

GHG announces major transaction in the pharmacy business, to become the largest pharmaceutical retailer in Georgia

Georgia Healthcare Group PLC (“**GHG**” or the “**Group**”) announces that it has signed a Sale and Purchase Agreement (“**SPA**”), subject to competition agency approval, to acquire JSC ABC Pharmacia (“**ABC**” or the “**Company**”), the fourth largest pharmaceutical retailer and wholesaler in Georgia, from certain private shareholders (the “**Transaction**”). GHG will merge ABC with its existing pharma business, GPC, and the name of the merged company will be JSC Georgian Pharmacy (“**GEPHA**”). Upon completion of the Transaction, GHG will own a 67% equity stake in the combined pharmaceutical business and the remaining 33% minority stake will be owned by ABC’s existing main shareholders, being Mr. Enriko Beridze and Mr. Mikheil Abramidze.

This Transaction underpins GHG’s expansion strategy and further consolidates GHG’s position as the leading integrated player in the Georgian healthcare ecosystem of GEL 3.4 billion value. The Transaction strengthens GHG’s position as the major purchaser of pharmaceutical products in Georgia, and provides a platform which offers significant cost and revenue synergy potential. Moreover, GEPHA will be the largest retailer in the country, with over two million customer interactions per month through over 230 pharmacies. The combined pharma business does not require significant ongoing capex investments, and is therefore expected to generate strong free cash flow.

About ABC

ABC has a 14% market share by sales of the Georgian pharmaceutical market, which is largely concentrated within the hands of four major players. ABC operates 122 pharmacies across Georgia under the brand name Pharma-Depot. ABC has approximately 1.1 million monthly retail customer interactions, with an average bill size of GEL 11.6. Initially engaged in oncology and other niche medicine distribution, ABC started to expand its retail network in 2011 and has grown organically since.

Prior to the Transaction, ABC had two main shareholders and four smaller shareholders (together the “**Selling Shareholders**”). The main shareholders, each of whom is a founder of the Company are: Mr. Enrico Beridze, the Company’s CEO (81.6% equity stake) and Mr. Mikheil Abramidze, the Company’s COO (14.4% equity stake) (the “**Managing Shareholders**”); The four other shareholders are in managerial positions at the Company (with a 1.0% shareholding each), who received ABC shares as part of the Company’s ESOP programme.

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 eight ambulatory clusters (consisting of 11 district ambulatory clinics and 28 express ambulatory clinics), as at 30 September 2016. GHG is the single largest market participant, accounting for 23.0% of total hospital bed capacity in the country, as of 30 September 2016. GHG is the third largest pharmaceuticals retailer and wholesaler in Georgia, approximately 15% market share by revenue, as of 31 December 2015. GHG is also the largest provider of medical insurance in Georgia with a 35% market share based on net insurance premiums earned and approximately 208,000 insurance customers as at 30 September 2016. GHG employed a total of c.12,500 people as at 30 September 2016, including 3,140 physicians and 730 pharmacists.

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Transaction details

The Transaction values ABC at an enterprise value of GEL 89.0 million (5.1x EV / EBITDA) with an equity value of GEL 101.7 million, and GPC's enterprise value at GEL 63.6 million (6.0x EV / EBITDA) with an equity value of GEL 47.4 million. The Transaction is expected to be earnings accretive to GHG from day one.

As consideration for their shares, GHG will pay US\$ 25.0 million (GEL c.62.2 million¹) in cash to the Selling Shareholders and transfer a 33% equity stake in GEPHA to the Managing Shareholders. The US\$ 25.0 million cash consideration is payable in six tranches, and the Selling Shareholders will be obligated to use 33% of the cash proceeds to purchase GHG shares on the market. The GHG shares so acquired will subsequently be subject to a lock-up agreement that expires annually in a straight line over three years.

The completion of the Transaction, upon which 100% of the shares in ABC will be transferred to GHG, is expected to be in January 2017 (“**Completion**”).

The six cash tranches will be paid over five years: US\$ 12.0 million will be paid upon Completion. US\$ 5.0 million will be paid on the first anniversary of Completion (expected to be January 2018); and US\$ 2.0 million will be paid on each of the second, third, fourth and fifth anniversaries of Completion.

During the twelve months starting from January 1st 2023, GHG and the Managing Shareholders will have call and put options, respectively, on the remaining 33% minority stake in the combined pharma business. The exercise price of the call option will be 6.0-times EV/EBITDA and the put option will be 4.5-times EV/EBITDA, based on preceding twelve financial months at the time of exercise. The put option amount shall not exceed US\$ 85.0 million. Upon exercise of either option, 33% of the cash proceeds received by the Managing Shareholders will be used to purchase GHG shares, with a lock-up that expires annually in a straight line over two years.

The management of the combined pharma business

Mr. Enrico Beridze, ABC's CEO for more than 15 years, will lead the combined pharma business. Mr. Beridze founded ABC in 1999, following his career as a representative agent for Bristol-Myers Squibb Company, primarily focusing on oncology business. **Mr. Mikheil Abramidze**, ABC's COO for more than 15 years, will take charge of the operations of GEPHA. Under Mr. Beridze and Mr. Abramidze's leadership, ABC grew organically to become the fourth largest player in the market with a compound average revenue growth rate of 18.7% over the last two years, focusing on a mass market pharmacy model and with strong organic growth.

Mr. George Arveladze, the Deputy CEO of GHG in charge of ambulatory and pharma business, will be the chairman of GEPHA. Mr. David Kiladze, currently the CEO of GPC, will become the advisor to the Group CEO regarding pharma business.

