The Current State of "Wine"

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Contact Information

Research Analyst: Rouba Chbeir

rouba.chbeir@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

Abstract

This study delineates the landscape of the wine industry in Lebanon in figures but also in players, as it introduces the wine trade and production figures and highlights the major market players, their market shares, differentiation strategies and fun facts on the top 3 market players. Moreover, the interviews conducted with eminent figures in the management of the national wine producers and with wine connoisseurs/experts reveal multiple findings related to the sensory characteristics of wine. In addition, two ground-breaking insights emerge throughout this study: some wineries now have "visionary" leaders who may push a good change into the industry and thereby promise advancement against imported wines but also in the quality of local wine. Meanwhile, the controversial yet interesting question on whether the Lebanese today are wine connoisseurs is also revealed at the end of the report.

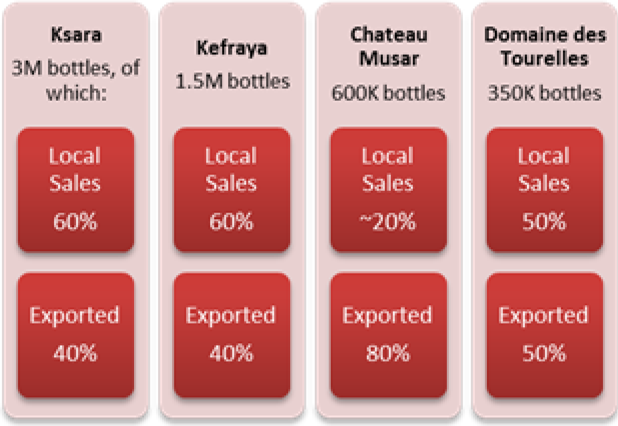
The Wine Market: Production, Consumption, Players' Shares

Lebanon possesses around 46 wineries, including big scale, medium, and smaller producers. Of these, 24 are members of the "Union Vinicole du Liban" (UVL), the country's official association of wine producers. In a nutshell the UVL's priority is to enhance the visibility and exposure of Lebanese wine to regional and international markets. Therefore, partnering with Lebanese embassies and heads of missions abroad, ensuring best practices, consistency, and keeping track of world wine events ensure that UVL unites all Lebanese wine producers under one team, "Lebanese wine", because in unity comes more power and thus exposure to international, high caliber exhibitions.

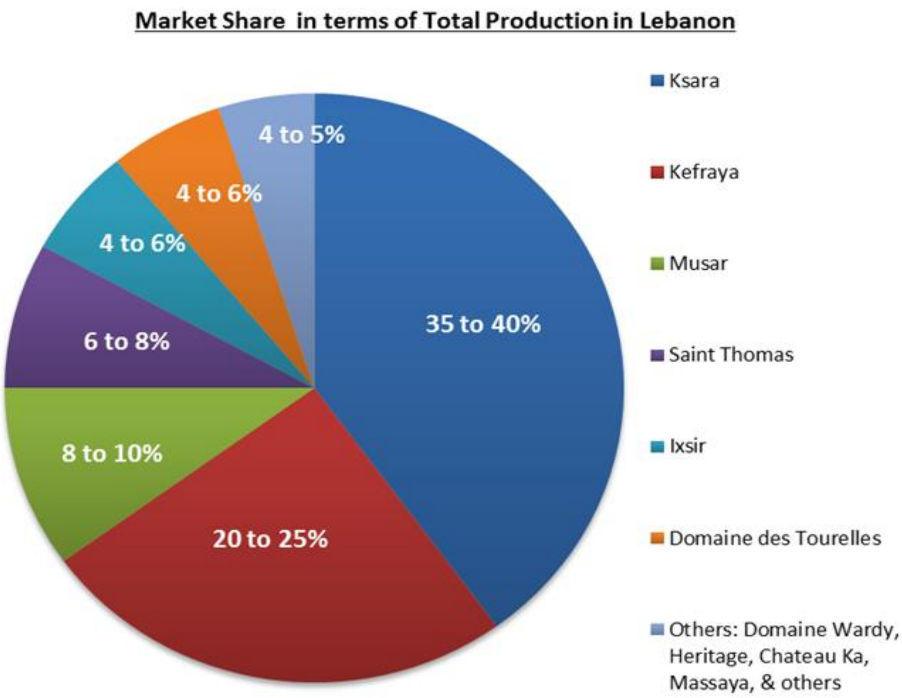
Overall, Lebanon produces 8 to 8.5M bottles (75cL each) of wine per annum. According to UVL, the biggest producers of wine in Lebanon are "*Chateau Ksara*", "*Chateau Kefraya*", "*Chateau Musar*", and

"*Chateau St. Thomas*". These 4 players produce around 70% of the total wine market in terms of production (pie chart below designates 'market shares').

