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RESEARCH

FOOD AND BEVERAGE PRODUCTION IN RUSSIA

Results of 2018 and Trends for 2019

Forecast up to 2021

информационное агентство information agency

- INDUSTRY CURRENT STATE
- KEY ECONOMIC EVENTS
- CONDITION IN SPECIFIC BRANCHES
- MARKET SURVEY OF FMCG CHAIN SUPPLIERS
- RATING OF FOOD MANUFACTURERS
- PROFILES OF LEADING MANUFACTURERS
- PROSPECTS FOR INDUSTRY DEVELOPMENT

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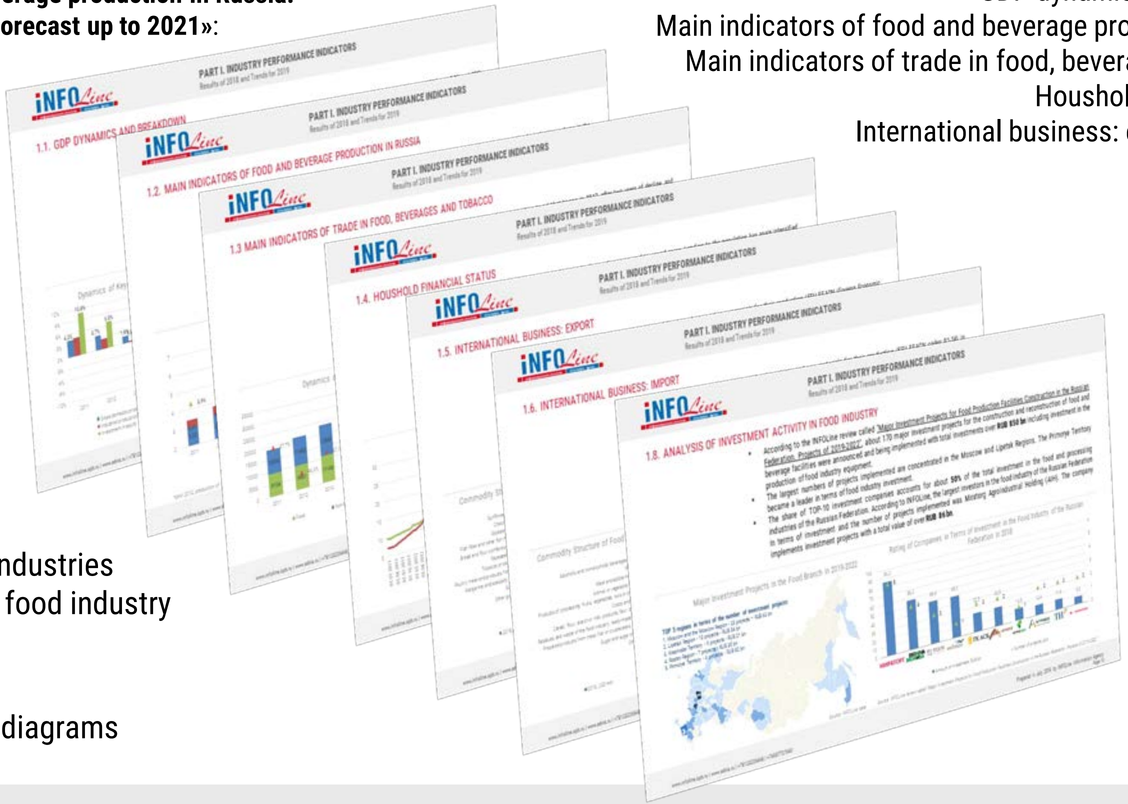
NEW - *New section*

PART I. MAIN INDICATORS OF FOOD AND BEVERAGE PRODUCTION IN RUSSIA

Full version of Research «**Food and beverage production in Russia. Results of 2018 and Trends for 2019. Forecast up to 2021**»:



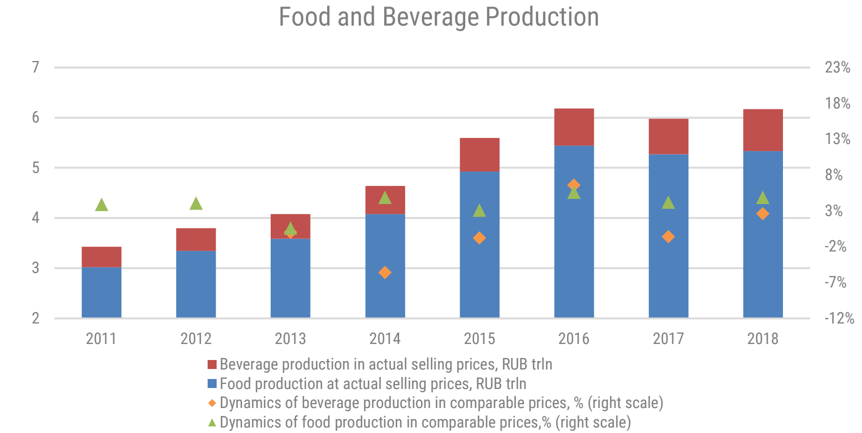
GDP dynamics and breakdown
Main indicators of food and beverage production in Russia
Main indicators of trade in food, beverages and tobacco
Houshold financial status
International business: export and import

Lending to food and processing industries
Analysis of investment activity in food industry

