

ExportReady **DISCOVER**



SECTORAL
REPORT

Ukraine

Sector: Food & Drink

October 2021

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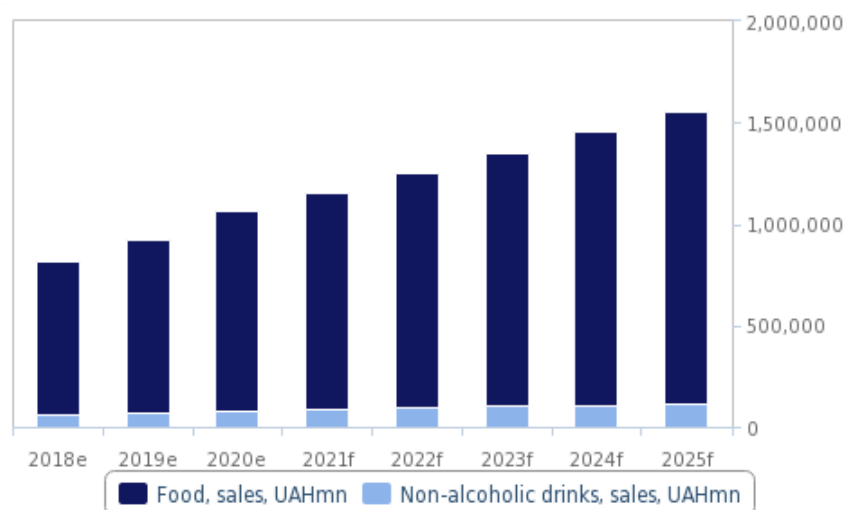


1. Industry Overview

1.1 Key Overview

Households will continue to focus on priority and essential purchases in 2021, as the impact of the Covid-19 pandemic continues. Spending on food and non-alcoholic drinks will see growth of above 8% in 2021, although this will be below 2020's growth. Fitch's medium-term outlook for Ukraine's food and drink market remains positive, with consumption growth set to continue through to 2025.

Graph 1: Ukraine-Food and Drink Spending (2018-2025)



Source: National statistics, Fitch Solutions

Latest Updates and Industry Developments

- Food spending growth is forecasted to come in at 8.4% y-o-y in 2021, down from pandemic-induced growth of 14.8% y-o-y in 2020. The largest proportion of spending will be on meat and poultry, at 20.3%, followed by oils and fats and then dairy.
- Demand for non-alcoholic drinks will remain strong in 2021, expanding by 8.3% y-o-y. By 2025 spending on non-alcoholic drinks should have reached UAH118.03bn, up from UAH70.65bn in 2019. Hot drinks will continue to represent the majority of spending in the non-alcoholic drinks sector, and will see the fastest growth in the sector, in value terms.
- Alcoholic drinks spending growth is forecast to come in at almost 9.0% in 2021, after a dramatic decline of 34.1% in 2020, as economic activity gradually recovers. By 2025 spending on alcoholic drinks is expected to reach UAH18.21bn, which is still below the UAH18.41bn achieved in 2019. In volume terms, spirits should see the fastest growth through to 2025.
- The average Ukrainian household will spend 53.4% of their total household spending on food items in 2025. While food spending has historically accounted for more than half of total household spending, this proportion has come down from the 57.0% recorded in 2005. The spread of western-style supermarkets through Ukraine, especially in the

western part of the country, has improved the affordability and accessibility of food products. This has resulted in an increasingly diverse food spending basket.

- In June 2021, the Russian supermarket chain **Mere** announced plans to open 40 new stores in Ukraine over the remainder of 2021. This is part of an aggressive push by the Russian brand to take market share away from competitors while at the same time expand their reach in the country.

1.2 Food & Drink SWOT Analysis

Strengths

- Ukraine is the second most populous market in Central and Eastern Europe, after Russia.
- A strong food processing industry has been developing in Ukraine.
- It has a large and well-supported confectionery industry.
- Ukraine has a well-established alcoholic drinks industry.
- The mass grocery retail (MGR) industry has attracted high-calibre multinational retailers.

Weaknesses

- Poor economic and consumer expenditure growth will weigh on the country's domestic market.
- Although improving, Ukraine's economic and political environment remains volatile, most notably in the east of the country, where ongoing conflict continues to hinder growth.
- Per capita food consumption remains low and income distribution remains highly uneven, both regionally and within major cities, limiting consumer purchasing power.
- Most local brewers are already owned by foreign companies, limiting scope for expansion through acquisition.
- The majority of grocery retail sales are still accounted for by independent outlets.
- Infrastructure and logistics remain a serious problem for retailers, requiring substantial upfront investment to develop a wider geographic presence.

Opportunities

- MGRs and food producers will witness growing demand for food and non-alcoholic drinks, arising from panic buying, stockpiling and priority purchasing by consumers in response to the Covid-19 pandemic.
- With a large agricultural sector and an ideal geographic position between the EU and Russia, Ukraine has long-term potential as an export hub for food and beverage producers.
- The government is opening up the country's alcoholic drinks market, abolishing the state monopoly on production and exports, which will encourage investment in new breweries and distilleries.

- Specific market segments, such as confectionery and dairy, are still far from mature offering continued opportunities for new entrants.
- Rising health consciousness will boost demand for healthier soft drinks such as fruit juices and bottled water.
- With much of Ukraine still dominated by independent retailers, further scope for growth across all store segments still exists.
- Ukraine's accession to the WTO, as well as an association agreement with the EU, offers opportunities for food and drink exports.

Threats

- Deteriorating relations with Russia and the recent loss of the country as an export market for many goods will damage Ukraine's Food & Drink sector.
- Authorities are introducing new quality requirements on meat imports in what is seen as a protectionist measure towards the local industry.
- Lockdowns forced stay at homes and closures of bars, restaurants and hotels will see drastically reduced spending for on-site alcoholic drinks.
- Consumer preference for domestically produced goods can make it difficult for foreign brands to penetrate the market.
- Strained relations with Russia limit export opportunities for food and drink producers.
- The alcoholic drinks industry has been hit by tax hikes, with the very real threat of further increases.

2. Industry Forecast

2.1 Food Market

Key View: Amid the Covid-19 outbreak, food spending is one of the few sectors that will see strong growth. A 14.8% growth is estimated in food sales in 2020, followed by 8.4% growth in 2021. Food spending growth will remain positive over the medium term to 2025, with the meat and poultry segment accounting for the largest proportions of food spending.

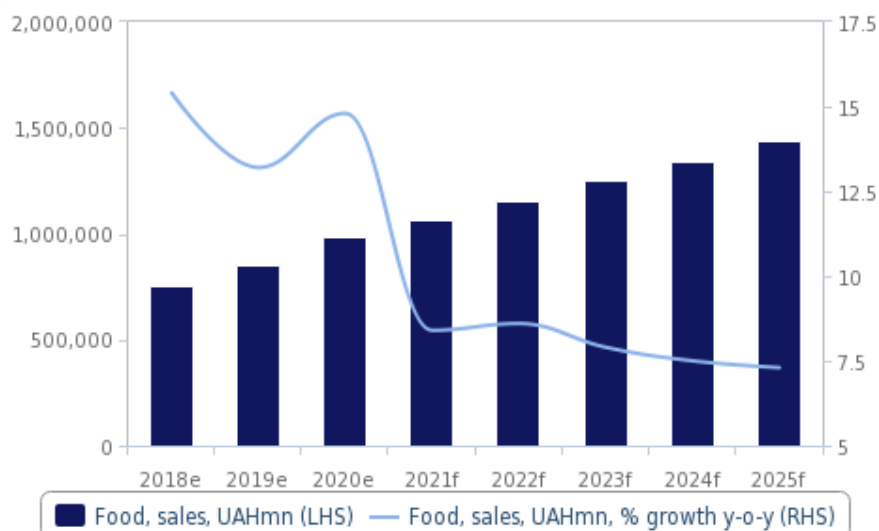
Latest Updates

- Food spending growth is forecasted to come in at 8.5% y-o-y in 2021, down from pandemic-induced growth of 14.8% y-o-y in 2020.
- In 2021 the largest proportion of spending will be on meat and poultry, at 20.3%, followed by oils and fats and then dairy.
- Through to 2025 vegetable products will see the strongest growth, at around 13% a year. Dairy will also see strong growth, at more than 10% a year.

2.2 Structural Trends

2021 Recovery Outlook: Food spending growth is expected to slow to 8.5% y-o-y in 2021, from 14.8% y-o-y in 2020, due to high base effects as consumers increased their focus on priority purchases, particularly groceries, in that year. In 2021 meat and poultry will account for just over 20% of total food spending, followed by oils and fats and then dairy.

Graph 2: Ukraine - Total Food Sales, UAHmn (2018-2025)



Source: National statistics, Fitch Solutions

Covid-19 Impact Assessment: In March 2020, Ukraine introduced a nationwide lockdown in response to the outbreak. As a result, Fitch experts saw an uptick in consumers cooking at home and an increase in spending on food and drink purchases through grocery channels, as people were advised to stay at home. Prior to the lockdown there were high levels of panic buying, stockpiling and priority purchasing.

Medium-Term Trends

The largest category in Ukraine's food sector is meat and poultry, which will account for over 20.3% of total spending in the sector in 2021. This share will only decline marginally through to 2025. However, within the category, pork sales are expected to remain strong, while beef, poultry and various meat preparations are set to underperform. The declining consumption of meat indicates that the Ukrainian diet is becoming more diversified. In line with this trend, consumption of fresh and preserved fruits and vegetables is expected to experience strong growth in the coming five years. This will be largely led by the prevalent health-consciousness trend across the region. Spending on fresh vegetables is expected to grow by 13.6% in 2021, while fresh and preserved fruit will rise by 8.5%.

Confectionery

While Ukraine has one of the region's largest confectionery industries, traditionally dominated by the chocolate segment, health and wellness trends as well as negative demographic trends will weigh on growth in the segment. As a result, the sugar and sugar products category are forecasted to show growth rates below the industry average through to 2025.

Both local and Russian producers will retain a strong presence in the market, with importers or multinational-owned local producers establishing positions at both the premium and low-priced ends of the market with well-known international brands.

