

FMCG

SECTOR OVERVIEW

OTAR NADARAIA
Chief Economist, TBC Group

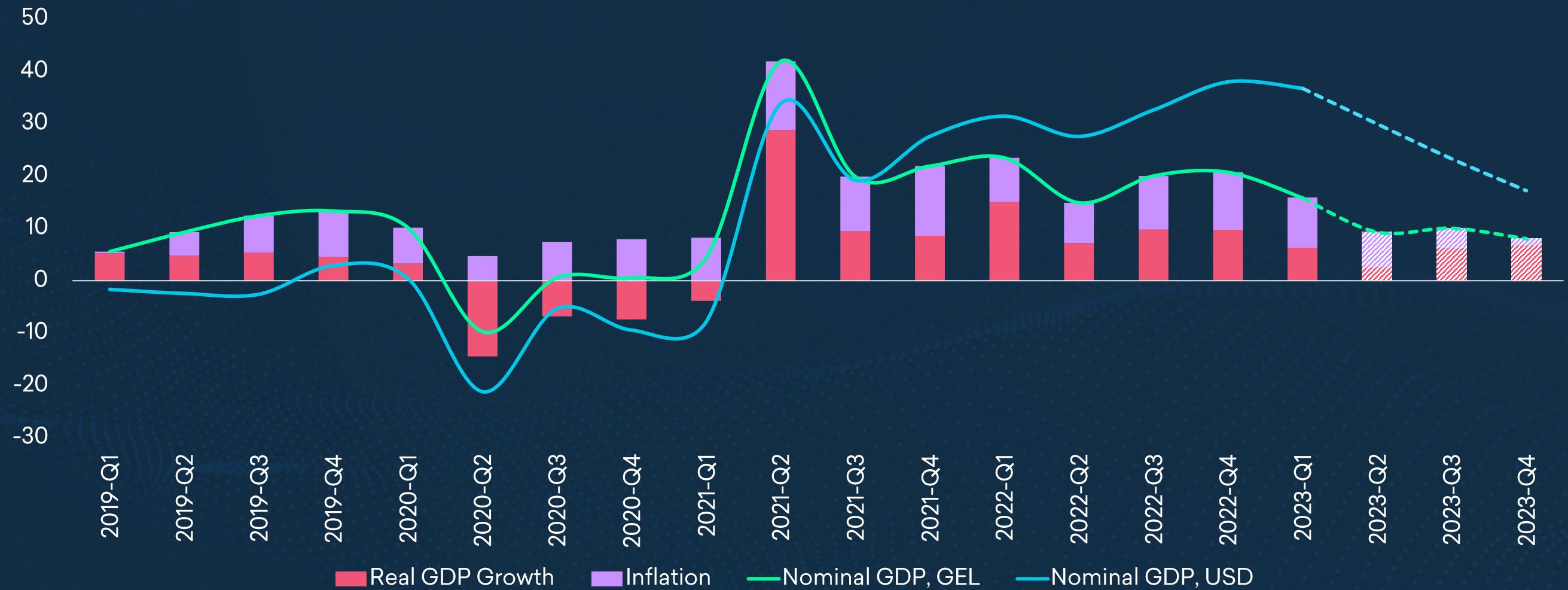


MACRO

OVERVIEW

Economic growth is normalizing

GDP Growth, YoY, %

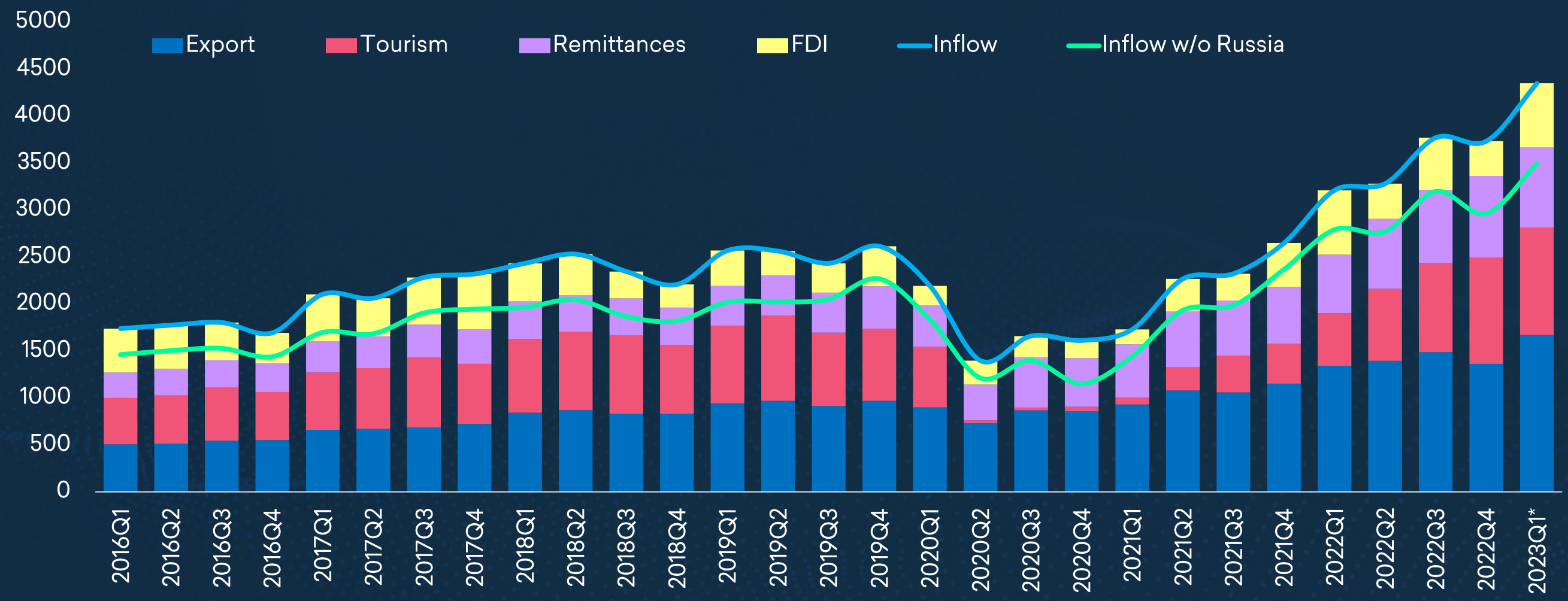


Source: Geostat, TBC Capital

Currency inflows are also increasing from countries other than Russia

Export Tourism, Remittances and FDI

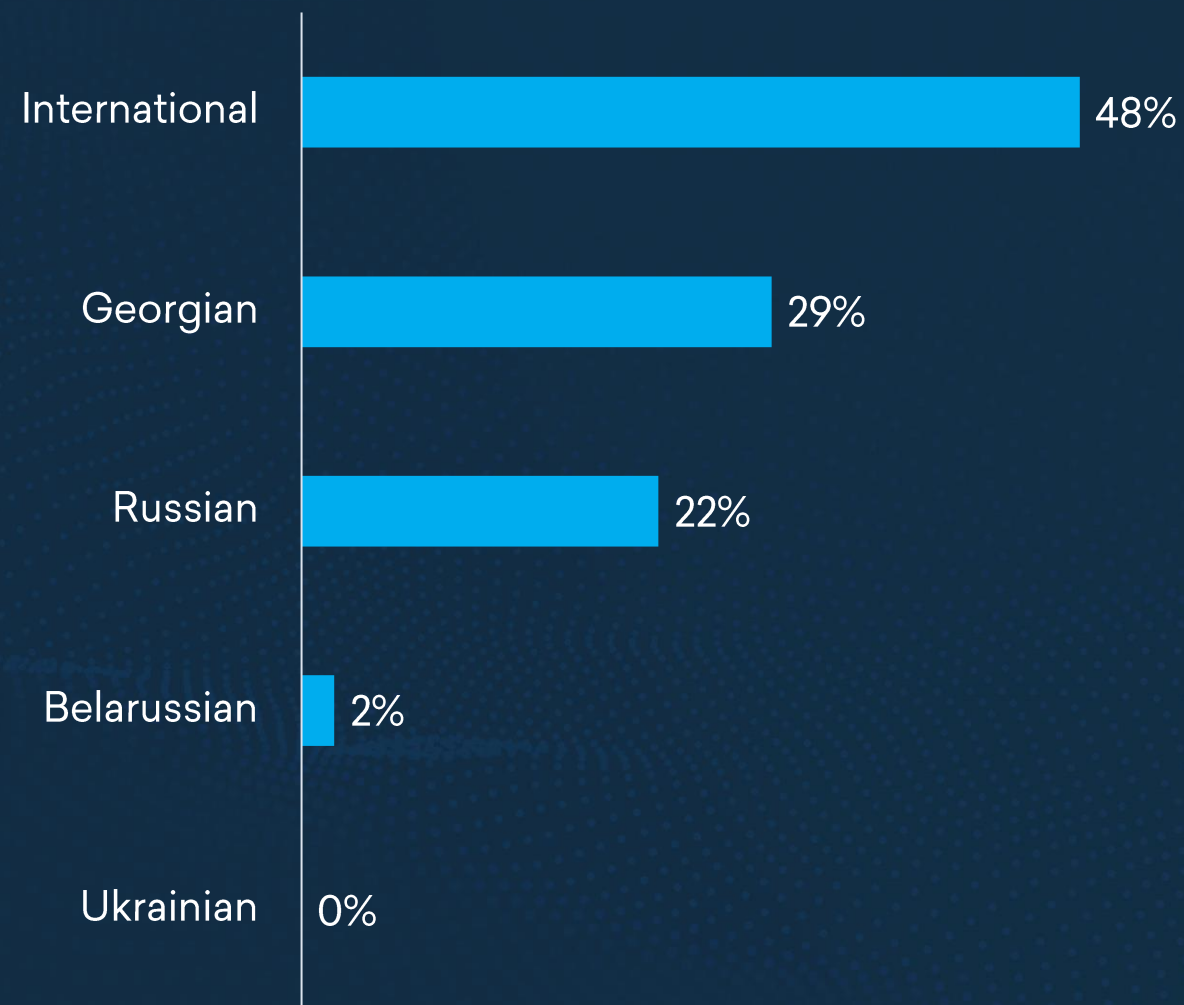
mln USD



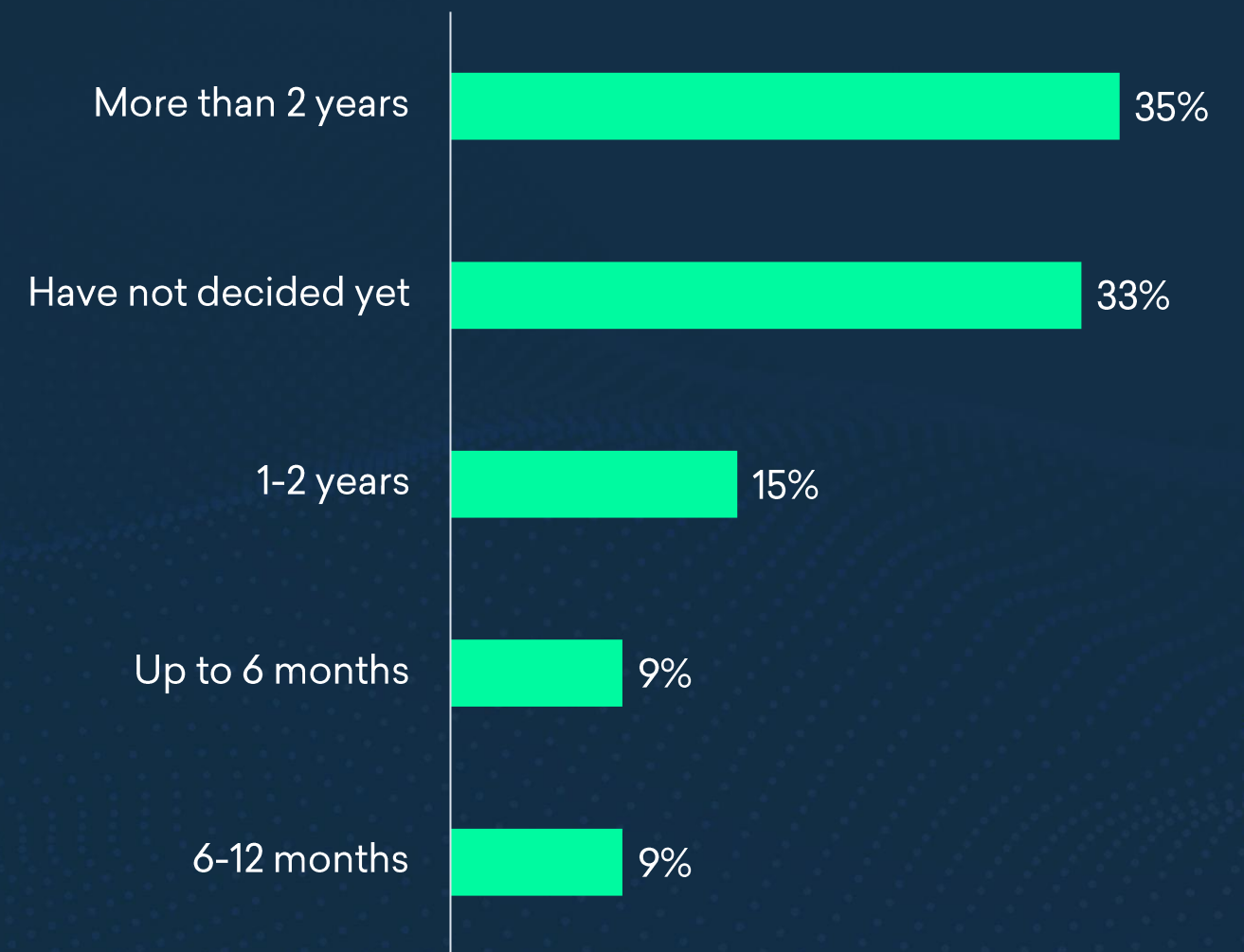
