A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

PRIVATE EQUITY INVESTMENT COMMITTEE PAPER ON SOGRAPE, SGPS, S.A.

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A Project carried out on the Master in Finance Program, under the supervision of:

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DATE
January 3rd, 2020

Abstract

This work project aims to study a private equity deal using a Leveraged Buyout Model of the Portuguese company Sogrape, operating in the wine sector. The evaluation of the deal includes the study of the company and the inherent industry, followed by the description of the investment thesis and the business plan. Then, it is performed a valuation of the company by several methods such as the Discounted Cash Flow, Comparables Multiples and Precedent Transaction Multiples. Later, it is defined the capital structure of the deal, particularly both sources and uses. Next, it is presented the returns for the management and the fund, subject to a sensibility analysis taking into account the various model inputs. To conclude it is evaluated the different exit options regarding the attractiveness and likelihood along with the different matters to be further studied in a due diligence.

This chapter aims to explore and analyze in which markets is Sogrape contained, and how is the company positioned to operate not only at a financial level, but also at a strategical and operational one. Sogrape operates across borders, having both production and distribution spread across the world. The company is present in the world market in 5 identified big clusters: Core Markets: Portugal & Spain; Big Markets: USA & UK; Mature Markets: Most European Countries & Canada; Growth Platforms: Poland, Japan, Russia, China; Portuguese Speaking Opportunities: Angola and Brazil. The company holds its distribution points in Portugal, Brazil, Angola, China, USA and United Kingdom.

Key Words: Private Equity; Sogrape; Market Consolidation; Internationalization

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

PERSONAL REFLECTION ON THE THESIS

Thesis Skill Development

More than all the knowledge I have gained about private equity, I believe the most developed component of my master's thesis is the group work component. For me this is one of the most important skills I can bring with me to my professional life.

Increased productivity and performance: Without doubt that groups that work well together can achieve much more than individuals working on their own. I really saw this during my the masters and fortunately, I believe it all went very well with our group.

Development of skills: being part of a team helped me to develop my interpersonal skills such as speaking and listening but also team working skills such as leadership and working with and motivating colleagues.

Knowing myself: collaborating with others helped me to identify my own strengths and weaknesses (in all our work we have tried to make use of each other's strongest skills).

Masters Skill Development

Mathematics: One of the points that the masters demanded and provided me the most was the analytical and mathematical calculation. Mathematically solid and flexible models are of utmost importance. I realized that small numbers as well as the accuracy with which they are calculated can have very large repercussions on projects or companies.

Attention to detail: Following the above, I feel that attention to detail is central to the world of finance. For example, tracking financial trends which requires constant attention and a detailed-oriented mindset. Numbers change quickly in the world of finance, and we may be called on at any time to report on those changes.

Communication: The master's degree taught me that technical components can only be greatly enhanced if the people involved in the work are in agreement and aligned. The different and demanding assignments we did in the Masters helped me improve my sense of communication at work.

Problem Solving: With the constant pressure we will have during our professional life, it will be necessary for me to solve problems in a effective and efficient way. The tight deadlines for my deliverables have enforced me to be practical and to find fast solutions to the problems to which I was exposed.

MARKET OVERVIEW: AN INTRODUCTION

Sogrape operates in the worldwide wine market

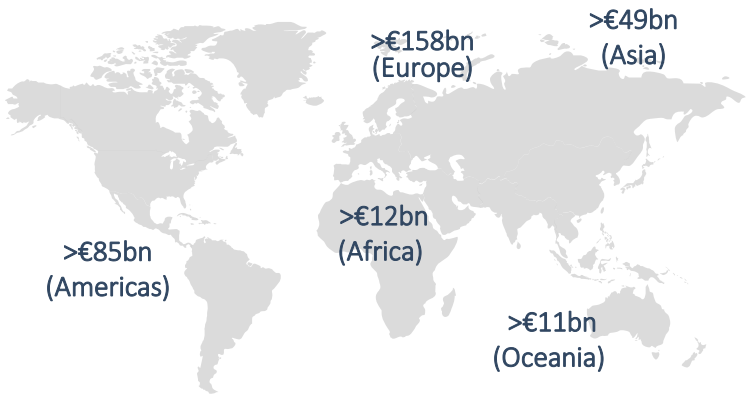
WORLDWIDE WINE MARKET

The wine industry is expected to be worth over **€315 bn** and can be segmented by product in three major groups: **still, fortified and sparkling wine**. The overall market is expected to grow at a **CAGR between 4% and 6%** in the next 5 years. In the past 5 years, the wine industry has grown, approximately, at a **6% CAGR.**

- **Europe** is the largest continental market in the world, with over **€150bn**
- North and South **Americas combined** are valued at **€85bn** a year
- In third place comes **Asia**, worth almost **€50bn**
- Finally, **Africa and Oceania** are worth around **€23bn** combined

Being present in the world market introduces the need to segment regions. To that effect, Sogrape identified **5 big clusters**:

- **Core Markets**: Portugal & Spain
- **Big Markets**: USA & UK
- **Mature Markets**: Most European Countries & Canada
- **Growth Platforms**: Poland, Japan, Russia, China
- **Portuguese Speaking Opportunities**: Angola and Brazil



1 SUPPLY CHAIN

PRODUCTION & BRAND DEVELOPMENT

Production is a very important part of the wine industry, given the product's particularities. It is a complex process that includes **viticulture**, **enology,** and **bottling.** Large companies tend to **consolidate all these processes** to create synergies and streamline production.

