

GHG announces major pharma transaction

**Becomes the largest
pharmaceutical retailer
in Georgia**

**Transaction offers significant synergy potential
and is earnings accretive from day one**

November 2016



 **Transaction and business overview**

 **Annexes**



Transaction summary

TRANSACTION

- GHG to acquire 100% of the share capital of JSC ABC Pharmacia (“ABC” or the “Company”).
- GHG will merge ABC with its existing pharma business, GPC, and the name of the merged company will be JSC Georgian Pharmacy (“GEPHA”).
- 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 two main individual shareholders, who will also remain in leadership roles at GEPHA (“Managing Shareholders”).
- Prior to the transaction, ABC had two main shareholders and four smaller shareholders (together the “Selling Shareholders”).

RATIONALE

- **STRATEGIC ACQUISITION:** 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.
- **LARGEST PHARMA PURCHASER:** 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.
- **LARGEST RETAILER:** GEPHA will be the largest retailer in the country, with over two million customer interactions per month through over 230 pharmacies.
- **SYNERGIES:** 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.

VALUATION

- **VALUATION:** 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.
- **CONSIDERATION:** 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 Managing Shareholders
- Transaction is expected to be earnings accretive from day one

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



ESTABLISHED MAJOR PHARMACEUTICAL PLAYER

- **ABC is the 4th largest pharmaceuticals** retailer and wholesaler in Georgia, with a 14% market share by sales. Approximately c.75% of the market is concentrated within four major players.
- **ABC is an established mass market retailer with solid footprint.** ABC is focusing on a mass market pharmacy model, with a countrywide distribution network of 122 pharmacies across Georgia and operates under the brand name **Pharma-Depot**. Initially engaged in oncology and other niche medicine distribution, ABC started to expand its retail network in 2001 and has grown organically since, with a CAGR of 18.7% in the last two years. In 2011, ABC established its first retail outlet. ABC also operates one warehouse.
- **Large customer base.** ABC has approximately 1.1 million retail customer interactions per month, with an average bill size of GEL 11.6.
- Para-pharmacies represented 20% of revenues in 2015.
- In 2015 ABC had revenues of GEL 176.7 million, of which:
 - GEL 141.7 million was medical products and GEL 35.0 million was para-pharmacy
 - GEL 118.1 million was retail sales and GEL 58.6 million was wholesale
- ABC has over 1,500 employees

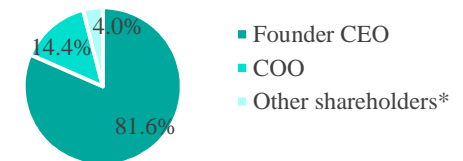
LARGE GEOGRAPHIC FOOTPRINT



■ Regions of ABC's presence

SHAREHOLDERS

ABC was owned by 6 individuals
("Selling Shareholders")



*4 individuals in managerial positions with 1% stake each, received as part of ESOP

TRANSACTION DETAILS

- **THE TRANSACTION IS EXPECTED TO BE EARNINGS ACCRETIVE FOR GHG FROM DAY ONE**
- The Transaction values ABC's enterprise value at 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
- **As consideration for their shares, GHG will pay US\$ 25.0 million 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").

CASH CONSIDERATION PAYMENT SCHEDULE:

	Consideration Payable (US\$'000)	To be used for buying GHG PLC shares	Period for purchase of shares since the receipt of cash consideration	Lock up on purchased shares
Upon Closing	12,000	33%	4 months	3 years
1 st anniversary	5,000	33%	4 months	3 years
2 nd anniversary	2,000	33%	4 months	3 years
3 rd anniversary	2,000	33%	4 months	3 years
4 th anniversary	2,000	33%	4 months	3 years
5 th anniversary	2,000	33%	4 months	3 years
Total consideration:	25,000			

MINORITY BUYOUT & OTHER CONDITIONS:

- 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, 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 service contracts of both Managing Shareholders are being 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.