Note: In seasonal adjusted terms; * 2023 Q1 FDI is an estimate; Remittances from Russia are adjusted for double counting with tourism inflows and other issues

Migration dependence is a risk, however, seems to be relatively moderate

The company you work for is?



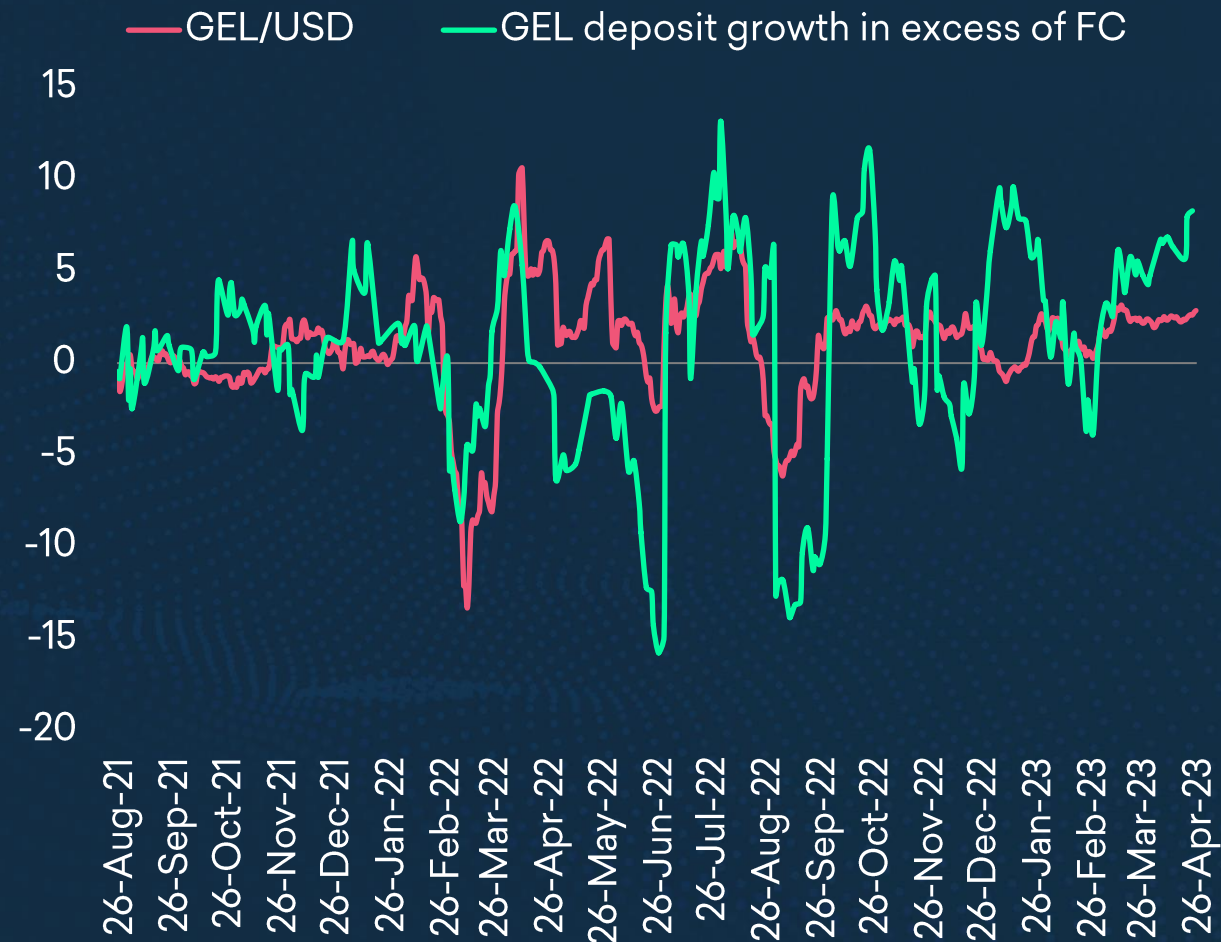
For how long are you planning to stay in Georgia?



The GEL is strengthening also on the back of improved sentiments

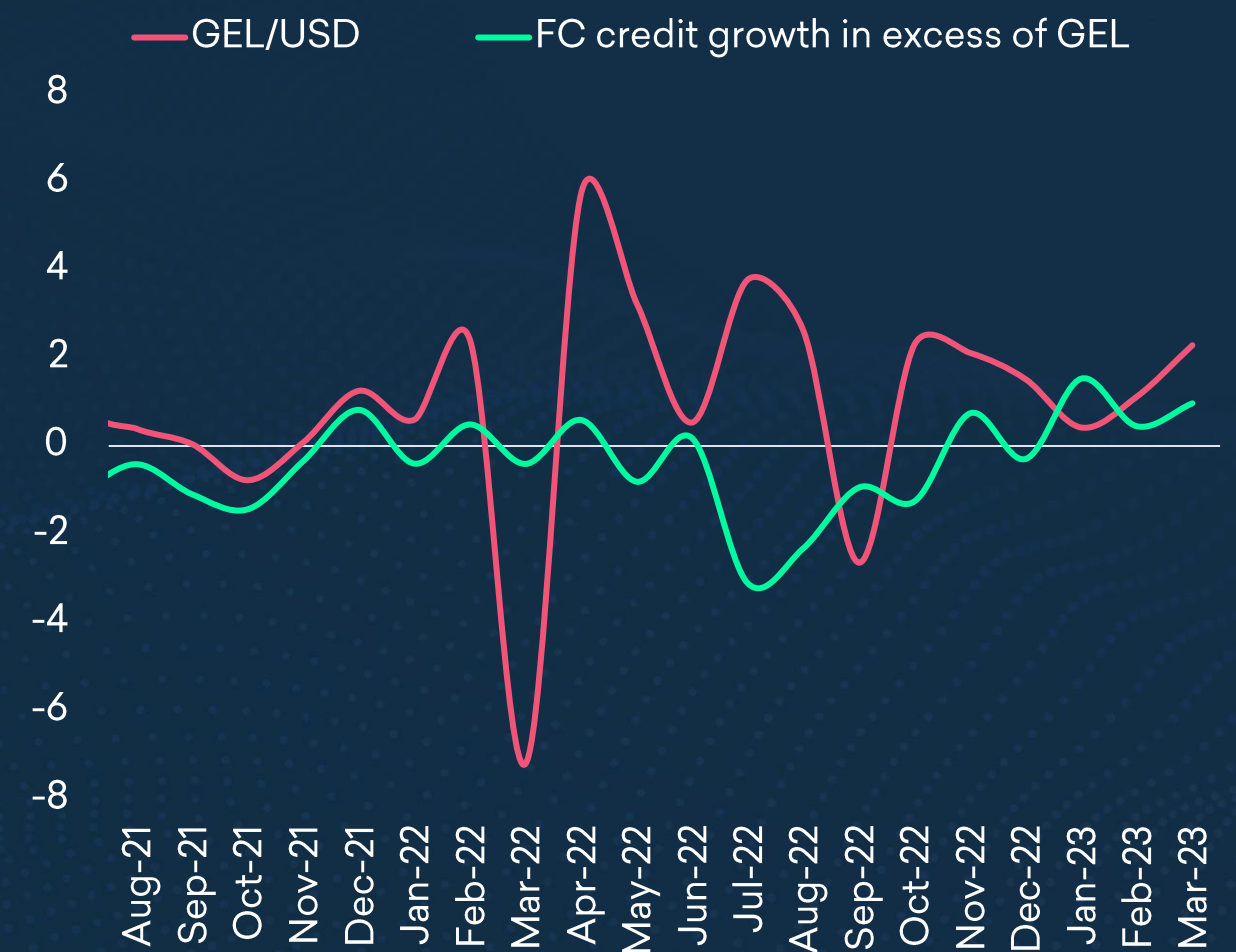
Deposit Growth and the GEL/USD

(MoM, %, seasonally and fc-adjusted, as of 27-Apr)