Full version contains 6 slides, 16 diagrams

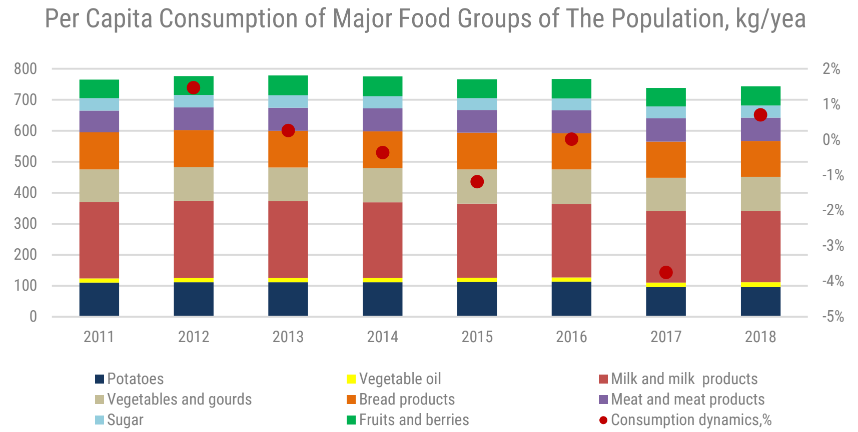
1.2. MAIN INDICATORS OF FOOD AND BEVERAGE PRODUCTION IN RUSSIA

- In 2018, growth in food production in comparable prices amounted to **4.9%**. The increase in food production volume in the Russian Federation was promoted by growing raw material base, existing food embargo, more competitive prices of domestic products on foreign markets and restoring retail turnover within the country.
- Beverage production grew by **2.6%**. Positive dynamics of the beverage market is associated with an increase in the production of beer, mineral and drinking water and soft drinks provided by the hot summer and the FIFA World Cup held in the country.
- According to INFOLine estimates, in 2018, food consumption in physical terms showed an increase of **1%**.
- In Russia, food expenditures make up **32%** of the total household budget. It is significantly higher if compare with residents of developed countries where they spend maximum **15%** of household spending on food. For instance, this figure is **6.4%** in the USA, 8.7% in Switzerland, 10% in the Netherlands, and 11% in Great Britain.



Until 2013, production of food including beverage and tobacco

Source: FSSS

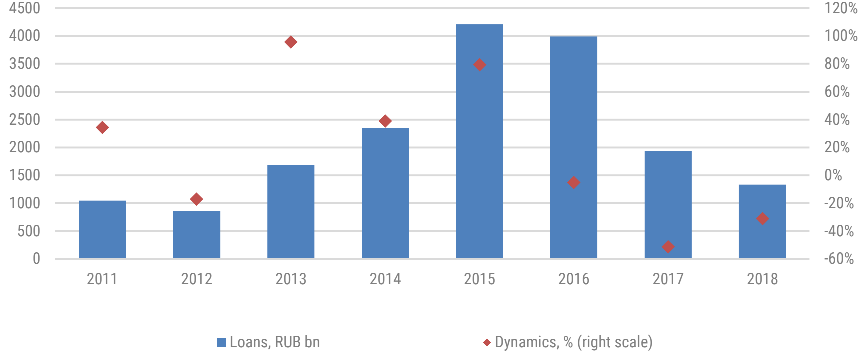


Source: FSSS, INFOLine estimates

1.7. LENDING TO FOOD AND PROCESSING INDUSTRIES

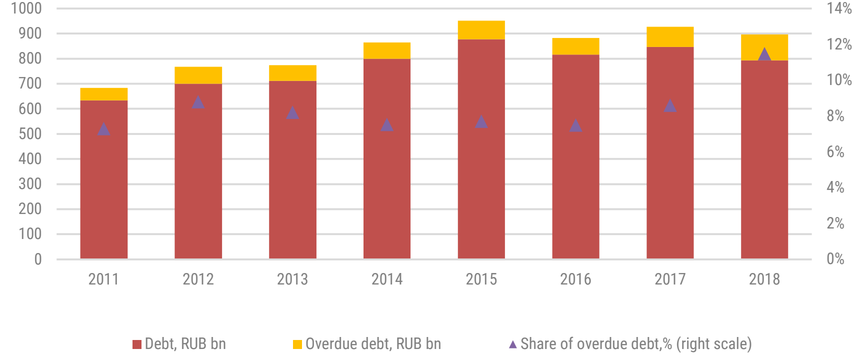
- At the end of 2018, lending to food and beverages manufacturers decreased by **31.2%,** thus, the branch returned to its pre-crisis level in terms of loan granting.
- Lowered lending in the food industry is fraught with a reduction in investment activity due to the completion of a number of large projects, saturated domestic market, inadequate export potential utilization of high value-added products and insufficient consumer demand. In addition, as INFOLine predicted, the positive effect of ruble devaluation has ceased to be significant.
- In 2018, loan indebtedness grew by **3.3%** compared to the past year, while the share of overdue debt continued to increase and amounted to **11.5%** that is **2.9 pp** higher than a year earlier, which indicates deterioration in the payment discipline on previously received loans.
- The branch is among the top five branches with the highest hare of overdue debt. In the corporate sector across the country, the share of overdue debt in all sectors is **6.5%** (**-0.2 pp** compared to the previous year).