The wine industry also involves another 6 medium-producers (producing 100k to 500k bottles) and approximately 30 niche (smaller boutique) wineries producing less than 100k bottles per year.



50% of these 8M bottles, are exported to worldwide destinations and the other 50% go into local sales and thus constituting a portion of Lebanon's total wine consumption, which also includes imported wine detailed in the next sections.



Source: BLOMInvest Bank Survey with UVL

In total, Lebanon consumes 6M bottles of wine per annum. The total consumption of wine in Lebanon is basically reflected via the local wine production and the amount of imported wines. In details, 33.4% (or 2M bottles of wine) of the total local consumption are imported at an estimated average price of $4.15/bottle.

The other 4M bottles that go into local sales are backed by UVL's support. UVL in fact emphasizes Lebanese wine must be available and offered by F&B outlets across the country. According to Ms. Hannaoui at UVL, this can help protect local produce and encourage consumption and preference of the available, good quality of wine. As such, UVL's efforts are always directed towards head-hunting the most attractive events and give local brands the opportunity to participate. Vis-à-vis the rest of the world, all Lebanese wine producers collaborate to showcase the high quality of Lebanese wine.

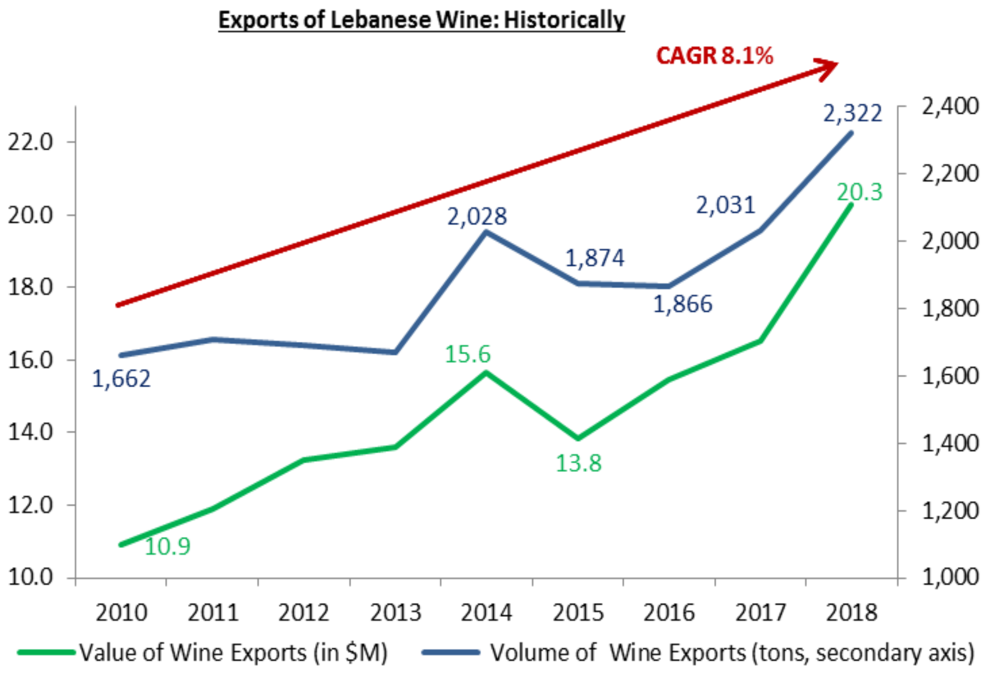
Individual wineries enjoy a certain freedom to summon their own marketing and branding strategies as they pick their "cheval de bataille". To attract their clientele, multiple players depend on 2-3 types (brands) of wine which they consider the "Star" items or "Cheval de bataille", like for example the "Chateau Kefraya".

