

A modern office interior with glass walls, white walls, and several potted plants. The lighting is soft and even. The overall aesthetic is clean and professional.

Georgia Healthcare Group

A Long-term, High-growth Investment Story

Acquisition of JSC GPC

a major pharmaceuticals retailer and wholesaler

Acquisition of 100% shareholding in JSC GPC, for US\$ 14mln cash consideration

Transaction enables GHG to be present in the entire Georgian healthcare ecosystem with an aggregate market value of GEL 3.4 billion. As a result, GHG becomes one of the largest purchaser of pharmaceuticals in Georgia. Transaction offers significant synergy potential and is earnings accretive from day one.

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.

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France: 0176742428

Germany: 06922224918

Hungary: 0618088303

Ireland: 014319648

Italy: 0236008146

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❁ Acquisition and business overview

❁ Annexes

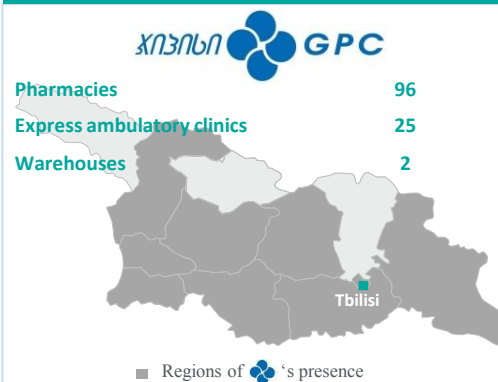
Transaction is expected to be earnings accretive from day one

GPC overview

Established major pharmaceutical player

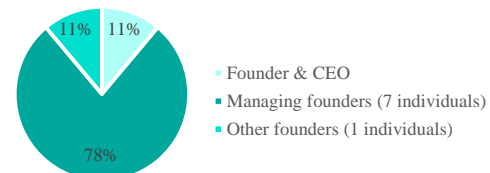
- **GPC is 3rd largest pharmaceuticals** retailer and wholesaler in Georgia, with 15% market share by sales, with about 80% of market share concentrated within four major players. Operates since 1995.
- **Established urban-retailer with solid footprint.** GPC is an urban-retailer, with a countrywide distribution network of 96 pharmacies in major cities. 25 of these pharmacies also have express ambulatory clinics. GPC operates 2 warehouses
- **Large customer base.** GPC has approximately 1 million retail customer interactions per month, with c.0.5 million loyalty card members.
- **Operates à la CVS model,** with para-pharmacies representing 32% of revenues in 2015. No other pharmaceutical player on Georgian market has similar diversification of revenues.
- In 2015, GPC had revenues of GEL 191.3 million, of which:
 - GEL 130.8 million was medical products and GEL 60.5 million was para-pharmacy
 - GEL 142.5 million was retail sales and GEL 48.8 million was wholesale
- GPC also owns a 35.0% equity stake at Temka referral hospital (“Temka”) - a newly renovated multi-profile referral hospital with 150 beds, located in the south-east of Tbilisi and covering a population of 0.3 million. In 2015, Temka reported revenues of GEL 11.0 million, and EBITDA of GEL 2.5 million
- GPC has over 1,600 employees

Large geographical footprint



Shareholders

GPC was owned by 9 individuals, each with 11% stake



Leadership

- **Mr. George Arveladze, Deputy CEO (GHG), in charge of ambulatory and pharmaceutical businesses.** Joined the Group in March 2016. He will oversee GPC operations. Prior, he served as CEO of Liberty Bank, Georgia's 3rd largest retail bank with more than 5,300 employees and over 650 branches throughout the country. His extensive experience in retail, and an excellent operational track record, will be invaluable to Georgia Healthcare Group.
- **Mr. David Kiladze, GPC's CEO, will continue to lead the business.** A visionary leader, Mr. Kiladze has led the business since its establishment in 1995. Under his leadership, GPC grew to become 3rd largest player with unique business model in Georgia, mirroring its American counterpart – CVS. Mr. Kiladze's service contract was extended for another 3 years.