Still, where foreign products can be easily substituted by domestic equivalents, Ukrainian consumers, similar to their Russian counterparts, have a strong preference for low-priced, locally produced brands. On a volume basis, multinationals such as Nestlé and Mondelēz remain some way off domestic companies.

Table 1: Food Sales (Ukraine 2018-2025)

| FOOD SALES (UKRAINE 2018-2025) | | | | | | | | |
|---|-----------|-----------|-----------|-------------|-------------|-------------|-------------|-------------|
| Indicator | 2018e | 2019e | 2020e | 2021f | 2022f | 2023f | 2024f | 2025f |
| Food, sales, UAHmn | 757,672.1 | 857,458.4 | 983,980.6 | 1,067,104.0 | 1,158,350.6 | 1,249,945.9 | 1,343,484.0 | 1,441,868.7 |
| Food, sales, UAHmn, % growth y-o-y | 15.4 | 13.2 | 14.8 | 8.4 | 8.6 | 7.9 | 7.5 | 7.3 |
| Bread, rice and cereals, sales, UAHmn | 63,998.5 | 69,846.7 | 76,796.0 | 81,980.1 | 87,421.1 | 92,718.8 | 98,032.7 | 103,605.8 |
| Bread, rice and cereals, sales, UAHmn, % growth y-o-y | 9.4 | 9.1 | 9.9 | 6.8 | 6.6 | 6.1 | 5.7 | 5.7 |
| Pasta products, sales, UAHmn | 18,203.0 | 20,665.8 | 23,927.5 | 25,572.9 | 27,366.7 | 29,031.8 | 30,601.3 | 32,165.2 |
| Pasta products, sales, UAHmn, % growth y-o-y | 16.4 | 13.5 | 15.8 | 6.9 | 7.0 | 6.1 | 5.4 | 5.1 |
| Baked goods, sales, UAHmn | 37,486.8 | 43,410.6 | 51,256.5 | 55,356.2 | 59,822.3 | 64,000.2 | 67,966.1 | 71,930.1 |
| Baked goods, sales, UAHmn, % growth y-o-y | 19.5 | 15.8 | 18.1 | 8.0 | 8.1 | 7.0 | 6.2 | 5.8 |
| Meat and Poultry, sales, UAHmn | 166,187.6 | 182,881.5 | 202,406.8 | 216,845.8 | 232,344.0 | 248,489.5 | 265,054.6 | 282,323.8 |
| Meat and Poultry, sales, UAHmn, % growth y-o-y | 11.0 | 10.0 | 10.7 | 7.1 | 7.1 | 6.9 | 6.7 | 6.5 |
| Fish and fish products, sales, UAHmn | 67,030.7 | 77,005.1 | 90,215.6 | 97,030.5 | 104,456.5 | 111,383.9 | 117,943.1 | 124,491.9 |
| Fish and fish products, sales, UAHmn, % growth y-o-y | 18.2 | 14.9 | 17.2 | 7.6 | 7.7 | 6.6 | 5.9 | 5.6 |
| Dairy, sales, UAHmn | 95,689.6 | 109,289.9 | 125,649.8 | 138,965.8 | 153,741.2 | 169,649.9 | 186,622.4 | 204,902.9 |
| Dairy, sales, UAHmn, % growth y-o-y | 15.3 | 14.2 | 15.0 | 10.6 | 10.6 | 10.3 | 10.0 | 9.8 |
| Oils and Fats, sales, UAHmn | 94,269.8 | 109,327.3 | 129,270.4 | 139,714.1 | 151,090.7 | 161,738.2 | 171,849.7 | 181,958.2 |
| Oils and Fats, sales, UAHmn, % growth y-o-y | 19.7 | 16.0 | 18.2 | 8.1 | 8.1 | 7.0 | 6.3 | 5.9 |
| Fresh and preserved fruit, sales, UAHmn | 72,831.5 | 84,997.8 | 101,111.9 | 109,625.4 | 118,897.9 | 127,592.6 | 135,863.7 | 144,138.6 |

| | | | | | | | | |
|---|----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| Fresh and preserved fruit, sales, UAHmn, % growth y-o-y | 20.7 | 16.7 | 19.0 | 8.4 | 8.5 | 7.3 | 6.5 | 6.1 |
| Fresh vegetables, sales, UAHmn | 63,725.9 | 72,587.8 | 83,916.4 | 94,977.5 | 107,879.4 | 121,519.2 | 137,073.9 | 154,847.6 |
| Fresh vegetables, sales, UAHmn, % growth y-o-y | 19.2 | 13.9 | 15.6 | 13.2 | 13.6 | 12.6 | 12.8 | 13.0 |
| Sugar and sugar products, sales, UAHmn | 56,442.8 | 62,401.1 | 70,095.0 | 75,488.5 | 81,373.1 | 87,615.6 | 94,141.2 | 101,044.0 |
| Sugar and sugar products, sales, UAHmn, % growth y-o-y | 11.3 | 10.6 | 12.3 | 7.7 | 7.8 | 7.7 | 7.4 | 7.3 |
| Other food products, sales, | 21,805.8 | 25,044.9 | 29,334.8 | 31,547.0 | 33,957.6 | 36,206.2 | 38,335.0 | 40,460.5 |

Source: National statistics, Fitch Solutions

Table 2: Food Sales (Ukraine 2018-2025)

| Indicator | 2018e | 2019e | 2020e | 2021f | 2022f | 2023f | 2024f | 2025f |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| UAHmn | | | | | | | | |
| Other food products, sales, UAHmn, % growth y-o-y | 18.2 | 14.9 | 17.1 | 7.5 | 7.6 | 6.6 | 5.9 | 5.5 |

Source: National statistics, Fitch Solution

2.3 Drink Market

Key View: Spending on alcoholic drinks will rebound in 2021, after a sharp Covid-induced fall in 2020. However, over the forecast period to 2025, consumption will remain lower than the 2019 peak in value terms. Meanwhile, spending on non-alcoholic drinks will continue to rise, albeit not as fast as in 2020, as Ukrainian consumers maintain their focus on essentials, with uncertainty remaining relatively high in the short term at least.

Latest Updates:

- Alcoholic drinks spending growth is expected to arrive almost 9.0% in 2021, after a dramatic decline of 34.1% in 2020, as economic activity gradually recovers.
- By 2025 spending on alcoholic drinks should reach UAH18.21bn, which is still below the UAH18.41bn achieved in 2019.
- In volume terms, spirits should see the fastest growth through to 2025.
- Demand for non-alcoholic drinks is projected to remain strong in 2021, expanding by 8.3% y-o-y as consumers maintain their focus on essentials.
- By 2025 spending on non-alcoholic drinks is expected to reach UAH118.03bn, up from UAH70.65bn in 2019.
- Hot drinks will continue to represent the majority of spending in the non-alcoholic drinks sector in Ukraine and will also see the fastest growth in the sector, in value terms.

2.4 Structural Trends

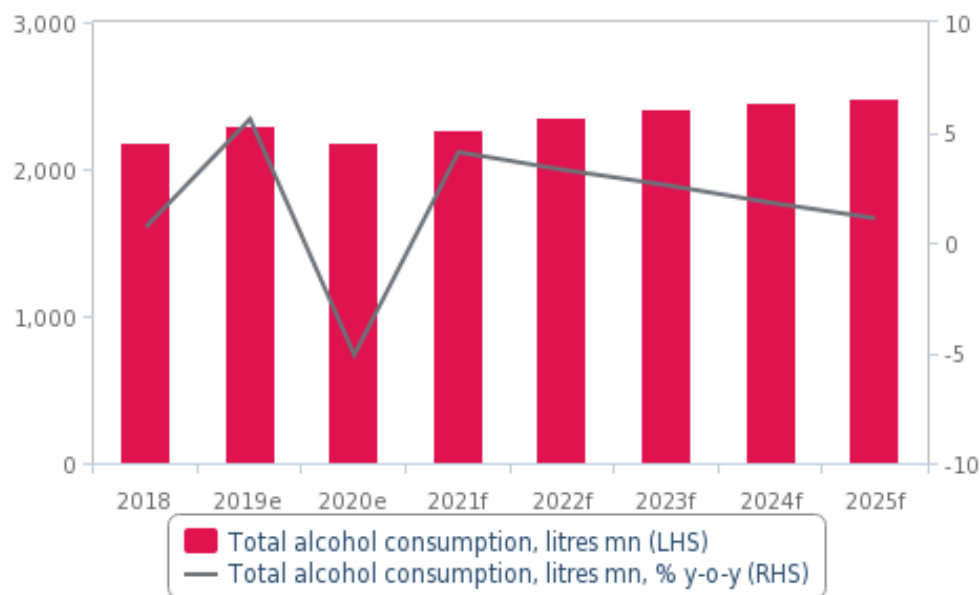
Alcoholic Drinks:

2021 Recovery Outlook:

Alcoholic drinks spending is forecasted to accelerate to almost 9.0% y-o-y in 2021, from -34.1% y-o-y in 2020, as economic activity gradually recovers. In volume terms, growth will be 4.1%, after a 5.1% fall in 2020. The spirits category is forecast to post the strongest growth in 2021, expanding by 5.5% y-o-y.

Covid-19 Impact Assessment: The shuttering of restaurants and bars as part of Covid-19 measures has had a negative impact on alcoholic drinks trade in 2020. While consumers were able to purchase alcoholic drinks through the mass grocery retail channel for home consumption, spending and consumption is typically lower through this channel. In addition, is expected consumers to remain cautious in their spending decisions at least into early 2021, focusing on their more immediate needs.

