L, excluding sparkling wine.

# International Trade: Import

The USA, the UK, and Germany were the top 3 wine-importing countries in terms of value in 2021. Together, they imported USD 10.3 BN worth of wine, which accounted for 40% of the world's total.

In 2021, the share of Georgian wine exports is negligible in top wine importer countries. In 2021, Georgian wine export amounted to a 0.1% share of the US wine imports. The only large market, where Georgia has significant share in total imports is Russia. According to 2020 data, Georgian wine in the Russian wine import market possessed a 19% share, coming second after Italy (24%).

Although Germany and the USA were among the top 10 wine export countries, their wine imports significantly exceeded their exports. The USA had the highest trade deficit in 2021, amounting to USD 3.8 BN, followed by the UK, Canada, and Germany.

France, Italy, and Spain had the highest trade surplus. They, like Georgia, are traditional wine-producing countries that import extremely few wines relative to the value of their exports.

Figure 05. Top Wine Importer Countries in 2017-2021 (BN, USD)\*

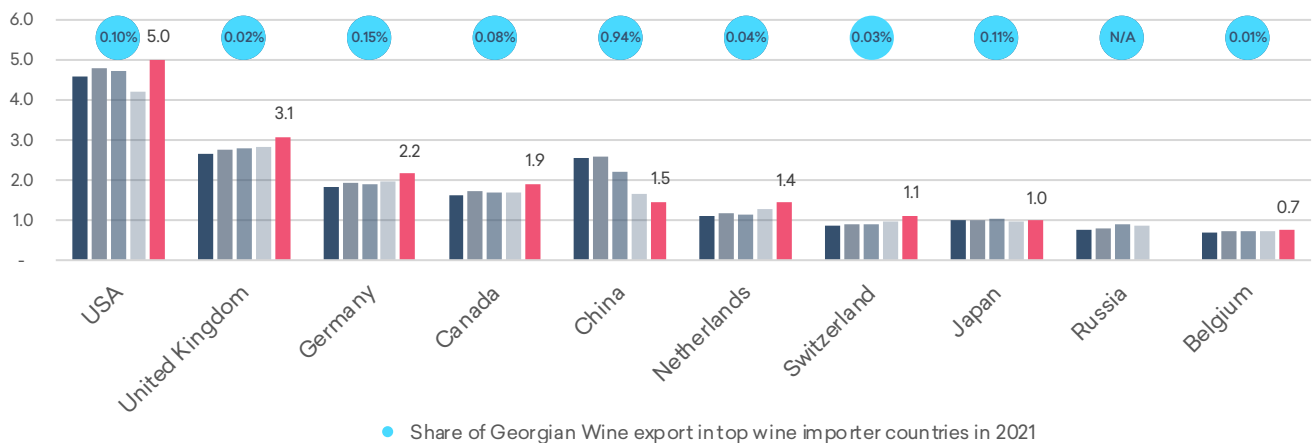


Figure 06. Countries with the Highest Trade Surplus in 2019-2021 (BN, USD)

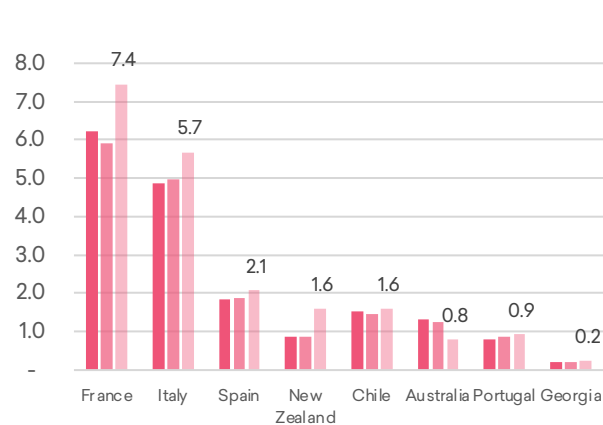
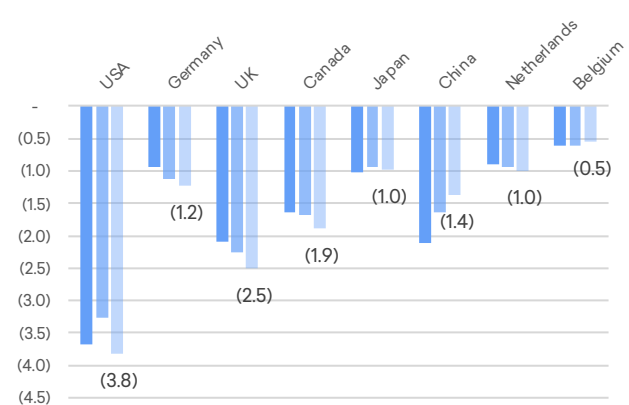


Figure 07. Countries with the Highest Trade Deficit in 2019-2021 (BN, USD)



Source: Comtrade.  
 Note: Trade Surplus = EX - IM > 0; Trade Deficit = EX - IM < 0.  
 \* Import of wine = import of still wine < 2L, excluding sparkling wine; Latest data available for Russian wine import was 2020.





**GEORGIAN WINE  
INDUSTRY**

# Demand: International Trade

In 2021, 20 countries were responsible for 96% of the total world wine export. Georgia stood 14th with an export value of USD 234 MLN, up one spot from the previous year and returning to the position it had in 2019.

Wine export plays a significant role in Georgian international trade. In 2021, wine made from fresh grapes had the fourth-largest share - 6% - in total Georgia's exports.

COVID-19 outburst in 2020 resulted in 6% decrease of Georgian wine exports relative to 2019. The total Georgian wine export in 2021 improved significantly compared to previous years, reaching an all-time high.

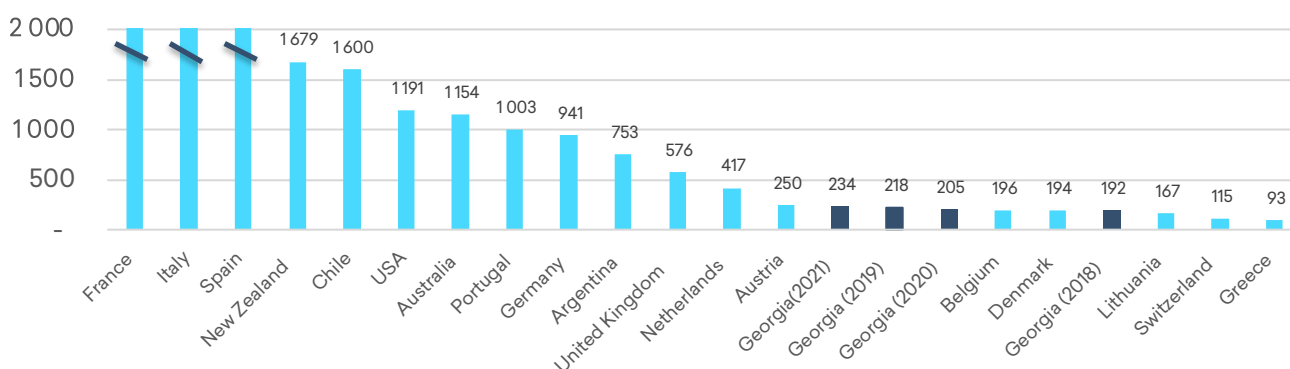
Russia remained the dominant buyer of Georgian wine in 2021.

Its share in Georgian wine export reached the lowest point since the resumed export to Russia.

In 2021, Ukraine (10%), Eastern EU (10%), CIS countries (10%), and China (7%) followed Russia with significant shares in Georgian wine export. The leading export destination countries for Georgia in 2021, in Eastern Europe, were: Poland (61%), and Baltic countries (38%).

The main Georgian wine importing countries of Western Europe were: Germany (59%), Sweden (11%), and France (8%). Among the CIS countries Belarus (48%), Kazakhstan (42%), and Moldova (3%) were the leaders.

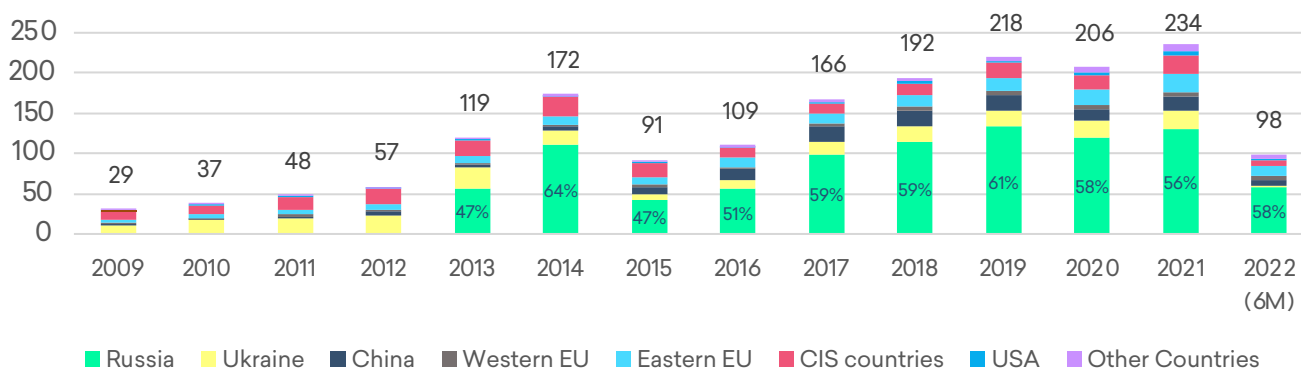
**Figure 08. Top Countries Exporting Wine in 2021 – Export Value (MLN, USD)**



Source : Comtrade.

Note: Countries except Georgia are as of FY 2021. France, Italy and Spain are off axis limits, with export values totaling USD 8.0 BN, USD 5.8 BN, and USD 2.2 BN, respectively.

**Figure 09. Wine Export from Georgia by Countries (MLN, USD)**



Source: Comtrade, Geostat.

Note: export of Wine = export of still wine, <2L, excluding sparkling wine.

# Demand: International Trade

Since the embargo, steps were taken to raise awareness of Georgian wine in the strategic markets: Poland, China, the Baltic countries, the US, the UK, Germany, and Japan\*. Entry in the target markets required higher-quality products. Therefore Georgian wine producers started to concentrate on the quality of grapes and the wine production process.

In 2021, according to Georgian Wine Agency (GWA), the quality monitoring of Georgian wines improved. Despite the pandemic, export to strategic markets grew by 20% relative to 2019.