Credit Growth by currencies and the GEL/USD

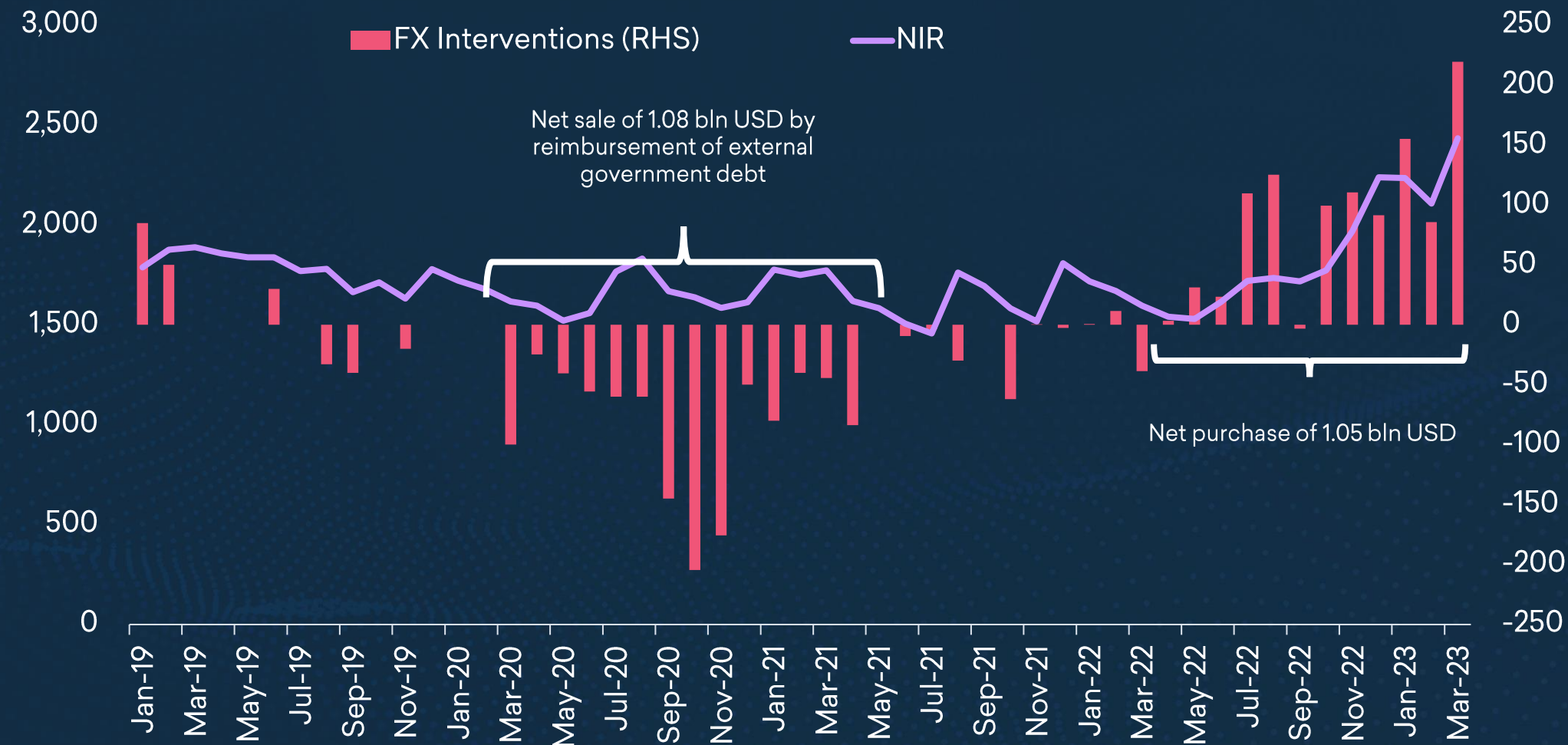
(MoM, %, seasonally and fc-adjusted, as of 23-Mar)



Strong FC inflow does not necessarily mean proportional GEL strengthening

FX interventions by NBG

(mln USD)



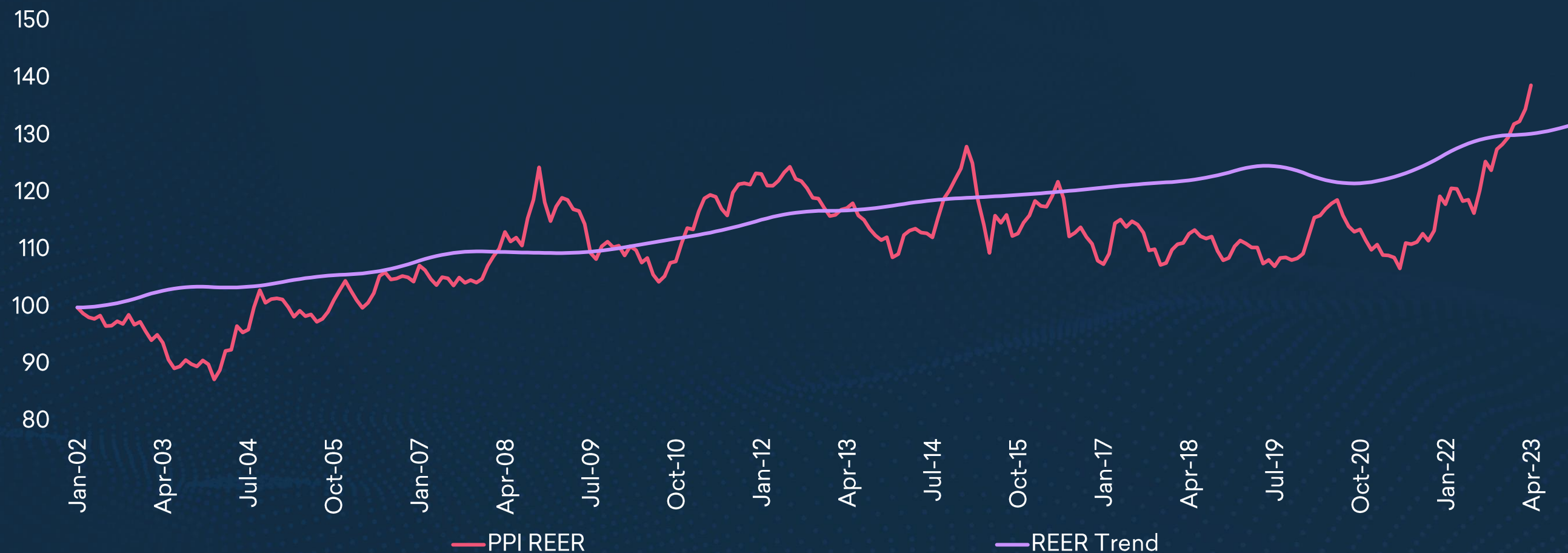
Note: positive sign of FX interventions means net purchase of USD

- REER assessment identifies overvaluation of the GEL
- Lowering inflation does not require further appreciation of the GEL

According to the GEL REER assessment, the GEL is slightly overvalued by around 7%, but other trend assessments may be different

GEL REER actual and fitted REER

(As of 1-May-23, increase means GEL appreciation)



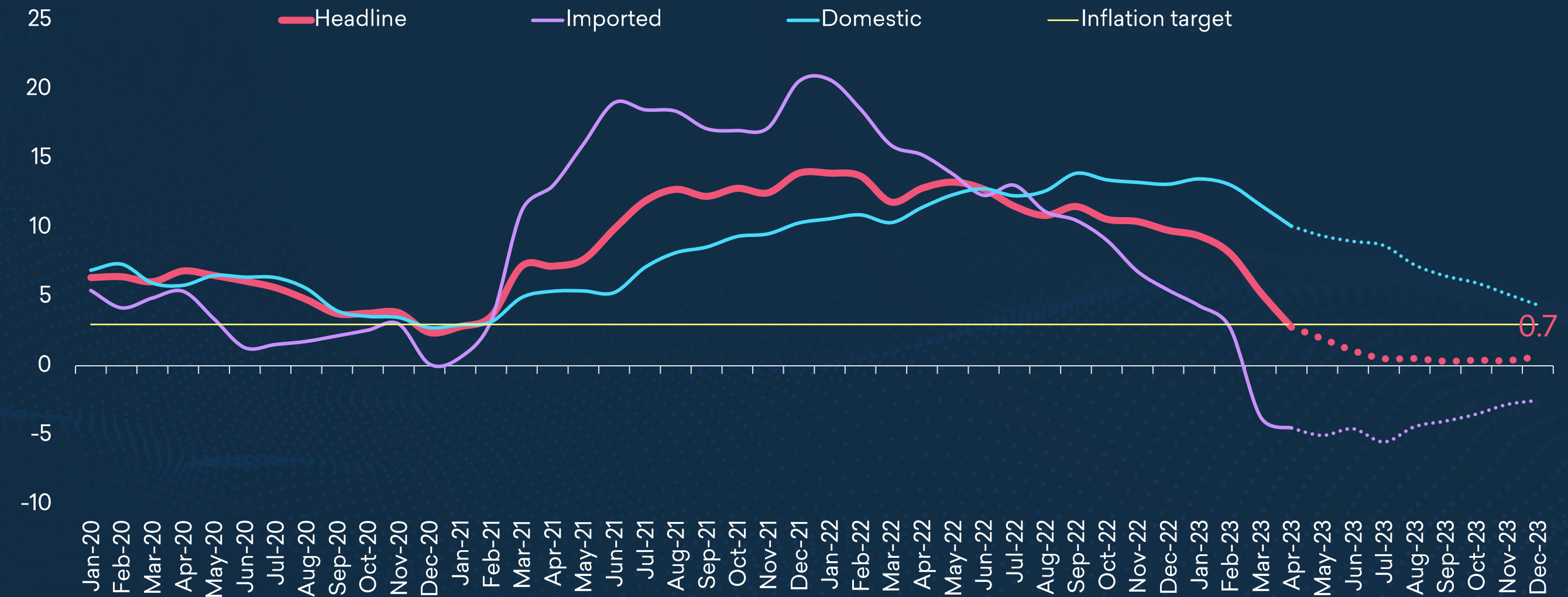
Note: PPI REER data is estimated from January 2013

REER Trend is estimated based on GDP per capita growth differential between Georgia and its main trading partners using relative trade weights and adjusted for the share of non-tradable sector

Disinflation is mainly driven by imported inflation

Inflation by components

(YoY, %)