Other players added-in creative initiatives that brought forward the authenticity of wine. Some market players created high end "restaurants" for their clientele, or created a "cool café" –concept and/or enhanced the winery tour-experience of clientele visiting their premises.

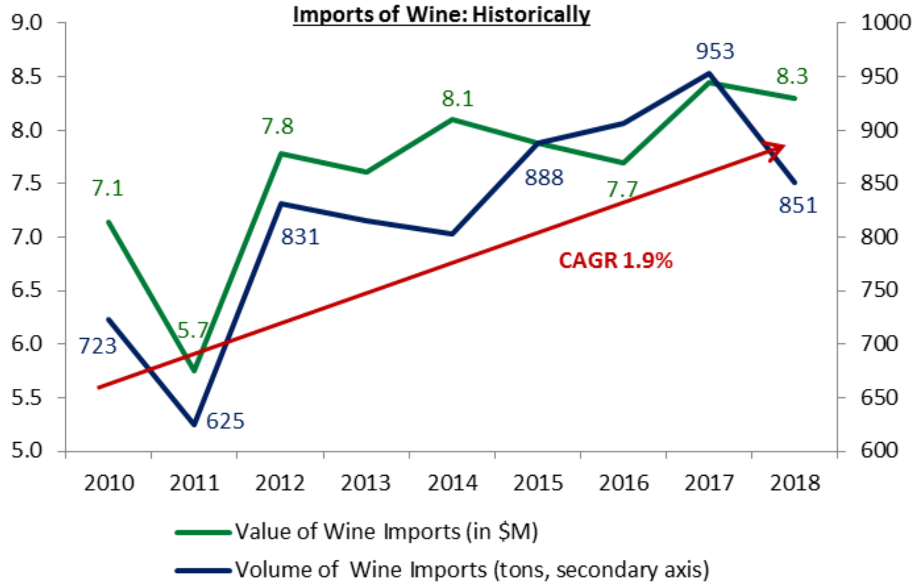
Domaine des Tourelles	Chateau Heritage	Ixsir, Massaya, Ksara, Kefraya
•*Green Sustainability* •*Collaborating with NGOs* •*Ecological Care*	•*Hikes* •*Ecotourism* •*Wine tasting tours*	•*Cafe* •*Restaurants* •*Events: summer & winter*

Meanwhile, others took the extra mile, offering touristic packages that include "hiking", "ecotourism tours", visits to well-maintained farms and green areas.

Wine in Figures: Trade, Consumption, & Local Production



Source: BLOMInvest Bank; Lebanese Customs



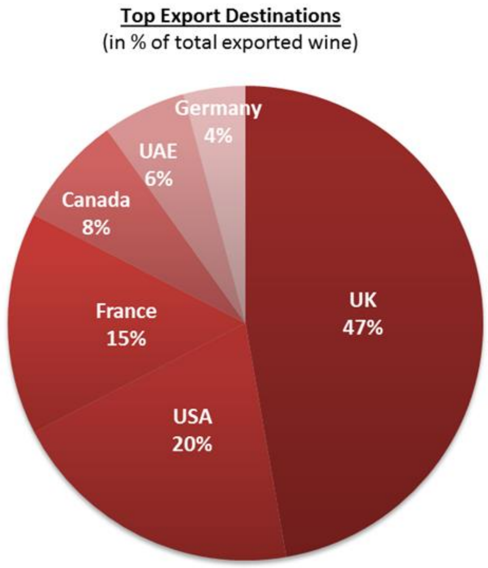
Source: BLOMInvest Bank; Lebanese Customs

Lebanon enjoys a historical trade surplus when it comes to wine. The country is a net exporter of wine and has recorded trade surpluses since 2010. The surplus amounted to $12M in 2018, up from $3.8M in 2010. The exports and imports of wine in Lebanon grew in the last 8 years, but while exports of Lebanese wine recorded a compounded annual growth (CAGR) as high as 8.1%, imports registered a lower CAGR of 1.9% (please refer to the evolution charts of wine trade above).

In 2018, demand for Lebanese wine grew by an annual 14.3%, while total imports slipped. In terms of volume, the exports of wine rose by an annual 14.3% to 2,322 tons in 2018, compared to a yearly 8.8% uptick to 2,031 tons exported in 2017.

