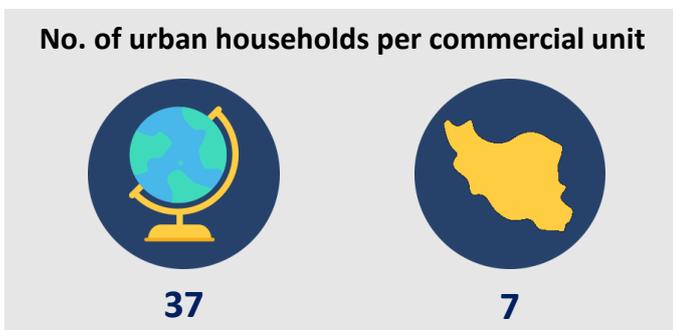


THE PUZZLE OF 'DISTRIBUTION' FOR IRAN'S FMCG MANUFACTURERS

Like many other emerging economies, a large part of being a successful FMCG manufacturer in Iran is having an established distribution network.

Retailers carry tremendous clout over selling products to customers as they tend to allocate their front shelves to products that provide them with the highest margins and greater liquidity.

However, unlike most developed markets where large retailers control much of the distribution chain, Iran's retail is dominated by small corner shops. It is estimated that there are c. 250 to 300k sole proprietorship grocery/newsagent-type outlets scattered throughout the country. Each of these outlets supports a small number of households in its neighborhood. The average number of urban households per commercial unit in Iran is c. 7 compared to the world average of 37.



The shopping culture via modern grocery channels is still in its infancy and it is unlikely that it will ever fully replace the habit of buying from small grocery outlets due to the formation of cities in Iran and the influences on people's buying cultures (heavy city traffic, preference for fresh produce, need for home delivery, relationship-based aspect of shopping, etc.)

Therefore, distributors will continue to play a significant role in filling the gap between manufacturers and retailers, at least in the medium term.

There are different alternatives for manufacturers when it comes to distribution:

1. Creating their own team
2. Working with independent distributors or wholesalers
3. Having sales representatives or agents in different cities
4. A combination of the above

Small to medium size manufacturers suffer from inefficient distribution setup. To grab shelf space, they are often forced to solely rely on heavy promotional discounts to retailers. Therefore, usually there is not enough money left or allocated to advertising, and their brands tend not to have a significant weight with third party distributors. Consequently, their products are confined to small regional markets near their plants. Many of these players benefit from gross margins of over 40%. Yet their net income drops to low single digits due to inefficient marketing and distribution strategies relative to their scale.

On the other hand, bigger companies are able to leverage their basket of products in negotiations with well-known distributors. They are also able to decide whether it is more feasible for them to outsource their distribution or establish their own distribution company.

These dynamics combined with market fragmentation in some of the sectors provides an attractive investment opportunity. By consolidating some of the larger manufacturers in super fragmented subsectors, we are creating scale which allows for significant reduction in distribution costs. For many of these companies every percentage of reduction in distribution cost adds 7 to 8 points directly to their EBIDTA.

ABOUT GRIFFON CAPITAL

Griffon Capital is an Iran-focused group providing Asset Management (Capital Markets & Private Equity) and Investment Banking Advisory services with the mission to unlock value from the country's public and private equity markets. Among Griffon's primary objectives is providing local and international institutional investors with a way to seamlessly access and maximise opportunities in Iran through purpose-built vehicles and investment products spanning traditional and alternative assets.

Our strength is rooted in a robust operating platform developed by leading international advisors and supported by internationally recognised administrators and auditors. The platform consists of a high-calibre team with deep local-market expertise and international financial pedigrees at the board, management and execution levels. This includes a management team with extensive experience in investment banking, wealth and asset management, and corporate finance. Griffon is also distinguished by on-the-ground local research and primary-source thinking and a governance culture defined by global best practices in risk management, compliance and reporting.

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