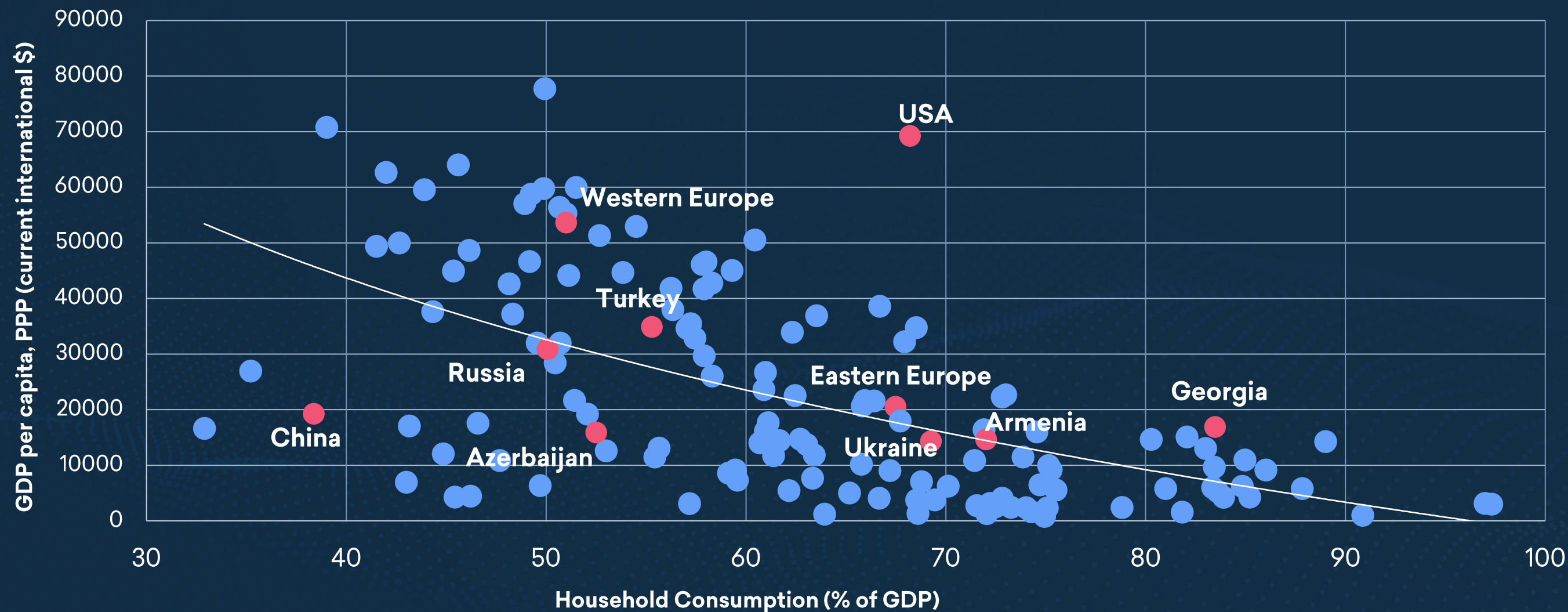


Summary of Key Macro Projections

	2021	2022	2023	2024	2025
GDP Growth, YoY, %	10.5	10.1	6.0	4.8	5.3
Inflation (EOP), YoY, %	13.9	9.8	0.7	3.6	3.0
Monetary Policy Rate (EOP), %	10.5	11.0	9.5	8.0	7.75
EUR/USD	1.13	1.07	1.12	1.14	1.18
USD/GEL	3.10	2.70	2.50	2.70	2.60
EUR/GEL	3.50	2.88	2.80	3.08	3.07

As income rises, the share of consumption in GDP declines

Consumption to GDP and GDP Per Capita across countries, 2021



IRINA KVAKHADZE
Vice president, TBC Capital



SECTORAL

OVERVIEW



**Uninterrupted
coverage since 2018**



**The only source of information for
stakeholders**



**Involvement of vast majority of key
market players**



**Most up to date observation on the
sector tendencies**



Covered topics



**MARKET SIZE AND SHORT TERM
OUTLOOK**



**GROWTH
DRIVERS**



**ORGANIZED
FMCG MARKET**



**MAJOR OPERATIONAL AND FINANCIAL
INDICATORS OF THE ORGANIZED FMCG
MARKET**

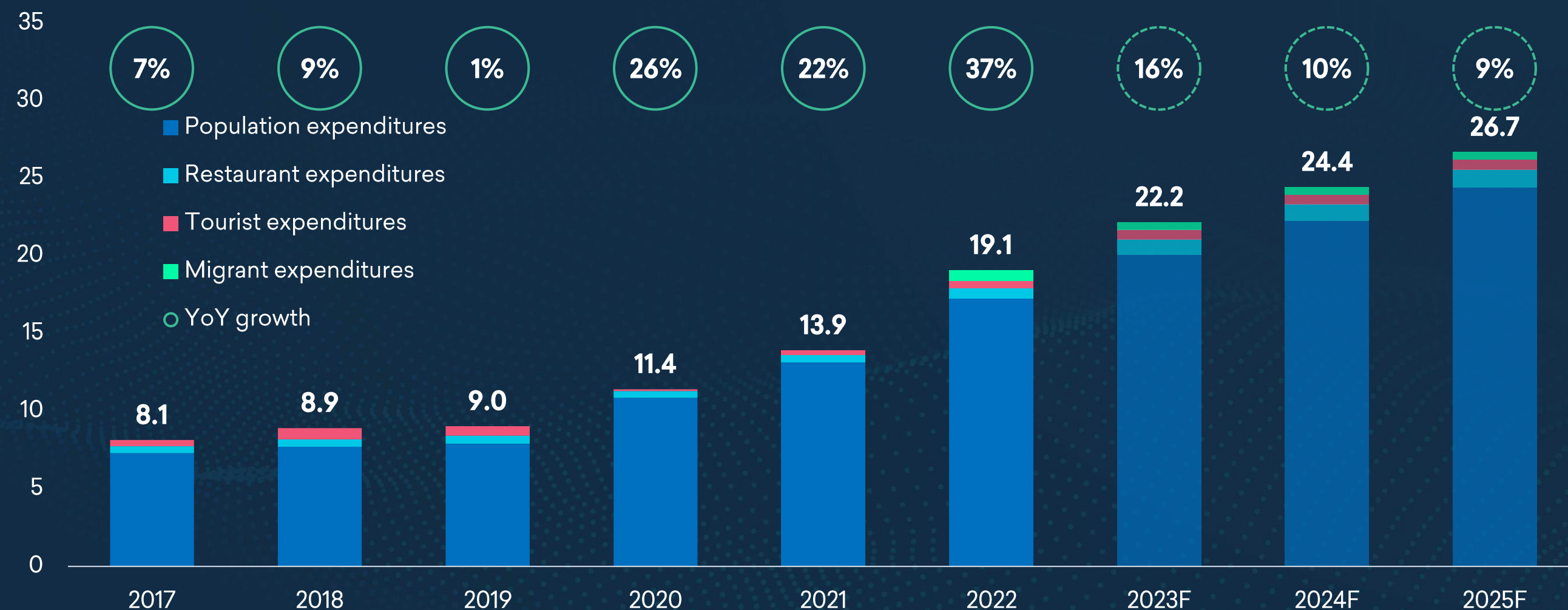


MARKET SIZE AND SHORT TERM OUTLOOK

The FMCG market grew at 37% YoY in 2022. The growth rate is expected to stabilize in the 2023-2025 period

FMCG market turnover (including VAT)

GEL bn



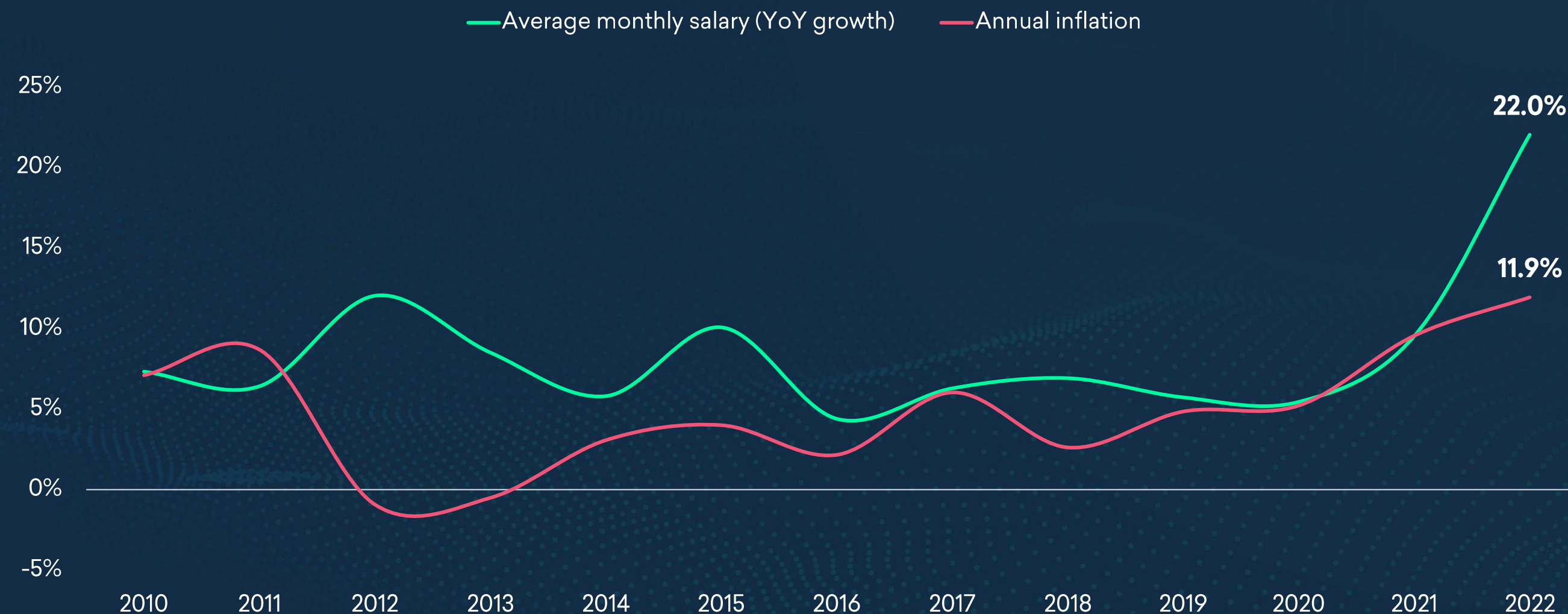


GROWTH DRIVERS

Nominal wages grew at a faster pace than consumer prices. This supported the growth of domestic population expenditures

Average nominal monthly salary and inflation

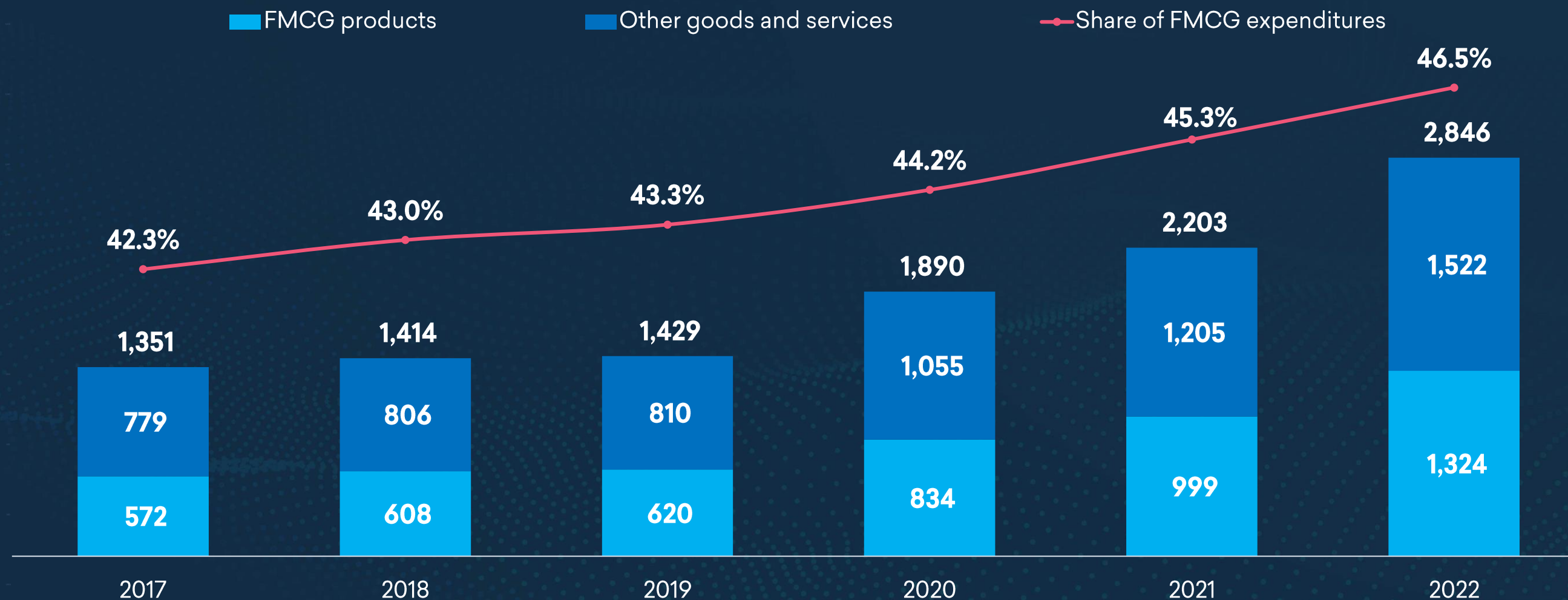
YoY change, %



The share of population's expenditure on FMCG products remains on a rise, which is partially attributable to a growing middle class