The total export to the target markets reached an all-time high, USD 49 MLN, in 2021. Traditionally, Poland, China, and the Baltic countries were the leaders among the strategic countries.

In 2021, the UK and the USA significantly improved their positions in total Georgian wine exports to target markets with 10% and 4% shares, respectively. The UK posted the highest YoY growth rate among the target markets, amounting to 50%, followed by China and Poland with 23% each.

Figure 10. Georgian Wine Export to Target Markets (MLN, USD)

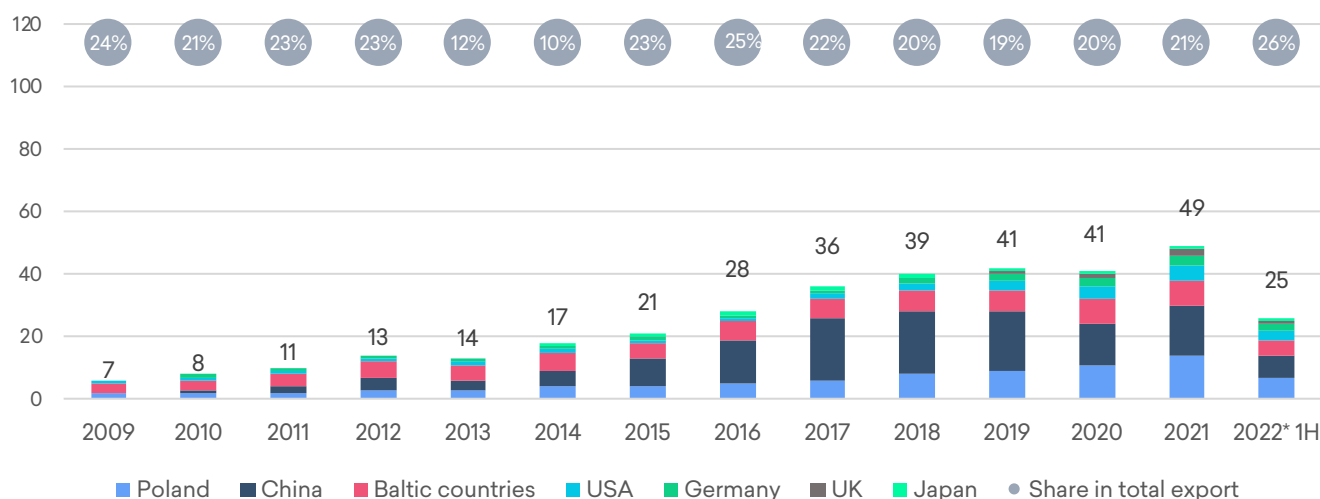
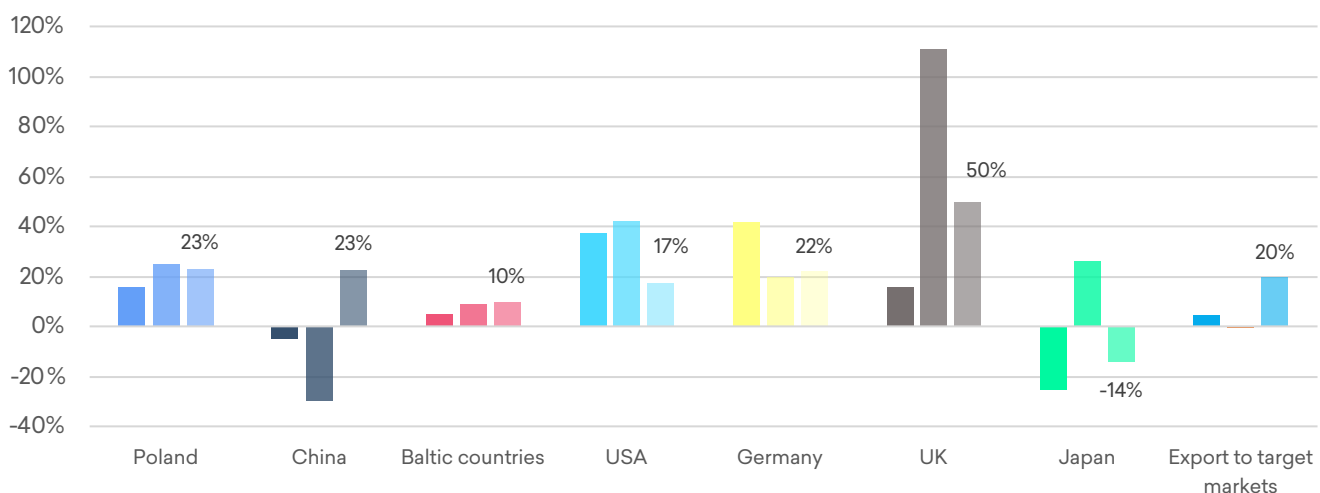


Figure 11. YoY Growth of Georgian Wine Export to Target Markets, 2019-2021



Source: Geostat.  
 Note: export of wine = export of still wine <2L, excluding sparkling wine.  
 \* Strategic/target markets are defined by GWA.

# Demand: International Trade

Since March 2022, when the crisis between Russia and Ukraine began, the Georgian wine sector found itself in a stupor.

The Georgian wine industry had positive cumulative growth in the first 2 months of 2022 compared to the previous year, but since the war began, the trend reversed and shifted to the negative growth territory. Georgian exporting companies had no resolution for the emergency in March and were waiting for a clearer picture.

In June 2022, the YoY growth rate fell back into negative territory after the positive result in May of the same year. However, in numbers, it reached the highest point relative to all previous months in 2022, with a lower share of the Russian market.

The cumulative growth rate in total Georgian wine export posted marginal decline in 2022 1 H VS 2021 in the same period.

Although the YoY growth rate of the wine export to Russia is also in the negative growth territory amounting to -3%, an increase is expected by the end of 2022. Ukraine had a significant drop in Georgian wine export due to the war. The growth of the first half of 2022 without Ukraine increased relative to the same period of 2021 (+3%).

The USA, Western EU, and Eastern EU all enjoy high cumulative growth rates relative to the previous year. This might be the outcome of the Georgian winemakers' efforts to diversify their target market portfolio and reduce dependency on Russian market. However, Russia remained the largest chunk in the top 5 export destination countries for Georgia, followed by Poland and China.

Figure 12. Precise Picture of Georgian Wine Export in 2022 (MLN, USD)

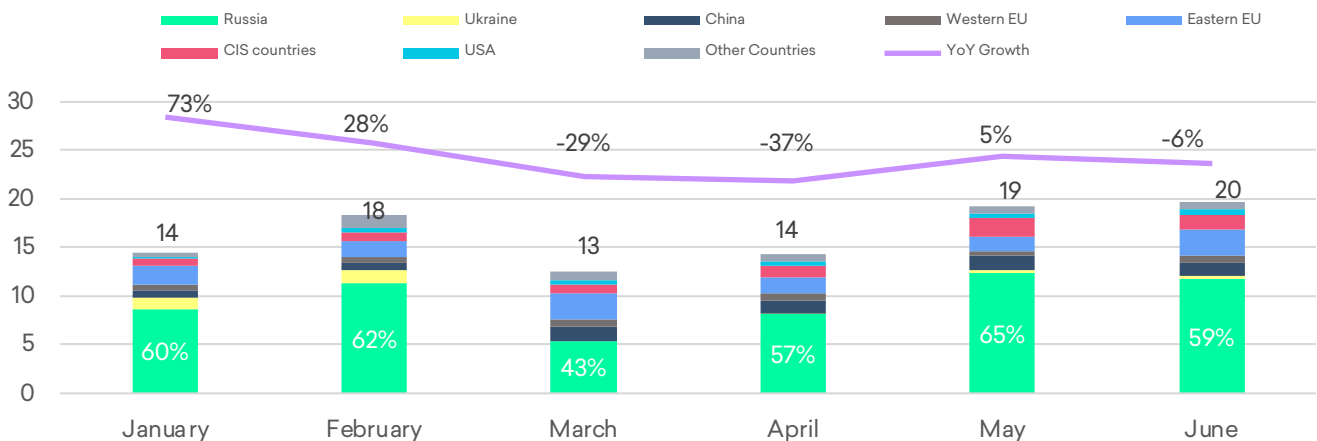


Figure 13. Cumulative YoY Growth of Georgian Wine Export 2022 1H/2021 1H

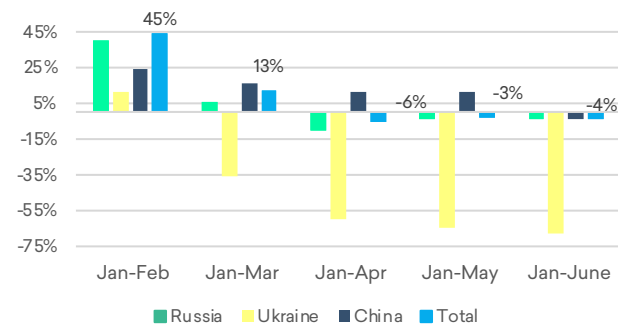
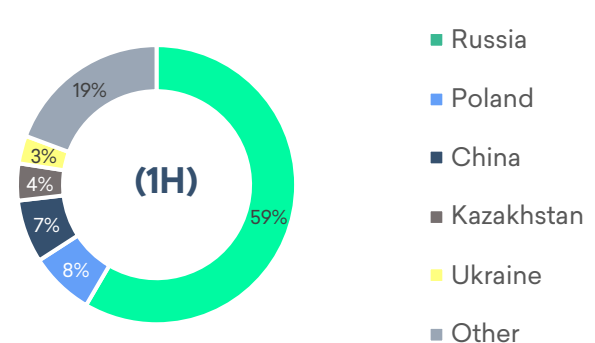


Figure 14. Top 5 Export Countries in 2022 (1H)



Source: Geostat.  
 Note: EU - European Union.  
 Export of wine = export of wine < 2L, excluding sparkling wine.

# Demand: International Trade

Over the years, red wine exports have significantly outpaced white wine exports, accounting for 75% of total exports in 2021. The majority of the wine is red semi-sweet (48%), followed by red dry (19%) and red semi-dry (7%). The semi-sweet wine type is a leader among the white wines, amounting to 13%.

