GEORGIA
HEALTHCARE
GROUP

London, March 16 2016

GHG announces the acquisition of one of the largest retail and wholesale pharmacy chains in Georgia, becoming the major purchaser of pharmaceutical products in Georgia

Georgia Healthcare Group PLC ("**GHG**") announces that it has signed a binding Memorandum of Understanding, subject to relevant regulatory approvals, to acquire a 100% equity stake in JSC GPC ("**GPC**"), one of the top three pharmaceutical retailers and wholesalers in Georgia.

The acquisition of GPC supports GHG's expansion strategy and its aim to be the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion aggregate value. It positions GHG as the major purchaser of pharmaceutical products in Georgia, and provides a platform which offers significant synergy potential.

Investor/analyst call

An investor/analyst conference call, organised by GHG, will be held on Wednesday, 16 March 2016, at 14:30 UK / 15:30 CET / 10:30 U.S Eastern Time. The duration of the call will be 30 minutes and will consist of a 10-minute update and a 20-minute Q&A session. Dial-in numbers are provided at the end of this announcement.

GPC business overview and transaction details

GPC has a 15% market share by sales, in a market which is largely concentrated within the hands of four major players. GPC is primarily an urban retailer and operates 96 pharmacies across Georgia, of which 25 are combined with express ambulatory clinics. GPC has approximately 1 million retail customer interactions every month, and has 0.5 million loyalty card members.

In addition, GPC owns a 35% equity stake in Temka referral hospital ("**Temka**"), which GHG will acquire as part of the transaction. Located in the south-east of Tbilisi and covering a population of 0.3 million, Temka is a newly renovated multi-profile referral hospital with 150 beds. The remaining equity stake is owned by Ltd OHP. It will continue to be controlled by its majority shareholder and be operated independently of GHG's existing hospitals.

In exchange for the 100% stake in GPC, GHG will pay a cash consideration of US$ 14.0 million. 85.7% of this cash consideration will be paid upon the signing of a definitive sale and purchase agreement, and the

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remaining 14.3% will be paid on the first anniversary of the closing (expected to be April or May 2017), subject to customary holdback provisions. The Memorandum of Understanding includes a considerable break fee payable to either party if the other fails to enter into definitive agreements.

Key 2015 income statement and balance sheet information for GPC follows. Figures are unaudited and derived from GPC's management accounts. Following acquisition, GPC financials will be reported as separately under segment discussion.

(GEL millions) Year ended 31 December 2015	
Revenue	191.3
of which:	
(A): Breakdown by product lines:	
Pharmaceutical products	130.8
Para-pharmacy	60.5
(B): Breakdown by sales channels:	
Retail	142.5
Wholesale	48.8
EBITDA	7.6
Net profit / (loss)	(0.01)
As at 31 December 2015	
Total gross assets	66.2
Equity	5.6

In 2015, GHG purchased GEL 3.4 million worth of products from GPC, of which GEL 1.0 million was purchases by the healthcare services business (3.4% of GHG's total healthcare services purchases) and GEL 2.4 million was related to medical insurance claims on pharmaceuticals (25.8% of GHG's total medical insurance claims on pharmaceuticals). In 2015, Temka reported revenues of GEL 11.0 million, and EBITDA of GEL 2.5 million.

GPC acquisition – a strong strategic fit, expected to be earnings accretive from day one

The acquisition of GPC further enhances GHG's expansion strategy and its aim to be the clear, major player in the Georgian healthcare ecosystem. Following completion of the acquisition, GHG will also become one of the largest purchaser of pharmaceutical products in Georgia. This will provide GHG with a strong platform to capitalise on the GEL 1.3 billion Georgian pharmaceuticals market, which represents 38% of total healthcare spending in the country.