Acquisition rationale

1 Strengthen position in Georgian healthcare ecosystem

- **The transaction further underpins GHG's expansion strategy and its aim to be leading integrated player in the Georgian healthcare ecosystem with an aggregate market value of GEL 3.4 billion**
- Provides GHG with a strong platform of c.30% share of the GEL 1.3 billion pharma market, which represents 38% of total healthcare spending of the country.
- GEPHA will be the largest retailer in the country with over two million customer interactions per month through over 230 pharmacies.
- GHG will strengthen its position as the largest purchaser of pharmaceutical products, as well as the largest retailer in Georgia.

2 Eliminating unnecessary Administrative costs

- **Unnecessary cost eliminations with c. GEL 3.9 million annualised effect on EBITDA are expected within a year following the acquisition**
- c. GEL 3.9 million is a result of combining the back-office operations, distribution and warehousing of GHG's existing pharma business with ABC, and eliminating other unnecessary operating costs

3 Procurement synergies

- **Procurement synergies, with approximately GEL 7.9 million, (which is c.2% of combined pharma business cost of goods sold) annual running effect on EBITDA, are expected to be achieved within a year of the acquisition as a result of consolidating purchases of pharmaceuticals and medical disposables:**
- *Manufacturer cost synergy* – saving from additional manufacturer discounts, as a result of further increased purchases as the largest purchaser of pharmaceuticals in Georgia
- *Captive cost synergy* – decrease in GHG's existing cost of pharmaceuticals and medical disposables (both, healthcare services and medical insurance businesses), by redirecting more of its purchases to the combined pharma business, thus eliminating distributor margin
 - GHG purchases from ABC amounted to only GEL 3.9 million and GEL 3.5 in 2015 and in 9M16 respectively
 - In 2015, GHG spent GEL 38.4 million on pharmaceuticals and medical disposables (GEL 29.1 million from healthcare services business and GEL 9.3 million from medical insurance business) and ABC's cost of pharmaceuticals was GEL 139.1 million

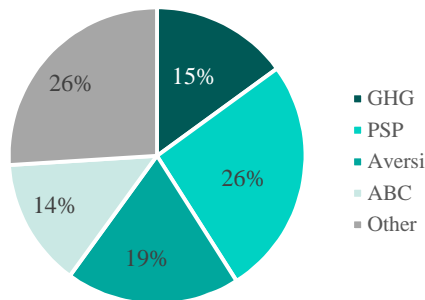


GHG – leading the pharma competition in Georgia

4 pharma players with 74% of the market. GHG leading across all segments.

CONCENTRATED WITH 4 MAJOR PHARMA PLAYERS

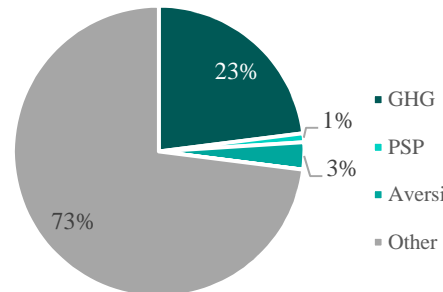
PHARMA MARKET SHARE ⁽¹⁾



- Only PSP & Aversi have packaging plants
- None have private label

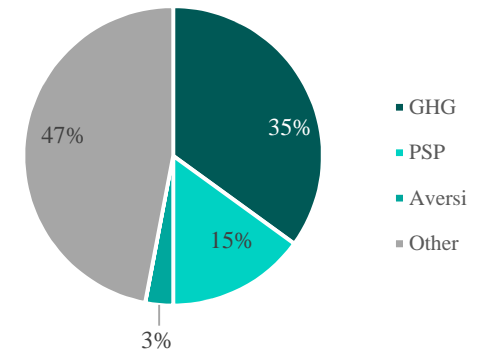
ONLY GHG HAS STRONG PRESENCE IN HEALTHCARE SERVICES

HOSPITAL MARKET SHARE ⁽²⁾



ONLY TWO PHARMA PLAYERS HAVE STRONG PRESENCE IN MEDICAL INSURANCE

INSURANCE MARKET SHARE ⁽³⁾



GHG is present in the entire Georgian healthcare ecosystem, which has a market value of GEL 3.4 billion.