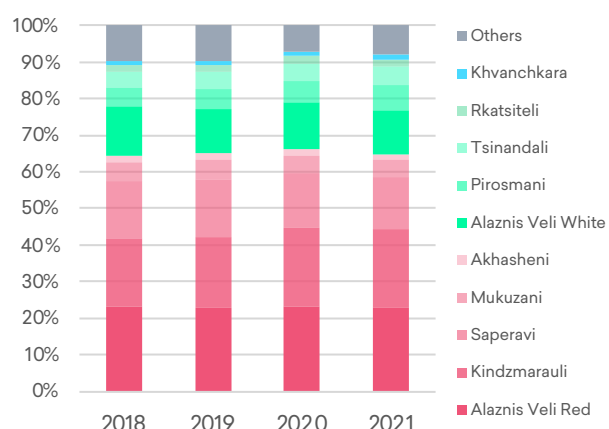
Alaznis Veli (Red), Kindzmarauli, and Saperavi continue to dominate red wine exports, amounting to 60% of total wine export in 2021. The high proportion of red semi-sweet wines in Georgian wine export is due to consumer preferences in the CIS and Eastern EU countries, which are the primary buyers of Georgian wine.

Wine export differs by destination markets. In 2021, red dry wines accounted for 51% of the

value in China, while white dry wines represented 43% of the value in the Western EU. As for CIS, Ukraine, and Kazakhstan, the major part of the wine export is the red semi-sweet type of wine (44%, 40%, and 32%, respectively). Also, this type of wine accounted for more than half of Georgian wine export to Russia and the eastern EU.

The primary strategic markets' tastes are diverse. Almost one-third of the Georgian wine exported to the USA is white dry type, with red semi-sweet and red dry as a runner-up. Polish customers prefer Georgian red semi-sweet followed by the red dry and the white-dry wines.

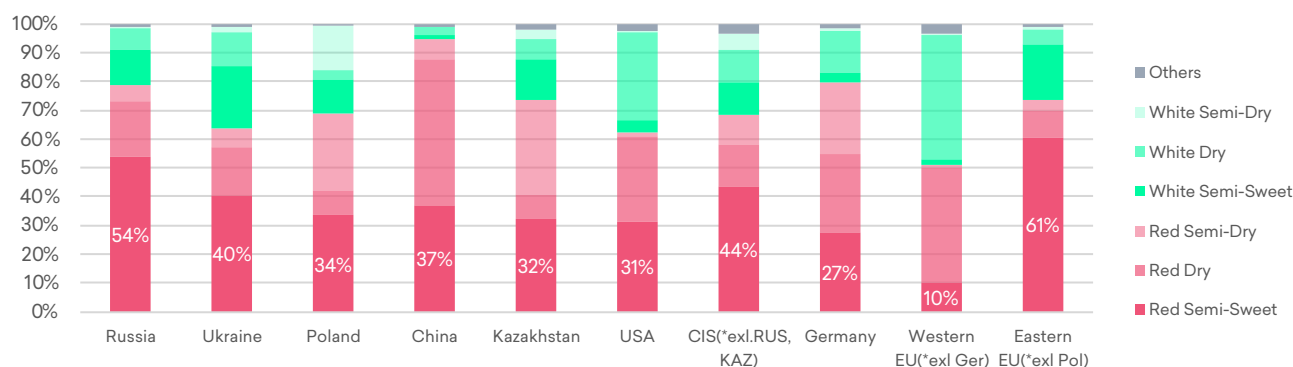
**Figure 15. Georgian Wine Export by Wine Species (Liters)**



**Figure 16. Georgian Wine Exports by Wine Varieties (Liters)**



**Figure 17. Georgian Wine Exports in Top Export Markets by Type of Wine, 2021 (Liters)**



Source: GWA, TBC Capital.  
Note: export of still wine (0.75L), excluding sparkling wine.

# Wine Supply in Georgia

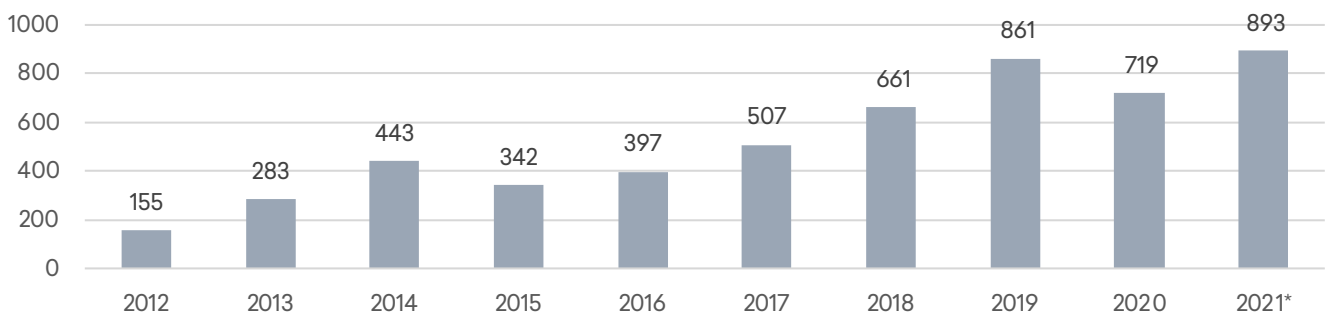
Georgian wine production started to increase after Russia lifted the embargo in 2013. However, the economic crisis began in Russia in 2014, and Georgian wine production fell again in 2015. Georgian wine industry intensified focus on diversification to alternate markets to hedge the risks arising from dependency on Russia. The new target markets required higher quality wine. The Georgian wine companies started to purchase vineyards to control the wine quality from the beginning of production by choosing themselves crops, soil, fertilizers, etc. GoG and GWA also participated in wine quality control to help winemakers satisfy the global wine market demand. In 2021, according to the GWA, the total registered vineyard surface area amounted to 40K ha in Kakheti and Racha regions.

Since 2016 Georgian wine production had an upward trend reaching the highest volume in 2019, amounting to 14 MLN decaliters.

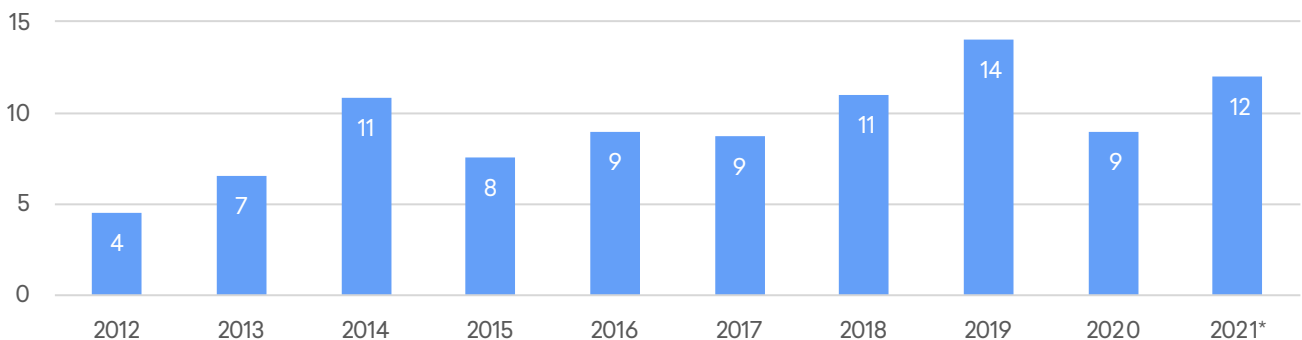
In 2020 the Georgian wine production decreased by 16% relative to the previous year in terms of monetary value. The reason is partially attributable to the Covid-19 pandemic. Georgian wine producers were uncertain about future export possibilities, and logistics slowed down. These might have led Georgian wine producers to save the natural wine\* and use the stock in better times. Domestic wine consumption was not an option owing to the lockdowns.

Even though the pandemic continued with partial restrictions in 2021, wine production in monetary value increased by 24% and reached the highest value, on the back of a significantly fruitful harvest in 2020 and stocks of natural wine from 2020.

**Figure 18. Wine Produced in Georgia (Formal Production) – Value (MLN, GEL)**



**Figure 19. Wine Produced in Georgia (Formal Production) – Volume (MLN, DECALITER)**



Source: Geostat.  
 Note: wine production, excluding sparkling wine production.  
 \*Natural Wine - unadulterated fermented grape juice with no additives in the winemaking process.

# Wine Supply in Georgia

Since 2016, the total harvest of grapes had an upward trend and reached its highest level in 2020. However, the trend reversed and declined in 2021. The reason is partially linked to the heavy hailstorm in the Kakheti region at the end of the 2021 summer (GWA).

Traditionally in Georgia, white grapes occupied a significant part of the production. In 2021, the share of red grapes increased to 32% of the total harvest, while the red grape harvest decreased by 8% relative to the previous year.

Nearly three-quarters of the grape was harvested in Kakheti, the region of wineries and vineyards in Georgia, followed by Imereti with 11% and Shida Kartli – 7%. Qvemo Kartli, Mtskheta-Mtianeti, Racha-Lechkhumi, and Qvemo Svaneti have scarce vineyard areas and a small share of the harvest, 2% each. Racha-Lechkhumi and Qvemo Svaneti are famous for rare grape varieties and high concentrations of PDO\* wines.

