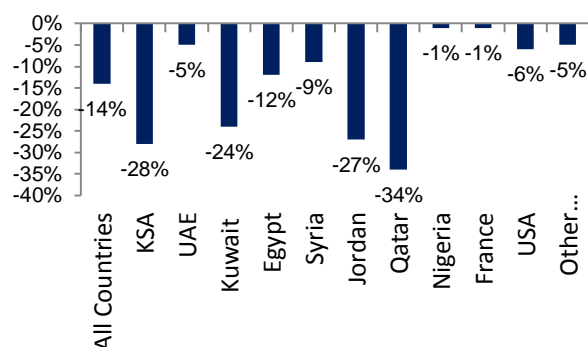


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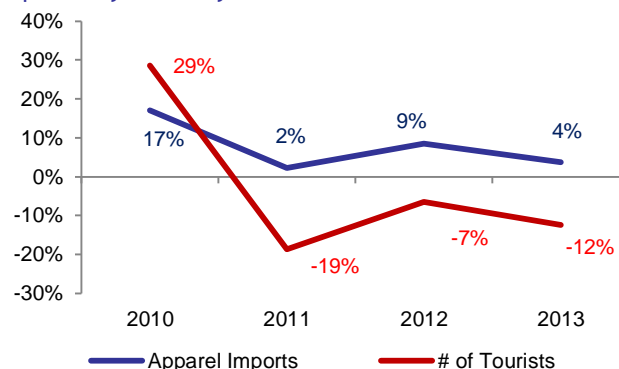
Lebanese Apparel Industry: Adapting to Tough Times

Tourist Spending Evolution by Country of Residence



Source: Global Blue

Change in Apparel Imports & Number of Tourists - Up till May of each year



Source: Lebanese Customs, Ministry of Tourism, Blominvest

Despite Eid being just around the corner, nationwide discounts abound the Lebanese markets. Promotions have become the customary sales tactic enforced by apparel retailers, a trend that was clearly pronounced and made almost permanent since the launch of the Ministry of Tourism's "50% for 50 days campaign" in early January of this year.

In previous years, the usual discount period used to be up to 60 days. Promotions following the New Year typically did not exceed the 30% mark. It was only up until February that stores typically offered half-off, with some even going as high as 70%-80% midway through the month. Similarly, summer sales starting in July used to begin with 30% and eventually reach 50% during August, with the possibility of even higher sales halfway through August. What we see now is that the sales cycle has shifted to start one month earlier than previous cycles and last for longer durations. As we enter August we notice that the summer sale which began this year in June has surpassed the prior 60 day discount period. As the duration of these offers keep on extending, store owners can only conclude one thing; business is slow and it's not due to high prices.

Various indicators confirm that the market has lost steam. CPI data prepared by CAS verifies that its clothing sub-index fell 2.5% y.o.y during the first half of 2013 and 4.5% since year start. In addition, the BTA - Fransabank Retail Index which takes into account inflation, quoted a 14.4% dismal fall for the first quarter of 2013 in comparison to that of the previous year.

The sharp decline in the number of tourists has taken its toll on the apparel industry. Up till June of this year, the country has witnessed a 12.7% y.o.y decrease in total visitors. Arab tourists, which used to frequent Lebanon and drive retail sales growth, have dropped 23% y.o.y during the same period. According to data published by Global Blue, the value of VAT refunds on fashion and clothing items within Lebanon has decreased by 16% from Q2 2012 to Q2 2013. In addition, the number of VAT refund transactions on these items fell 15% for the same period. Tourists residing in Qatar and Saudi Arabia witnessed the greatest drop in spending, each having declined by 34% and 28% respectively.

The US Embassy estimates that total Lebanese apparel market size will shrink by 4% to \$580 million during 2013. The breakdown of which, as detailed in its "Country Commercial Guide 2013" publication is as follows: \$210 million local production, \$80 million exports, and \$450 million imports. These imports which account for 78% of total market size are expected to fall by 5% from the \$473 million registered in 2012.

Although Lebanese Customs data show that apparel imports have sustained their upward trend, it is most probable that this has occurred due to an increase in the number of new shops rather than to the actual growth of sales in existing ones. In

fact, customs statistics point towards an increase of 4% y-o-y in imports to reach \$208 million up till May of this year. This rise in imports may be explained by the additional apparel stock required by new venues which opened in places such as Majid Al Futtain's (MAF) latest \$350 million retail venture in Hazmieh. Over 200 apparel stores opened in MAF's "City Center" this April, significantly boosting overall apparel imports.

Higher imports were accompanied with an even greater increase in the net quantity of imported apparel. Customs data shows that almost 5,000 tons were imported up till May 2013, 11% more than the same period in 2012. Furthermore, the price of a tons worth of imports up till May of each year has dropped from \$57 in 2011 to \$45 in 2012 and currently to \$42.

Meanwhile, existing stores are looking for ways to cut costs. Despite working fewer hours and effectively receiving lower wages, many employees are still being laid off. The trend of apparel import costs demonstrates that retailers, like their customers, have also adapted to the change in business climate by seeking discounts and/or cheaper products for themselves.

Examining imports from a by-country breakdown shows that the greatest amount comes from China. Imports from China amounted to 30% of the apparel market up till May 2013, the equivalent of \$62 million. Italy and Turkey followed, each capturing 13% and 10% of total imports respectively.

While most retail giants refrained from revealing performance-related information to the public, others were more cooperative but chose to remain anonymous. The general consensus is that business is slow and tourists are nowhere to be seen. Given this relationship, it is safe to say that the more dependent a store is on tourists the more likely they are to have witnessed a drop in sales. Accordingly, stores targeting a lower frugal local customer base are expected to have lost only 15% -20% in revenue. Meanwhile, upscale stores dependent on the missing Arab tourists are anticipated to have been hit the most, some of which are rumored to have lost over half of last year's business.

Over the years, Lebanese retailers have strived to gain fame and success for their sense of style and fashion. Local designers have managed to penetrate prime markets such as New York and Paris. In fact, the average Lebanese proudly upholds their appearance conscious image which they so rightfully earned. Regional instability is severely impacting a major part of the Lebanese identity. Continuous shocks have led retailers to freeze local expansion and move business and jobs outwards. However, if successful foreign investors have seen it feasible to open up shops in Lebanon during these hard times, the industry must have a lot of hidden potential and hope down the line.



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