Average monthly expenditure of households

GEL, %

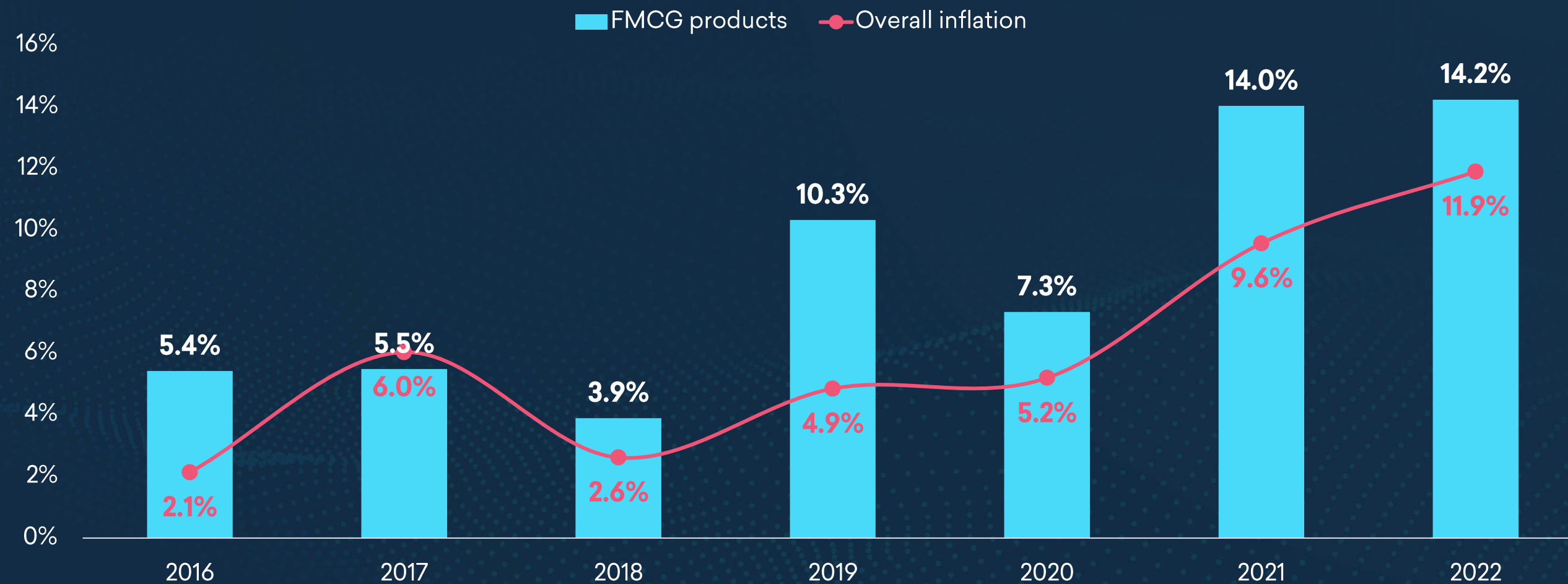


Source: GeoStat, TBC Capital

Prices on FMCG products increased at a higher pace compared to the overall inflation, which further fueled the market growth

Consumer price index

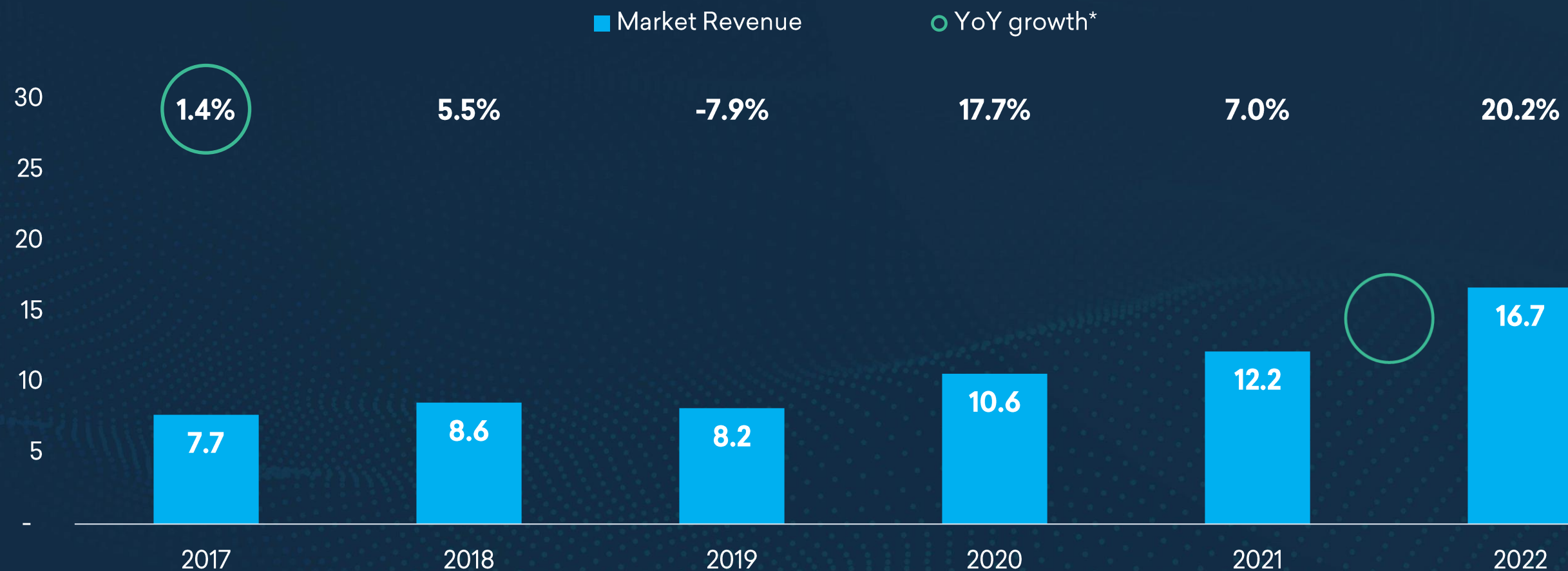
YoY change, %



The inflation adjusted market dynamics indicate that the growth in 2022 was mainly driven by increased demand

Inflation adjusted FMCG market revenues (including VAT)

GEL bn



Source: GeoStat, NBG, TBC Capital;

*The market size for each year is adjusted by the corresponding inflation rate.

The annual change is calculated by unadjusted previous year numbers

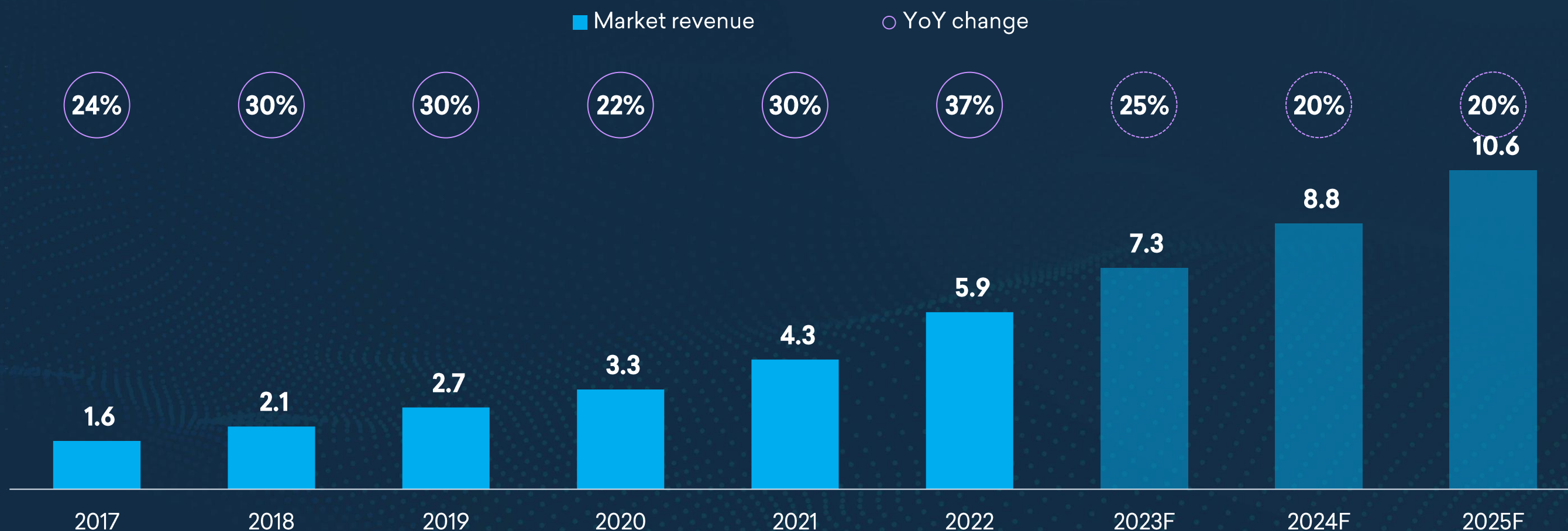


ORGANIZED FMCG MARKET

The organized FMCG market has significant room for growth and is expected to maintain significant growth in the coming years

Organized FMCG market revenues (including VAT)