Figure 20. Grapes Total Harvest by Type of Grapes (000', TONS)

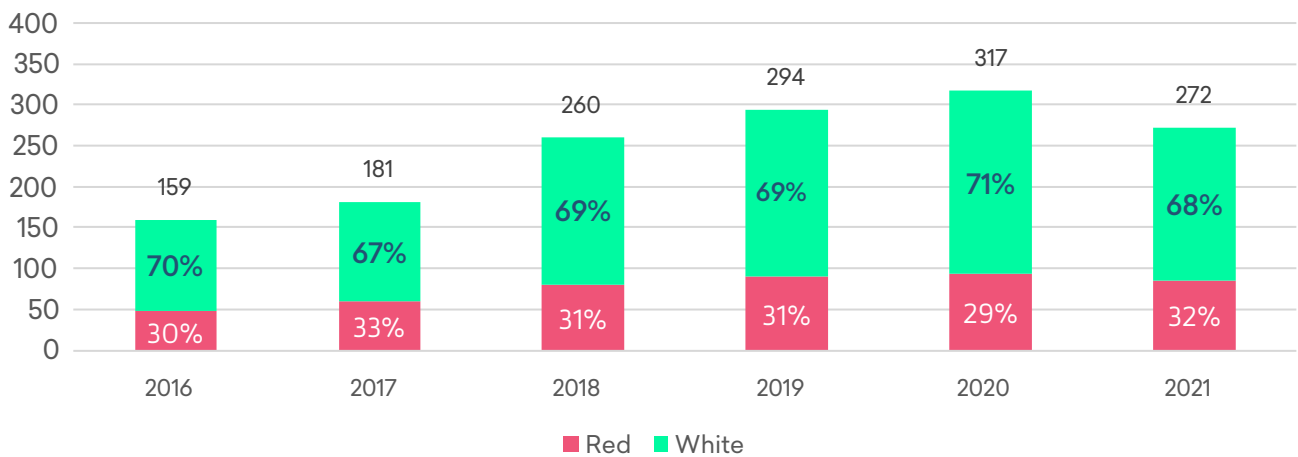
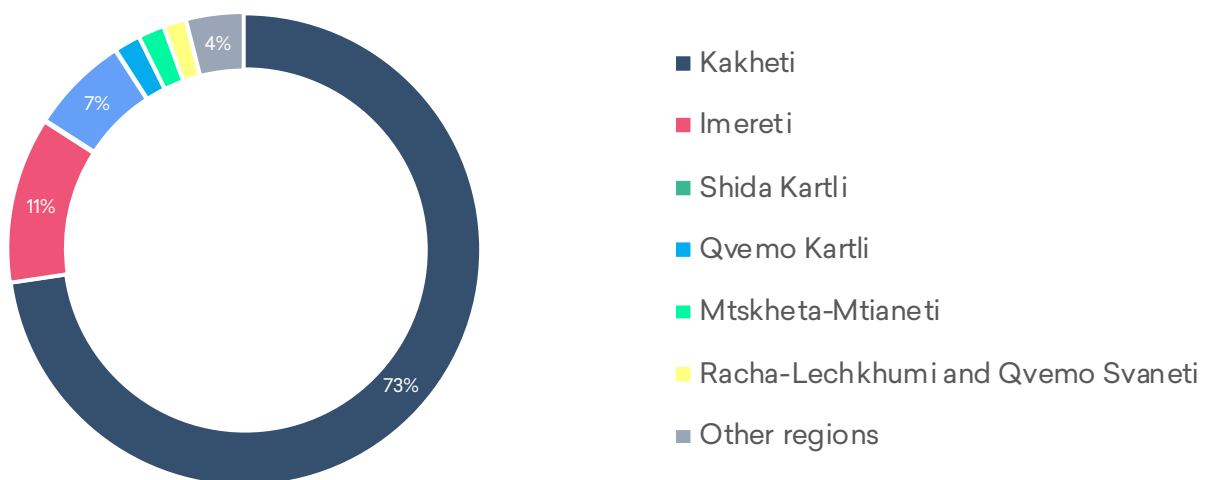


Figure 21. Grapes Total Harvest Share by Regions, 2021



Source: Geostat.  
\* PDO: Protected Designation of Origin.

# Wine Supply in Georgia

The total amount of processed grapes decreased in 2021. Rkatsiteli, the Georgian white grape, traditionally possessed a significant share of the processed grapes. However, the percentage of this type of processed grapes decreased by 3 pp, relative to the previous year. The reason behind the drop could be the increased demand for the red type of wine. Saperavi improved its share by 5pp compared to 2020.

The share of other grapes (including Kakhuri Mtsvane, Alexandrouli Mujuretuli) varieties reduced by 3 pp relative to the previous year.

The unusually large share of Kakhuri Mtsvane in total processed grapes in 2017 can be partially explained by the increased demand from the wine companies for this grape variety.

By the Georgian government's decision, a subsidy program was supporting the 2021 viticulture, and Rkatsiteli and Kakhuri Mtsvane grape varieties were subsidized in the Kakheti region and Alexandrouli-Mujuretuli grapes in the Racha region.

Figure 22. Processed Grapes by Species (000', TONS)

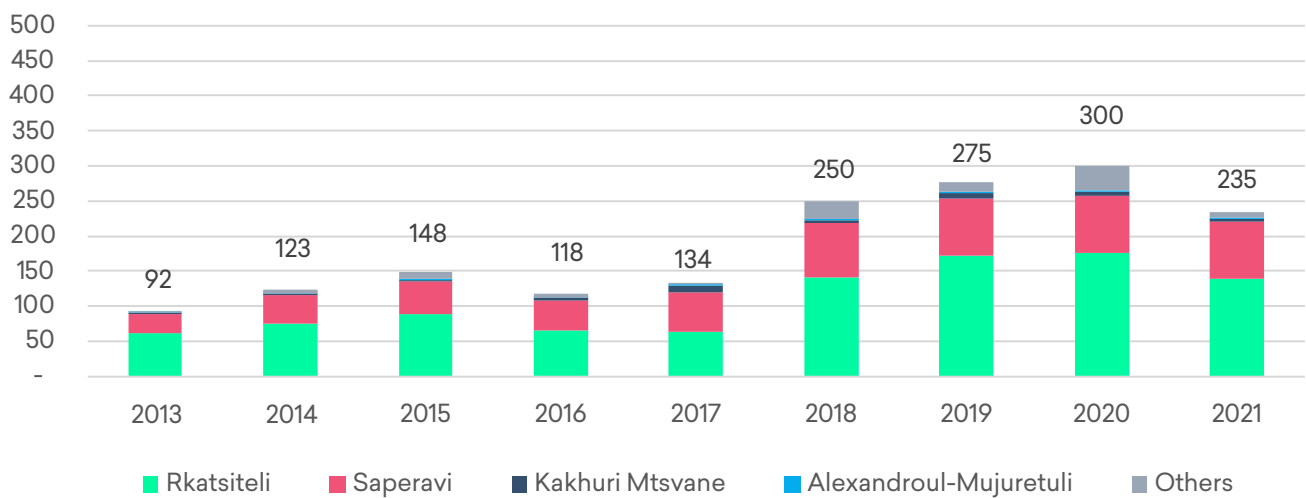
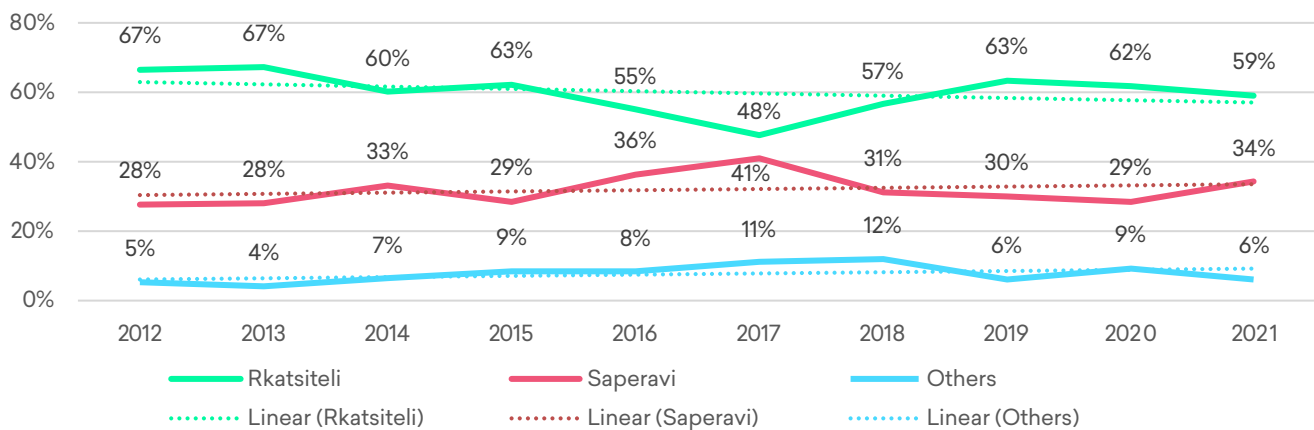


Figure 23. Share of Grape Species in Total Processed Grapes



Source: GWA.





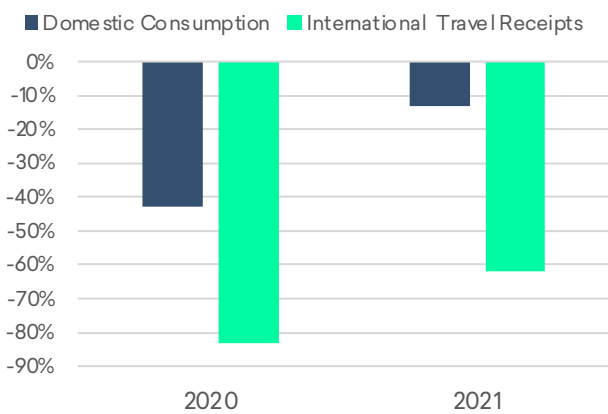
# LOCAL WINE MARKET

# Tourism: a Major Driver

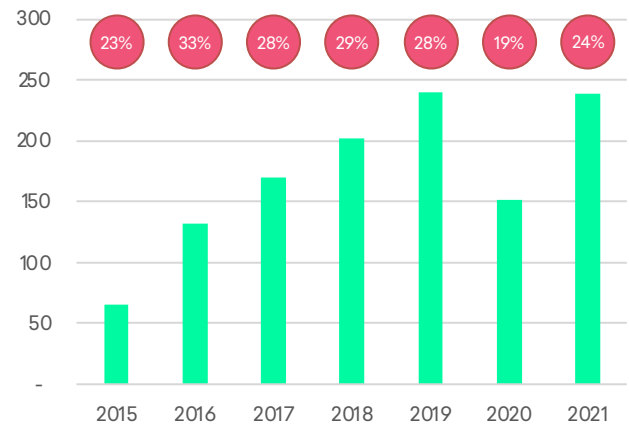
Domestic consumption of wine generated 24% of the total revenue of the Georgian wine industry in 2021. Tourism is the significant driver of local wine consumption in Georgia, and the pandemic gave a clear picture of this relationship. In 2020 domestic consumption declined by 43% YoY in USD terms and accounted for a 19% share of total turnover. The improved results of the tourism industry in 2021 led domestic wine consumption to recover to 87% of its 2019 level.

In 2021, domestic wine consumption and expenditure increased due to the lifting of pandemic restrictions. In 2022, we expect growth in domestic wine consumption due to the high recovery level of revenues generated by international visitors and the migration from Ukraine, Russia, and Belarus.