Sources:

(1) Pharma business revenues for competitors are for 2015 year and represents Management estimate

(2) Data as of December 2015, updated by company to include changes before 30 September 2016

(3) Insurance State Supervision Service Agency of Georgia as of 30 June 2016



Focused growth strategy for the combined pharma business

RETAIL MARGIN ENHANCEMENT, HOSPITAL PHARMACY REVENUE GROWTH & AMBULATORY SYNERGIES

DECREASE COST OF GOODS SOLD/SERVICES

- **By consolidating GHG's pharma & hospital purchases of pharmaceuticals and medical disposables**
- *To decrease GHG's cost of sales (in pharma) and cost of services (in hospitals) by combining pharma purchases and redirecting more of healthcare services purchases to the combined pharma business, thus eliminating distributor margin*
- *To decrease GHG's consolidated cost of goods sold / services by additional volume discounts from manufacturers*
- *Enhance hospital-bulk import, to decrease cost of pharmaceuticals for GHG. Increase in sales to other wholesale clients will be an upside*

ENHANCE RETAIL MARGIN

- **By 1). launching a private label and 2). expanding sales to hospitals**
- *3Q16 EBITDA margin of GPC was 3.9% and ABC's EBITDA margin was 8.2% in 1H16. We expect to grow EBITDA margin of the combined business to the level of ABC's current EBITDA margin*

EXTRACT REVENUE SYNERGIES WITH AMBULATORIES

- **By redirecting patients from pharmacies to ambulatory clinics**
- *GHG's combined pharma business will have over 2.0 million client interactions a month, with a strong loyal customer franchise which GHG plans to leverage to redirect the flow to ambulatory clinics*



LEADERSHIP

- **MR. GEORGE ARVELADZE, DEPUTY CEO (GHG), IN CHARGE OF AMBULATORY AND PHARMACEUTICAL BUSINESSES, CHAIRMAN OF GEPHA.** Joined the Group in March 2016, will continue to be the chairman of the combined pharma businesses of the Group.
- **MR. ENRICO BERIDZE, CEO OF GEPHA.** Mr Beridze’s service contract has been extended for another 6 years (until 31 December 2022).
Founded ABC in 1999 and has led the company as a managing shareholder CEO since then. Prior, Mr. Beridze worked as a Country Manager and later as Business Manager in Georgia & Azerbaijan at Bristol-Myers Squibb Company. Prior to this role Mr Beridze worked in Atlanta at BioLab, Inc. as a Biochemist. Mr. Beridze completed Department of Biochemistry at Moscow State University, and General Course of Management and Marketing at Georgia State University, Atlanta.
- **MR. MIKHEIL ABRAMIDZE, HEAD OF OPERATIONS AT GEPHA.** Mr Abramidze’s service contract has been extended for another 6 years (until 31 December 2022).
Founded ABC in 1999 and has led the company as a managing COO since then. Prior, Dr. Abramidze worked as Doctor Gastroenterologist at #1 Central Hospital. He has completed “AIETY” Highest Medical School.

Under, Mr. Beridze and Mr. Abramidze’s leadership, ABC grew organically to become the 4th largest player in the market, with revenue growth CAGR of 18.7% over the last two years, focusing on a mass market pharmacy model and with a strong growth momentum.

The fact that the Managing Shareholders will be holding significant numbers of GHG shares as part of the Transaction structure is intended to ensure that they have the overall interest of the Group.
- **MR. DAVID KILADZE, CURRENTLY THE CEO OF GHG’S PHARMA BUSINESS,** will become the board member and the pharma business advisor to the Group CEO.