Volume of Bank Loan Granting to Food And Beverage Manufacturers



Source: CBR, INFOLine calculations

Indebtedness of Food and Beverage Manufacturers on Bank Loans

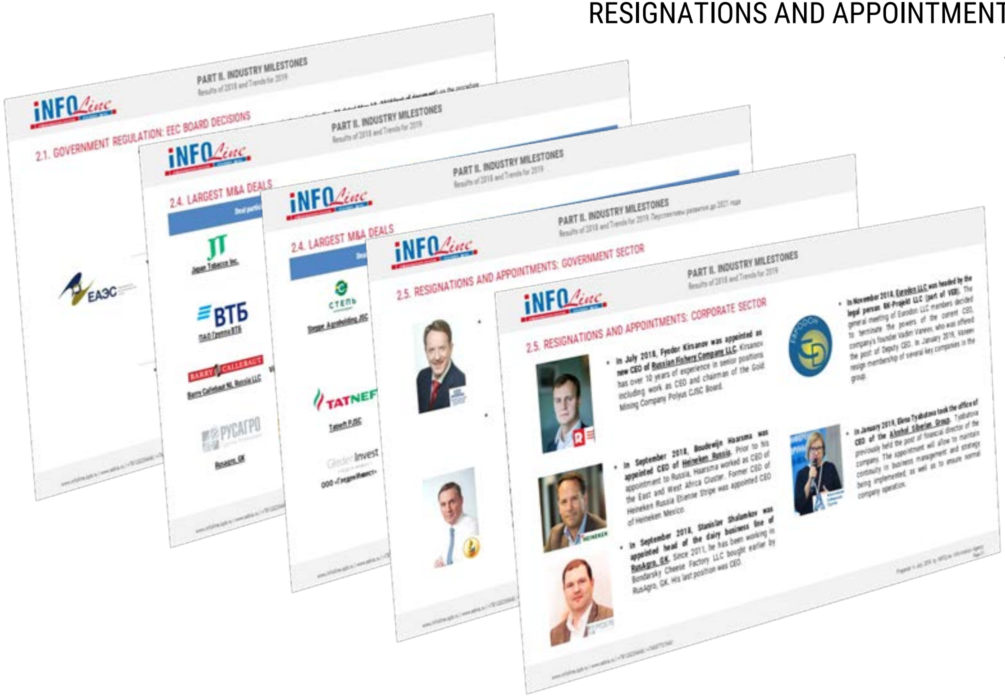


Source: CBR, INFOLine calculations

PART II. INDUSTRY MILESTONES

Full version of Research «**Food and beverage production in Russia. Results of 2018 and Trends for 2019. Forecast up to 2021**»:

GOVERNMENT REGULATION: EEC BOARD DECISIONS AND PRODUCT SALES
LARGEST M&A DEALS
RESIGNATIONS AND APPOINTMENTS: GOVERNMENT SECTOR AND CORPORATE SECTOR



Full version contains 12 slides

2.4. LARGEST M&A DEALS

Deal participants		Asset	Value, RUB bn.	Closing date	Deal format and description
Elkamo Trade & Invest Ltd	**Sergey Barabanov, Viktor Firsov, Andrey Sotnikov**	Russky Losos PJSC	0.9*	April 2018	Cyprus Elkamo Trade & Invest Ltd (St. Petersburg businessman Mikhail Bobrov is considered the owner) ceased to dispose of 60.02% Russky Losos PJSC shares. At the same time, Sergey Barabanov and Viktor Firsov each received 20.04% Russky Losos PJSC shares, Andrey Sotnikov became the owner of another 19.93% shares. Russky Losos PJSC manages six salmon farms in the Murmansk Region with a total project capacity of 30 thousand tons per year.
DMK Deutsches Milchkontor GmbH	**RichArt GK**	40% shares of three cheese factories (Bobrovsky Cheese Factory LLC, ChizArt LLC, FlamanFrakht LLC)	N/A	May 2018	DMK Deutsches Milchkontor GmbH (Germany), one of the global dairy producers, bought the remaining 40% shares of three cheese-making factories in the Voronezh Region owned by RichArt, GK. It is about Bobrovsky Cheese Factory LLC, ChizArt LLC, FlamanFrakht LLC. In 2016, the company already bought out 60% shares of the above companies. Sales of Russian enterprises that grew in 2017 convinced the German company to acquire the full block of shares. The company plans to increase its production and product range at the cheese-making factories.
Beluga Group	**Andrey Romanov**	80% Villa Romanov	1.2*	July 2018	BELUGA GROUP acquired the Villa Romanov winery for the development of the premium Russian category of still and sparkling wines in the Krasnodar Territory. Villa Romanov, a high-tech winery producing up to 2.5 mln bottles of wine per year, also has its own vineyards and a tourist complex. According to the deal, the company acquires 1,000 ha of agricultural land, 231 ha out of which already have existing vineyards, and the rest of the land is intended for future planting.

* According to INFOLine estimates

2.5. RESIGNATIONS AND APPOINTMENTS: GOVERNMENT SECTOR

- **In May 3018, Russian President Vladimir Putin approved Aleksey Gordeyev as Deputy Prime Minister for Agriculture.** Gordeyev held the position of Minister of Agriculture in 1999-2009. From 2000 to 2004, he also served as Deputy Prime Minister.