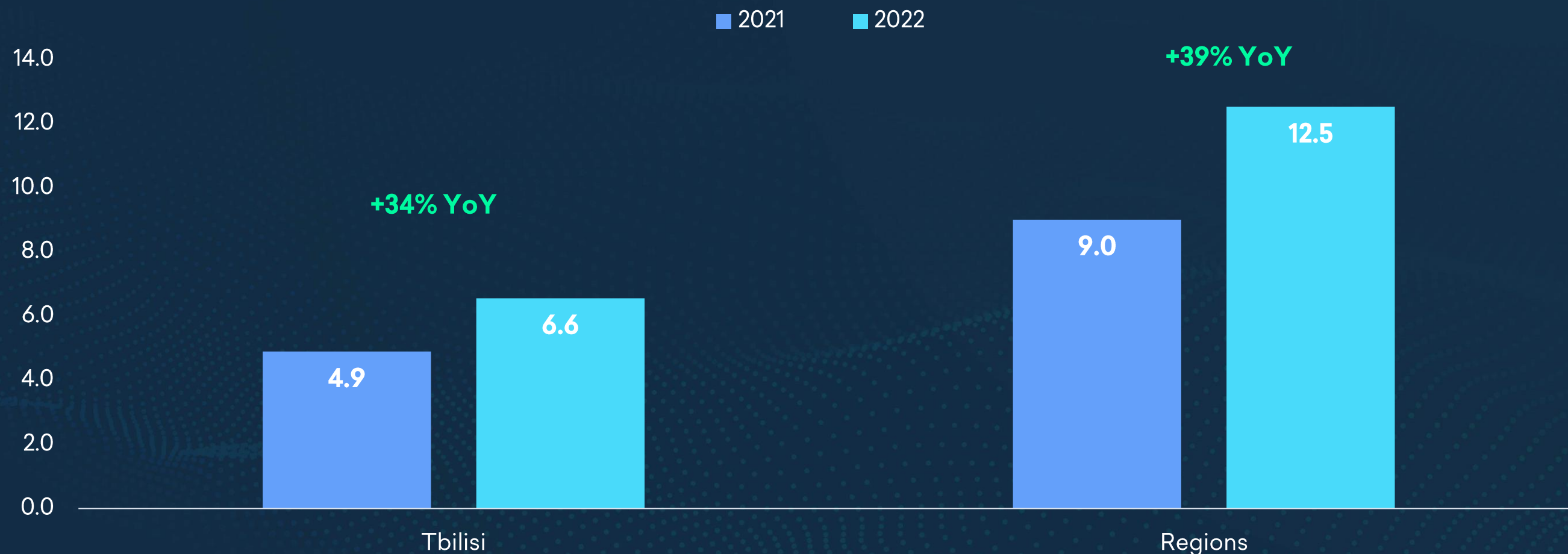
GEL bn, YoY change %



The regional FMCG market is fast-growing and makes up 66% of the total market, however the relatively low purchasing power remains a challenge

Regional breakdown of the total FMCG market (including VAT)

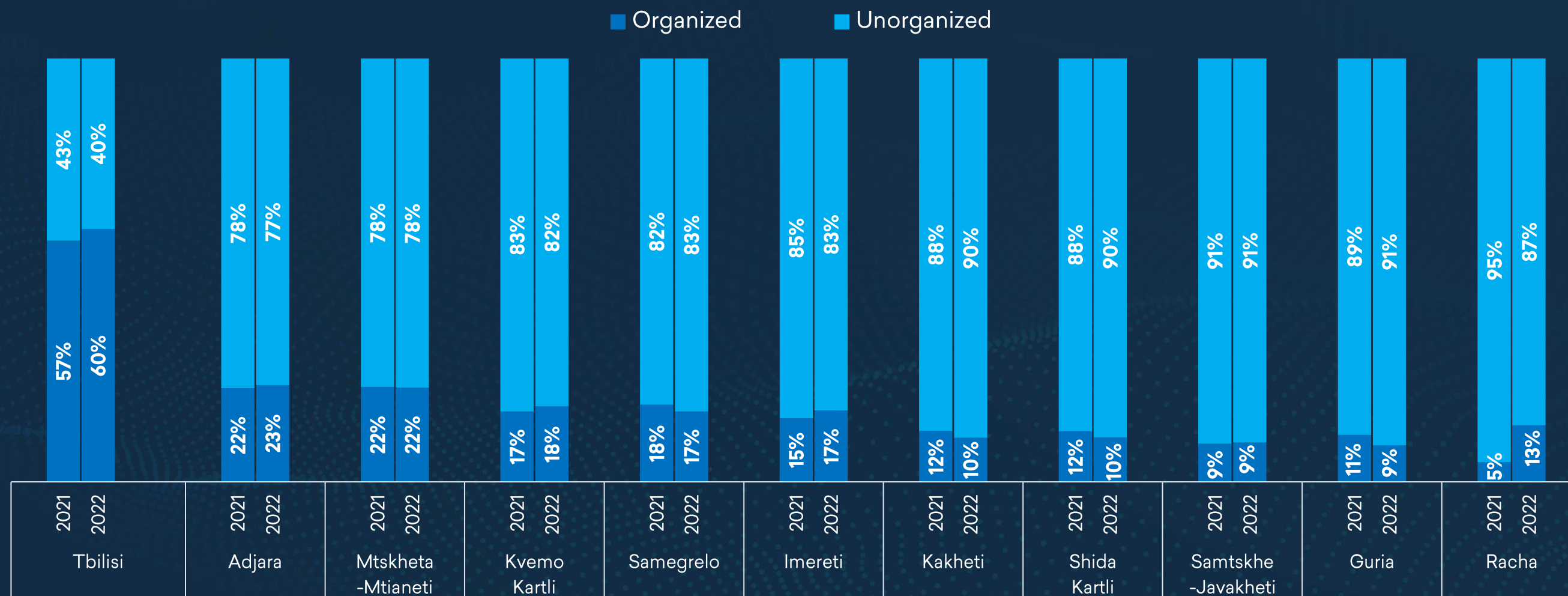
GEL bn, YoY change



The capital is saturated by the organized market, while the regions remain untapped and therefore a significant growth potential for the organized market

Organized and unorganized FMCG market by regions

Share, %



The increased demand, further regional penetration, and international tendencies indicate that by 2025 the organized market share will reach 40%

Organized and unorganized FMCG market (including VAT)

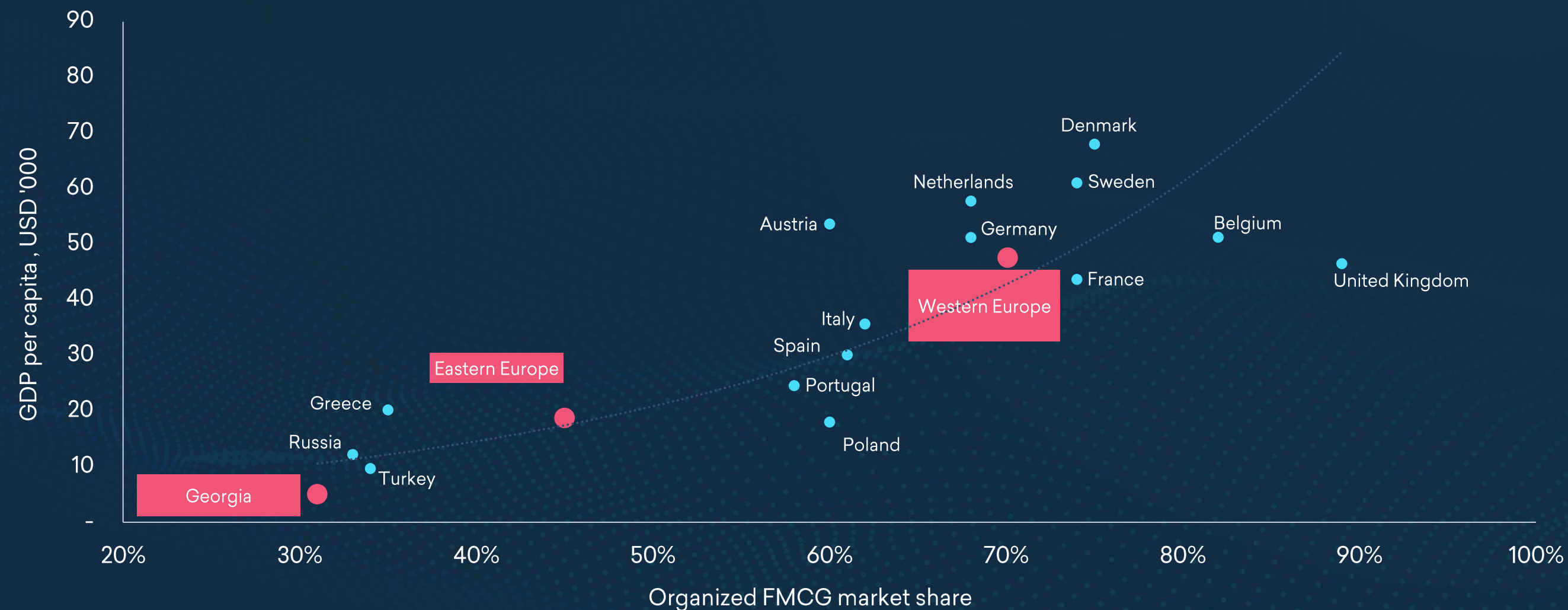
GEL bn, % share



The organized FMCG market share is expected to grow in line with economic development, as suggested by the European experience

Organized FMCG market share and GDP per capita

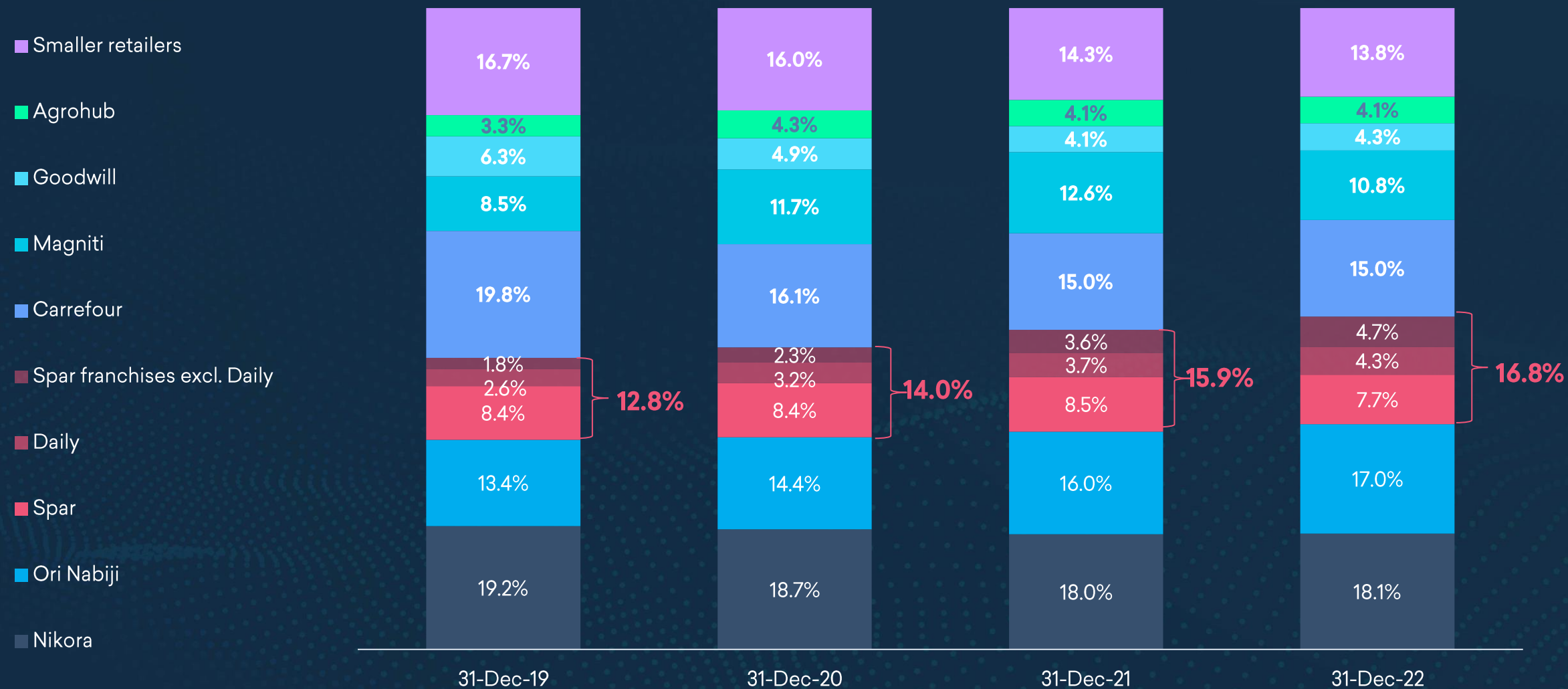
USD 1,000, %



The competition in the organized FMCG market is becoming more severe and unlike 2019-2020 years is affecting the small as well as the large companies present on the market