❁ Transaction and business overview

❁ **Annexes**

Financial highlights

ABC and GPC financial highlights

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
Para-pharmacy	35	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	48.9	24.7
Gross profit	37.6	23.4	43.6	18.9
Gross margin	21.3%	22.0%	23.0%	19.3%
EBITDA	11.1	8.7	8	1.8
EBITDA margin	6.3%	8.2%	4.2%	1.9%
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	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

REVENUE BREAK DOWN BY:

<i>All amounts in GEL thousand</i>	ABC		GPC	
	2015	1H16	2015	1H16
<i>Business lines:</i>				
Pharmaceutical products	141,679	83,549	128,937	72,027
Para-pharmacy	35,000	22,914	60,486	25,577
<i>Types:</i>				
Retail	118,087	74,740	140,575	72,929
Wholesale	58,592	31,723	48,848	24,675

GHG PURCHASES FROM ABC

<i>All amounts in GEL thousand</i>	2015	9M16
GHG purchases from ABC	3,891	3,503
<i>Of which:</i>		
Purchases by the healthcare services business	1,239	1,234
Medical insurance claims on pharmaceuticals	2,652	2,269

ABC & GPC financials

Income Statement	GPC	ABC
<i>All amounts in GEL thousand</i>	FY 2015	FY 2015
Revenue	189,423	176,679
Cost of goods sold	(145,812)	(139,075)
Gross profit	43,611	37,604
Rent expenses	(9,872)	(4,708)
other operating costs	(25,744)	(21,768)
EBITDA	7,995	11,128
Depreciation and amortization	(1,637)	(2,334)
Financial cost	(1,733)	(474)
Foreign exchange losses	(2,848)	(3,183)
Other income/expense	(978)	(32)
Pre-tax profit	799	5,105
Income tax expenses	144	(1,695)
Profit for the period	943	3,410
Gross margin	23%	21%
EBITDA margin	4%	6%

Key operating highlights	GPC'1H16	ABC'1H16
Customer interactions	1 million	1.1 million
Loyalty card member	0.5 million	n/a
Market share by sales	15%	14%
Average bill size	GEL 13.0	GEL 11.6
Para pharmacy share in total revenue	31%	20%
Retail sales share in total revenue	75%	67%
Wholesale share in total revenue	25%	33%
Number of pharmacies	112	122
Warehouses	2	1
Employees	Over 1,600	Over 1,500

Balance Sheets	GPC	ABC
<i>All amounts in GEL thousand</i>	30-Jun-16	30-Jun-16
Assets		
Cash and Equivalents	1,853	3,859
Accounts Receivables	6,096	4,835
Prepayments	438	2,162
Inventory	33,687	39,244
Investment in Associates and non-consolidated Subsidiaries	2,186	11
Property, Plant and equipment	7,950	7,097
Intangible assets	829	386
Total Assets	53,039	57,594
Liabilities		
Accounts Payable	29,078	22,035
Tax Paybles	(652)	-
Borrowings	18,020	1,170
Other liability	5,625	2,513
Total Liabilities	52,071	25,719
Shareholders Equity		
Share Capital	(1,126)	2
Revaluation Reserves	876	-
Retained Earnings	1,217	31,873
Total Shareholders Equity	967	31,875
Total Shareholders Equity and Liabilities	53,039	57,594

Note: ABC and GPC 2015 figures are unaudited, derived from management accounts



GHG Pharma – combining the two

Both companies have different strengths, and the merger of those companies will enable us to capitalize on the strengths of each and become the number 1 player in the pharma market with c. 30% market share

GPC STRENGTHS



- Sophisticated CRM and data-analytics software
- Better revenue and margin in Parapharmacy
- Strong customer loyalty in central regions of Tbilisi
- Average check size is 9% higher
- Better revenue on barter sales

ABC STRENGTHS



- Disciplined Management with good execution skills
- Better revenue and margin in Oncology products
- Strong customer loyalty in Suburbs and regions
- Better rental cost per m2, better cancellation terms
- Better revenue and margin on sales to drugstores, state and export



ABC's pharmacies



ABC pharmacy exterior



ABC pharmacy exterior



ABC pharmacy interior



This presentation contains forward-looking statements that are based on current beliefs or expectations, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words similar meaning. Undue reliance should not be placed on any such statement because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Georgia Healthcare Group plc and its subsidiaries (the "GHG Group")'s plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. There are various factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, legal, business and social environment. The forward-looking statements in this presentation speak only as of the date of this presentation. The GHG Group undertakes no obligation to revise or update any forward-looking statement contained within this presentation, regardless of whether those statements are affected as a result of new information, future events or otherwise.