- **In May 2018, Russian President Vladimir Putin approved Dmitry Patrushev as Minister of Agriculture**. In 2004-2011, Patrushev worked at VTB Bank, PJSC. Since 2007, he served as Senior Vice President of the Bank. Since May 2010, he is Member of the Supervisory Board and Chairman of the Board of Rosselkhozbank JSC. Since 2016, he is Member of the Board of Directors of Gazprom PJSC. Patrushev replaced the head of the Ministry of Agriculture, Aleksander Tkachev, who held this position since April 2015.

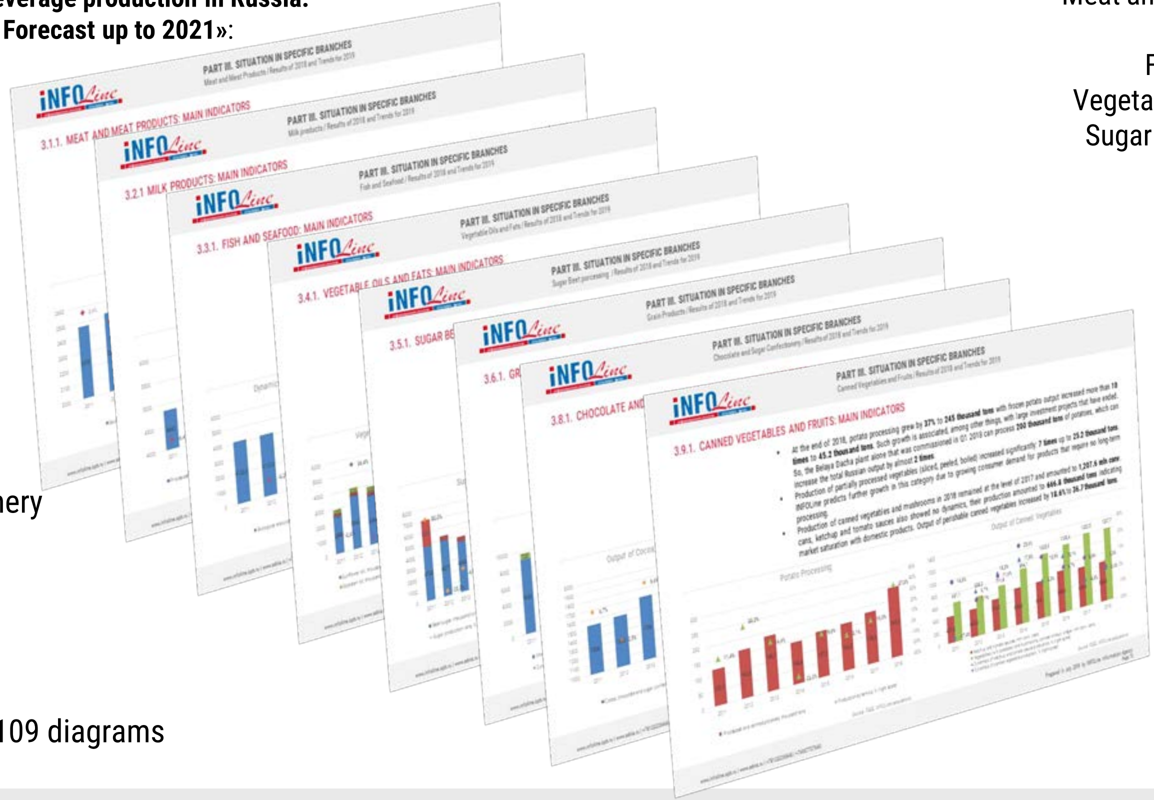
- **In June 2018, Boris Listov was appointed Chairman of the Board of Rosselkhozbank OJSC.** Listov has been working at the bank since October 2009 in the position of First Deputy Chairman of the Management Board, he has chaired the credit committee for risk management, the headquarters for organizing financing for seasonal work. In addition, he oversaw the activities of a number of the Bank's structural units.

- **In July 2018, Igor Olegovich Aleshin was appointed head of the Federal Service for Alcohol Market Regulation.** He replaced Igor Chuyan, who has held the post since 2009. Earlier, Igor Aleshin was CEO of Soyuzplodoimport, and in the CEO position he headed the Moskovsky Zavod Kristall, and served as First Deputy General Director of FSUE Rosspirtprom.

PART III. SITUATION IN SPECIFIC BRANCHES

Full version of Research «**Food and beverage production in Russia. Results of 2018 and Trends for 2019. Forecast up to 2021**»:

Meat and Meat Products
Milk products
Fish and Seafood
Vegetable Oils and Fats
Sugar Beet processing
Grain Products