Organized FMCG market share distribution

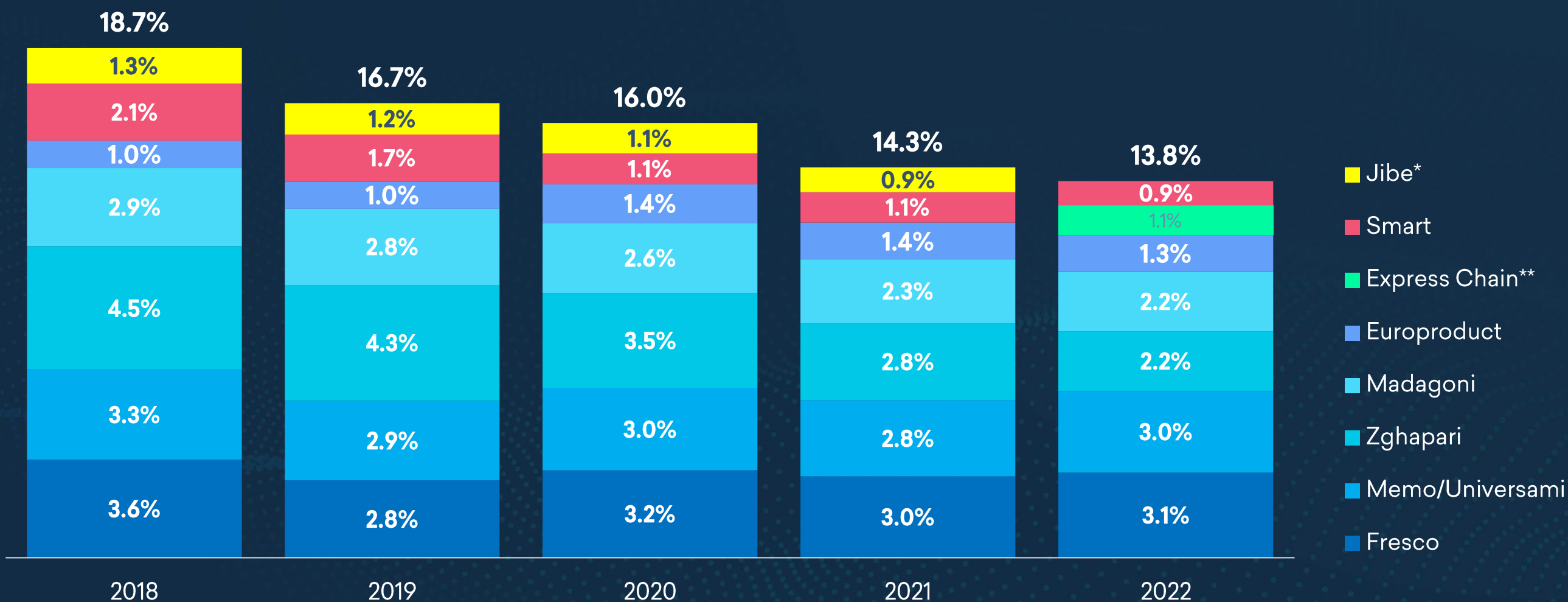
Share, %



Regardless the fierce competition, new market entrants are observed. This further indicates that full market potential is yet to be attained

Organized FMCG market share distribution – smaller retailers

Share, %



Source: TBC Capital, survey of selected retailers;

*Due to changes in the company's strategy, retails sales are no longer a priority, thus has been omitted from 2022 calculations;

**Express Chain reached a significant scale in 2022 and is therefore added to the organized market



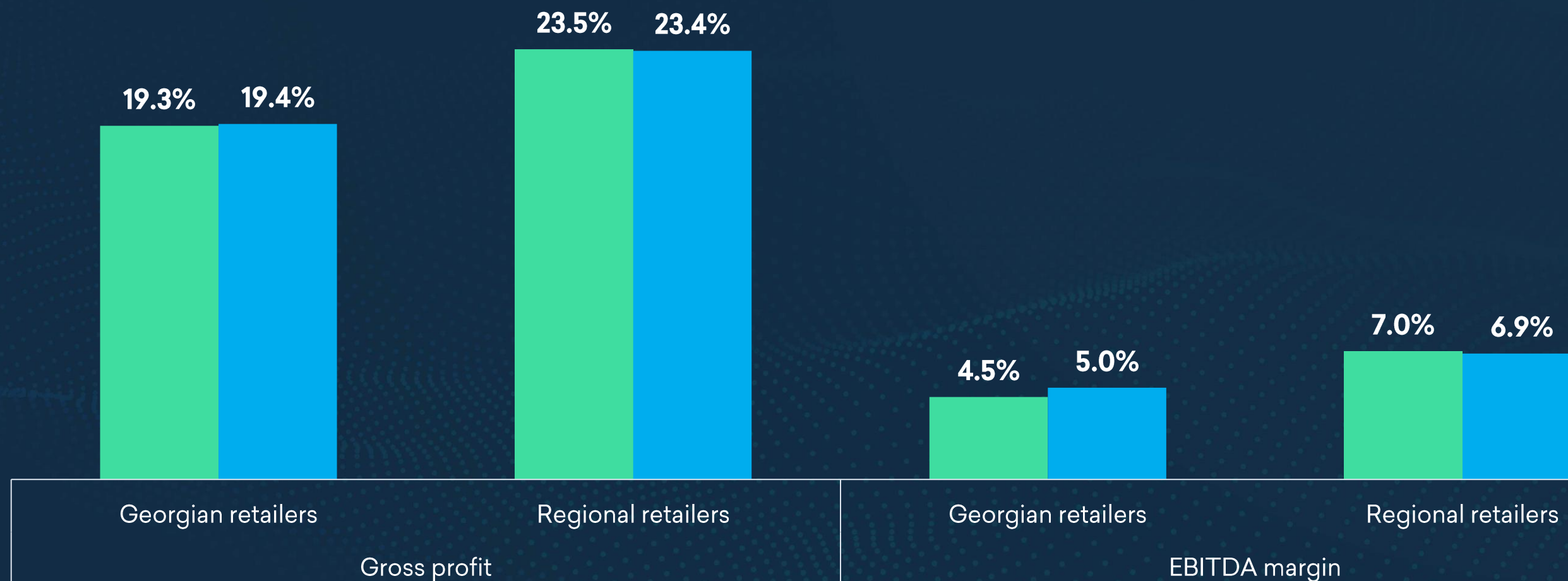
**MAJOR OPERATIONAL
AND FINANCIAL INDICATORS
OF THE ORGANIZED
FMCG MARKET**

Due to fierce competition and higher cost of goods sold, profitability metrics of Georgian retailers lack behind regional retailers

Non-IFRS profitability metrics*

%

■ 2021 ■ 2022



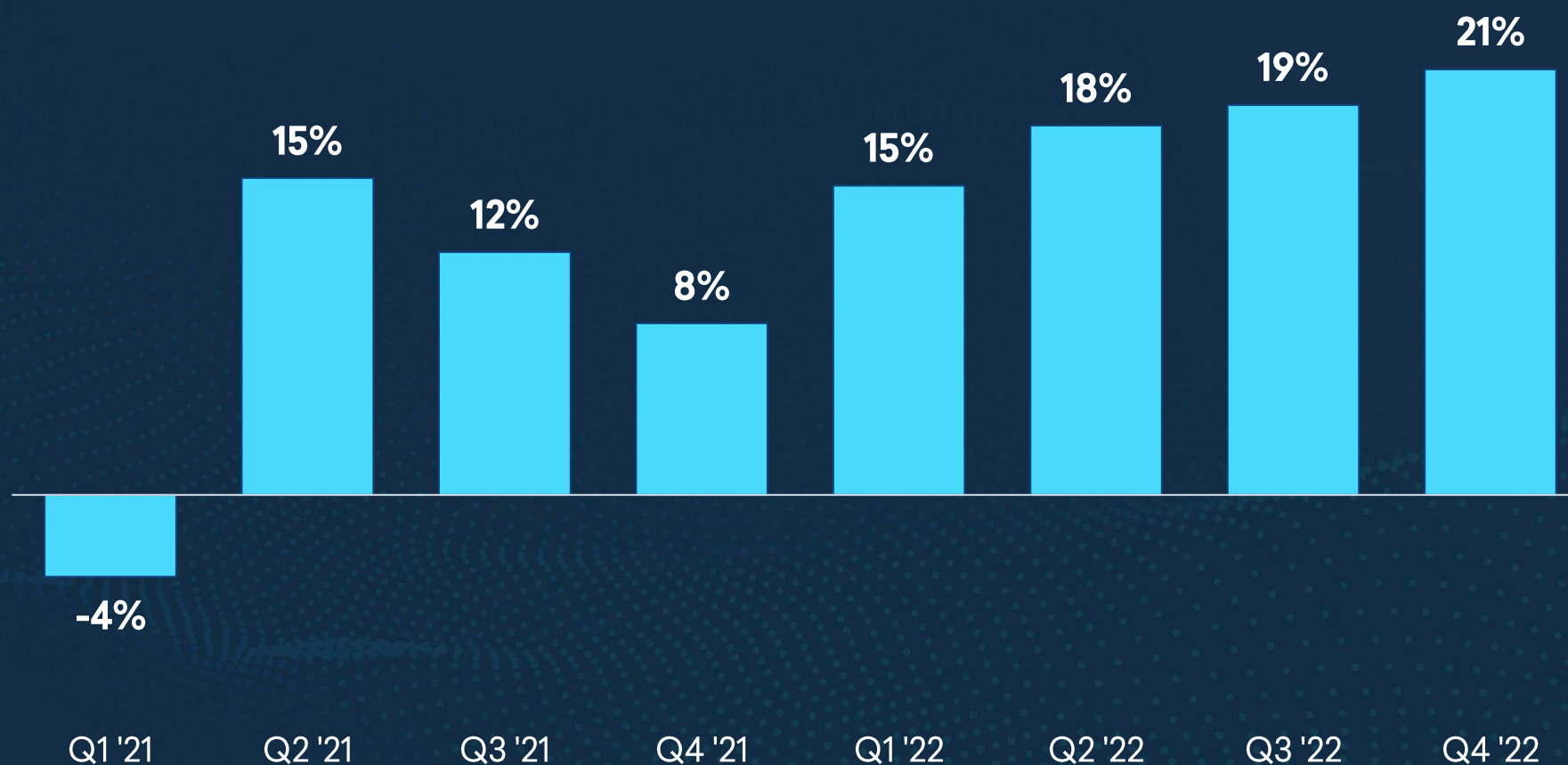
Source: Bloomberg, TBC Capital, survey of selected retailers;