Transaction overview

- GHG has signed a binding Memorandum of Understanding, subject to relevant regulatory approvals, to acquire a 100% equity stake in JSC GPC
- In exchange for the 100% stake in GPC, GHG will pay 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 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 break fee of US\$ 4mln payable to either party if the other fails to enter into definitive agreements.
- **Of the total US\$ 14 million consideration, US\$ 13 million is earmarked for GPC (pharmaceutical business), implying EV/EBITDA of x5.7 (x4.5 after adjustment for unnecessary costs and x3.3 after adjustment for both, unnecessary costs and cost synergies) and US\$ 1 million is earmarked for the hospital, implying x7.9 P/E**



A strong strategic fit, expected to be earnings accretive from day one

1 Full presence in Georgian healthcare ecosystem

- **GHG will be present in the entire Georgian healthcare ecosystem with an aggregate market value of GEL 3.4 billion.**
- GHG will tap GEL 1.3 billion Georgian pharmaceuticals market, which represents 38% of total healthcare spending of the country.
- GHG becomes the one of the largest purchaser of pharmaceutical products in Georgia, as a result of combining GPC's purchases with GHG's existing hospital purchases and medical insurance claims on pharmaceuticals.

2 Eliminating unnecessary costs

- **Unnecessary costs can be eliminated, with at least GEL 1.9 million annual running effect on EBITDA, expected within first three months of the acquisition:**
- c. GEL 1.0 million saving from on compensation of six non-executive board members / who at the same time are selling shareholders
- c. GEL 0.4 million saving from closing 4 loss making pharmacies
- c. GEL 0.5 million saving from other unnecessary operating cost eliminations

3 Cost synergies

- **Cost synergies, with at least GEL 3 million annual running effect on EBITDA, are expected to be accomplished within a year of acquisition as a result of consolidating GHG's and GPC's purchases of pharmaceuticals and medical disposables:**
- *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
 - GHG purchases from GPC amounted to only GEL 3.4 million in 2015, of which GEL 1.0 million was purchases for healthcare services business (3.4% of GHG's total healthcare services purchases of pharmaceuticals) and GEL 2.4 million was medical insurance claims on pharmaceuticals (25.8% of GHG's total medical insurance claims on pharmaceuticals)
 - 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 GPC's cost of pharmaceuticals was GEL 146.7 million.

4 Revenue Synergies / accelerating ambulatory strategy

- **c. GEL 9-10 million revenue upside from pharmaceutical sales**, as a result of opening GPC's pharmacies at GHG's existing hospitals and flagship ambulatory clinics. Approximately 40 new GPC locations countrywide, which require a total capital expenditure of approximately GEL 1.2 million, and need for additional working capital is GEL 2.8 million.
- **Accelerate 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 for GHG during 2016, will become feeders for GHG's existing and future outpatient clusters.
- **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 and drive cross-selling of our medical insurance products.

Georgian healthcare ecosystem – a GEL 3.4bln market

Growth In Hospital Revenue - GHG Owns It

Hospitals

2015 market size: **GEL 1.2bln**

18% *In 2015* $\xrightarrow{\text{Market share by revenue}}$ **33.0%** *Long-term target*

Growth opportunities:

- Low utilisation (50-60%)
- Low equipment penetration
- Fragmented supply

First Mover Advantage In Highly-fragmented, Underpenetrated Ambulatory Segment

Ambulatory clinics

2015 market size: **GEL 0.9bln**

1% *In 2015* $\xrightarrow{\text{Market share by revenue}}$ **17.0%** *Long-term target*

Growth opportunities:

- Low outpatient encounters
- Fragmented supply
- New prescription policy

Margin enhancement and growth alongside with nominal GDP

Pharmaceuticals

2015 market size: **GEL 1.3bln**

15% *In 2015* $\xrightarrow{\text{Market share by sales}}$ **>15%** *Long-term target*

Growth opportunities:

- Growing wholesale revenue
- Enhancing retail margin
- Expanding pharmacy footprint

Hospital pharmacy revenue growth and retail margin enhancement

Decrease cost of goods sold/services

- **By consolidating GHG's and GPC's purchases of pharmaceuticals and medical disposables**
- *To decrease GHG's cost of services by redirecting part of its purchases to GPC and thus shortcutting the distributor margin*
- *To decrease both GPC and GHG cost of goods sold / services by additional volume discounts from manufacturers*
- *Start hospital-bulk import, to decrease cost of pharmaceuticals for GHG. Increase in sale to other wholesale clients will be an upside*

Enhance retail margin

- **Grow share of high-margin 1). para-pharmacy sales and 2). generic drug sales**
- *GPC's current EBITDA margin is 4.0%, which we expect to grow as a result of eliminating unnecessary costs and realizing cost and revenue synergies*
- *GPC is a mid to higher-end urban retailer, with strong loyal-customer franchise which is expected to drive referrals to GHG's more profitable ambulatory clinics in line to GHG's outpatient growth strategy*