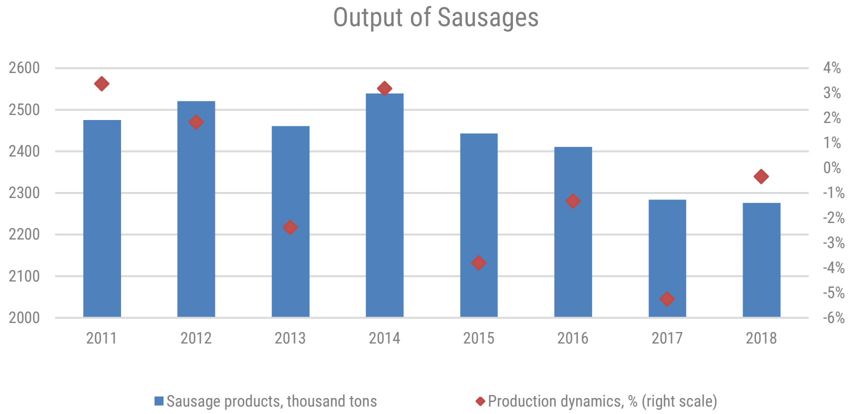


Bakery and Flour Confectionery
Chocolate and Sugar Confectionery
Canned Vegetables and Fruits
Beverages
Coffee and Tea
Tobacco and Tobacco Products

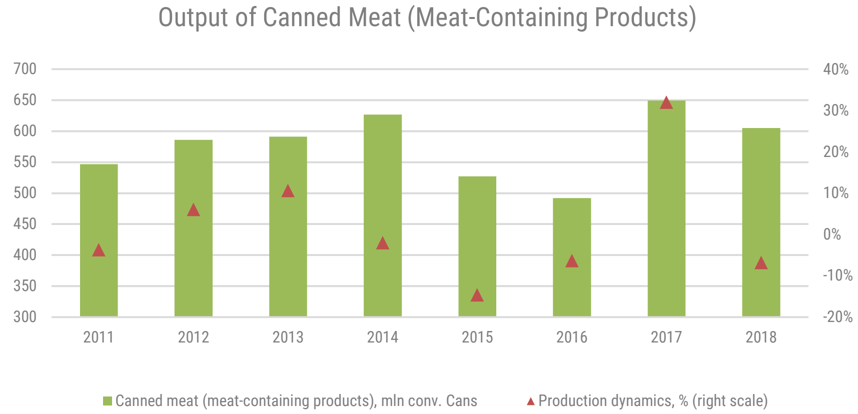
Full version contains 72 slides, 109 diagrams

3.1.1. MEAT AND MEAT PRODUCTS: MAIN INDICATORS

- The Russian industrial meat processing market features a low consolidation level – share of five largest companies accounts for just over **20%**. This increases competition among manufacturers.
- At the end of 2018, manufacturing of sausage products (including sausage products for baby food) showed a slight decline continuing the negative trend observed for several years. For example, Cherkizovo Group, one of the leading manufacturers of sausage products in the Russian Federation (according to INFOLine estimates, its market share exceeds **6.5%**), reduced output by **3.7%**. At the same time, Cherkizovo launched a robotic sausage production plant in 2018 and plans to occupy **30%** of the Russian market of dry sausages, and AIH Miratorg in 2018 launched the production of sausages and wieners from its own raw materials for the first time.
- Canned meat production continued its decline in 2018, and, according to INFOLine, a significant local growth in the production of canned food recorded by FSSS in 2017 was associated with a change in the accounting data statistics.



Source: FSSS, INFOLine calculations

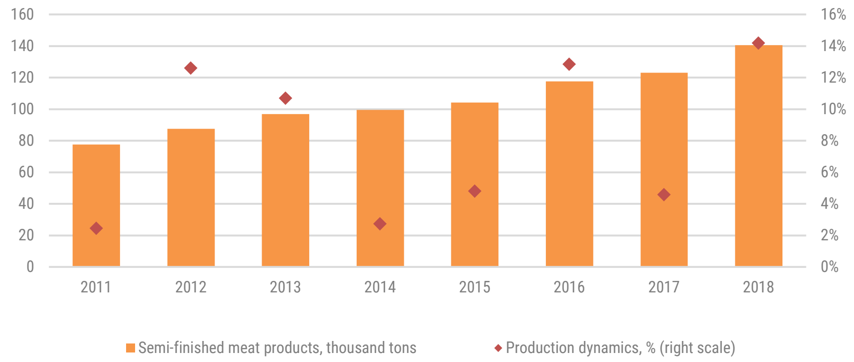


Source: FSSS, INFOLine calculations

3.1.1. MEAT AND MEAT PRODUCTS: MAIN INDICATORS

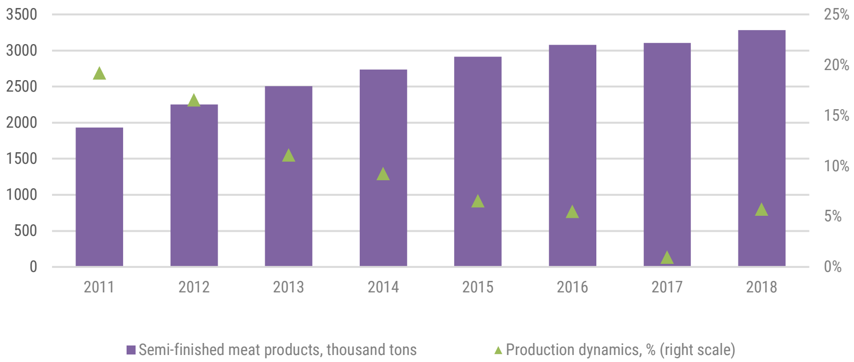
- Lowered consumption of sausage products in 2018 was due to not only a decrease in household incomes and resulting "lean consumption", but also a healthy lifestyle trend. Consumer opinion about sausage products does not correspond to their idea of a healthy diet and contributes to reorientation to other types of meat products such as semi-finished and ready-to-eat meat products.
- Against the background of growing consumption of this product, companies in the industry increased their investments in capacity expansion and development of new products in the category. For example, the Kursk Meat Processing Plant (part of Agropromkomplektatsiya, GK) in 2018 increased its semi-finished products output more than 3 times after site modernization.
- Miratorg Zapad, one of the largest Russian producers of frozen meat products and ready-to-eat meals, put 51 thousand tons of products on the market in 2015 that is **13%** more than in 2017. In 2019 the company plans to increase its output by another **17%** to **60 thousand tons**.