The main characteristic of the wine production sector is **high fragmentation,** with a significant number of relatively small producers all over the world. As a result, the **biggest five** companies in a world have just 8 to **9% of market share all together**.

This fragmentation tends to **complicate negotiation conditions** for regular players in the industry.

DISTRIBUTION

While still a largely **fragmented market,** the **distribution** stage tends to be more consolidated than production. Major players are responsible for the distribution of a large number of brands. Wine companies, sell their products through 3 possible channels:

B2B • **Off Trade**: Selling to distributors that then sell for consumption **off the premises** of an establishment

B2B • **On Trade**: Selling to distributors that then sell for consumption **on the premises** of an establishment

B2C • **DTC**: Producers that sell **directly to the consumer**

Since **distribution** of wine tends to be **more fragmented** than the **retail market**, bargaining conditions still mean complications for wine companies.

2 DEMAND DRIVERS & TRENDS

Naturally, demand for wines does not behave uniformly around the world. However, a few commonalities can be found in most markets. Therefore, the major drivers of wine consumption across the world tend to be:

- **General Income:** Wine consumption has a somewhat elastic demand. Naturally, consumption of wines can depend largely on income fluctuations.
- **Demand Perceptions:** Due to it's flexibility, demand for wine depends largely on the perception consumers have. Associations with a **premium lifestyle, health,** both with positive and negative impact, **tourism,** linking wines to the countries they are from, **responsible consumption**, particularly with the development of SOLA (Sustainable, Organic and Lower-Alcohol) wines. **Due to the importance of Demand Perceptions, Marketing Expenses are essential.** Revenues tend to be very elastic concerning Marketing Expenses.

Throughout the world, wine supply is characterized by **extreme fragmentation** in **production and distribution.** This leads to **frequent consolidation and marketing** strategies by successful players

MARKET OVERVIEW: SOGRAPE'S 5 CLUSTERS

Sograpе's international presence requires an efficient segmentation of markets

1 CORE MARKETS

Sograpе's Core Markets are **Portugal and Spain**, representing over 40% of revenues. In total, they are currently worth **€8 bn**, with Portugal being valued at €3bn and Spain at €5bn.

The Markets:

In the past 5 years, these markets have grown, jointly, at a CAGR of approximately **4%.** In the upcoming 5 years, Portugal is expected to grow at a CAGR of over 2%, and Spain is expected to decrease slightly, meaning that together, they are **expected to stagnate**.

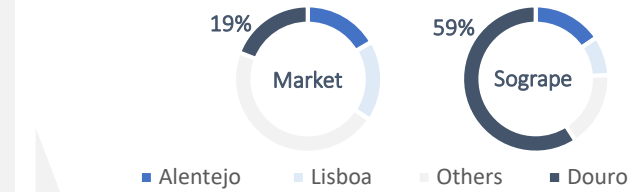
The **On-trade channel** is dominant in both markets, being worth around 60% of value in Portugal and 70% in Spain. From the supply side, these markets are **heavily fragmented.** In Portugal, over 40% of production comes from wine cooperatives, composed of small players. Since **demand** from Off-trade platforms tends to be very consolidated, with 4 or 5 major players holding most of the consumption, negotiation processes are difficult for producers. These can only improve either with **volume or variety of regions and products.**

Sograpе in the Markets:

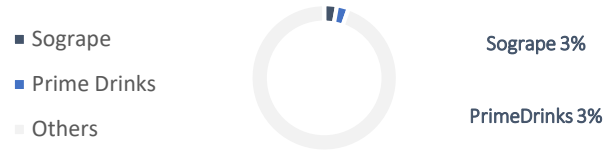
As mentioned previously, Core Markets have been Sograpе's strategic priority in the past years, as a **tool to explore it's Core Brands**. In fact, Portugal is currently worth 33% of Sograpes revenues, up from 23% in 2014. This increase comes, as stated, from pressing Core Brands' sales, through the company own distributor, Sograpе Distribuição. Spain, on the other hand, is currently worth 9% of revenues due to the acquisition of Bodegas LAN, a Spanish wine brand that is the result of an acquisition.