Expand pharmacy footprint

- **Enhance GPC's footprint by opening pharmacies at GHG's existing over 40 healthcare facilities, hospitals and flagship ambulatory clinics**
- *Beyond enhancing into GHG's existing facilities, we do not intend to grow retail footprint*
- *Same store sales growth is expected to be alongside nominal GDP growth*

GPC has a strong leadership team, which we further strengthened

GPC leadership

- **George Arveladze, Deputy CEO GHG, in charge of the ambulatory and pharmaceutical businesses.**
Prior to joining GHG, Mr. Arveladze worked as a CEO of Liberty Bank, Georgia's 3rd largest retail bank with more than 5,300 employees and over 650 branches throughout the country, which he led since 2013 delivering c.200% net profit cumulative annual growth in 2 years, an impressive and strong performance. Prior to his appointment as CEO, Mr. Arveladze served as Deputy CEO in charge of Strategic Projects, Treasury and Private Banking (2009-2011 years) and Deputy CEO, Chief Operating Officer (2011-2013 years). Before returning to Georgia in 2009, he worked in structured product sales at BNP Paribas in London. Prior that, he worked at the National Bank of Georgia. Mr. Arveladze holds an MBA from London Business School.
- **David Kiladze, CEO at GPC**
Founded GPC in 1995 and has led the company as a founding shareholder CEO since then. Prior, Dr. Kiladze worked as a Physician in Paul Sabatier University, Toulouse, France (2002). He completed his M.D and Ph.D. in Paediatrics from Tbilisi State Medical University, also holds MBA from CERMA School of Management.
Mr. Kiladze will continue to lead the business with his service contract being extended for another 3 years.
- **Vakhtang Dolidze, CFO at GPC**
Joined GPC as a CFO in 2008. Additionally, Mr. Dolidze serves as a Chairman of the Supervisory Board of Microfinance Organization Lazika Capital. Prior, Mr. Dolidze served as Senior Associate at Caucasus Capital Partners, a small private equity firm (2005-2008), and held progressively greater level management positions in Credit, Strategic Planning and Financial Analysis departments at TBC Bank (1998-2003). Mr. Dolidze holds an MBA from Lehigh University and master's degree in public administration from Georgian Institute of Public Administration.
Mr. Dolidze will continue to serve as CFO, with his service contract being extended.



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❁ **Annexes**

Balance sheet highlights

<i>(Amounts in GEL'000 unless otherwise noted)</i>	<i>31-Dec-15</i>
	GPC
Cash and cash equivalents	9,781
Account receivables	6,480
Inventories	39,600
Property, plant and equipment	7,405
Other assets	2,948
Total assets	66,214
Trade and other payables	37,585
Other liabilities	(45)
Borrowings	22,534
Deferres tax liabilities	576
Total liabilities	60,651
Total equity	5,563
Total liability and equity	66,214

Note: Borrowings include shareholder receivable of GEL 1.7mn, which will be settled from the consideration paid.

Income Statement highlights

<i>(Amounts in GEL'000 unless otherwise noted)</i>	<i>FY2015</i>
	GPC
Revenues	191,351
Cost of goods sold	(146,669)
Gross profit	44,682
Other income	731
Administrative salary	(17,272)
Rent expenses	(10,805)
General and administrative expenses	(9,276)
Impairment of receivables	(477)
EBITDA	7,582
Interest expense, net	(1,726)
Foreign exchange loss, net	(2,818)
Admortisation and depreciation	(1,457)
Non-recurring income / expenses	(666)
Share of associate profit	(756)
EBT	159
Income tax expense	(169)
Net profit	(10)

Key operating highlights

- 1 million customer interactions per month at GPC pharmacies
- 0.5 million loyalty card members
- 15% market share by sales
- GEL 13.0 is average bill size
- para-pharmacy share in total revenue was 32% in 2015
- Retail sales share in total revenue was 74% in 2015
- Wholesale share in total revenue was 26% in 2015
- Over 6,700 SKUs in pharmaceuticals
- 96 pharmacies, 25 of which operate express ambulatory clinics
- 2 warehouses
- Over 1600 employees

Capital expenditures for next 2-3 years

- GPC is a cash generating business, no additional working capital needs for existing business.
- Financing required for planned expansion into GHG's existing hospitals and flagship ambulatory clinics (to be financed with additional leverage):
 - Working capital 2016: GEL 2.8 million
 - Capex 2016: GEL 1.2 million
- Maintenance capex: 0.4-0.6% of revenue



GPC pharmacy exterior



GPC pharmacy interior



GPC loyalty card



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.