

# GHG performance and strategy

*Speaker: Nikoloz Gamkrelidze, CEO*

**GHG Investor Day**

*Tbilisi, Georgia / November 2017*

[ghg.com.ge](http://ghg.com.ge)



⌘ **GHG overview**

⌘ Performance in 2017

⌘ Strategy going forward

⌘ Q&A



# A vertically integrated care pathway

Our well-established hospital network allows a seamless patient treatment pathway from local doctors to multi-profile hospitals whilst the pharma and medical insurance businesses play a synergistic role in originating and managing patients

## Healthcare services business

### Hospitals



**Referral hospitals**  
**2,398 beds**

providing secondary and tertiary level healthcare services



**Community hospitals**  
**495 beds**

providing primary out- and inpatient healthcare services

### Polyclinic



**11 Polyclinic clusters**

consisting of 14 district Polyclinics providing primary outpatient services and 24 express outpatient clinics

## Pharma



**251 pharmacies**

21 of which are located in our healthcare facilities

## Medical insurance



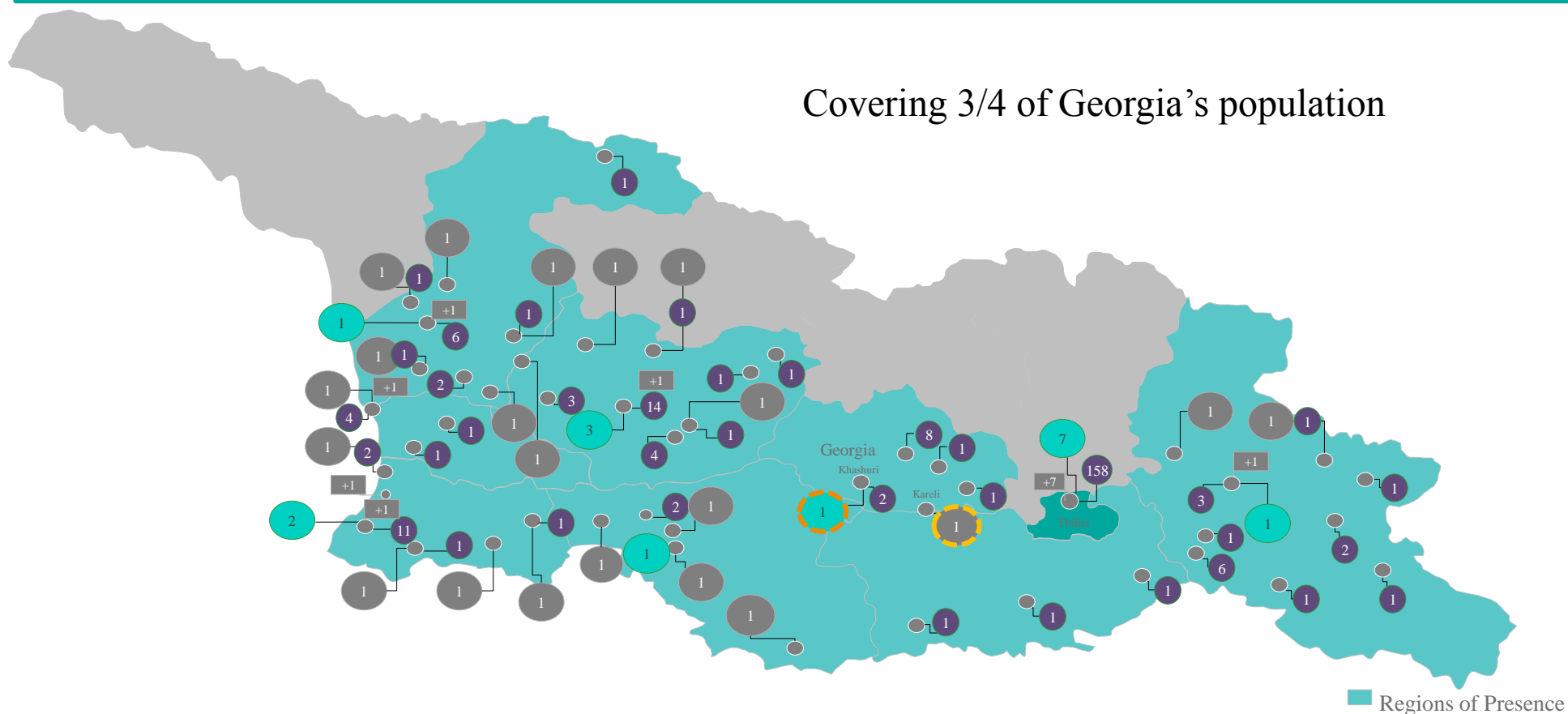
**110,000 individuals insured**

**GEL 7.5 million** healthcare services revenue driven by medical insurance in 9M17



# Group's geographic coverage in Georgia

Covering 3/4 of Georgia's population



## 16 Number of Referral Hospitals

### Launch of two flagship hospitals in Tbilisi:

- Launched Tbilisi Referral Hospital with 220 renovated beds, full launch by the end of November (total 332 beds)
- Deko hospital to be launched by the end of 2017 with 320 beds