Graph 3: Ukraine - Total Alcohol Consumption, litres mn (2018-2025)



Source: National statistics, Fitch Solutions

Medium Term Trends

Consumers in Ukraine, particularly those with larger disposable incomes, are becoming increasingly sophisticated in terms of alcoholic drink preferences. This provides opportunities for premium brands and categories, such as wine and imported spirits (whiskey, rum), which are becoming more popular, albeit from a low base. Outside the major cities, local beer and vodka remain dominant. Per capita consumption of spirits stood at 7.1 litres in 2020 and is set to rise to 7.6 litres in 2021, but this figure is likely much higher due to the prevalence of homemade alcoholic drinks and 'shadow brands'. Owing to limited incomes, low-value brands will see the

strongest growth, as premium products remain too expensive for the vast majority of households. The cost of alcohol was exacerbated by the 20% excise tax increase on pure alcohol implemented in 2017, as well as another 12% excise tax increase for, which came into effect in January 2018. Further tax increases are likely across to Fitch's forecast period, which will boost value consumption. In volume terms, it is forecasted that the spirits sector will record healthy average annual growth through to 2025, when annual per capita consumption will be 10.2 litres. Low-cost whiskey and vodka will remain the most popular drink categories. Beer will see notable growth as well, given the presence of a number of strong international and local brands in the market. The annual per capita beer consumption is forecasted to reach over 56 litres by 2025, up from estimated 49.8 litres in 2021. Its lower price point makes beer more attractive for consumers, especially when compared to wine. In line with regional trends, there is a belief that the popularity of craft beer, as well as non-alcoholic beer varieties, will continue to rise, particularly among urban middle-class consumers.

On a per capita basis, Ukraine's wine consumption remains the underperformer, at 2.6 litres estimated for 2021. This figure is expected to rise gradually over the coming few years, reaching 2.8 litres by 2025. Wine sales will be supported by rising household incomes and purchasing power (amid moderating inflation) over the next few years as well as innovative practices undertaken by leading wine producers and retailers in the country. Also, there is a belief that low-priced private label wines will also remain popular, given low overall household incomes. Over 2020, the Ukraine imported 64,430 tonnes of wine, to a value of USD180mn. Approximately 28% of this comes from Italy, 22% from Georgia and 13% from Spain.

Table 4: Total Alcoholic Drinks Spending and Consumption (Ukraine 2018-2025)

| TOTAL ALCOHOLIC DRINKS SPENDING AND CONSUMPTION (UKRAINE 2018-2025) | | | | | | | | |
|---|---------|----------|---------|---------|---------|---------|----------|----------|
| Indicator | 2018e | 2019e | 2020e | 2021f | 2022f | 2023f | 2024f | 2025f |
| Alcoholic drinks spending, UAHbn | 16.92 | 18.41 | 12.14 | 13.23 | 14.55 | 15.76 | 16.99 | 18.21 |
| Alcoholic drinks spending, UAH % y-o-y | 26.39 | 8.83 | -34.08 | 8.98 | 10.05 | 8.30 | 7.82 | 7.13 |
| Alcoholic drinks spending, UAH per household | 984.84 | 1,077.12 | 713.68 | 781.97 | 865.34 | 942.58 | 1,022.24 | 1,101.75 |
| Alcoholic drinks spending, UAH per capita | 382.32 | 418.46 | 277.48 | 304.27 | 336.97 | 367.33 | 398.69 | 430.03 |
| Total alcohol consumption, litres mn | 2,180.8 | 2,303.9 | 2,186.0 | 2,275.7 | 2,351.6 | 2,412.3 | 2,456.8 | 2,485.1 |
| Total alcohol consumption, litres mn, % y-o-y | 0.7 | 5.6 | -5.1 | 4.1 | 3.3 | 2.6 | 1.8 | 1.1 |
| Total alcohol consumption, litres per capita | 58.5 | 62.3 | 59.5 | 62.3 | 64.7 | 66.6 | 68.2 | 69.2 |
| Beer, litres mn | 1,817.8 | 1,926.9 | 1,830.5 | 1,903.7 | 1,960.8 | 2,000.1 | 2,020.1 | 2,020.1 |
| Beer, litres mn, % y-o-y | -0.8 | 6.0 | -5.0 | 4.0 | 3.0 | 2.0 | 1.0 | 0.0 |
| Beer, litres per capita | 48.8 | 52.1 | 49.8 | 52.1 | 53.9 | 55.3 | 56.0 | 56.3 |
| Wine, litres mn | 96.2 | 99.3 | 93.3 | 95.4 | 97.0 | 98.2 | 98.9 | 99.1 |
| Wine, litres mn, % y-o-y | 6.1 | 3.2 | -6.0 | 2.2 | 1.7 | 1.2 | 0.7 | 0.2 |
| Wine, litres per capita | 2.6 | 2.7 | 2.5 | 2.6 | 2.7 | 2.7 | 2.7 | 2.8 |
| Spirits, litres mn | 266.8 | 277.7 | 262.2 | 276.6 | 293.7 | 314.0 | 337.9 | 365.9 |
| Spirits, litres mn, % y-o-y | 10.0 | 4.1 | -5.6 | 5.5 | 6.2 | 6.9 | 7.6 | 8.3 |
| Spirits, litres per capita | 7.2 | 7.5 | 7.1 | 7.6 | 8.1 | 8.7 | 9.4 | 10.2 |

Source: National statistics, Fitch Solutions

Non-Alcoholic Drinks

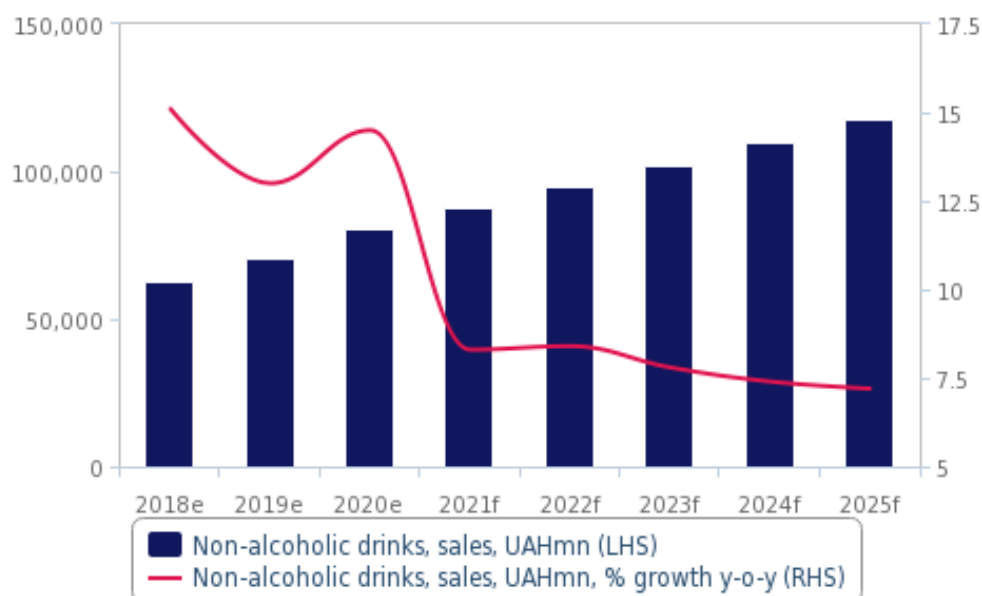
2021 Recovery Outlook

Ukrainian consumers are expected to continue to focus their spending on essentials in 2021, as uncertainty remains relatively high amid a recovery in economic activity following Covid-19 restrictions in 2020. This will result in increased demand for non-alcoholic drinks, which is projected to post spending growth of 8.3% y-o-y.

2020 Covid-19 Impact Assessment

Ukrainian consumers responded to the spread of Covid-19 in the country and the subsequent measures such as movement restrictions by stockpiling grocery products. Consumers is expected to continue to prioritize essentials, particularly grocery products, as further Covid-19 restrictions were introduced at the end of 2020. It is estimated that 2020 non-alcoholic drinks spending growth was 14.5% y-o-y, up from our pre-coronavirus forecast of 11.5% y-o-y.

Graph 4: Ukraine - Non-Alcoholic Drinks Sales (2018-2025)



Source: National statistics, Fitch Solutions

Overall, trends in the sector will be shaped by the strengthening health consciousness trend as well as product innovation. Given still low household incomes, price competition will continue to be intense. Hot drinks, including tea and coffee, will equate to 80.5% of total value sales of all non-alcoholic drinks in 2021. The sector is expected to remain the backbone of the non-alcoholic drinks industry over our forecast period. Key drivers of growth will be quality and novelty, supported by foreign companies' presence. Volumes are unlikely to increase by a significant amount, especially given persistent demographic and economic challenges.

Aside from hot drinks, total value sales of other non-alcoholic drinks will rise at a relatively modest pace through to 2025. There is a belief that, the spring and mineral water category will outperform, as Ukraine has one of the lowest per capita consumption levels of bottled water in the world. This suggests that there is still a lot of potential for growth in this segment. Carbonated soft drinks will register relatively minor sales increases up to 2025 and will face headwinds from the strengthening health consciousness trend. As a result, soft drink producers and retailers will seek to reorient their product portfolios to meet the changing consumer preferences. Meanwhile, fruit and vegetable juice sales will see a slight decline.

Table 5: Non - Alcoholic Drinks Sales (Ukraine 2018-2025)

| NON-ALCOHOLIC DRINKS SALES (UKRAINE 2018-2025) | | | | | | | | |
|---|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Indicator | 2018e | 2019e | 2020e | 2021f | 2022f | 2023f | 2024f | 2025f |
| Non-alcoholic drinks, sales, UAHmn | 62,549.5 | 70,652.9 | 80,910.3 | 87,649.2 | 95,046.8 | 102,472.6 | 110,055.9 | 118,032.2 |
| Non-alcoholic drinks, sales, UAHmn, % growth y-o-y | 15.1 | 13.0 | 14.5 | 8.3 | 8.4 | 7.8 | 7.4 | 7.2 |
| Coffee, teas and other hot drinks, sales, UAHmn | 48,525.4 | 55,566.7 | 64,438.6 | 70,564.7 | 77,249.4 | 84,057.8 | 91,075.9 | 98,485.1 |
| Coffee, teas and other hot drinks, sales, UAHmn, % growth y-o-y | 16.7 | 14.5 | 16.0 | 9.5 | 9.5 | 8.8 | 8.3 | 8.1 |
| Soft drinks, sales, UAHmn | 14,024.1 | 15,086.2 | 16,471.6 | 17,084.5 | 17,797.3 | 18,414.8 | 18,980.0 | 19,547.0 |
| Soft drinks, sales, UAHmn, % growth y-o-y | 10.0 | 7.6 | 9.2 | 3.7 | 4.2 | 3.5 | 3.1 | 3.0 |
| Fruit and vegetable juices, sales, UAHmn | 3,732.1 | 3,876.8 | 4,080.1 | 4,074.1 | 4,063.1 | 4,019.9 | 3,959.1 | 3,892.4 |
| Fruit and vegetable juices, sales, UAHmn, % growth y-o-y | 6.2 | 3.9 | 5.2 | -0.1 | -0.3 | -1.1 | -1.5 | -1.7 |
| Mineral or spring waters, sales, UAHmn | 7,063.9 | 7,849.3 | 8,846.1 | 9,456.7 | 10,087.2 | 10,681.7 | 11,257.4 | 11,846.3 |
| Mineral or spring waters, sales, UAHmn, % growth y-o-y | 13.8 | 11.1 | 12.7 | 6.9 | 6.7 | 5.9 | 5.4 | 5.2 |
| Carbonated drinks, sales, UAHmn | 3,228.1 | 3,360.0 | 3,545.4 | 3,553.7 | 3,647.1 | 3,713.2 | 3,763.5 | 3,808.3 |
| Carbonated drinks, sales, UAHmn, % growth y-o-y | 6.4 | 4.1 | 5.5 | 0.2 | 2.6 | 1.8 | 1.4 | 1.2 |

Source: National statistics, Fitch Solutions

3. Dietary Spending Shift Analysis

3.1 Key View

- The average Ukrainian household will spend 53.4% of their total household spending on food items in 2025. While food spending has historically accounted for more than half of total household spending, this proportion has come down from the 57.0% recorded in 2005.
- The spread of Western-style supermarkets through Ukraine, especially in the western part of the country, has improved the affordability and accessibility of food products. This has resulted in an increasingly diverse food spending basket.