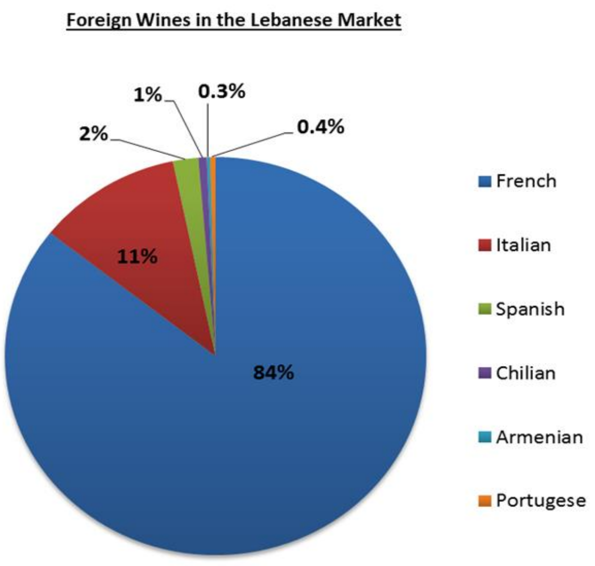
Meanwhile, total wine imports from the top destinations on the right depicted a yearly 11% drop in volume of foreign wines to 851 tons in 2018, compared to a 5% uptick to 953tons in 2017.

According to UVL, the Lebanese wine sector is very recognized and praised worldwide. The evidence is actually the growing increase in exports of Lebanese wine to more than 35 countries worldwide. Yet, UVL explains "*export prices are under strong pressure*".



Source: BLOMInvest Bank; Lebanese Customs

In turn, wine imports were lower in 2018 as it was a year of economic slowdown in Lebanon, but Armenian wine was imported for the first time. Ms. Al Khoury, Sales and marketing manager at "*Chateau Musar*", admits the economic slowdown in Lebanon and in international markets in 2018 may have curbed the local consumption of wine, including that of foreign wines.



Source: BLOMInvest Bank; Lebanese Customs

Nevertheless, 2018 was the year Armenia exported some of its wine to Lebanon for the first time, in addition to other foreign wines depicted in the adjacent chart (shares are calculated in % of the total value of wine imports in 2018).

As a result, Armenia emerged among the top 6 countries from which Lebanon imported wine in 2018.

Today, some wine experts view foreign wines as an "opportunity for growth", rather than a radical threat. BLOMInvest had conducted a study on the wine industry in Lebanon in 2015, which revealed foreign wines and their competitive pricing as a key threat to the local produce. However, by 2019, our interviews & surveys conducted with multiple wine experts and winery-owners revealed a change of heart in the industry. These visionaries view "imported" wines today as an incentive to grow, expand, and raise awareness on local wines, as well as producing even higher quality of wines for the local but also the international market. Access to new markets can be very promising for Lebanon's producers, consumers, connoisseurs, and ultimately, the economy.

This view actually reflects certain players have become visionary leaders in the Lebanese wine industry. In details, a key manager at Chateau Kefraya and Mr. Michel Ferneini, Chairman at Fleur de Lys and wine connoisseur, both believe that foreign wines today can engage and incentivize Lebanese producers to compete, to expand their wineries' visions, as well as their production capacity and efficiency. The views of both these experts coincide; they explain the presence of imported wines can push local players to target superior quality wine which can open up new markets for Lebanon's appealing produce.

Nevertheless, the need for local lobbying to protect national wines against the imported and to reduce the high costs of land and habillage incurred on wine-producers, must not be underestimated. The need for government support to the local industry especially against their low-priced European counterparts is essential and so is the importance of UVL's ongoing lobbying to regulate imports and minimize the high costs of land, habillage, and equipment.

The Sensory Characteristics of Wine

Wine is a product of high socio-cultural dimension and interest. Yet, the "sensory characteristics" of wine are derived from multiple sources: the physical factors, like climate, and the biological factors: soil, grape variety, fauna. Ms. Hannaoui from UVL, alongside management figures in chateau Kefraya and Chateau Musar unanimously agree that Lebanon can produce good quality wine and has a big potential thanks to the 4 seasons, the frequent sun, and the specific types of grapes: the "merwah" and "baaidi" which are currently being experimented for a new, unique type of wine by the two biggest producers in the country.