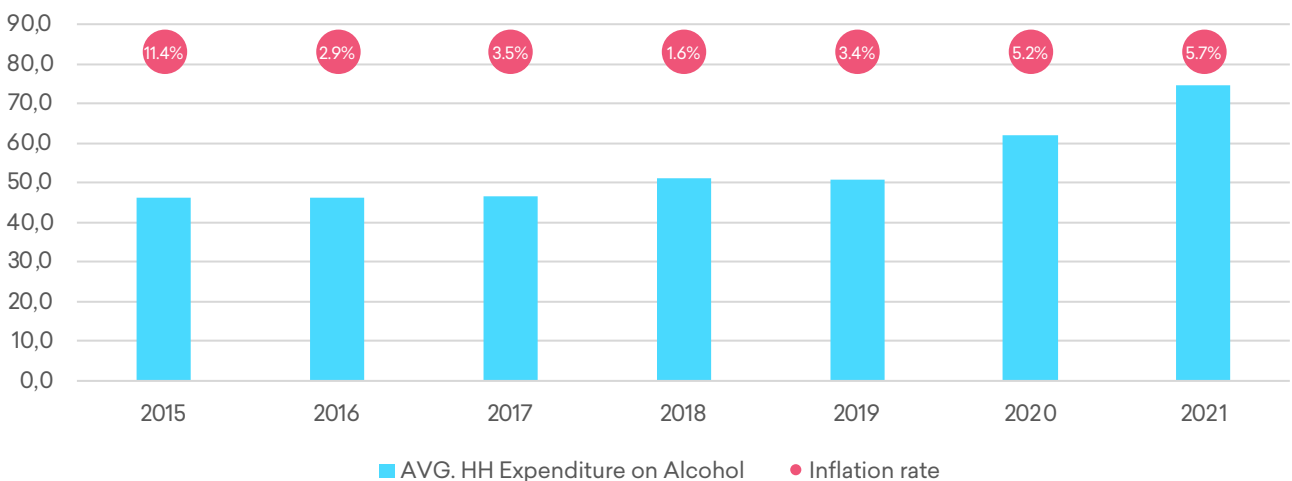
**Figure 24. Change of Domestic Wine Consumption and International Travel Receipts, compared to 2019**



**Figure 25. Georgia-based Wine Producers Local Turnover, Share in Total Wine Turnover (MLN, GEL)**



**Figure 26. Average Household Expenditure per Month, Alcoholic Beverages (GEL)**



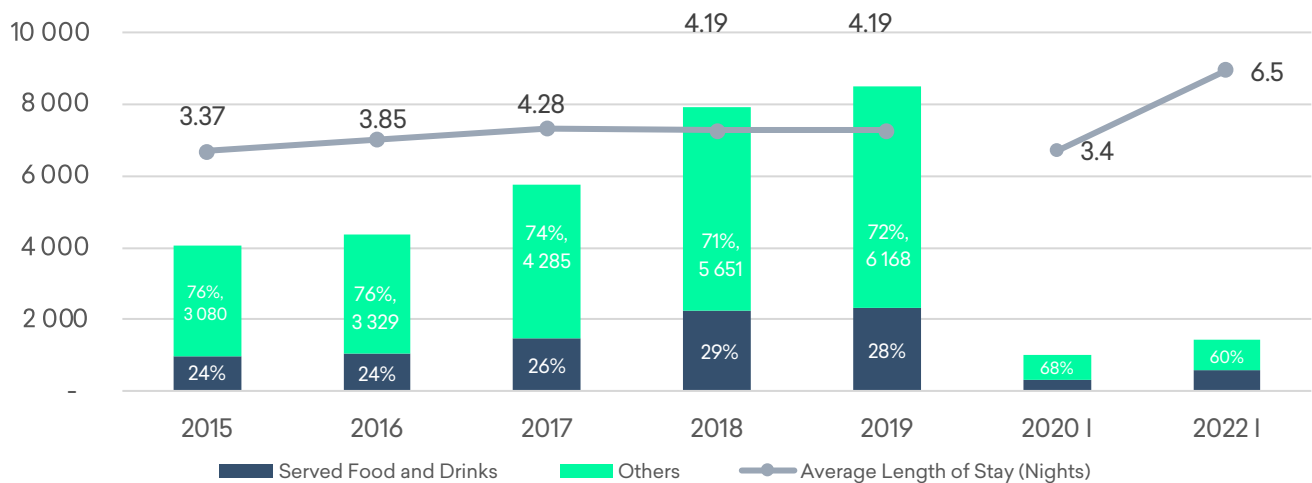
Source: Geostat, NBG, TBC Capital.

# Tourism: a Major Driver

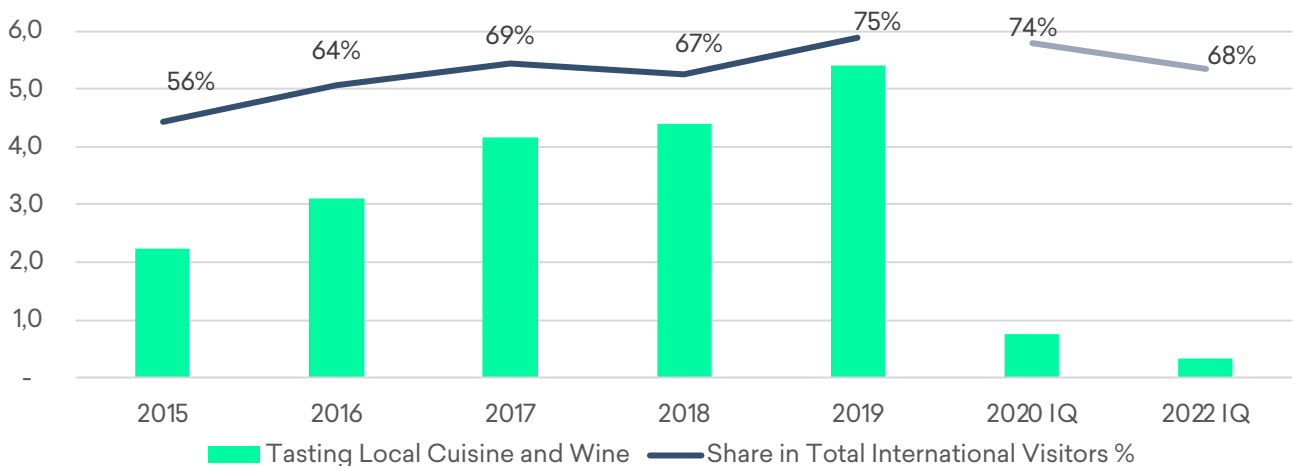
Tasting Georgian cuisine and wine is one of the most popular activities among international travelers. Their expenditure on served foods and beverages had a positive trend through the years. Despite the COVID-19 pandemic, the first quarter of 2022 saw an 85% growth in travelers' expenditure on foods and drinks relative to the same period in 2019. Inflation is one of the factors that explain this growth. Another significant impact may be stemming from the increase in the visit duration. According to the GNTA study, the average duration of the stay rose from 3.9 days to 6.5 days in the first quarter of 2022 compared to 2019.

In the first half of 2022 the number of international visitors to Georgia recovered to 45% of its 2019 level. The travel receipts posted 78% recovery in 1 H of 2022 VS 2019. TBC Capital expects international visitor trips to recover by 58% and travel receipts - by 105% by the end of 2022. We expect these developments to positively affect domestic wine consumption.

**Figure 27. Expenditures by International Visitors on Served Foods and Drinks (MLN, GEL)**



**Figure 28. Expenditures by International Visitors on Served Foods and Drinks (MLN, GEL)**



Source: GNTA.

Note: GNTA: "In order to avoid the risks associated with the spread of the new coronavirus (COVID-19) in Georgia, the fieldwork for the Geostat's inbound Tourism Survey was temporarily suspended. Consequently, data between II Quarter of 2020 and IV Quarter of 2021 is not available."

# Household Consumption

The Georgian alcohol consumption reached the lowest point in 2021. The annual domestic alcohol consumption posted a 40% reduction relative to 2011.

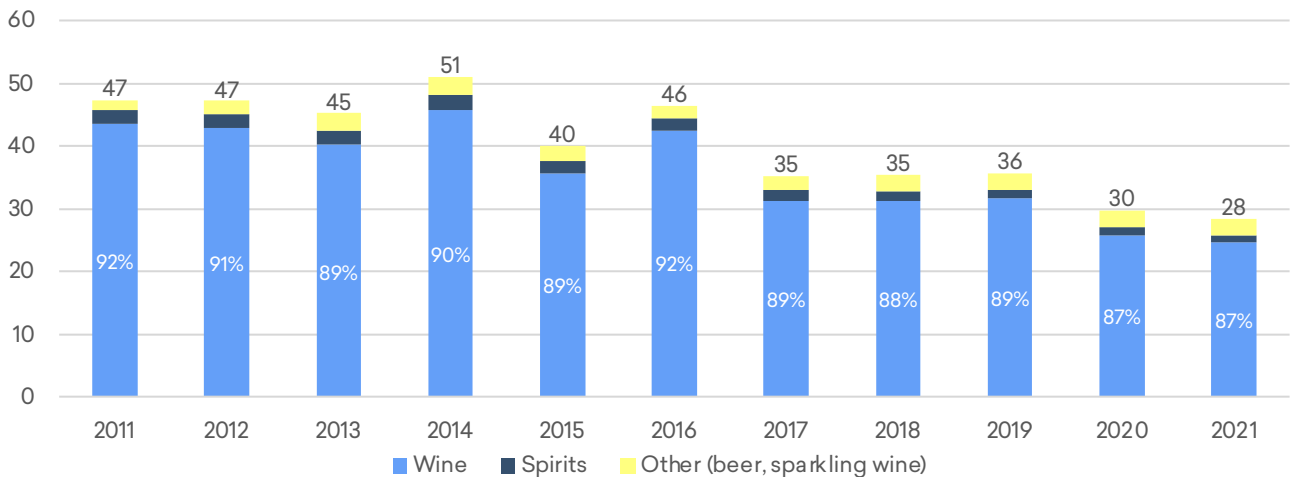
The wine remains the most popular alcoholic beverage among Georgian households, with an 87% share in total domestic alcohol consumption in 2021. The consumption of own-produced wine represents 99% of the Georgian wine consumption per household.