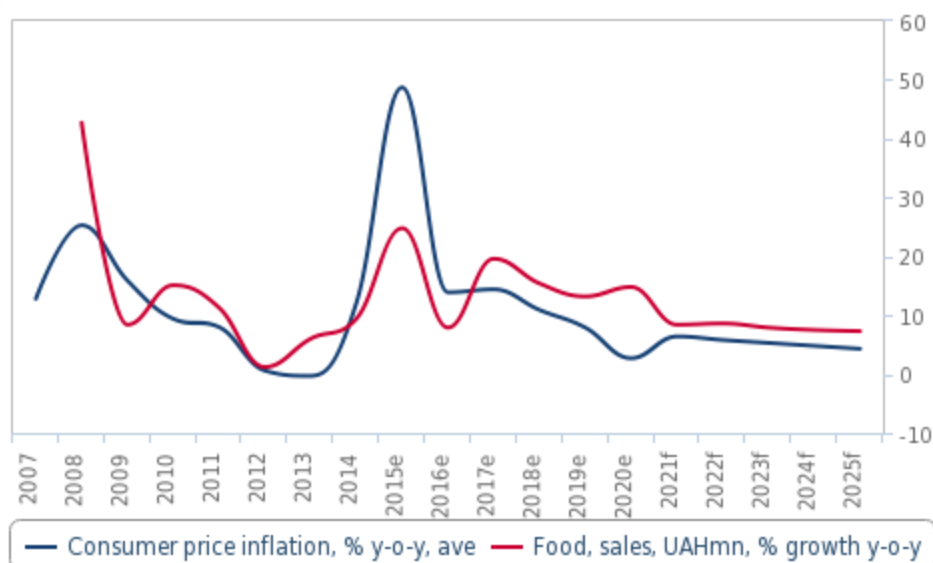
- Improving incomes have been feeding through to increased demand for milk and cheese spending. There has been significant premiumization in demand for cheese, often met from external markets, such as France, the Netherlands and Germany.
- The globalization of trade, plus the increased accessibility from supermarkets, has meant that Ukrainian consumers are more exposed to exotic fruits and vegetables. Similarly, young, urban consumers are now demanding these products all year round.

Dietary Spending Shift Overview

As a proportion of total household spending, the average Ukrainian household will spend 53.4% on food, in 2025. While food spending has historically always accounted for more than half of total household spending, this proportion has come down from 57.0% in 2005. At the same time, per capita food spending has risen significantly over this period, increasing from UAH3,780 (USD750) in 2007, to a forecasted UAH34,060 (USD1,340) by 2025. This growth trajectory includes the 2013-14 Euromaidan protests and subsequent Ukrainian economic crisis, which saw per capita spending on food drop to a low of UAH12,280 (USD480) in 2016. Experts largely attribute this growth in food spending to significant growth in average disposable income levels over this period. Between 2007 and 2025, the average household disposable income level is projected to have grown from UAH18,380 (USD3,640), to a forecasted UAH175,770 (USD6,890). While income levels have increased significantly, they are still, on average, below the USD10,000 mark, which experts use as a global measure to note the existence of a large middle-class consumer base.

Food spending will remain a notable element of the average household budget. Between 2005 and 2025, spending on food will grow by an average of 12.8% a year, while the inflation rate will average 9.5% a year, suggesting real growth in food spending over our forecast period.

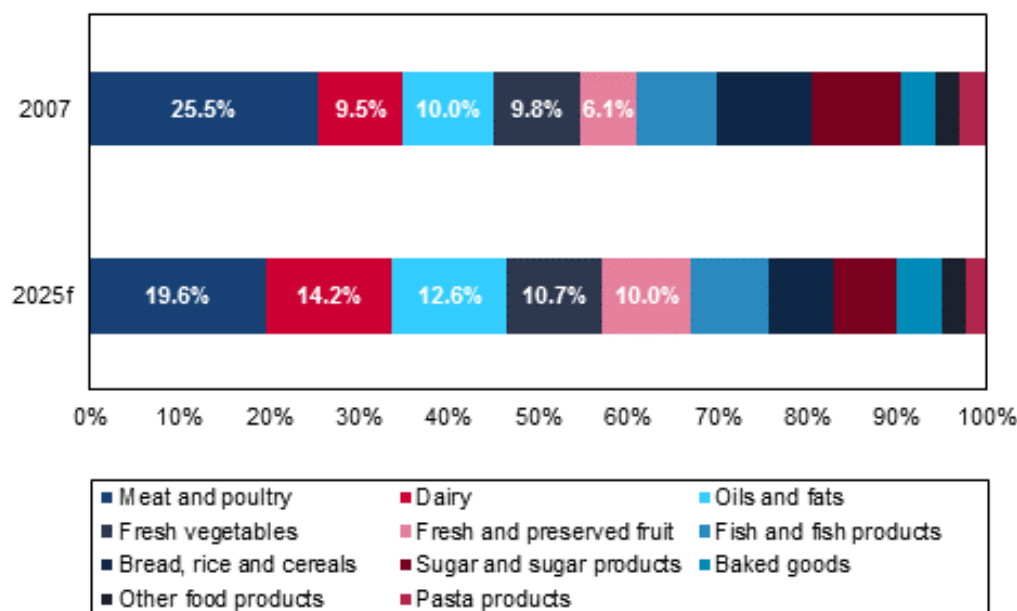
Graph 5: Ukraine - Inflation Vs Food Sales, y-o-y (2007-2025)



Source: National statistics, Fitch Solutions

While food's proportion of total household spending will remain above 50% of total household spending over the forecast period, there has been significant change within spending by food category. In 2025, five food categories will account for approximately two thirds of total food spending, namely, meat and poultry (19.6% of food spending in 2025), dairy (14.2%), oils and fats (12.6%), fresh vegetables (10.7%), and fruit (10.0%). In 2007, food spending was largely dominated by meat and poultry and bread, rice and cereals (staples), which accounted for 25.5% and 10.6% of food spending respectively.

Graph 6: Ukraine - Food Spending Breakdown, % Of Total Food Sales



Source: National statistics, Fitch Solutions

Spending on fresh and preserved fruits will be the strongest growth performing food spending category over the 2007-2025 period, by an average of 16.3% a year. This will take the fruit category's proportion of food spending from 6.1% in 2007, to 10.0% by 2025. Other high performing categories include dairy and baked goods, where spending is forecast to grow by an annual average of 15.5% and 14.9% respectively. Spending on staples (bread, rice and cereals) and on sugar products will report the slowest growth, at annual average rates of 10.3% and 11.0% respectively.

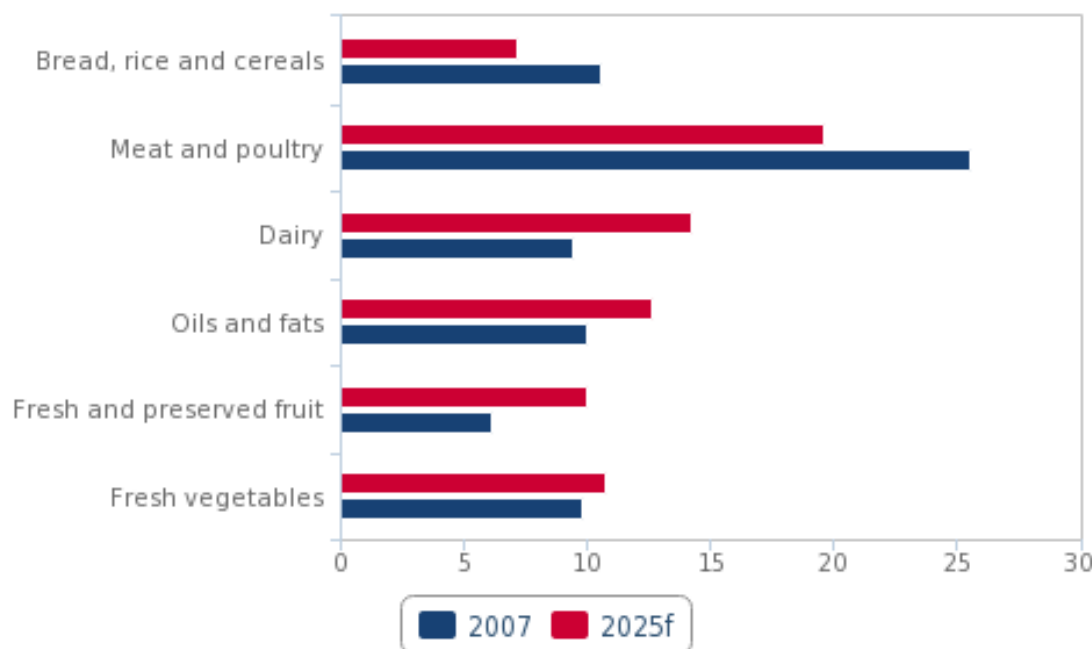
1. Spread Of The Supermarket Leads To More Diversity In Spending

With the globalisation of food chains, Ukrainian households are exposed to significantly more food items than they would have been in the past. Similarly, the spread of Mass Grocery Retail (MGR), especially the entrance for European supermarket brands and the emergence of domestic companies following the Western European model, across Ukraine, means that consumers can access these products more easily. Income growth has also meant that consumers are shifting from the necessities, into more nonessential food items, such as imported items and moving up price points (premiumization). However, it is noted that income

distribution in the country is uneven, leading to large differences in regional consumer patterns. Inhabitants of Kiev have the highest per capita income and consequently the most sophisticated spending habits. The more mature MGR sector is located in the relatively higher income levels in the west of the country.