Output of Ready-to-Eat Meat (Meat-Containing) Products



Source: FSSS, INFOLine calculations

Output of Semi-Finished Meat Products (Chilled and Frozen)

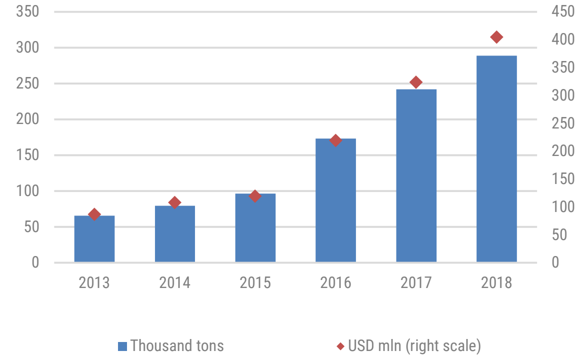


Source: FSSS, INFOLine calculations

3.1.2. MEAT AND MEAT PRODUCTS: EXPORT

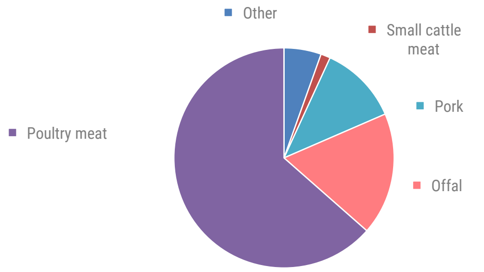
- At the end of 2018, meat exports from Russia (EEU FEACN Category 02) grew by **25%** in monetary terms and by **19%** in physical volume. The share of meat exports does not exceed **4%** of production.
- The share of **10** largest countries-consumers of meat and meat products account for **93%** of Russian exports.
- The main volume of shipments accounted for poultry meat – **183.8 thousand tons** (an increase of **12.3%** compared with 2017). The share of poultry meat and its offal accounted for **63.5%** in physical terms and **47%** in monetary terms.
- At the end of 2018, the Chinese market was reopened for Russian poultry producers, which has been closed since 2005 after an outbreak of bird flu. The Ministry of Agriculture is planning to increase poultry meat exports to China in the near future to **150 thousand tons** that makes **30%** of all Chinese imports.
- The largest increase in exports was demonstrated by small cattle meat - an increase of more than 26 times, both in physical terms and in monetary terms, a significant increase is due to the low base effect and a significant increase in exports of this meat to Iran.