Interestingly, 50% of all Lebanese wines are produced with grapes originating from a 5-7km radius from the "Kefraya"-terroir in the Bekaa. According to an eminent management figure at Chateau Kefraya, more than 50% of all Lebanese wine is produced from grapes planted, cultivated, and harvested from lands at close proximity of the "renowned" Kefraya terroir in the West Bekaa which lies between Lebanon's Eastern and Western mountains (details in the "Kefraya"-section of the study hereafter).

Differentiation & Fun Facts per Wine Maker

Every wine producer in Lebanon fell in love and decided to commit. Three wine players interviewed over the phone took us with them on their wineries' journeys, to the vision, the identity, the how, and/or to the why they do it, and where they may be headed in the future. The highlights are presented below in a nutshell:

Chateau Ksara: "Dream Big, Go Big"

Today, Chateau Ksara is the largest wine-maker in Lebanon in terms of the volume of wine produced. Consequently, it dominates the local sales too. Chateau Ksara's management took a decision a decade ago to go big, really big. Chateau Ksara at the time had in mind "to create the market for wine". The winery's large scale production earns the firm economies of scale, naturally, but with a full production totaling 3M bottles of wine today, Ksara by default dominates the local market sales.

Lebanese wine including the top producer's wine, is exported mostly to France, but also worldwide. Ksara offers a variety of wines (as per the adjacent diagram). The winery exports approximately 40% of its produce across the world. As per the Lebanese Customs, France is the top export market for local wine production, so Ksara's wine captures a big demand in France, but is also exported to

Exceptional Milestones	Memorable Occasions	For Every Occasion	The Every Day	For Unique Palates
•*Le Souverain* •*Cuvee du troisieme millenaire*	•*Chateau Rouge* •*Cabarnet Sauvignon* •*Chardonnay* •*Nuance*	•*Reserve du Couvent* •*Balnc de Blancs* •*Sunset*	•*Le Prieure* •*Blanc de L'Observatoire* •*Rose de Ksara*	•*Cuvee du Printemps* •*Moscatel* •*"Merwah"* •*Gris de Gris*

worldwide destinations. The wine-maker also concentrates the distribution of its remaining produce into the Lebanese market for national consumption.

Chateau Ksara is the only player in the Lebanese market currently extending wine education for Lebanese clientele. Ksara believes the Lebanese clientele is growing more curious to increase their knowledge on wines, given the number of people actually signing up for the wine knowledge and courses it is offering. The firm offers 4 levels of wine qualifications in collaboration with the Wine and Spirit Education Trust (WSET). Foreign professionals and experts come in to Beirut and share their knowledge on food-and-wine pairing and/or the price-to-quality of wine types, knowing the WSET is a worldwide recognized academy based in the UK.

In terms of future strategies in sight, Chateau Ksara is launching 2 new products. The new products are: "Al Merwah" wine, which represents a 100% Lebanese produce. Meanwhile, the "Nuance" wine is a premium rose.

Chateau Kefraya: "Our Garden, Our Identity"

Kefraya produces 'authentic' and consistent quality of wine, but it also prioritizes experimenting with grapes for new wines. Vowing to be loyal to its 400hectares terroir in West Bekaa between the two chains of mountains, Kefraya meticulously nurtures its land starting from the vines, to the grapes, all the way until the bottle. This constitutes the signature Kefraya-wine. Historically, Kefraya used to sell its grapes to different entities and people, until the owners discovered the uniqueness of their terroir and its produce and decided to sell quality wine instead, known today as the Kefraya-identity.

The "Kefraya terroir" gives the wine a unique identity. The manager attributes this terroir's special high quality produce to multiple factors playing big roles, such as: the climate, the sun, the rich quality of the soil, the overall geology, but also the altitude dimension. Even though the vineyard is big, it is operated as delicately as a farmer looking after his cherished piece of land or garden. This gives Kefraya its "boutique-approach" edge vis-à-vis the rest of the market, earning it the second largest market share in wine production.