In 2021, the share of Georgian households who consume wine among the total Georgian families

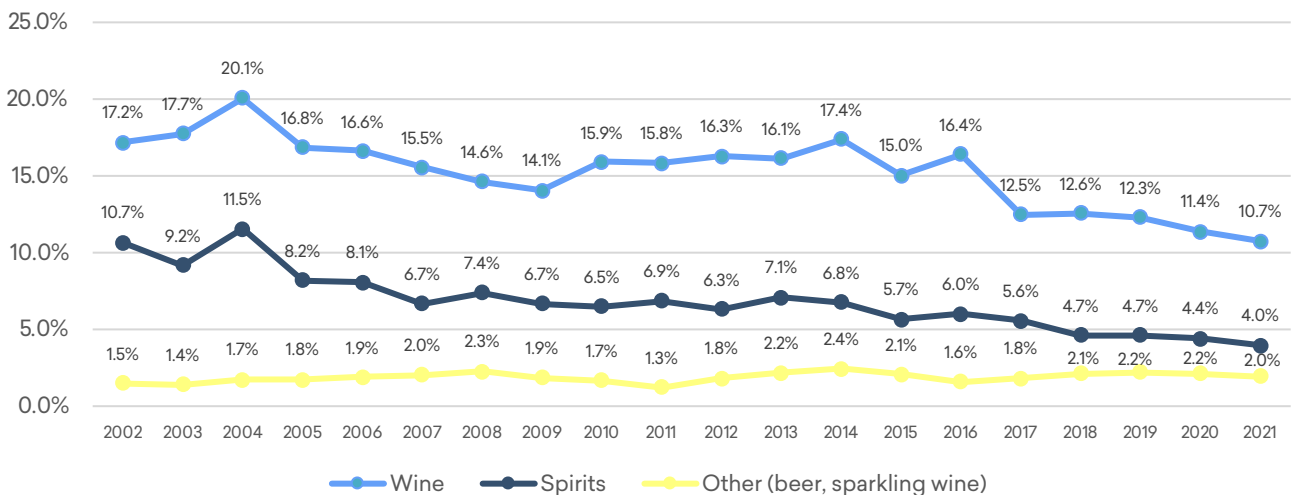
decreased by 13% and 6% relative to 2019 and 2020, respectively, and amounted to 11% of the Georgian households' alcohol consumption.

In 2021, the share of households who consume wine decreased by 5 pp relative to 2011. In general, the share of households that consume alcohol has been decreasing since 2004. This may partially be attributable to the change in the lifestyle toward future health, fitness, and etc.

**Figure 29. Annual Georgian Household Consumption of Alcohol Beverages, Total (MLN, Liters)**



**Figure 30. Share of Domestic Households Who Consume Alcohol Beverages in Total Households**



Source: Geostat, TBC Capital.

\* Households who consume one type of alcohol may also consume another type of it.

# WINE PRICE

# Wine Prices: Export Markets

The average wine export price of Georgian wine had an increasing trend since 2017 through 2019. The pandemic, as well as, focus on less expensive markets drove average price down in 2020 and 2021. Russia and Ukraine dominate Georgia's export portfolio, with 66% share of total exports in 2021. Since 2020 the average price of Georgian wine started to decline in these markets pushing the average export price to decline.

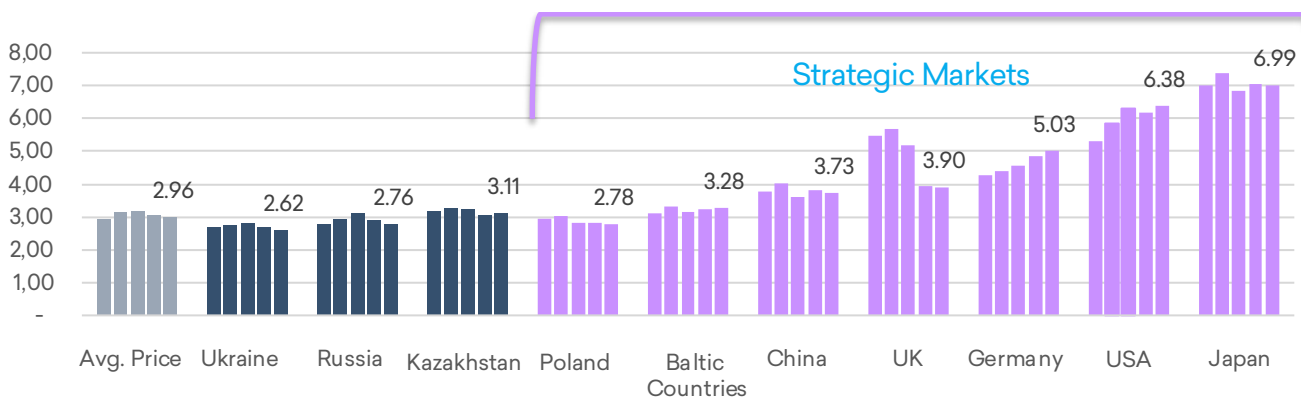
Georgian wine has the highest price in Japan, the USA, and Germany.

In 2021, the export prices for wine posted positive YoY growth in each selected country, except

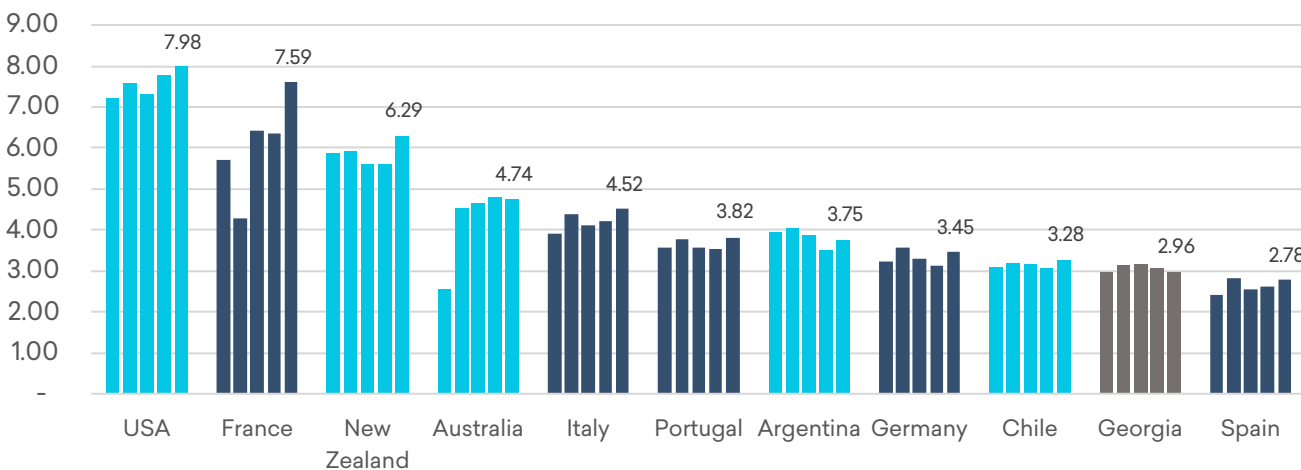
Australia and Georgia. The reason behind the Georgian export price drop may partially be the increased volume of wine transported to the cheap export destination countries.

The category of wine with less than 2 liters mainly refers to bottled wine with high prices. Therefore, the Georgian average wine export price for a bottle was lower than in selected countries, but it exceeded the average wine price of Spanish wine.

**Figure 31. Average Import Price of Georgian Wine to Select Countries 2017-2021 (USD/Liter)**



**Figure 32. Average Export Price of Wine from Select Countries 2017-2021 (USD/Liter)**



Source: Comtrade, TBC Capital.  
Note: price of wine= price of still wine, < 2L, excluding sparkling wine.

# Wine Price: Local Market

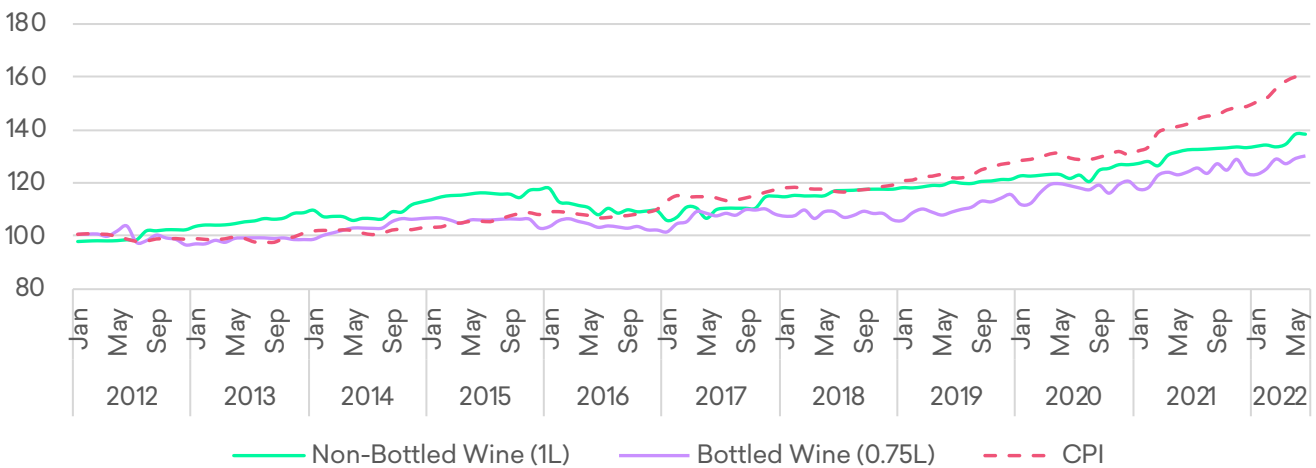
The domestic price of Georgian wine is on a slower growth pace than the general prices over the years. From June 2011 to June 2022, the consumer price index (CPI) grew by 60%, while bottled and non-bottled wine prices increased by 30% and 38%, respectively.

The price index between bottled and non-bottled wine significantly varies throughout the years. The price index of non-bottled wine has risen faster than bottled wine prices during the last decade.