- Sograpе is a very **small player in Spain** both in production and distribution.
- In Portugal, it is the **market leader** between all **brand owners** and **distributors**, in spite of holding less than 3% market share. From a production side, Sograpе differs from the market, focusing unproportionally on the **Douro region.** This is **less cost effective** than other regions, particularly **Alentejo**, more predominant in the market than in Sograpе.

PRODUCTION IN PORTUGAL (BY REGION)



DISTRIBUTION IN PORTUGAL (2 LEADERS)



2 BIG MARKETS

Big Markets are composed of **USA** and the **UK**. These are worth 18% of Sograpе's revenues and are valued at **€60 bn**, with €42 bn in USA and €18 bn in UK.

The Markets:

Big markets have grown jointly at a 2% CAGR in the past 5 years and are **expected to grow at 1%** in the future. While these markets are also fragmented, big players have a more representative share.

Sograpе in the Markets:

Sograpе's presence in the Big Markets has been decreasing in the past years due to the long term strategy of **shifting products** to Evaton and Liberty, the **company owned distributors.**

3 MATURE MARKETS

Mature Markets are composed of most **European countries and Canada**. They are currently worth over **€71 bn**.

The Markets:

They have grown **below 1%** per year and are expected to keep that rate. These markets are, following others, extremely **fragmented**. Besides their stagnation, they are characterized by **strict consumption structures**, with little imports.

Sograpе in the Markets:

Sograpе's presence in the Mature Markets has been **decreasing**, mostly due to the difficulty of exploring them. However, they are still worth almost 20% of revenues. **Exploring these markets is essential**.

4 GROWTH PLATFORMS

Growth platforms are **China, Poland, Russia and Japan**. They are worth around **€50 bn**, but are expected to increase largely in the next years.

The Markets:

They have grown at a 5% CAGR and are expected to grow at a **3% CAGR.** In spite of growing more than average markets, Growth Platforms are very **particular markets due to cultural differences.**

Sograpе in the Markets:

Sograpе has not yet dedicated significant resources to exploring these markets, since they haven't increased to over **5% of revenues**. With appropriate **understanding of specific market dynamics**, these markets could become a major source of revenues.

5 PORTUGUESE SPEAKING OPPORTUNITIES

Portuguese speaking opportunities include **Angola and Brazil.** They are worth **€4 bn,** with €3.4bn coming from Brazil and €0.6bn from Angola.

The Markets:

They have been growing at an **8% CAGR** and will increase at **4%**. Wine consumption in these countries is still, to an extent, unexplored. The **Off-trade** is the leading channel, mainly thanks to its lower prices.

Sograpе in the Markets:

Sograpе's revenues in these markets has been **decreasing** through a planned action of **reduced exposure** to them. This is due to economic **instability** as well as **poor payment practices**.

Given the particularities in each of these markets, as well as their weight in Sograpе's revenues, the **company must consider every market** in strategy definition. Otherwise, **growth cannot be fostered** at the largest extent because the **only a fraction of revenues will be advanced**