Meat and Offal Export from the Russian Federation



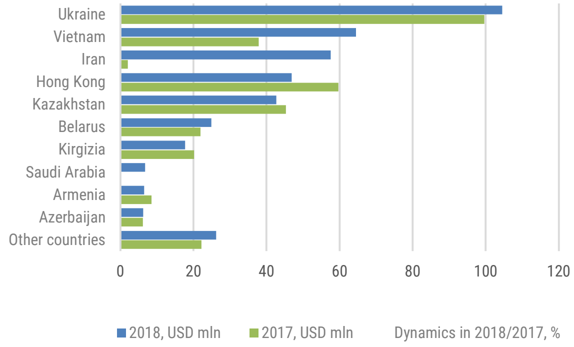
Source: FCS, INFOLine calculations

Main Types of Exported Products In Physical Terms in 2018



Source: FCS, INFOLine calculations

Rating of Meat Consumer Countries in Monetary Terms in 2017-2018

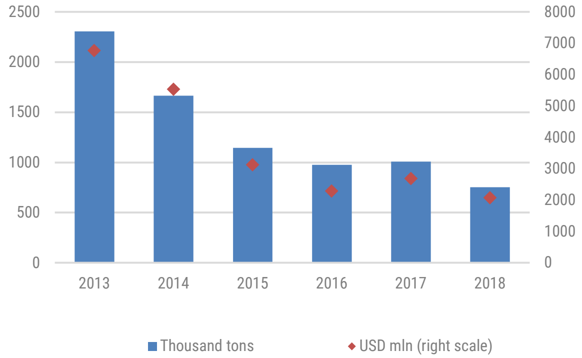


Source: FCS, INFOLine calculations

3.1.3. MEAT AND MEAT PRODUCTS: IMPORT

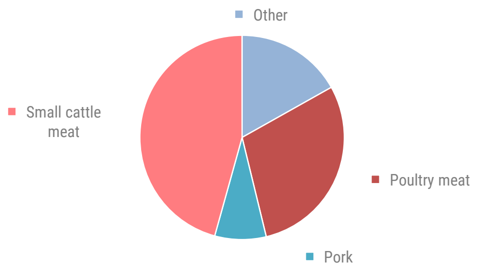
- At the end of 2018, imports of meat and offal (EEU FEACN Category 02) showed a fall of **23%** in monetary terms and **25%** in physical terms, due to the development of domestic production and the effect of food embargo. Pork (**-78.2%**) and other meat offal (**-58.8%**) showed the largest decline in physical terms.
- The share of 3 largest countries in terms of meat and meat product exports accounts for **72%** of all Russian imports. The largest suppliers of meat to the Russian Federation are Belarus (**38%**), Paraguay (**18%**) and Argentina (**16%**). In 2018, Brazil reduced exports to the Russian Federation by **82.2%** in physical terms due to the ban on the pork and beef supply from December 1, 2017 to November 1, 2018 due to a muscle growth stimulant identified in meat. Poultry meat import to the Russian from Brazil that was not banned amounted to **65.1 thousand tons**.
- The largest share in imports is still taken by beef (**46%**) due to insufficient domestic production. The share of pork imports decreased in 2018 to **8%** (**28%** in 2017).

Meat and Offal Import to the Russian Federation



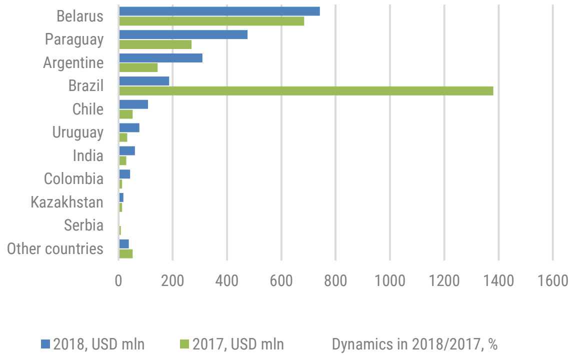
Source: FCS, INFOLine calculations

Main Types of Imported Products in 2018



Source: FCS, INFOLine calculations

Rating of Meat Importing Countries in Monetary Terms in 2017-2018



Source: FCS, INFOLine calculations

3.1.4. MEAT AND MEAT PRODUCTS: MAJOR COMPLETED PROJECTS

Investor	Facility	Project start	Project finish	Investment, RUB bn *	Project description
Cherkizovo, GK	Dry sausage plant in the Moscow Region	Q4 2015	Q2 2018	6	A fully automated plant built for dry sausage production in Kashira. Plant capacity is 80 tons of finished products per day or up to 30 thousand tons per year. The site provides over 30% of the total Russian output of dry sausages.
ABI PRODUCT	Sausage shop in the Vladimir Region	Q3 2017	Q2 2018	1,7	Phase I of the sausage shop in Vladimir was built. The company manufactures products under such brands as "Starodvorskiye Kolbasy", "Vyazanka", "Goryachaya Shtuchka", etc.
Firm Agrocomplex named after N.I. Tkachev JSC	Meat-processing plant Akashevskaya Poultry Farm in the Republic of Mari El	2017	Q3 2018	1,2	A meat processing plant was built in the Medvedevsky district with a capacity of 6 thousand birds per hour (10.8 mln animal units per year).
Rusagro, GK	Slaughterhouse shop Rusagro-Primorye in the Primorye Territory	Q2 2017	2018	0,5	The slaughterhouse was reconstructed with equipment purchased to arrange slaughter production with a capacity up to 120 animal units per hour in Ussuriysk.
Khakasskaya Baranina LLC	Lamb processing plant in the Republic of Khakassia	2015	Q4 2018	0,5	A lamb processing plant was built in the Ust-Abakan Region with a production capacity of 60 thousand sheep per year (30 animal units per hour). The plant includes pre-slaughter, slaughter, deboning, chilling and freezing, packaging and shipping facilities.
Damate, GK	Poultry processing plant in the Penza Region	Q4 2018	Q2 2019	11	A turkey processing plant was built with a capacity of 155 thousand tons per year in the Nizhnelomovsky district. Capacity of production lines is 6 thousand animal units per hour. The total area of the building exceeds 43 thousand sq.m, 51 production lines are launched. The total length of the conveyors is almost 11.5 km.