The fact that the Managing Shareholders will be holding significant number of GHG shares as part of the Transaction structure, is intended to ensure that they have the overall interest of the Group in mind as they manage GEPHA. Furthermore, the service contracts of both Managing Shareholders have been extended for a six-year period. If the Managing Shareholders fail to deliver on certain targets over these 6 years, GHG has an accelerated call option on the remaining 33% minority stake in GEPHA.

¹ USD/GEL exchange rate 2.4890 as of 14th November, 2016.

Financial highlights of ABC

Key 2015 income statement and balance sheet information for ABC is detailed below. Figures are unaudited and derived from ABC's management accounts. Following the Completion, ABC financials will be reported under GHG's pharma segment.

ABC and GPC financial highlights (GEL millions)	ABC		GHG Pharma (GPC)	
	2015	1H16	2015	1H16
Revenue	176.7	106.5	189.4	97.6
<i>of which:</i>				
<i>(A): Breakdown by product lines:</i>				
Pharmaceutical products	141.7	83.6	128.9	72.0
Para-pharmacy	35.0	22.9	60.5	25.6
<i>(B): Breakdown by sales channels:</i>				
Retail	118.1	74.8	140.6	72.9
Wholesale	58.6	31.7	48.8	24.7
Gross profit	37.6	23.4	43.6	18.9
<i>Gross margin</i>	<i>21.3%</i>	<i>22.0%</i>	<i>23.0%</i>	<i>19.3%</i>
EBITDA	11.1	8.7	8.0	1.8
<i>EBITDA margin</i>	<i>6.3%</i>	<i>8.2%</i>	<i>4.2%</i>	<i>1.9%</i>
Net profit / (loss) before tax	5.1	7.7	0.8	(0.1)
Net profit / (loss) after tax	3.4	6.4	0.9	(0.2)
Total gross assets	60.0	57.6	67.7	53.0
Net debt	2.9	2.7	(12.6)	(16.2)
Equity	30.9	31.9	8.1	1.0

In 2015 and in 9M16, GHG purchased GEL 3.9 million and GEL 3.5 million worth of products from ABC, respectively.

GHG purchases from ABC (GEL millions)

	2015	9M16
GHG purchases from ABC	3.9	3.5
<i>Of which:</i>		
Purchases by the healthcare services business	1.2	1.2
Medical insurance claims on pharmaceuticals	2.7	2.3

Transaction rationale

The Transaction further underpins GHG's expansion strategy and its aim to be the leading player in the Georgian healthcare ecosystem. Following Completion, GHG will not only strengthen its position as the largest purchaser of pharmaceutical products in Georgia, but will also become the largest retailer in Georgia. This will provide GHG with a strong platform, with c.30% share of the pharma market, 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 with a total of at least GEL 11.8 million per annum upside to EBITDA by:

- **Eliminating unnecessary costs**, with approximately GEL 3.9 million annualised synergies on EBITDA expected within a year following the acquisition. The savings will result from combining the back-office operations, distribution and warehousing of GHG's existing pharma business with ABC, and other unnecessary operating cost eliminations.

- **Procurement synergies**, with approximately GEL 7.9 million annualised synergies on EBITDA that can be achieved within a year of the acquisition as a result of consolidating purchases of pharmaceuticals and medical disposables (c.2% of combined COGS of the two companies). This consists of savings from additional manufacturer discounts and captive cost synergies, resulting from the decrease in GHG's existing cost of pharmaceuticals and medical disposables, plus redirecting more of its purchases to GEPHA, thus eliminating the distributor margin.

As a result of the above, GHG expects to significantly boost the EBITDA of GEPHA over the next few years. In addition we expect to realise revenue synergies in the more profitable ambulatory business. The Transaction enhances GHG's existing "patient capture" business model through its strong customer loyalty franchise in GPC - with over two million monthly customer interactions and 0.5 million members of its loyalty program, which is expected to be enhanced by the clients of the combined pharma business. In addition, the Transaction is expected to drive additional referrals to GHG's ambulatory clinics.

Nikoloz Gamkrelidze, CEO of Georgia Healthcare Group commented:

"I am delighted to announce this landmark transaction, which is positive in multiple ways. Firstly, strong presence across the healthcare eco-system is our strategic goal. We hold 23% market share in hospital business and 35% market share in medical insurance business, after this acquisition we will become the largest pharmacy chain in the country with c.30% market share, which should help us to grow our ambulatory business, where we hold only 1% market share. Secondly, this transaction is earnings accretive from day one and we expect to leverage on scale to extract annual synergies of GEL 11.8 million at EBITDA level. Thirdly, we will further diversify our revenues and the pharma retail business is expected to contribute c. 30% of GHG's EBITDA next year. Fourthly, with this acquisition we will be bringing on board the best of GPC and ABC management teams in Pharma retail business. Enrico Beridze from ABC will lead the executive team, while David Kiladze's vision as a board member of the GEPHA will be invaluable for the merged entity. We plan to keep both brands, as they have a distinct positioning in two types of customer segments: GPC for the higher-end customer segment and Pharma-Depot for the mass retail segment. Among other new initiatives, we aim to introduce a private label products and start contract manufacturing next year. I look forward to working with the extended pharma business management team to deliver our targets in this segment."

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 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.

Inside Information: *This announcement contains inside information.*

Name of authorised official of issuer responsible for making notification: *Ekaterina Shavgulidze, Head of Investor Relations*