APPENDIX 3: MARKET OVERVIEW - CORE MARKETS

	Portugal	Spain
SIZE & GROWTH	Estimated Market value: **€ 3 bn** The Portuguese wine market has grown at a slightly below 5% CAGR (2013-2018) is expected to grow at a **CAGR** of over **2%** in the next 5.	Estimated Market Value: **€ 5 bn** The Spanish wine market has grown at a slightly **above 3%** CAGR in the past 5 years and is expected to grow at a -**1% CAGR** in the next 5.
GROWTH DRIVERS & TRENDS	• Changes in **Demand perceptions** • Volume Growth Expected in the Future due to large **tourist demand** and a rising interest in wine from Portugal • **Sparkling wine** gaining traction due to investment in vineyards specifically allocated to produce this wine. Increasing tourism levels has also led to increase in product demand. • **Increased competition** from alternative beverages, health concerns and an ageing population are likely to negatively impact the future evolution of volume sales. • Growth in consumption of **SOLA Wines (Sustainable, Organic and Lower-Alcohol)** • Alternative packages such as eco-friendly bag-in-box, bagnum, enomatics and coravin • Demand for Lighter and Fresher wines **(White and Rosé)**	• **Premiumization** of Wine Consumption as total wine volume sales declined whilst value sales increased. Premiumization was the most important trend recorded, with consumers preferring to **drink less wine, in order to lead a healthier life**, but to consume products that are more sophisticated. • **Vermouth** showed the strongest volume growth in 2018, following on a positive trend in the last years. Especially in the on-trade channel, consumers looked for specialty and artisanal vermouth, which has shown strong growth. • **White, Fresh and Low/abv wines** – around 5% (e.g. Vermaccia) have been performing very well as consumers were seeking refreshing and lighter drinks. Growth in consumption of **SOLA Wines (Sustainable, Organic and Lower-Alcohol)** • Demand for Lighter and Fresher wines **(Red Wine)** • **Premium packaging** • **Climate change** is affecting the levels of residual sugar in the wines and causing the vineyards to move north. Investment in wines based on native varieties (grapes) and less extraction, as they prove to satisfy "the new wave"
COMPETITIVE DYNAMICS	• **Increase in number of wine producers** is putting additional pressure on prices, with the off-trade channel benefiting from the winegrower's need to sell its produce, further encouraging the current intense promotional activity. • **Still red wine** continues to represent most of still light grape wine sales. Nonetheless its share is declining as producers of still white wine and still rosé wine reinforce their offering in the market and increase the attractiveness of these drinks. • Intense **promotional activity** from leading off-trade retailers strongly diminishes producers' margins. Therefore producers are focusing their sales efforts on searching for markets outside of Portugal and trying to develop their position in the on-trade.	• New Product Development Focuses on **Premiumization in Packaging and Quality**. (Bodegas Hispano Suizas relaunched Impromptu Rosé, in a see-through bottle showing the pale pink colour. Freixenet launched a premium prosecco made with Glera grapes from the Italian region of Veneto.) • In 2018 Henkel, the Oetker Group`s German branch for sparkling wine, acquired Freixenet and the North American investment firm, Carlyle Group, acquired Codorniu. Freixenet is likely to take advantage of the synergies with its acquirer (one of the largest sparkling wine producers in Europe), whilst the Carlyle Group is expected to focus on exports and on the brand's premium consolidation.
CUSTOMERS & KEY PLAYERS*	• **On-trade** market represents 59% in value (and is gaining traction due to Intense promotional activity and increase in number of players. • Primedrinks (holds shares of the major Portuguese wine producers: Herdade do Esporão , Aveleda , Casa Ermelinda de Freitas) is the main competitor in the production and distribution segments. However, the major **Off-trade** players are Jerónimo Martins (Pingo Doce) and Sonae (Continente)	• Heavy representation of the **On-Trade Channel** (71%). • J Garcia Carrion SA and Freixenet the are major producers. • **Off-trade** channel is defined for **being heavily fragmented**. Nevertheless, Mercadona is the major Off-trade end point in the market.

Core Markets

It is estimated that Sograpé's Core Markets are worth € **8 bn**.
Together they have grown at around 4% CAGR and expected to stagnate for the upcoming five years.

Regarding the qualitative aspects of these markets, there is evidence of **increased demand for lighter and healthier wines**. Sparkling has been a tendency for both markets, in Portugal mainly due tourism demand, in Spain due to prevalence of the Spanish culture (Cava wine).

In Portugal and Spain, **fragmentation and Premiumization** have been the main tendency, leading the producers to go towards On-trade channels (promotional activity from retailers that keep pressuring producers' margins).

On-trade Channel remains dominant, characterized for being very fragmented. Regarding the Off-trade channel, it is heavily dominated by big retailers' pricing/discount negotiation.

Demand for **SOLA wines and eco-friendly boxes** will continue to grow in the upcoming years.

Portugal's economic outlook will **cool slightly** in 2019. Portugal's economy will decelerate in 2019. Real GDP will grow by 1.9% in 2019 after gains of 2.1% in 2018 (Spain's annual real GDP growth **decreased** to 2.6% in 2018 from 3.0% in 2017).
Nevertheless, growth in Spain, Portugal's main trading partner, is expected to **hold up better** than the euro area as a whole. Annual rates of growth in real GDP will average around 1.3% in 2020-2026 (Spain's Real average annual GDP growth of 1.6% is expected in the forecast period of 2019-2024).