The spread of MGR across the Ukraine, in particular the cities where high levels of middle-income consumers have emerged, has increased the availability of different food items to the average Ukrainian household. In the early 2000s, Ukrainians had access to both fewer products, as well as fewer alternatives. This meant that food spending was dominated by traditional food segments, such as meat and poultry (25.5% of food spending in 2007) and bread, rice and cereals (10.6% of total food spending). By 2025, spending on meat and poultry is forecast to fall to 19.6%, while spending on bread, rice and cereals will decline to 7.2%. During this time, spending on dairy, oils and fats, fruits and vegetables will expand their share of total food spending to above 10% of total.

Graph 7: Ukraine - Share Of Total Food Spending (2007-2025)



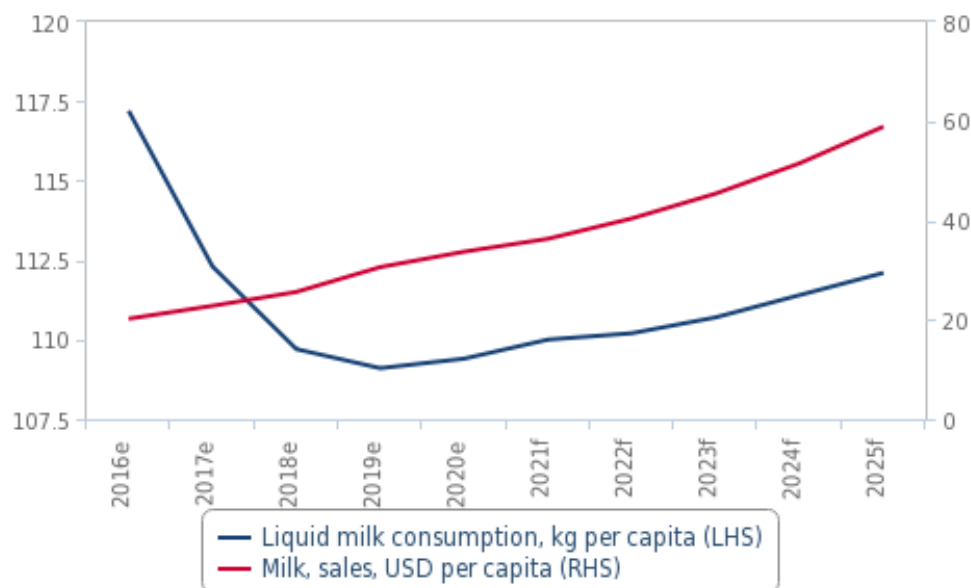
Source: National statistics, Fitch Solutions

2. Income Growth Feeding Through Into Dairy Spending

While disposable incomes in Ukraine are still relatively low, they have been growing at impressive rates. Between 2015 and 2025, the average household disposable income will grow by an average of 13.1% a year, in local currency terms, and 6.8% a year in US dollar terms. Despite milk being a traditional essential in household's food markets, per capita consumption

is still low, so there is significant room for growth. By 2025, consumption of milk is forecast to reach 112kgs per capita. At the same time, per capita spending on milk is forecast to grow from USD21.2 in 2015, to USD58.9 in 2025.

Graph 8: Ukraine - Milk Spending & Consumption (2016-2025)



Source: National statistics, Fitch Solutions

Cheese consumption in Ukraine follows a typical lower-middle income country pattern. Mass-market cheese produced by domestic processors is exported, while middle market segment (predominately cheese from Poland) and upper market segments (France, Netherlands and Germany cheeses) are imported. Per capita consumption of cheese will increase from 4.1kgs in 2016, to 6.1kgs in 2025. At the same time, per capita spending on cheese and curd is projected to grow from USD24.1 in 2015, to USD84.7 in 2025.

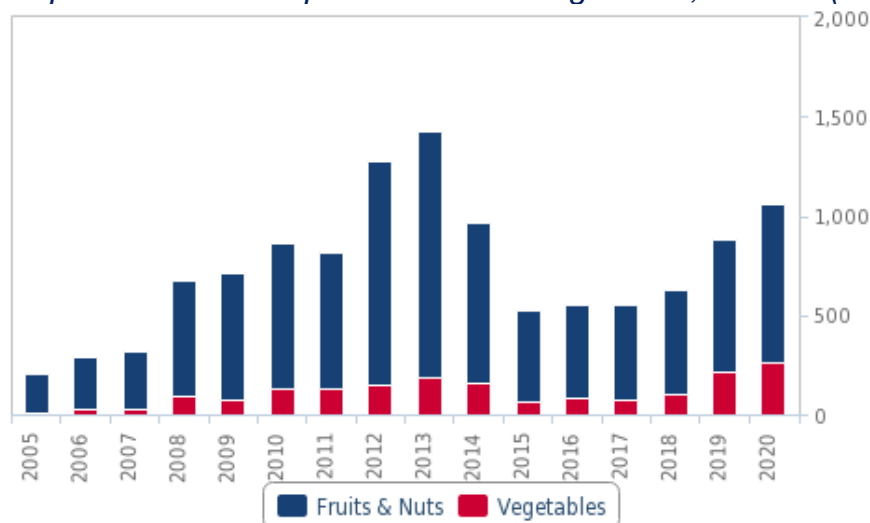
Growth in spending on cheese outperforming growth consumption indicates a premiumization trend developing, with consumers moving up price points on cheese and this aligns with a growth in cheese imports. It is noted that dairy substitute products (such as soymilk, oat milk and many others) have been increasing their presence in the market. Selected groups of consumers, such as vegans or lactose-intolerant individuals, are switching to new (predominately imported) alternative dairy products. Nevertheless, the market share and influence on mass consumption of dairy products for dairy substitutes is currently minimal.

3. Consumers Demanding Fresh Fruits And Vegetables All Year Round

With the spread of supermarkets across the country and with the wider availability of imported products, there has been increased demand for fruits and vegetables in Ukraine. By 2025, spending on fresh vegetables is forecast to account of 10.7% of total food spending, while fruits will account for 10%. This has increased from 9.9% and 6.1% in 2007 respectively. Ukrainian

consumers are gradually shifting to more healthy lifestyles, with fresh fruit and vegetables as an increasingly essential component. Traditionally, fresh fruits and vegetables have only been consumed during the summer season, with the preserving and pickling of fruit and vegetable popular. Growing international trade has meant fruits and vegetables can now be consumed all year round. Supermarket chains import good quality winter fruits and vegetables, while in the summer season the imported products cannot compete in.

Graph 9: Ukraine - Imports Of Fruit & Vegetables, USDmn (2005-2020)



Source: National statistics, Fitch Solutions

Total imports of fruits and vegetables reached USD1.5bn in 2013, the year before the 2014 Ukrainian Euromaidan crisis. Since, imports have regained their positive trajectory, breaching USD1.0bn over 2020. The main import markets are Turkey, Ecuador, Spain and Poland. The most popular products are bananas (16.8% of 2020 fruit & vegetable imports), mandarins (7.7%) and tomatoes (7.4%). With urban consumers, especially those in the west of the country, increasingly demanding a wider variety of fruits and vegetables all year round, experts foresee spending on fruits growing by an average of 13.2% a year, between 2015 and 2025, while spending on vegetables will grow by 12.6% a year. These are the two highest growth rates in the food category over this period.

4. Food Market

4.1 Market Overview

As a result of increased political and economic uncertainty in recent years, major food and drink companies face a number of difficulties in Ukraine. Domestic consumption remains weak as political and economic uncertainty prevails and structural reforms progress slowly. Credit conditions are poor in Ukraine, which will limit the potential expansion of major firms. Finally,

many large Ukrainian companies rely on Russia as a key source of imports and export revenue. Strained relations with the power will likely lead to depressed sales and higher costs.

Recent Developments

- In July 2021, **McDonald's** in Ukraine reported that 85 out of its 101 restaurants in the country send approximately 200 tonnes of waste for recycling every month.
- In March 2021, **Lactalis** entered into exclusive negotiations with the **Bel Group** to acquire its European cheese brand
- **Lactalis** will acquire the Leerdammer brand, Royal Bel Leerdammer, Bel Shostka Ukraine and its businesses in Italy and Germany.
- Pressured profitability in the poultry segment and continued uncertainty amid the Covid-19 pandemic mean that **Myronivsky Hliboproducthas** (MHP) has continued to pause its plans for the second part of the expansion of its Vinnytsia poultry complex, subject to a recovery in poultry prices and stabilisation of the pandemic.
- MHP has reduced its share of revenue from Ukraine to 30% currently from 41% in 2018, due to large export sales (2020: 53% of revenue) and growing revenues from Slovenia-based **PPJ**, acquired in 2019. Export sales growth is likely to be restrained in 2021-2022 due to flat poultry output as the company already operates at close to 100% capacity utilization.
- Over 2020, the imports of cheese to Ukraine in 2020 increased from 23,700 tonnes to 46,700 tonnes compared to 2019.

Market Drivers And Trends

The International Finance Corporation, the World Bank Group's private-sector arm, and the European Bank for Reconstruction and Development have been major providers of capital to Ukraine's food sector in recent years. Odessa and Crimea are major geographical bases for the Ukrainian food and beverage industry, and several multinational operators, including US food producer **Heinz**, have invested in the region.