*Regional retailers' metrics are based on seven publicly traded retailers operating in Russia, Turkey, Poland, Kazakhstan, Macedonia, and Estonia

The organized market grew mainly on the back of new store openings. Further expansion is expected in the coming years

LFL sales of the organized FMCG market

YoY change



2022 :

+18%

LFL sales

+37%

Total revenues

Smaller format store openings was the priority in 2022, which positively affected the sales/sqm number

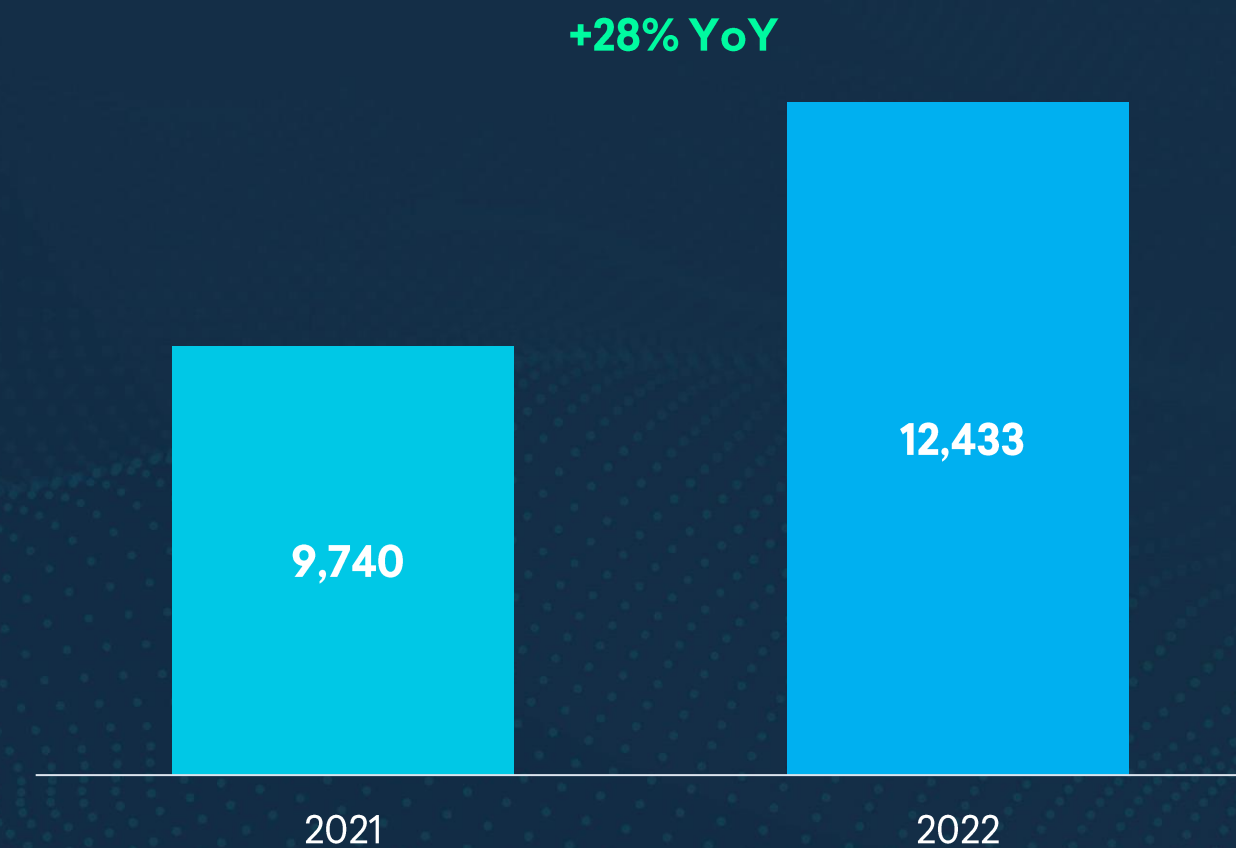
Number of stores and trading area

Units, 1,000 sqm



Annual sales per sqm*

GEL

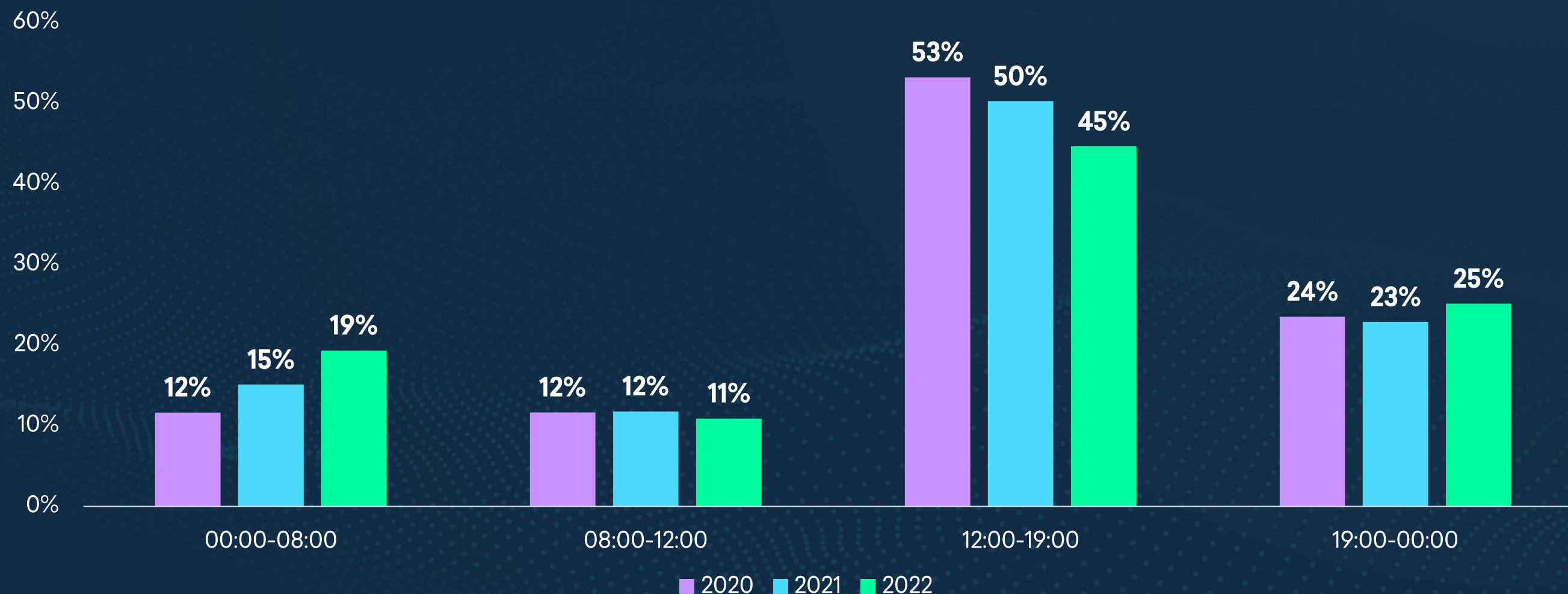


Source: TBC Capital, survey of selected retailers;
*Calculated using the year-end numbers

The share of late night expenditures are increasing in line with the post-pandemic recovery, indicating the importance of around the clock stores/

FMCG expenditure breakdown by different time slots

Share, %



The young generation is gaining more share among the FMCG consumers. This indicates an increasing potential of e-commerce

FMCG expenditure breakdown by different age groups

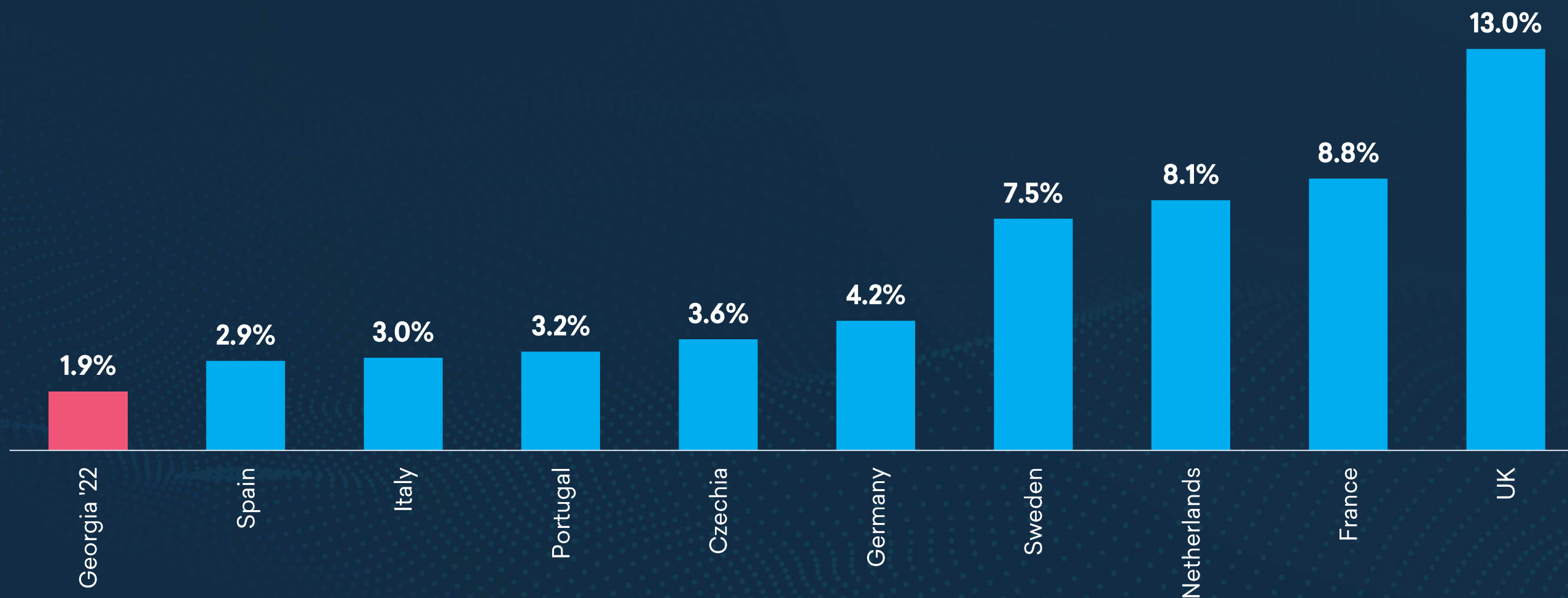
Share, %



As indicated by the European markets, the share of e-commerce in FMCG revenues is expected to grow

Share of e-commerce in FMCG revenues, 2021

Share, %



Main Findings



The FMCG market grew at 37% YoY in 2022. The growth rate is expected to stabilize in the 2023-2025 period



Organized FMCG market players are expected to increase their presence in the regions as it is fast-growing and makes up 66% of the total market but the penetration level remains low (16%)



The increased demand, further regional penetration, and international tendencies indicate that by 2025 the organized market share will reach 40%



Due to fierce competition and higher cost of goods sold, profitability metrics of Georgian retailers lack behind regional retailers



The young generation is gaining more share among the FMCG consumers. This is a significant factor for a correct outlook of the true potential of e-commerce in the FMCG sector



TBC CAPITAL