Loyal to its terroir, Kefraya also differentiates itself in the market by constantly exploring, mixing, and matching. The different types of grapes produced in its "special" plot of land are mixed, to come up with new wines and types of red, white, and/or rose products to enhance its products portfolio and the quality of its offered wines, locally and worldwide. Like the Ksara model actually, Kefraya is also well-established in the Lebanese market. It approximately exports 35 to 40% of its produce and dedicates the remaining to the local market. However, the sales of Ksara naturally remain slightly higher than Kefraya's, given the former operates the largest scale of production in Lebanon. But really, through experimenting, the winery also strives to maximize the burst of flavor and quality of the different wines these Kefraya-grapes have the potential to produce.

The winery has already begun introducing "back to the roots" wines but is also experimenting on new native grapes blends. For the future, Kefraya sees itself as "*pioneer in its wine-making philosophy*". The winery is determined to maintain the authenticity of the wine produced, and is therefore prioritizing experimental studies especially on a native grapes blend strictly consisting of the Kefraya-terroir grapes with no purchases of grapes grown elsewhere. The firm is launching a new form of the "Lebanese wine identity" it presented the first "Cuve" wine in the market, stored in an "authentic Lebanese wine jar" known in Arabic as *"khebye*". Also, mixing together 3 native grapes from their Terroir, Kefraya is offering the "Cuve ADN" (equivalent to "DNA" of these 3 grape types) as a new type of wine, alongside the "Unaged cuve" representing mixtures of the different grapes in one bottle - for a unique wine too.

Chateau Musar: "Take Your Philosophy International"

Musar is third largest player in terms of volume of wine produced. It produces 600M bottles of wine, as per the market shares diagram in the beginning of this study. The company explains its strategy has long been focusing on the export-side of trade, exporting as such more than 75 to 80% of its produce. Sales and Marketing manager Ms. Al Khoury goes further to share that, "*Chateau Musar does not need distributors because we operate our own distribution channel in London, which helps expand the offering of our products across the world, including destinations like: Europe, Australia, China, and many others.*"

The company's main strength is remaining loyal to its solid philosophy in wine production. The winery follows its unique style of wine-making. A highlighted method entails aging the wine (the grape's produce) for 7 years before their wine is ready to be placed in the market and for distribution. This philosophy has kept the company in the lead despite many changes in the Lebanese and foreign markets as per Ms. Al Khoury.

Currently, Musar is preparing to launch two new products. As per Ms. Al Khoury, the products must shortly be introduced to the Lebanese market. Moreover, BLOMInvest's market survey with other players further corroborated that Chateau Musar does indeed have the largest market share in terms of exports of wine. Yet, Musar's two new products in the pipeline for the Lebanese market seem to be one step closer to earning a larger market share in the local market too.

Final Thoughts: Are the Lebanese "Wine Connoisseurs"?

Two wine experts in Lebanon highlight that per capita wine consumption remains very low compared to Europe. A key management figure at Kefraya raises an important insight: "*Lebanon's wine consumption per capita is between 2-3 liters per year, compared to approximately 50 liters in France and around 30 in Germany.*" UVL and the Business Monitor International also estimate the per capita wine consumption as low as 1.7 to 2 liters per annum. To become a wine connoisseur, the consumer naturally gets engaged in a process of trying out different types of wine to learn how they differ, how they are alike, how to distinguish the characteristics of each. So he/she genuinely becomes more "curious" and eager to broaden his/her knowledge of other types of wines.

Wine connoisseurs become experts by trying different local and foreign wines, the reason why low consumption limits consumers' choices. Amongst multiple criteria, connoisseurs learn to detect the wine quality and evaluate the price-v/s-quality of wine offered. In fact, wine connoisseurs worldwide, according to Mr. Ferneini, Chairman of Fleur de Lys, are not centered in one region, area, or country and it is also the case in Lebanon. Yet, given the low consumption in the country, his view coincides with Kefraya's which can be summarized as follows: It does remain challenging for a Lebanese wine-consumer to be exposed to wine varieties and gain an enriching experience with low consumption levels i.e. limited room to experiment.
However, Michel Ferneini adds that "*people may improve their knowledge on wine if more independent entities, alongside the existing market players, contribute to trainings or to the transmission of knowledge and awareness on the wine industry*".

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss,
Weygand Str. POBOX 11-1540
Riad El Soloh Beirut 1107 2080
Lebanon

Rouba Chbeir, Research Analyst
rouba.chbeir@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com