Nestlé, has had a presence in Ukraine since 1994. It operates in a number of segments, including cold sauces and ketchup, confectionery products and hot beverages, primarily through its Nescafé coffee label. In 2013, Nestlé invested UAH36mn (USD4.4mn) to modernise its confectionery facility in Lviv. Nestlé made an offer to buy domestic confectionery manufacturer Roshen in May 2015, but it did not succeed. In April 2018, Nestlé announced its intentions to invest EUR21.3mn in modernisation of its facility in Kharkiv, which produces noodle-based soups and mashed potatoes under the Mivina brand. The modernisation should be completed by 2021. Around half of the facility's produce is exported.

Russian dairy and juice major **Wimm-Bill Dann** (WBD) is also a prominent player in the Ukrainian food and drinks market. Its products include packaged dairy products, juices and nectars, mineral water, as well as dairy and non-dairy baby foods. The company has more than 30 production facilities throughout Russia, as well as plants in Georgia, Ukraine, Uzbekistan and Kyrgyzstan. WBD is 66%-owned by PepsiCo.

After the loss of the Russian market, Ukraine has increased its meat exports to the EU and plans to expand its supply to the Middle East, North Africa and South East Asia. Meat exports are currently led by poultry exports, with pork and beef exports more modest. The epidemic of African swine fever, as well as the country's largest pork producer temporarily closing 76 of its meat stores in the eastern region, will slow pork sales. Poultry export supply agreements have been signed with Egypt and Israel.

Confectionery

AVK, the largest Ukrainian chocolate maker with four production sites in the country, **Roshen** and **Konti** hold the top three positions in the market, which remains fairly fragmented despite the strength of domestic producers. Roshen operates confectionery manufacturing factories in Kiev, Vinnytsa and Kremenchug and meets about 25-35% of all confectionery demand in Ukraine. Both local and Russian producers will retain a strong presence in the market. Similarly, to most consumers in the Commonwealth of Independent States (CIS), Ukrainians have a strong preference for Ukrainian and Russian chocolate products, with chocolate being comfortably the largest contributor to the wider confectionery sector. Roshen has taken advantage of this preference and continues to use new product launches as well as name branding, playing on its local origins as a key sales strategy for achieving growth. It has, however, been affected by the political tensions in the country, as it was forced to close its Mariupol plant in 2015.

Domestic players are increasingly considering expansion abroad. Roshen has expanded into Eastern Europe, Asia and North America. However, the company was forced to cease its operations in Russia, following the closure of its Lipetsk plant by the Russian authorities in March 2014 and the Russian government's decision to suspend all confectionery imports from Ukraine in September 2014.

The sector has seen aggressive moves by multinationals to establish market share, particularly in the snack segment. **Mondelēz International**, which spun off from **Kraft Foods** in 2012, has stated its aim to capture a 10%-plus market share in the confectionery sector. Mondelēz has focused on key products such as Siesta and 3Bit chocolate bars and has begun production of the chocolate bars in Sumy. Kraft Foods also owns a production facility in Trostyanets, which was upgraded in 2011 and is able to produce 20,000 tonnes of biscuits.

Other leading confectionery producers include Nestlé, which purchased the local confectionery group **Svitoch** in 1998 and owns a facility in Lviv. Nestlé also owns Volyn, a producer of ketchup, mayonnaise and mustard. **Volyn's** rivals include Ukrainian-Swedish vegetable cannery **Chumak**.

Trade: Former Ukrainian minister for agrarian policies Yuriy Melnyk warned that low quality standards were a primary barrier to Ukrainian food product and raw material exports to the EU. He called for an urgent re-organization of the agencies and institutes that oversee testing and quality control, and for EU technical assistance in bringing Ukrainian products up to international standards. The country is attempting to attract farmers from India in a bid to use their grain-growing expertise to improve local production and export potential.

Around a third of finished and raw products are imported from the EU, with some 20% sourced from the CIS, overwhelmingly from Russia. Over the longer term, Ukraine's food and beverage trade will most likely shift away from Russia and re-orient itself further towards the EU. In 2014 Ukraine and the EU signed an association agreement. Exports have been rising particularly to Asian markets, including China and India. Ukraine's WTO accession as well as the ratification of the EU-Ukraine Association Agreement, which came into force in September 2017, will likely boost the country's agricultural and food exports to EU markets. However, issues of quality and capacity remain critical.

In fact, in the absence of a clear agricultural policy implemented by the central government, the onus will be on private-sector processors to invest in infrastructure and apply EU and US standards on a range of issues such as food testing, veterinary testing and animal welfare, packaging and other critical areas. EU technical assistance will remain a key contributor, but many in Brussels are less than eager to open the door to a flood of cheap imports from Ukraine. Much investment is needed if the country is to exploit its nascent potential as a major exporter of both finished food products and raw materials.

Agriculture: Despite favourable natural conditions and its role as the 'bread basket' of the former Soviet Union, Ukrainian agriculture performs far below its potential due to a lack of investment. An effective reform policy could potentially return Ukraine to its historical position as a major agricultural exporter, with major consequences for European and even global agricultural markets. However, this is highly unlikely in the short term, given the political and economic outlook.

Having said that, the country has become one of the largest producers of corn in the world, though lack of credit for farmers and a weak currency, which will result in fewer inputs being used, will dampen output over the next few years. Reform of agricultural land ownership remains incomplete, with an effective moratorium on land sales in effect until some political compromise is achieved. On a positive note, the government is beginning to aim for higher foreign direct investment involvement in agriculture and other industries, recently lowering corporate taxes.

In November 2019 the Ukraine parliament adopted a draft law in the first reading that would finally allow the sale of private agricultural land. Estimates from the World Bank and the Kyiv School of Economics indicate that lifting the moratorium could result in 1.9% GDP growth a year. Additional investment into agriculture is expected to reach USD10bn.

Ukraine's crucial lack of indigenous oil and gas resources makes the country particularly reliant on Russia and Central Asia for these supplies, though it is a factor forcing further diversification of the economy and development of service industries. The development of biofuels could be a major impetus for development of the sector as well as a key step in energy security, but there has been little progress in this regard.

Food Services: Both the quality and availability of diverse Ukrainian food services continue to widen, while there has been a notable shift towards healthier and fresher product offerings. Despite this, rising inflation and falling purchasing power may begin to encourage consumers to consume cheaper and less healthy fast-food alternatives. Nevertheless, the market is well developed, with a number of international chains competing directly with local brands.

McDonald's remains the notable leader in the fast-food sector, benefiting from its global brand image as well as strong marketing efforts. The company currently has a network of 78 stores and focuses on locating its outlets in busy shopping districts and city centers. **KFC** also operates in the Ukrainian market, with a total of 10 stores. The leading local food services brand is **Pizza Celentano**, which operates over 170 stores throughout Ukraine, offering predominately Italian cuisine. Ukraine's food delivery market has been growing rapidly in recent years, but the competition is intensifying. For example, in February 2019, US-based **Uber** launched its food delivery service **Uber Eats** in Ukraine's capital, Kiev. Other notable players in this market are **Foodpanda** and **Zakaz.ua**.

5. Drink Sector

Recent Developments

- In February 2021, the **Jamnica** water bottler and beverage producer (subsidiary of **Fortenova Group**) announced that it will start exporting to Ukraine. The Ukrainian Fozzy Group will offer three products from Jamnica: natural mineral water Jana and two types of carbonated mineral water, Jamnica and MgMivela.
- In March 2021, it was reported that **Coca Cola HBC Ukraine** had invested some EUR10mn to increase production capacity at its Kiev plant. The modernization of the production line will come at a cost of EUR25mn. According to the company, the new equipment of the modernized filling lines will increase production efficiency without increasing energy consumption, which will reduce carbon dioxide emissions and optimize resource use. The first phase of the modernization plan, carried out in January 2021, was to increase the capacity of the canned beverage line by 80%, to 90,000 cans per hour.

Market Drivers And Trends

Alcoholic Drinks

The alcoholic drinks market remains fairly immature and has been severely affected by protracted economic and political instability in recent years. Although Ukraine's alcoholic drinks industry is not nearly as dynamic as neighbouring Russia's, per capita consumption remains high. Beer has overtaken spirits as the most popular alcoholic drinks category in recent years, under pressure from health drivers and economic considerations.

A presidential bill announced in November 2019 envisaged abolishing the state monopoly on alcohol production from the start of 2020, abolishing restrictions on the construction of distilleries and licensing the production and wholesale of alcohol. On July 1, 2020, the monopoly on ethyl alcohol production and distribution ended. It was planned that the state-owned distilleries will be privatized. Private companies are now allowed to produce ethyl alcohol.

Beer: In the beer sector, three main players dominate the landscape. **AB InBev Efes** and **Carlsberg** operate in the country through their subsidiaries, while **Obolon** is a large domestic brewer which makes up the majority of the country's beer exports. Over the past few years,

leading beer producers have expressed concerns about tax hikes and strengthened legislation on alcoholic beverages. In 2013 the Ukrainian parliament discussed a bill to triple excise taxes on beer, which was finally rejected. In April 2014, the government raised excise taxes on beer by more than 40%. Several European governments have hiked tax rates or strengthened legislation on alcoholic beverages, a trend which is expected to persist, and producers continue to grapple with sluggish beer volumes. In January 2016 the government doubled excise taxes on beer and followed this up with a further 12% increase in January 2017.

The Ukrainian beer market is the second largest in the Commonwealth of Independent States (CIS) region, after Russia. The sector has considerable potential, as it is currently relatively undeveloped compared with neighbouring markets. It is estimated that per capita consumption stood at 49.8 litres per annum in 2020, which is low compared to the wider Central and Eastern European region and indicates that there is still significant scope for growth.

The shift away from traditional spirits and towards weaker alcoholic drinks has been a major benefit for beer sales in recent years. Local brands (albeit many owned by multinational brewers) currently dominate the alcoholic drinks market, particularly in the lowercost beer category. At the same time, leading brewers have benefited from growth in the premium and super-premium segments, particularly in the capital, Kiev.

Wine: In late 2009 **Polyana** began operations in Ukraine and became the first national wine retail chain. In 2011 Ukrainian wine producer **Artyomovsk Winery** announced that it had agreed an export deal to supply wine to China. The company intends to supply 50,000-100,000 bottles of wine to China annually, with the high price of imported alcohol in the country accounting for the company's increased export costs. Artyomovsk Winery's head of exports, Artem Shuliak, said that the Chinese market was extremely attractive to the company, with the price of a bottle of sparkling wine up to EUR5 (USD6.47) higher in China than in Europe. Excise duty on dry wines remains at the level of UAH0.01/litre, fortified wine and vermouth doubled to UAH7.16/litre from April 1, 2016, and sparkling wine also doubled to UAH10.4/litre. As part of Ukraine's association agreement with the EU, duties on wine imports from the EU were to be abolished from January 2021.