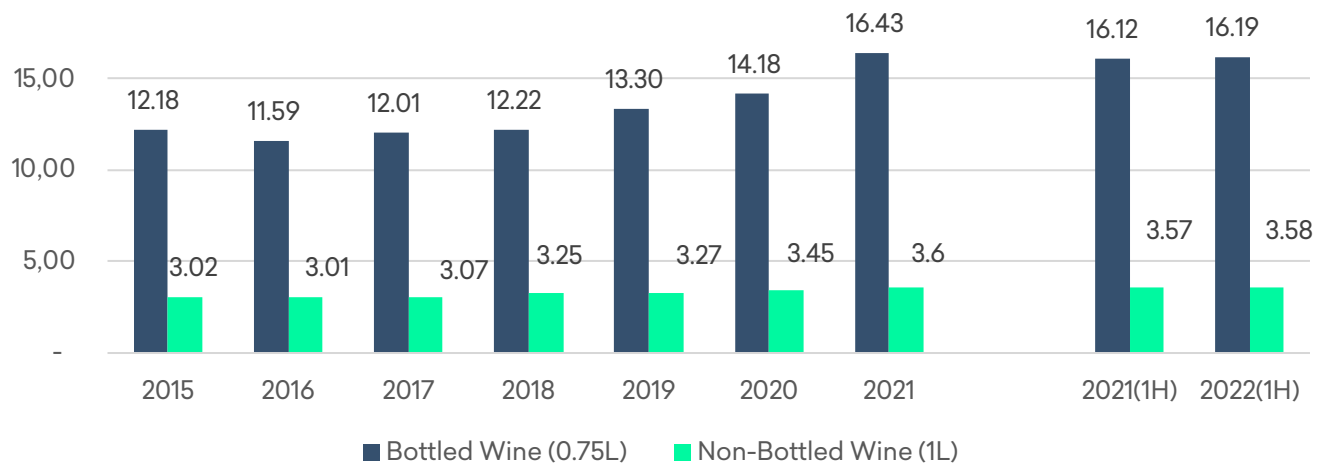
This may be partially explained by a change in the structure of the suppliers of the table wine. More and more companies produce and market table wine replacing unorganized market and driving the table wine prices up.

The average retail price of bottled wine increased significantly in 2021 relative to 2020. The rising YoY growth trend continues in 2022 1H, mainly driven by increased production and marketing costs.

**Figure 33. Wine Domestic Price Index in GEL (December 2011=100)**



**Figure 34. Average Retail Price of Bottled and Tap Wine (1L) on Georgian Market (GEL)**



Source: Geostat.

# Grape Prices

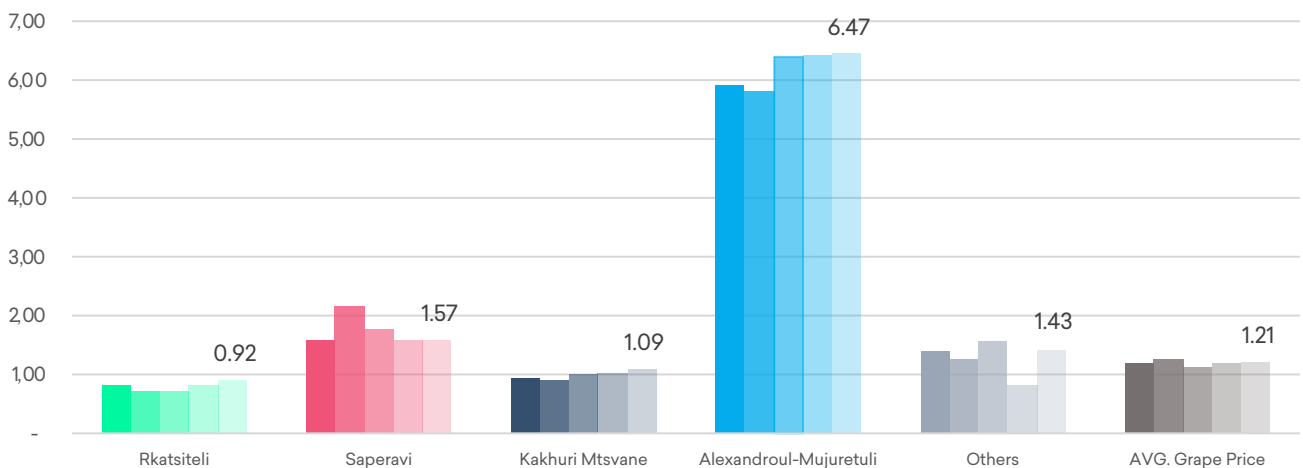
Georgian wine producers depend on the international wine demand as a significant part of their sales come from export. It largely determines the price wine producers will be willing to pay for the grape. The subsidy program announced annually by the Government of Georgia also shapes the demand for the grape. Another factor affecting the price is the harvest – weather conditions will largely determine supply, hence the price.

In 2021, the harvest of processed grapes dramatically declined, resulting in a marginal increase in the average grape price relative to the previous year.

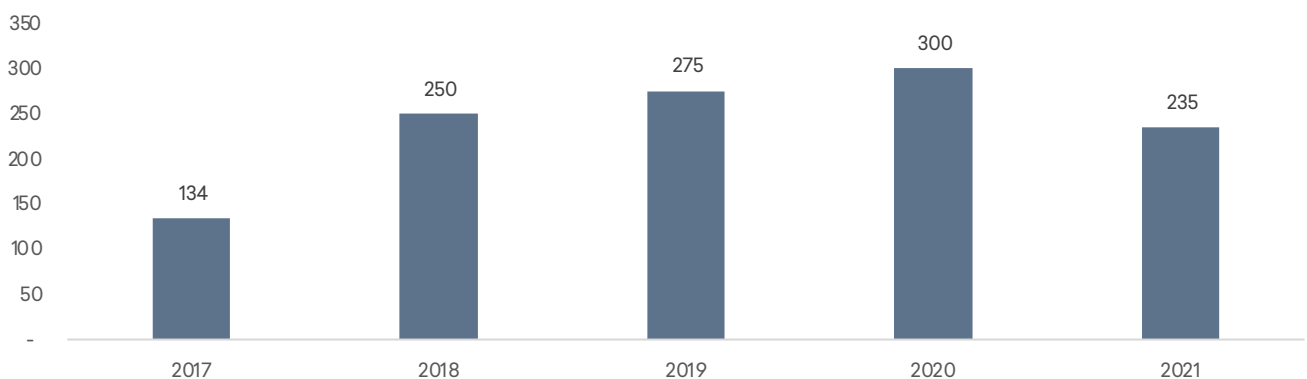
The Rkatsiteli grapes are significantly cheaper compared to other species. Rkatsiteli has the noticeable share in the harvest, driving the overall price down. The average price of Saperavi continued to decrease after the boost in 2018.

Alexandrouli-Mujuretuli grapes enjoy scarce supply and high prices relative to Rkatsiteli or Saperavi. The famous PDO wine in Georgia Khvanchkara is made from Alexandrouli-Mujuretuli species and only 1,903 tons (8% of total harvest) of grapes were harvested in 2021.

**Figure 35. Average Harvested Grape Prices by Species (GEL/Kg): 2017-2021**



**Figure 36. Harvest of Processed Grapes (000', TONS)**



Source: GWA, TBC Capital





# **INDUSTRY'S FINANCIAL PERFORMANCE**

# Financial Performance

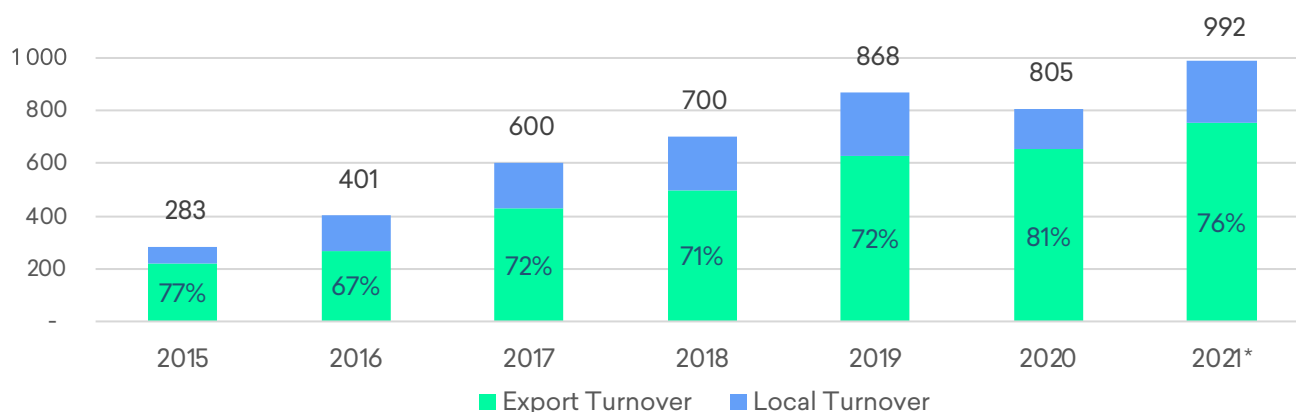
The turnover of Georgian wine producers skyrocketed in 2021, with 76% of the export share. Turnover posted 14% growth relative to 2019, mainly provoked by the dramatic depreciation of GEL/USD. Because Georgian wine export significantly increased compared to previous years, a reduction in local wine turnover should be the reason for the decline in total wine revenue.

The number of active registered businesses in the wine industry has an increasing trend reaching the highest point in 2021 with 781 entities. However, the number of newly registered business entities is decreasing through the years, with the lowest point in 2021. This may indicate a market saturation and high competition.

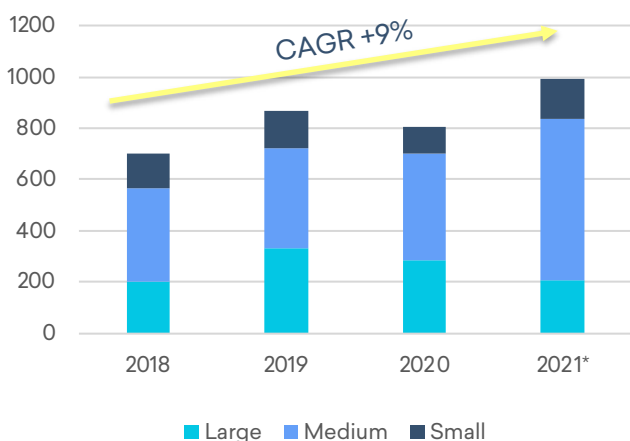
Although the Georgian wine industry used to be highly fragmented in previous years, currently, medium-sized companies possess a significant part of the Georgian wine industry turnover, amounting to 64%. The share of large companies significantly decreased relative to previous years, from 35% to 21%. This can be explained by the fact that some of the large companies moved to medium-sized categories due to reduction in their revenues.

In 2021, the turnover of large companies decreased by 27%, while medium and small-sized companies increased by 51% and 50%, respectively.