APPENDIX 4: MARKET OVERVIEW - BIG MARKETS

	USA	UK	Big Markets
SIZE & GROWTH	Estimated Market value (2018): **€ 41.8 bn** The USA wine market has grown at 1.8 % CAGR compared with 2017. This growth is lower than the 2.9 % CAGR observed between 2013 and 2018. The sector is expected to grow at a **CAGR of 1.6 % in the next 5 years**.	Estimated Market Value (2018): € **17.7 bn** The wine market in UK increased **1.4 % compared with 2017** which is slightly above the CAGR estimated of 1% between 2013 and 2018. For the future the market is expected to **remain steady** in terms of value sales for **the next 5 years** (+0.1% CAGR 2018-2023).	Sograpе's big markets worth more than € 60 bn. Together they have grown in past five years at around **2.3% CAGR in value sales a**nd are **expected to grow** at a **1.15% CAGR** in the upcoming years until 2023. Regarding **volume** the **markets performed differently**. While USA market have increased volume sales at 1.5% CAGR between 2018 and 2023, **UK decreased consumption** at -0.5% CAGR. Regarding the market segments, **sparkling wine** was driving the **sector growth** in this cluster over the past 5 years what is expected to continue from now on. **Retailers are playing a role** in both countries, in USA through private labels who increased market share and in UK where discounters increment sales in premium segment promoting accessible prices. The trends are different when comparing the two markets since in **USA** the **innovative packaging** are expected to be significantly valued by consumers whilst in **UK** consumers are demanding **smaller bottles** and **alternative products**. This cluster is characterized by **fragmentated markets** even tough the existence of key players in both markets. **Off-trade** is the most representative channel in both value and volume sales. The macroeconomic outlook for **USA is positive** where GDP is expected to grow at **2.2% in 2019** and 2% in 2020. In UK the perspectives are also positive with GOD being expected to grow at 1%and 0.9%. Nonetheless, in this market the **uncertainty** is quite bigger due to **Brexit resolution** particularly about customs duties.
GROWTH DRIVERS & TRENDS	• **Sparkling wine** and **Still Rosé** wine continued to **drive growth** in value sales at 8.7% and 6.6% CAGR (2013-2018) respectively. The **Still light grape wine** is the most **representative segment** with over 80% of the total value sales. • **Private label lines** owned by Stores have been an important growth driver to the sector. The most relevant are carried by Trader Joe's, Aldi and Costco. The high popularity of this wine lines have **been undermining the premiumisation segment**. • **Millennials** are being seen as the **new target driver of growth** and are expected to be the major consumers of wine soon. As result convenience, portability and brand story stared to be important growth drivers for the sector. • **Consolidation** have been a trend in this **distribution** with a highlight to Southern Glazeer's Wine & Spirits (largest wine distributor in USA) which result of merge between two big players (Southern and Glazer's) in 2016. Just this two between 2010 and 2016 acquired more than 7 other distributors. • **Non-tradition packaging** as **cans** and **boxes** have been growing and it's expected to continue which have been capturing the attention of big players.	• **Increase on demand for low-alcohol wine** as consumer attitudes towards alcohol are changing based on health concern. Parallelly, UK citizens are **drinking less** which led to a **decrease in wine volume consumption**. • **Sparkling wine sales** continue **drive the industry growth** at 7.8% year-on-year growth rate, mainly due to the boom in Prosecco. Nonetheless, **still light grape wine** is the **biggest segment** with around **79% of the value sales**. • Despite of the fact this a import-heavy wine market, **English wine** have been on of the growth drivers in sparkling wine segment. • Trend in both on-trade and off-trade channels for **vegan and organic wines.** • Introduction of **smaller bottle sizes** in response to the wine consumption moderation in UK. • Increasing the **importance of brand story and positioning** (and lower importance of quality), as for instance the trend for **environmentally friendly products.**	
COMPETITIVE DYNAMICS	• The **private label wine lines** above mentioned allow retailers **to sell wine at a lower price** which drive the **sales volume up** but **value sales down**. • **M&A activity** from US Wineries have been **decreasing in 2018** as many of the buyers digested their purchases from the last 3 intense years. Even tough there was a **significant transactions for vineyard properties** over 2018. • As common in this sector, the **larger wineries have self distribution** which **increases the penetration** of brands mainly in **on-trade** channel (particularly restaurants) but also allow the larger players **bigger margins** on **off-trade** channel.	• **Inflationary pressure on wine prices** generated since **Brexit** as a result of devaluation of the pound and a rise in import costs. Additionally, duty rates on wine have increased in February 2019 which increase the necessity of increasing prices and reduce costs. • **Depreciation of the pound** have represented an opportunity for **domestic producers increasing the penetration** since imports are becoming more and more expensive. • **Competition is intensifying** and **discounters** (as Aldi and Lidl) are **being successful in premium segment**, increasing its market share.	
CUSTOMERS & KEY PLAYERS*	• **Off-trade** market represents around 55% in value but presents over 83% in volume. • **E&J Gallo Winery** remains the larger with more than 25% of sales in volume, followed by Wine Group and Constellation Brands . Nonetheless the over 40% market share in volume owned by this three biggest players, the wine sector is still a **fragmented market** in USA.	• **Off-trade** is still increasing its representativeness as more important channel with 84% of value sales, growing 2.2% CAGR over the past 5 years while on-trade value sales are almost steady. • In a **fragmentated market**, the major player in the industry is **Accolade Wines** followed by Vinã Concha y Toro and Treasury Wine Estate	