Spirits: White spirits are responsible for around 90% of total spirit consumption in the country. Nemiroff, a subsidiary of **Biostar Investments** (Cyprus), is the leading domestic spirits company with a market share of just below 20% in the vodka segment, and more than 1,400 employees. Nemiroff's product portfolio includes 'classical' vodkas, 'special' vodkas, 'bitter' spirits and sweet liqueurs. Alongside **Khortitsiya** and **Soyuz Viktan**, Nemiroff controls more than 60% of the Ukrainian market for alcoholic beverages. The country boasts around 40 vodka bottlers, with vodka imports representing a small part of the market. Other global players with a stake in the Ukrainian spirits market include French **Pernod Ricard**, which is also active in CIS countries such as Armenia and Belarus. Pernod's Armenian business, **Yerevan Brandy**, manufactures the Ararat Armenian brandy, well known in Ukraine.

Soft Drinks: Most of the Ukrainian soft drinks market is controlled by domestic companies or multinationals with local production facilities, with imports only playing a marginal role. The industry is relatively fragmented, although some consolidation has taken place in recent years. Leading soft drinks producers include **Coca-Cola Beverages Ukraine** (CCBU), which is a subsidiary of the Athens-based **Coca-Cola Hellenic Bottling Company**. CCBU owns and operates a bottling plant in Brovary. Brands include Coca-Cola, Fanta, Sprite, Schweppes, BonAqua (bottled water), Jurassic Spring and Minute Maid (juices). CCBU is also producing canned coffee under the **illy** brand as part of a joint venture with the Italian coffee group. More recently, Coca-Cola added its energy drink Burn to the Ukrainian portfolio, with the beverage also available in Russia, Poland and India, in addition to a number of developed Western European markets. Other soft drinks producers include beer market leader Obolon and **JSC Rosinka**, which produces juices, carbonated drinks, lowalcohol drinks and mineral water, as well as traditional kvass. Its brands include Rosinka soft drinks, Super-Cola, a line of 'nostalgic' soft drinks from the Soviet era, such as Tarkhun, Sofia-Kievskaya bottled waters and a range of light alcoholic beverages such as Rosinka Bianco. It also produces Capri-Sun juice drinks under licence.

Ukraine has around 150 factories currently producing juices, nectars and juice-containing drinks. Three firms, **Sandora** (owned by **PepsiCo**), **Vitmark Ukraina** and **Erlan**, account for more than 90% of domestic production. Among importers, Russiabased **Wimm-Bill-Dann** (also owned by PepsiCo) and **Lebedyansky** are other notable players, along with multinational soft drinks producers such as **The Coca-Cola Company**.

Sandora, based in southern Ukraine, is the country's leading producer of juices and nectars and also exports produce to CIS markets. The company, acquired by a PepsiCo joint venture in mid-2007 for USD542mn (a record sum for the sector), produces 130 products under seven umbrella brands. Brands include Sandora, Sandora Gold, Dar, Classic, Sandorik, Sadochok and Best Fruits in the World. It has an estimated market share of 47% of the Ukrainian juice market. The company has also invested in processing vegetables, including tomato paste. Vitmark's brands include, Jaffa, Jaffa Grand, Jaffa Gold, Sokovita and Nash Sok.

Winnifruit produces juices and nectars as well as soft drinks under the Vinni brand and bottled water under the Eko brand. Erlan produces juices and nectars under the Biola brand. Ukraine's **IDS Group** owns **Alfa-Eko** mineral water plant, maker of Truskavetskaya branded water. The group, which produces brands such as Migrogorodskaya and Morshinskaya, also imports Borjomi water from Georgia (the most famous brand of Soviet times). IDS holds a leading position in the Ukrainian mineral water market, already controlling 26%, well ahead of Coca Cola's 13% share. IDS reports around USD60mn in annual sales.

Other players in the water market include **Oscar OJSC**, Coca-Cola, Obolon, Rosinka, Rogan and Orlan CJSC. Around 5% of annual mineral water output is exported, with leading players in the export segment including Obolon as well as the recently merged **Mirgorodskaya** and

Morshynskaya, which are part of the IDS Group. In the capital Kiev, Israeli company **Eden** is the market leader, with a 25% share.

Hot Drinks: Coffee remains the most dynamic hot drinks sub-segment. Instant coffee is the market leader, though prior to the economic downturn, cheaper varieties had increasingly lost ground to premium products, especially in the capital, Kiev. The spread of the coffee culture will continue to boost demand for better quality and more expensive coffee varieties, as the economy recovers. In the tea segment, the demand for niche products such as rooibos and oolong tea, as well as innovative packaging, has been increasing in recent years. Ready-to-drink tea has also seen an increase in sales, boosted by the rising awareness of the antioxidant properties of tea.

As with coffee, tea is imported into Ukraine, with multinationals dominating both segments. The leading company in the Ukrainian hot drinks segment is multinational food conglomerate **Unilever**, followed by Swiss **Nestlé** and US **Kraft Foods**. Israeli food and beverages conglomerate **Strauss** recently earmarked USD300mn for possible acquisitions in the CEE region. Among other areas, the company is active in the coffee segment, through imports into Ukraine which are achieved via its local operations. In early 2011, Strauss acquired the Russian coffee brand **Ambassador** for USD10.4mn from the Swiss **Sucafina Group**. Ambassador sells freeze dried instant coffee and roast and ground coffee products in Russia, Ukraine and Moldova. According to Strauss Ukraine, it is now the market leader in the roast and ground coffee segment and second in the freeze-dried instant coffee sector.

Nestlé, is the market leader in the coffee segment, having invested more than USD200mn in Ukraine since its 1994 entry. Its leading brand in Ukraine is Nescafé, with Coffee Mate also making significant inroads.

6. Mass Grocery Retail

The largest local players in Ukraine have adopted varying approaches to the mass grocery retail (MGR) market. The largest, **Fozzy Group**, has adopted a multi-format strategy ranging from discount outlets to cash and carry, while **Furshet** is concentrating on supermarkets. **ATB** has emerged as the major discount player, followed by **Intermarket's** Barvinok-branded discount stores.

Recent Developments

- In June 2021, the Russian supermarket chain **Mere** announced plans to open 40 new stores in Ukraine over the remainder of 2021.
- **Spar Ukraine** has opened a further three stores, all providing foodservice solutions, as part of its expansion strategy. Two stores are run by independent retailers, while the third store is a company-operated supermarket catering to Rivne's needs.
- In February 2021, it was reported that Ukraine's antimonopoly authority had given permission to **Silpo Food**, part of the **Fozzy Group**, to acquire assets of the **Furshet** chain of supermarkets.

- In February 2021, the **Fozzy Group** has requested permission from the Anti-monopoly Committee of Ukraine to acquire control over the assets of **Furshet Retail Group**.

Major Players

The retail food channels in Ukraine can be divided into 7 categories:

- **Small Grocery Store** - Small store format, either a selfservice layout or traditional over the counter trade. A typical grocery store sells a limited line of high-convenience items including some perishable foods.
- **Convenience Store**- located in communities and within proximity to urban transport hubs. The majority of convenience stores are operated by large retail companies which often also run chains of other formats. Convenience stores sell a line of dry groceries, canned goods or nonfood items as well as perishable items.
- **Supermarkets** - Self-service grocery store offering a full line of groceries, meat, and produce. Large supermarket facilities are generally located in the outskirts of the major cities near major highways, in order to service multiple geographic locations. Smaller neighborhood supermarkets located in cities tend to carry many of the same goods at higher prices.
- **Hypermarkets** - Large food and general merchandise stores.
- **Gas Mart** - smaller outlet located at a gas station offering a limited number of dry groceries. Although snacks generate the majority of sales, many have cold boxes offering sandwiches, ice cream and similar convenience foods.
- **Kiosk** – Most of them are located at open-air markets, bus stops and underground pedestrian passages in the city. Kiosks usually specialise in one product grouping, ranging from tobacco products to frozen foods, bread, and even a seller's proprietary product line.
- **Open-Air Market** - Products are often sold without refrigeration or are defrosted. Most open-air markets have limited working hours and are typically used for sales of locally produced products. In small towns or villages where retail chains are not very well presented, open-air markets remain popular.
- **Specialty supermarkets** - high-end, self-service grocery stores offering a full line of high quality groceries.

ATB-Market has the largest retail network, with more than 1,000 discount format stores, including some 50 in its home city of Dnipro in eastern Ukraine. The parent ATB Group also owns Kv Ten, a confectionery factory, and Berezka, a meat-processing facility.

Fozzy Group is the second largest retailer leader, operating more than 600 stores, including wholesale hypermarkets in Kiev and Odessa, as well as a network of stores operating over a range of formats, including Silpo supermarkets, Fora discount stores and Dnipyryanka grocery stores, as well as Bud Zdorov pharmacies and Otto Shtekker home electronics stores. Fozzy's development strategy focuses on several key areas, such as the introduction of SAP software, the development of a new private label range called Premia and expansion into emerging markets.

The Lviv-based Intermarket Group operates retail and cash-and-carry businesses, including Arsen and Intermarket supermarkets, Barvinok discounters and Intermarket cash-and-carry stores. The company is one of the largest retailers in western Ukraine but has expanded nationally and has more than 50 outlets. Foreign MGR chains have been slower entering the Ukrainian market than in neighbouring Russia.

Among foreign companies operating in Ukraine, the issue of leasing or purchasing land remains a major headache. Foreign executives report considerable delays as well as corruption in acquiring the rights to land use. Smaller local operators still engage in a practice known as *samokhvat*, where a retailer seizes land around the licensed territory of a store. French-retailer Auchan initially entered the Ukrainian market through a partnership with domestic retailer Furshet.

In 2012 the two joint ventures, one for the development of hypermarkets, the other one for shopping centres, were closed. Since then, Auchan has expanded in Ukraine on its own and in September 2017 acquired 13 Karavan-branded outlets in Ukraine.