* According to INFOLine estimates

3.1.5. MEAT AND MEAT PRODUCTS: MAJOR PROJECTS IN PROGRESS

Investor	Facility	Project start	Project finish	Investment, RUB bn *	Project description
AIH Miratorg	Meat packing house in the Kursk Region	Q3 2017	2023	68	A meat packing house built in the Oktyabrsky district in 2 stages: deep meat processing (by 2020); slaughter and boning complex for pigs (by 2023). Slaughter plant capacity will be 4.5 mln animal units per year, 346 thousand tons in slaughter weight. The plant plans to manufacture deep and heat-treated meat products.
AIH Miratorg	Meat product processing line of the cattle slaughter complex in the Bryansk Region	Q2 2018	Q1 2020	4.9	Construction of a meat processing line at Bryansk Meat Company LLC in the Vygonichsky district with a capacity of 14 thousand tons of products per year.
Agroeco, GK	Meat processing plant in the Voronezh Region	Q2 2019	2020	14.5	Construction of a meat processing plant in the Pavlovsky district. Planned capacity: slaughter – 450 animal units per hour, boning and packing – 600 animal units per hour, consumer packaging – 100 tons per day. Total capacity of the plant will be 1.2 mln animal units per year at one-shift operation and 2.4 mln animal units per year at two-shift operation.
Cherkizovo, GK	Meat-processing complex Sausage Technopark Cherkizovo Kashira in the Moscow Region	2019	Q4 2024	19	Construction of the Kashira-2 complex of meat-processing plants with a capacity of 550 tons of products per day in Kashira. The complex will include: a plant for the production of frozen finished products, a distribution center with a sausage cutting line and refrigerated warehouses, a plant for ham and cooked sausage production.
Damate, GK	Plant for deep processing of turkey meat in the Penza Region	2018	Q3 2020	5.7	Construction of a plant for deep turkey meat processing in the Nizhnelomovsky district. Plant capacity will be 150 tons per day. 13 production lines will produce dry-cured sausages, hams, boiled sausages and wiener products, as well as semi-finished products.
AGROKOM GROUP	Tavr sausage factory in the Rostov Region	Q4 2018	Q4 2020	3	Construction of a sausage factory in Bataysk with a total area of 20 thousand sq.m. Capacity of the meat processing plant will be 40-150 tons per day.
AGRIKO, GK	Delikatesy Meat Processing Plant in the Stavropol Territory	Q2 2017	Q4 2019	2.9	Construction of Delikatesy Meat Processing Plant LLC in the Mineralovodsky district with a capacity up to 60 tons of finished products per day (up to 20 thousand tons of products per year).

* According to INFOLine estimates

PART IV. MARKET SURVEY OF LEADING FMCG CHAIN SUPPLIERS

Full version of Research «**Food and beverage production in Russia. Results of 2018 and Trends for 2019. Forecast up to 2021**»:

Sales results of leading FMCG suppliers in 2016-2018 and forecast for 2019
Factors impending suppliers development and criteria of successful retail chain operation
Government regulation
Share of leading suppliers sales through FMCG chains
Interaction of leading suppliers with FMCG chains

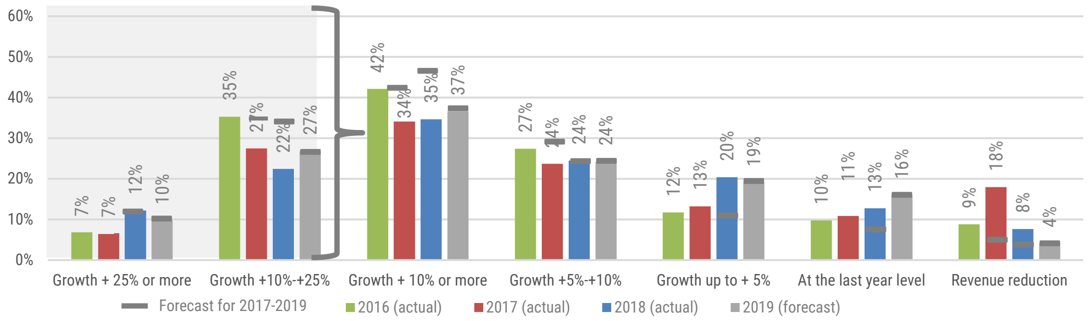
Promo sales and special range for FMCG chains in 2018 and forecast for 2019
Online sales of leading suppliers in 2017-2018 and forecast for 2021
Exports in sales structure in 2018 and forecast for 2019

Full version contains 8 slides, 29 diagrams

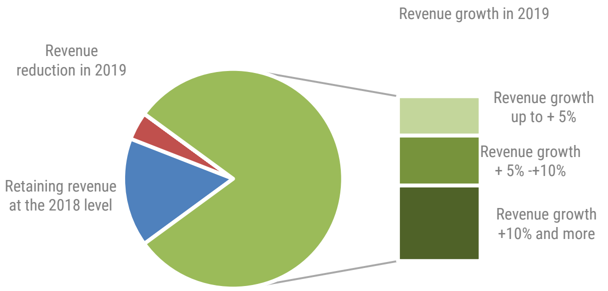
5.1. SALES RESULTS OF LEADING FMCG SUPPLIERS IN 2016-2018 AND FORECAST FOR 2019

- In 2018 retail turnover in the food segment increased by **2.1%** to **RUB 15.06 trln** in physical terms (by 4.5% in monetary terms). At the end of 2017, the indicator in physical terms increased by **1.1%**.
- In 2018, real disposable incomes of the population grew by **0.1%**. In H1 2018, real disposable monetary incomes of the population showed significant growth for the first time since 2014. This was mainly caused by the pre-election first quarter when there was a local increase in payments in the public sector for implementing the "May Decrees".
- The overwhelming majority (**80%**) of leading food products suppliers noted an increase in sales in 2018 in rubles, and more than a **third** of respondents said that sales grew by **10%** or more.
- The INFOLine forecast was confirmed: growth in sales of leading FMCG suppliers accelerated, despite the market stagnation as a whole, which is associated with consolidation (crowding out small players and replacing imports).
- Sales forecast for 2019 is somewhat more optimistic for the majority – also **80%** of respondents expect an increase in sales, and only **5%** of respondents expect a decrease.

Sales Dynamics of Leading FMCG Suppliers in 2016-2018 and Forecast for 2019,%



Plans of FMCG Suppliers on Change in Sales in 2019,%



Source: INFOLine analysis based on answers to questions: "How did sales of your company grow in 2018 (in rubles)?" and "How will sales of your company grow in 2019 (in rubles)?"

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