APPENDIX 5: MARKET OVERVIEW - MATURE MARKETS

	Belgium	Canada	France	Germany	Switzerland	Italy	Mature Markets
SIZE & GROWTH	Estimated Market value : **3.4 € Bn** The market has grown at a CAGR of **-2%** in the past 5 years and is expected to grow at a CAGR of **6.4%** in the next 5.	Estimated Market Value: **9.4 € Bn** The wine market has grown at a CAGR of **4.7**% in the past 5 years and is expected to grow at a CAGR of **3.6**% in the next 5 years.	Estimated Market Value: **26€ Bn** The wine market has grown at a CAGR of **-0.7**% in the past 5 years and is expected to grow at a CAGR of **-0.9**% in the next 5 years.	Estimated Market Value: **12.9€ Bn** The wine market has grown at a CAGR of **0.2%** in the past 5 years and is expected to grow at a CAGR of **0.1%** in the next 5 years.	Estimated Market Value: **4.5€ Bn** The wine market has grown at a CAGR of **0.0%** in the past 5 years and is expected to grow at a CAGR of **-0.1%** in the next 5 years.	Estimated Market Value: **14.7€ Bn** The wine market has grown at a CAGR of **2.5%** in the past 5 years and is expected to grow at a CAGR of **4%** in the next 5 years.	It is estimated that Sograpé's Mature Markets are worth **71€ Bn.** Together they have grown at around **0.3% CAGR** and are expected to grow at a **0.4%** CAGR from now on. Regarding the qualitative aspects, there are some natural differences. However, it is common that consumption is driven by **a more responsible and healthier attitude.** In all of the markets off-trade is the major channel. Overall, the supply of wine in these **platforms is highly fragmented** In Canada **Premiumization** is becoming a major trend, while in Belgium, France, Germany and Netherlands the consumers aim for a more responsible and healthier consumption which leaves alcohol and organic wines with room for growth. The macroeconomic outlook is **modestly positive**. Belgium, Canada, Germany and Switzerland has shown a modest growth and keep growing at 0.3% CAGR. France and Netherlands GDP growth has slowly decelerated in past years and is expected to be around 0.4% per year
GROWTH DRIVERS & TRENDS	As Belgians aim for more responsible and healthier consumption, **alcohol-free wines and organic wines** enjoy success. Moreover, some **mobile tools**, such as the Raisin app, help to raise **awareness of natural and organic wines.**	**Premiumization** drives value growth: Younger adult wine drinkers, are gravitating towards **higher-quality and higher-priced wines** Consequently, premium and ultra-premium offerings are largely exhibiting the best performances	**Organic wine** is likely to double its volume share over the forecast period, due to its **success amongst millennials and the launch of organic extensions** of well-established brands. **10%** of the local vineyard area is already **organic in 2018** and this proportion is expected **to increase.**	One ongoing trend is the leadership of **off-trade channels over on-trade**. While off-trade is well positioned, various channels are performing better than others. **Online sales are** also becoming increasingly **important**.	**Millennials** are refraining from drinking alcohol or are at least **reducing their consumption** to special occasions. As consumers opted to purchase wine more for **special occasions**, there is a growing willingness to **spend more money on higher quality wines**	Italian consumers showed an interest in new types of wines. **Organic and vegan wines** benefited from the healthy crosscutting trends noticeable in several market areas in food and beverages, including wine, as they are perceived as **healthier options** than the classic options.	
COMPETITIVE DYNAMICS	Within Belgium producers, the market is very **fragmented** More than a half wine consumed comes from **France**. More wines from **European, Latin American and Chinese** wines are also starting to appear.	The wine category in Canada is **relatively mature and fragmented.** **Top 30** players accounted for less than **half of the total volume sales**	The **thousands of independent wine producers**, and the attachment of **consumers to traditional châteaux and domaines**, results in **significant share fragmentation** within wine, with a high number of small / medium-sized local players or private label.	As **organic and vegan wines** are increasing in popularity, producers see a shift towards **organic and bio-dynamic wine-producing** **Private** label continued to hold the highest total volume share. Aldi and Lidl are the two leading companies.	Competition between providers **intensified notably** putting further pressure on existing players and 4 **Leading private label players** accounted for **more than 1/5 of overall wine volume sales**	The wine category in Italy is **highly fragmented and mature.** Caviro presented, in a joint venture with Cevico, a new **Spumante Bolé.** The players have established a **distribution plan that encompasses all channels** and, at the same time, focuses **strongly on exports.**	
CUSTOMERS & KEY PLAYERS	**Off-trade** market represents **78**% (in value) of the market Etn Franz Colruyt led a highly **fragmented landscape** in total volume, followed by the wine specialist Delhaize 'Le Lion' and Carrefour Belgium.	**Off-trade** market represents **89%** (in value) of the sector Arterra Wines Canada and Andrew Peller Ltd remained the **two leading players**, but the only ones accounting for more than a **10th of overall sales.**	**Off-trade** market represents **70%** (in value) of the sector **Castel Frères** remained the only player with **double-digit total volume share** in 2018 in a predominantly unbranded category.	**Off-trade** market represents **84%** (in value) of the sector As the **largest German sparkling wine producer, Rotkäppchen-Mumm** led overall sparkling wine.	**Off-trade** market represents **85%** (in value) of the sector **Schenk** maintained its **leading position** in the otherwise highly **fragmented** wine category in Switzerland**.**	**Off-trade** market represents **46%** (in value) of the sector **CAVIRO Scarl** retains leading position with a **6% total volume share in 2018** due to its wide offer and established reputation	