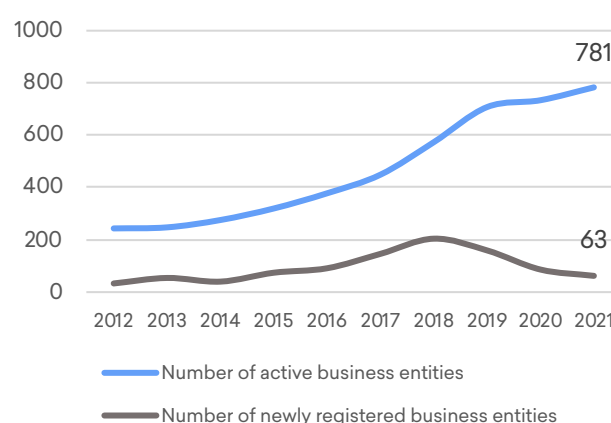
**Figure 37. Georgia-Based Wine Producers Turnover: Export VS Local (MLN, GEL)**



**Figure 38. Distribution of Companies Turnover by Size (MLN, GEL)**



**Figure 39. Number of Active and Newly Registered Business Entities in Wine Industry**



Source: Geostat.

Note: according to Geostat, large enterprise: number of employed > 249 persons and/or volume of avg. annual turnover > GEL 60mln. Medium: number of employed ranges from 50-250 persons and avg. annual turnover – GEL 12mln-GEL 60mln. Small: number of employed < 50 persons and avg. annual turnover < GEL 12mln.

# Financial Performance

Financial performance analysis for Georgian wine producers includes companies with a total turnover of over GEL 600 MLN recorded in 2020 – a 75% of the total market. Profitability metrics show that profitability has been slowly declining since 2017, with the worst performance recorded in 2020 due to the pandemic-related difficulties, such as growing administrative expenses, higher borrowing with increased financial costs, and larger exposure to foreign exchange risk. The reduction in profitability is most evident in the Net Profit Margin turning negative as many of the wine producers reported period losses. Return on Equity (ROE) displays similar results. The 2021

figures indicate that profitability has significantly improved since 2020, with a Gross Margin of 41%, EBITDA Margin of 26%, and Net Profit Margin as high as 22%.

Leverage metrics showed higher fluctuation in the analyzed years, with 2020 recording the worst results in terms of the ability of wine producers to service their debts. 2021, however, displays improved figures with EBITDA / Interest Expense growing from 2.6 in 2020 to 4.8 in 2021 and Debt-to-EBITDA reducing from 5.3 in 2020 to 2.6 in 2021. Liquidity indicator Current Ratio has slightly dropped, from 1.5 in 2020 to 1.2 in 2021.

Figure 40. Profitability Metrics for Georgian Wine Producers

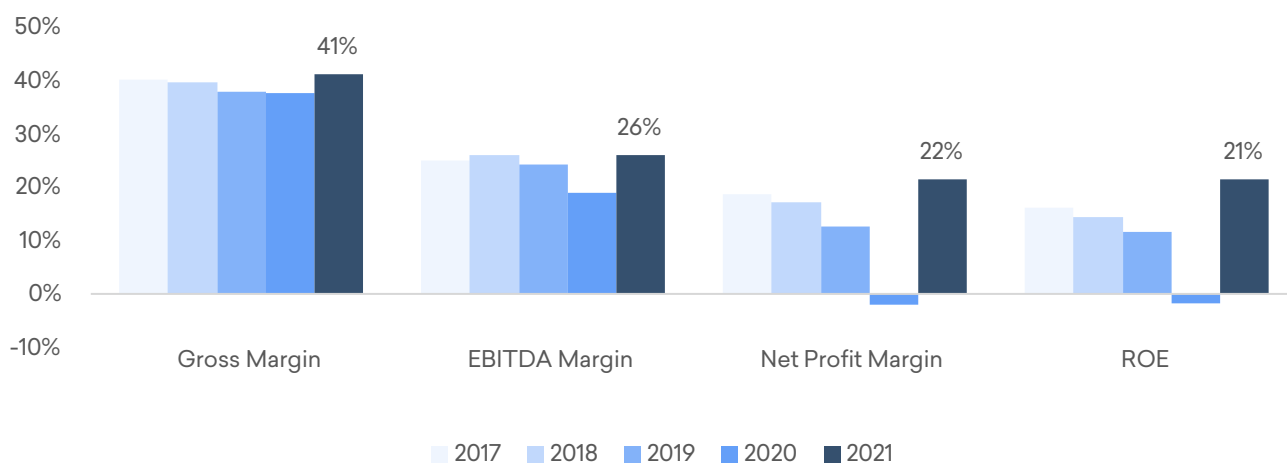
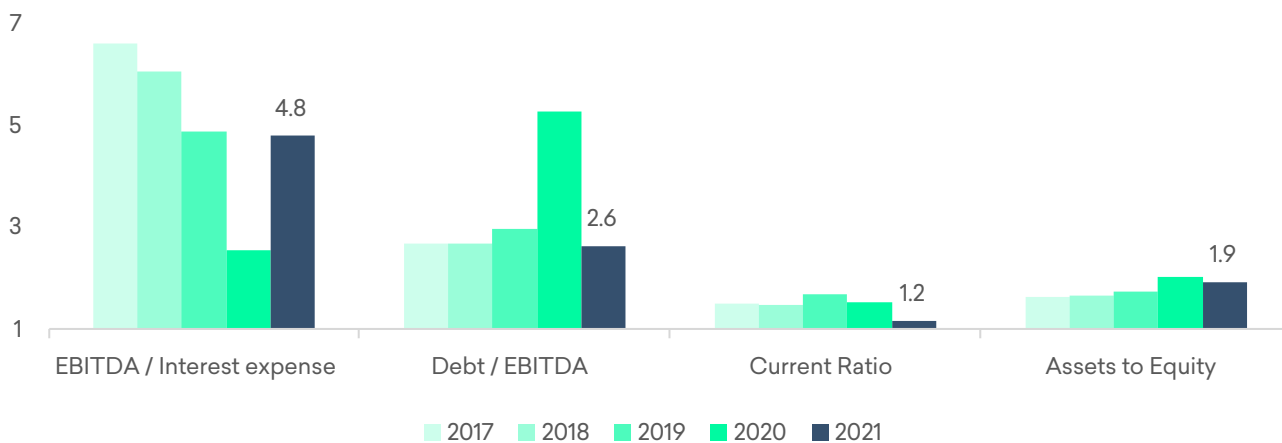


Figure 41. Solvency and Liquidity Metrics for Georgian Wine Producers



Source: SARAS, TBC Capital.

Note: The year 2021 metrics are partially based on the unaudited financial information provided by the Georgian wine producers and can differ from the final audited numbers publicly available in Fall 2022.

# Market Projections

After a fruitful year in 2021, the Georgian wine sector was in turmoil again in March 2022. The purchases of Georgian wine from the main export destination countries, Russia and Ukraine, were equivocal. The first half of 2022 resulted in the dramatic decline of the Ukraine market in the Georgian wine export. However, the decline in total exports in the same period is negligible relative to the previous year, referring to the diversification.

The Georgian wine sector is highly vulnerable to global political and economic factors, considering the large share of exports in Georgian wine turnover. The rest of 2022 is expected to be turbulently driven by the war in Ukraine and the energy crisis.

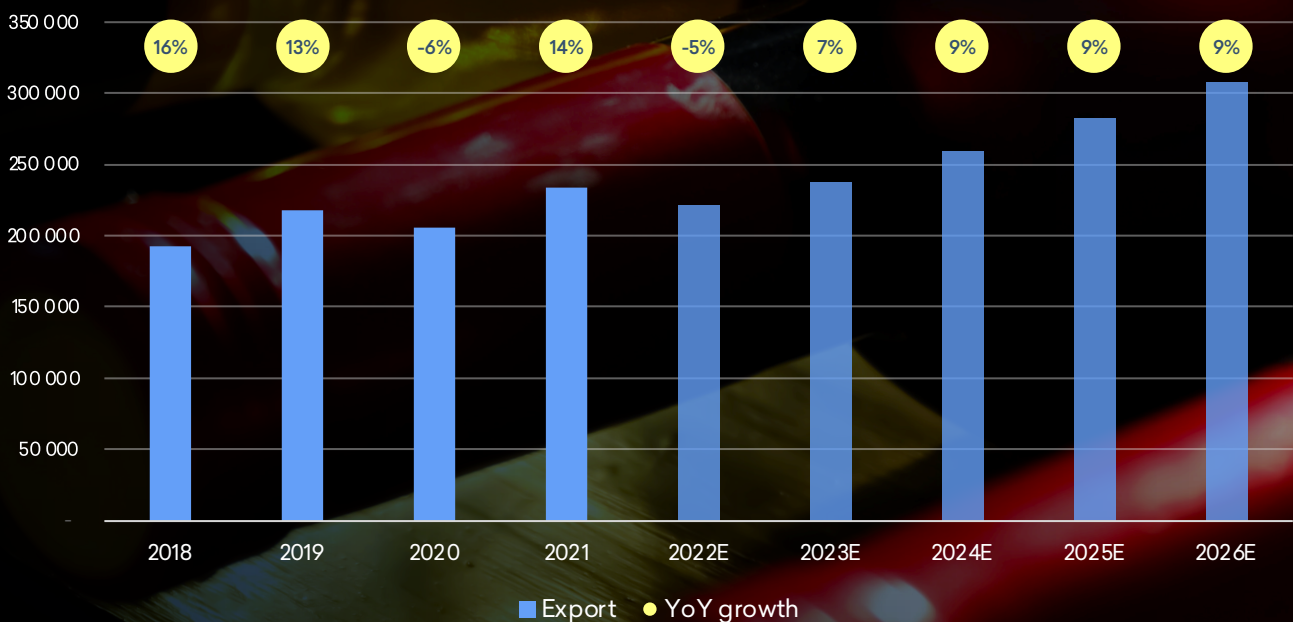
We expect that Ukrainian market will remain mostly unavailable for Georgian wine throughout

2022, demand from the Russian market and slow diversification to other countries should partially compensate for this loss for the Georgian wine market. We estimate a 5% reduction in the total Georgian wine exports in 2022 compared to the previous year.

According to our forecast, slow but increasing diversification should be expected in 2023, resulting in 7% YoY growth in Georgian wine exports in USD terms.

After 2024, the Ukrainian market should start recovering and slowly return to its former position. The Georgian wine business will start active diversification to alternate markets resulting in a 9% YoY growth rate.

Figure 42. Georgian Wine Export Market Forecast, YoY Growth (USD)



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