GHG management expects to eliminate unnecessary costs, deliver on cost synergies and realise revenue synergies in the more profitable ambulatory business with a total of at least GEL 4.9 million upside in EBITDA resulting from:

- Eliminating unnecessary costs, with approximately GEL 1.9 million annual running effect on EBITDA expected within the first three months following the acquisition. The savings will result from eliminating compensation of six non-executive board members / who at the same time are selling

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shareholders (c. GEL 1.0 million), closing of 4 loss making pharmacies (c. GEL 0.4 million) and other unnecessary operating cost eliminations (c. GEL 0.5 million)

- Cost synergies, with approximately GEL 3.0 million annual running effect on EBITDA that can be accomplished within a year of the acquisition as a result of consolidating GHG's and GPC's purchases of pharmaceuticals and medical disposables. This consists of: *Manufacturer cost synergy (c. GEL 2.5 million)* – saving from additional manufacturer discounts, as a result of becoming one of the largest purchasers of pharmaceuticals in Georgia. *Captive cost synergy (c. GEL 0.5 million)* – decrease in GHG's existing cost on pharmaceuticals and medical disposables (both, healthcare services and medical insurance businesses), by redirecting part of its purchases to GPC and thus eliminating the distributor margin.
- Revenue synergies are expected to be accomplished within a year of acquisition. This includes revenue upside from pharmaceutical sales (GEL 9-10 million), as a result of opening approximately 40 new GPC pharmacies at GHG's existing hospitals and flagship ambulatory clinics, a total of approximately 40 new GPC locations countrywide, requiring a total capital expenditure of approximately GEL 1.2 million. Overall, we expect that same-store pharmacy sales will grow in line with the country's nominal GDP growth.

As a result of all the above, GHG expects to significantly improve GPC's EBITDA margin from its 4.0% level in 2015. Furthermore, GPC's acquisition will accelerate GHG's ambulatory launch strategy, as 25 out of GPC's 96 pharmacies already have express ambulatory clinics, which apart from approximately GEL 2-2.5 million capex savings during 2016, will become feeders for GHG's existing and future outpatient clusters. Additionally, the GPC acquisition further enhances GHG's existing "patient capture" business model through GPC's strong customer loyalty franchise with one million monthly customer interactions and 0.5 million members of its loyalty program, which is expected to drive referrals to GHG's ambulatory clinics.

Mr. David Kiladze, GPC's CEO for more than 20 years, will continue to lead the business with his service contract being extended for another 3 years. A visionary leader, Mr. Kiladze has led the business since its establishment in 1995. Under his leadership, GPC grew to become the 3rd largest player in the market with an unmatched business model in Georgia, mirroring its American counterpart CVS.

"I am delighted to announce this important acquisition, which has a strong strategic fit with our existing business model and is expected to be earnings accretive from day one. As a result of this acquisition, GHG will be present throughout the entire Georgian healthcare ecosystem, which has a total annual market value of GEL 3.4 billion. Apart from significant cost and revenue synergies in areas such as procurement, administrative expenses, and capital expenditure, we aim to focus on three main areas at GPC over the next 2-3 years: decreasing the cost of goods sold / cost of services by realising captive cost synergy and manufacturer cost synergy; the enhancement of GPC's retail margin by growing the share of high-margin para-pharmacy and generic drug sales; the expansion of GPC's pharmacy footprint by opening pharmacies at GHG's existing hospitals and flagship ambulatory clinics at over 40 new locations countrywide.

I would like to welcome GPC's management team and employees to our Group. They have a proven operational and growth track record, and I look forward to working with them to deliver the expected margin enhancement and to grow the business," commented ***Nikoloz Gamkrelidze***, CEO of Georgia Healthcare Group.

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Forward-looking statements

This document may contain certain 'forward-looking' statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by, or on behalf of, GHG speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on

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which they were prepared. GHG does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

About Georgia Healthcare Group PLC

Georgia Healthcare Group PLC is a UK incorporated holding company of the largest healthcare services provider in the fast-growing, predominantly privately-owned, Georgian healthcare services market. GHG's leadership position is underpinned by offering the most comprehensive range of inpatient and outpatient services targeting the mass market segment through its vertically integrated network of 35 hospitals and ten ambulatory clinics, as at 31 December 2015. GHG is the single largest market participant, accounting for 26.6% of total hospital bed capacity in the country as of 31 December 2015. GHG is also the largest provider of medical insurance in Georgia with a 38.4% market share based on net insurance premiums earned and approximately 234,000 insurance customers as at 31 December 2015. GHG employed a total of c.9,700 people as at 31 December 2015, including 2,705 physicians

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