APPENDIX 6: MARKET OVERVIEW – GROWTH PLATFORMS

	China	Japan	Poland	Russia	Growth Platforms
SIZE & GROWTH	Estimated Market value : €**30-40 bn** The Chinese wine market has grown at a CAGR of **over 6%** in the past 5 years and is expected to grow at a CAGR of over **4%** in the next 5.	• Estimated Market Value: **€10 bn** (excluding 8 € Bn from Sake and other non-grape wine). • The Japanese grape wine market has grown **below a 4%** CAGR last 5 years and is will grow at a **2% CAGR** in the next.	Estimated Market Value: **€1.3 bn** The Polish wine market has grown at a **CAGR of 5%** in the past 5 years. It is expected to keep growing at the same rate.	Estimated Market Value: **€5.5 bn** The market has grown at a **CAGR below 3%.** In the next few years, it is **not expected to grow above 1%** per year.	It is estimated that Sograpе's Growth Platforms are worth **€ 50 bn.** Together they have grown at around **5% CAGR** and are expected to grow at a 3% CAGR from now on. Regarding the qualitative aspects, there are some natural differences. However, it is common that consumption is driven by **income** and **shifts in demand perception.** In China and Japan**, On-trade** is the major channel while in Poland and Russia, the **Off-channel** dominates. Overall, the supply of wine in these **platforms is relatively fragmented** In Japan and Poland, **premiumisation** is becoming a major trend, while in China, the **online retail** is expected to increase, as well as the prevalent **preference for discounts.** In Russia, there is an increasing demand for **foreign wines** that respect the price constraints. The macroeconomic outlook is **modestly positive**. Poland has shown strong but falling growth rates of GDP, expected to keep rising at 2.5% CAGR. Japan expects modest growth of around 1%. Russia is still recovering from a recession, expecting to grow 2% per year. China's GDP growth has slowly decelerated in past years and is expected to be around 5% per year.
GROWTH DRIVERS & TRENDS	Major drives are changes in **Demand perceptions** • Wine is associated with **health** • The color red is associated with **luck** • Wine is perceived as **modern and sophisticated** Another drive is **Government support** Main trends are: • **Online retail,** • **Preference for discounts** • **Increasing knowledge about wine**	The most important driver of the wine segment in Japan is the **available income of consumers,** which is increasing. Main trends are: • **Premiumization**, due to older generations. • Presence of **Japanese** wine. • Bigger **role of women** as consumers	**Major drivers are increasing available income and change in demand perceptions**, particularly, concerning the health benefits and the cultivation of interest in wine Major trends are: • **Premiumization** • **Increase in frequency** of drinking wine (as regular drink) • Openness to novelties such as Non-alcoholic wine	The major driver of the wine segment is **available income of consumers**. Besides, **Government investment in national (Russian) wines** is also expected to support some market growth. The main trends are: • Consumption of **cheaper foreign wine** • Stronger development from the supply side of domestic wine	
COMPETITIVE DYNAMICS	**High competition** for wine consumers: • **Chinese wines dominate** the market, with imports coming form France, Australia, Chile and Spain, origins that are very hard to compete with. • Within Chinese producers, the market is very fragmented	The Japanese wine market is very fragmented. Besides, Since the Most Favored Nation agreement with the WTO, Japan has reduced wine import taxes, and **increased price competitiveness.**	Competition has increased in the wine market, due to lower tariffs and greater selection. Price is the major factor of competition due to the Polish consumer's price awareness. Besides the top 3 players, the market is reasonably fragmented	Due to government support, most of the market is dominated by **national producers**. Among Russian producers, there is a lot of **fragmentation**.	
CUSTOMERS & KEY PLAYERS*	• **On-trade** market represents 60% (in value) due to **corporate culture**. • Yantai Group and Dinnasty Fine Wines Group are **major producers.** • Beijing Fine Wines, for premium, and Fancy Cellar Wine Shanghai, for online retail, are **major distributors**	• **On-trade consumption dominates** Japan with over 60% (in value) of the market. • In the **Tranquille wine segment**, the Suntory Group and Kirin dominate • Sograpе is a major firm in the **fortified wine segment**, competing with Davide Campari Milano SpA.	• **Off-trade** sales, **95%** (in value) of the market. largely dominate the sector. • **Top wine players are concentrated** and hold a lot of power. Examples are Janton, Ambra and Bartex-Bartol.	• **Off-trade 90%** (in value) of the market, largely dominate the sector • Distribution is **very fragmented**, with the major representation being from Ariant, Igristye Alvisa and Viktoria, which, together, hold less than 13% of the market.	