Supermarket chain **SPAR** entered Ukraine in 2017. The company has long-term plans to have around 50 stores by 2021. **Spar** Ukraine has opened a further 3 stores, all providing foodservice solutions, as part of its expansion strategy. 2 stores are run by independent retailers, while the third store is a company-operated supermarket catering to Rivne's needs.

Market Drivers And Trends: Ukrainian consumers continue to rely on outlets in their neighbourhoods, as well as traditional markets, kiosks and other informal food shopping venues. Independent grocers still account for around 20% of total food retail sales, while outdoor markets account for around 30%. The other half of the grocery retail market is controlled by chains. Most foreign retailers have stayed out of Ukraine, owing to the country's political and economic instability, while local operators have generally stuck to their home regions. This has resulted in a highly fragmented market in which many areas lack modern food retail outlets.

Distinction between soft discounting and supermarkets is fairly fluid in Ukraine, given consumers' weak buying power. Around 85% of the products stocked in MGR outlets are domestically produced. Their prices are much lower than those of imported goods, and their quality and packaging has significantly improved over recent years. Private label products can be found in modern supermarket and discount chains, but their number remains limited. As a consequence of still challenging macroeconomic conditions, it is believed that the discount segment will outperform as households seek to limit their spending on food. Low household incomes mean that discount grocery retailers operating in Ukraine are rapidly expanding, but hypermarkets and convenience stores still have a market in major cities.

Regional Differences: Income distribution in the country is uneven, leading to large differences in regional consumer markets. Inhabitants of Kiev have the highest per capita income and consequently the most sophisticated spending habits. While the capital accounts

for only 5% of Ukraine's population, it has accounted for around 15-20% of the country's retail turnover in recent years. The continuing coexistence of many different retail outlets indicates the disparity in income and the need to meet all levels of spending.

During the past few decades, MGR has expanded outside Kiev and the largest regional cities. Nevertheless, with the possible exception of Kiev, the food retail market remains fragmented, with no clear dominant local or foreign player. Consolidation of regional players appears likely in the medium term, as smaller chains will lack capital to expand independently. The more mature MGR sector is located in the relatively more developed west of the country. Therefore, most MGR firms operating extensive networks in the country will not find the majority of their stores under threat.

Near-Term Risks Versus Long-Term Opportunities: Conflict in eastern Ukraine as a result of the Crimea annexation by Russia in early 2014 has slowed the development of the MGR sector. Domestic consumption has severely declined in real terms amid political uncertainty and weak economic conditions, and infrastructure has been weakened by disruptions to distribution channels. Poor credit conditions in Ukraine continue to limit the potential expansion of major firms. We believe that the development of the Ukrainian MGR sector will continue to be affected by an unstable economic outlook and political uncertainty.

Despite current difficulties, experts believe that the Ukrainian MGR sector offers some long-term opportunities. With around 43mn inhabitants and 10 major urban centres, Ukraine has the second largest population in Central and Eastern Europe, after Russia. The industry is still heavily fragmented and in many ways undeveloped (partly due to shortages of land and high real estate prices). There are still thousands of small neighbourhood stores (mainly kiosks) in the food retail market, but their number is in decline. Given Ukraine's large consumer base, as household incomes recover, the formalisation of the food retail sector will pick up pace, offering long-term growth opportunities for industry players.

Online Sales Seeing Good Growth: The Covid-19 pandemic and resultant restrictions on movement acted as a catalyst for e-commerce in the MGR sector. Consumers increasingly shifted into this space as they looked to limit their exposure to the virus. Most of the big retailers reported that their online traffic has tripled since the beginning of 2020, whilst demand for groceries delivery has increased even more and is expected to continue growing. The leader in that segment would be online service Zakaz.ua. It is an internet-based platform, which provides traditional retailers such as Auchan, Novus, Metro, and MegaMarket a space for online sales.

Several retail chains such as Fozzy, Furshet, and Tavriya B have their own online-stores, while ATB, one of the top Ukrainian retail chains, does not have its own online platforms yet. French retailer Auchan started working on their own online platform shop.auchan.ua where besides delivery they offer “click&collect” service: customers order groceries online; Auchan shoppers build the order and prepare it for pickup. As of now their groceries are delivered through zakaz.ua, while the rest of products is done through their own website.

7. Competition

5.1 Competitive Landscape

Table 6: Ukraine Key Players in Food Sector

| UKRAINE - KEY PLAYERS IN FOOD SECTOR | | | |
|---|-------------------------|------------------------------|--|
| Company | Country of origin | Ownership | Sub-sector |
| Astarta | Ukraine/Netherlands | Public | Food - sugar production |
| Danone-Unimilk (Halakton) | France/Russia (Ukraine) | Danone (largest shareholder) | Food - dairy |
| Hamé (Orkla) | Czech Republic/Norway | Private | Food - canned |
| Konti | Ukraine | Private | Food - confectionery |
| Lasoshchi (Hosta International) | Ukraine | Private | Food - confectionery |
| Milkiland | Netherlands | | Food - dairy |
| Myronivsky Hliboproduct (Ukrainian Bacon) | Ukraine | Public | Food - meat processing |
| Nestle Ukraine (Volyn) | Switzerland (Ukraine) | Subsidiary of Nestlé | Food - confectionery and canned Beverages - hot and soft |
| Pyryatynsky JSC | Ukraine | Private | Food - dairy |
| Roshen | Ukraine | Private | Food - confectionery |
| Ukrproduct | Ukraine | Public | Food - dairy |
| Wimm-Bill-Dann Ukraine | Russia | PepsiCo | Food - dairy |

Source: Fitch Solutions

Table 7: Ukraine - Key Players in Drink Sector

| UKRAINE - KEY PLAYERS IN DRINK SECTOR | | | |
|---------------------------------------|-------------------|--------------------------------------|--|
| Company | Country of origin | Ownership | Sub-sector |
| Carlsberg Ukraine | Denmark | Carlsberg Group | Beverages - alcoholic |
| Mondelēz Ukraina | US | Subsidiary of Mondelēz International | Beverages - hot and soft Food - confectionery, convenience, various |
| Nemiroff | Ukraine | Private | Beverages - spirits |
| Obolon Brewery | Ukraine | Private | Beverages - beer and soft drinks |
| Odessa Champagne Factory (Campari) | Ukraine | Private | Beverages - alcoholic |
| Sun InBev Ukraine | Ukraine | Subsidiary of AB InBev Efes | Beverages - beer |
| Ukrspirit | Ukraine | Private | Beverages - spirits |
| Vitmark Ukraine | Ukraine | Private | Beverages - fruit juice Food - baby food |

Source: Fitch Solutions

Table 8: Ukraine - Key Players in Drink Sector

| UKRAINE - KEY PLAYERS IN MASS GROCERY RETAIL SECTOR | | | | |
|---|-------------------|----------------------|-----------------|----------------------------|
| Company | Country of origin | Ownership | Fascia | Format |
| Fozzy Group | Ukraine | Private | Fora | Discount stores |
| | | | Fozzy | Hypermarkets |
| | | | Silpo | Supermarkets |
| ATB Market | Ukraine | Private | ATB | Discount stores |
| Metro | Germany | Metro Group | Metro | Cash and carry |
| | | | | Hypermarkets |
| | | | | Small-scale cash and carry |
| Furshet | Ukraine | | Furshet | Supermarkets |
| | | | Furshet Narodny | Discount stores |
| Auchan Ukraine | Ukraine/France | Subsidiary of Auchan | Auchan-Donskoy | Hypermarkets |
| Kviza Trade Group | Ukraine | Private | - | Supermarkets |
| | | | Velyka Kyshenya | Supermarkets |
| | | | Velyka Kyshenya | Hypermarkets |
| SPAR | Netherlands | Private | Spar | Supermarkets |
| Svetofof | Russia | Private | Mere | Discount stores |

Source: Fitch Solutions

Company Profile

Myronivsky Hliboproduct

SWOT Analysis

Strengths

- Myronivsky Hliboproduct (MHP) is the leading poultry producer in Ukraine by some margin, with a market share of around 50%.
- Vertical integration allows for a high degree of self-sufficiency.
- Ability to expand by acquisition.
- The group has direct access to raw materials across the country.
- The company has a significant export trade, which accounts for around 55% of the company's total revenue.

Weaknesses

- Consumption of higher-value items has been in decline due to adverse economic conditions.
- High inflation has been undermining growth in demand for value-added products.

Opportunities

- The company can tailor some of its products to lower-income consumers without over-extending its margins.
- Economy products portfolio continuing to perform well as consumers switch to poultry from more expensive meats.
- Demand for poultry remains strong, especially in key export markets.
- MHP is continuing to invest in modernisation and expansion of its operations.
- Acquisition of Slovenia's Perutnina Ptuj will strengthen MHP's position in the Balkans.

Threats

- Any Covid-19 infection on the manufacturing floor will shut down factories and plants for an indefinite period of time.
- Multinational competition will continue to threaten specific product segments, particularly value-added areas.
- Falling number of retail outlets to reduce opportunities for product placement.
- The company will need to trim its prices in order to secure volumes.
- Meat consumption is forecast to slow down in Ukraine.
- The EU's ban on poultry imports from Ukraine due to an avian-influenza outbreak poses significant threat to the company's growth in 2020.

Company Overview

Myronivsky Hliboproduct (MHP) is the leading poultry producer in Ukraine, accounting for about half of the chicken commercially produced in the country. MHP owes much of its domestic strength to vertical integration. MHP maintains a distribution network consisting of 11 distribution and logistical centres, within major Ukrainian cities. The company also has a well-diversified exports geography and international sales contributes around 55% of its total revenue. In 2019, it completed the acquisition of the Balkans' leading poultry and meat-processing company Perutnina Ptuj.

Strategy

The ongoing modernisation of the Vinnytsia poultry farm, as well as the recent acquisition of the leading poultry and meat processing company in the Balkans, Perutnina Ptuj, underlines the company's intentions to scale up its production capacity and exports destinations. According to MHP's reports in early 2019, it is also looking to acquire another meat processing company in the EU.

8. Sources

- BMI Research, Fitch Group
- Exportgate, Eurobank
- IMF
- WorldBank

Disclaimer

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