APPENDIX 7: MARKET OVERVIEW – PSO

	Brazil	Angola	PSO Markets
SIZE & GROWTH	Estimated Market value: **€ 3.4 bn** • The Brazilian wine market has grown at a slightly below **6% CAGR** (2013-2018) is expected to grow at a **CAGR** of over **4%** in the next 5.	Estimated Market value: € **0.6 bn** • The Angolan wine market has grown at a slightly above **20% CAGR** (2013-2018) is expected to grow at a **CAGR** of over **3%** in the next 5.	It is estimated that Sogrape's PSO Markets are worth approximately **€ 4 bn**. Together they have grown at around 8% **CAGR** and expected to grow by approximately 4% for the upcoming five years. The **Off-trade** is the leading channel through which wine is sold, mainly thanks to its lower prices. The **Off-trade** also benefits from mid- to high-income consumers increasingly enjoying wine with meals at home. In both countries' beer remains as the most popular drink, while in Angola wines takes the 2nd spot, in Brazil it takes the 3rd place very close to spirits. **Portugal plays as market leader** in Angola, whereas in Brazil it ranks **2nd** behind Chile. While in Brazil **SOLA Wines** are starting to get the attention from the consumers, Angola remains loyal to the premium wine market (particularly red), where awareness regarding light and biological solutions is still not getting relevant attention. While Brazil's economy is improving (Real GDP increased by 1.1% in 2018 and gains of 1.4% are expected in 2019), Angola's is still recovering in 2019 (Real GDP fell by 1.8% in 2018 and gains of 0.8% are forecast for 2019). **Brazil's recovery** which began in 2017 should continue, with annual growth of real GDP averaging around 2.4% in 2020-2026. **Angola's Growth** of real GDP in turn, is expected to improve to 2.2% and rise to 3.8% (2020-2026). Economic diversification in sectors other than oil is central to the success of the government's development strategy.
GROWTH DRIVERS & TRENDS	• Brazilians show **growing Interest in sparkling and non-grape** wine partly due to growth in sparkling wine and sake consumption, though still red wine also showed signs of reinvention. • **Glass bottle producers** in Brazil were operating at full capacity in 2018 which led to the inflation of this type of package. Wine manufacturers responded to the shortfall by focusing on the production of higher quality and more expensive brands to boost value sales. Producers are starting to explore the use of other pack types, such as bag-in-box formats, liquid cartons and possibly even metal cans (like USA). • Demand **for organic, biodynamic and natural wine** is now starting to heat up • Consumers are more likely to discover marketing content on **social networks** than on traditional search engines. Importance of channel integration (omnichannel) • Alternative packages such as **eco-friendly** Bag-in-Box, Bagnum, Enomatics and Coravin	• Angola is keen to increase its **revenues from tourism**, in order to reduce its dependence on **oil exports**. • **Still red wine** is by far the most popular type of wine in Angola and is viewed as better suited to Angola's hot climate. • **Urban dwellers** are the most typical consumers of wine due to the higher purchasing power they have in comparison with rural residents. Also, they are close to the products thanks to the many retail outlets in urban areas. • **Cuanza** Angola's conversion rates remain as one of the biggest drivers for foreign wine imports (nearly the total portion of this market's consumption) • **Red wine** will remain as the major trend in the country. • **Healthier and lighter** wines aren't attractive yet to the market. • The country demand is still based **upon premium and first-rate wines**	
COMPETITIVE DYNAMICS	• **Domestic wine produc**ers struggle to recover after several years of poor harvests, international players continued to invest in strengthening their presence in Brazil (Chile, Argentina, Portugal and Italy). These countries are increasingly looking for new ways to distribute and differentiate their brands in the Brazilian market. • **Governmen**t is investing in campaigns to **encourage consumers to buy local** to support the national economy. • Cooperativa Vinícola Aurora remained the overall leader, it is expected the company will increase production of higher quality wines capable to compete directly with imported brands. • **Pressure on Craft wine producers** is likely to increase over the short-to medium term, as they are not as well positioned to cope with rising production costs as larger manufacturers. Also, Brazilian law requires these producers to cultivate their own grapes, something which most do not do	• **Beer** still most representative (58% in value) as wine represents 27% of the market. • Almost entire consumption is relied on **imported wines** (Portugal, South Africa and France are the major players) • In Angola**, residual quantities of wine are produced** as, among other reasons, its climate is quite unstable and unfit for production. • The Angolan consumer does not attach great **importance to the quality / price ratio** of the wine or its variety. In fact, it values recognized brands of wine that can identify their **social status** at the moment they consume.	
CUSTOMERS & KEY PLAYERS*	• **Off-trade** market represents 61% (and is expected to grow its position in the upcoming years). • Cooperativa Vinicola Aurora and Vinhos Salton are **major producers.** • In this country, it is in the large supermarket chains that most of the wine is marketed, where Pão de Açúcar and Carrefour stand out as the largest operators in the market.	• **Portugal as market leader** with more than 70% of sales, ahead of Spain, France, South Africa and Italy. These are Top 5" of the largest wine exporters to the market. • Leading companies in wine distribution like Angonabeiro, Atlanfina, Cinco Sentidos, Sovinho have a wide variety of products in the market and they have a strong presence in many retail channels (Off-trade represents 61%).	