Acquired Khashuri referral hospital 🌟

## 21 Number of Community Hospitals

Acquired strategically located community hospital in Kareli 🌟

## +14 Number of district Polyclinics

Currently organised in 11 Polyclinics cluster

- with 24 express outpatient clinics

Couple of more Polyclinics to be launched/acquired in 4Q17

## 251 Number of Pharmacies

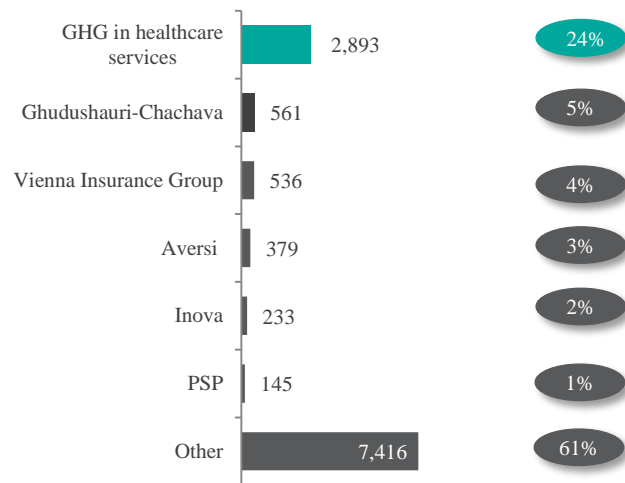
Adding 133 pharmacies in a year through Pharmadepot acquisition and new openings



# GHG – leader in Georgian healthcare ecosystem

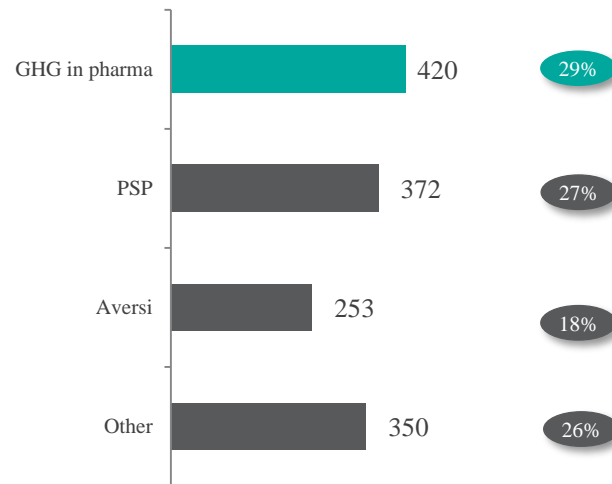
## Healthcare services (*Hospitals*)

(Number of Beds as of September 2017)<sup>(1)</sup>



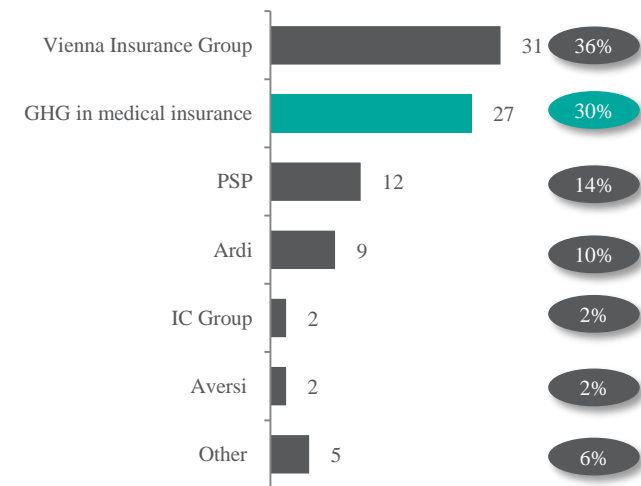
## Pharma

(Revenue, GEL millions in 2016)<sup>(2)</sup>



## Medical Insurance

(Gross premium revenue, GEL millions as of 30 Jun 2017)<sup>(3)</sup>



Market share

Sources:

(1) NCDC, data as of December 2016, updated by GHG to include changes before 30 September 2017; excluding speciality beds

(2) Total market Frost & Sullivan analysis 2017. Revenue distribution between competitors represents managements estimates. GHG's revenue includes GPC and Pharmadepot uneliminated 2016 results

(3) Insurance State Supervision Service Agency of Georgia as of 30 June 2017



⌘ GHG overview update

⌘ **Performance in 2017**

⌘ Strategy going forward

⌘ Q&A

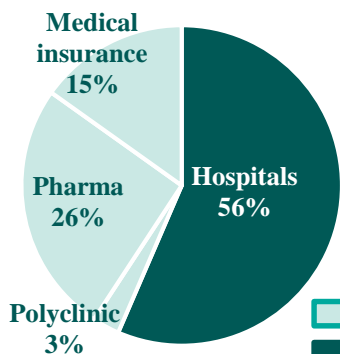


# Diversification of our business model

The Group has further diversified its revenue stream as a result of a higher proportion of pharma and healthcare services business revenues, which are funded largely out-of-pocket

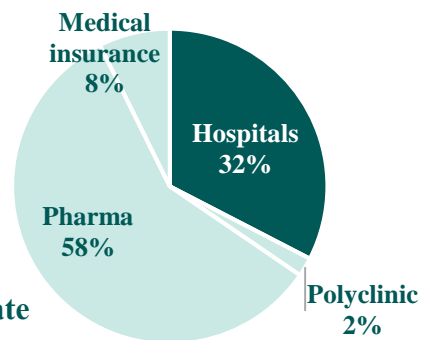
## GHG Revenue

9M16

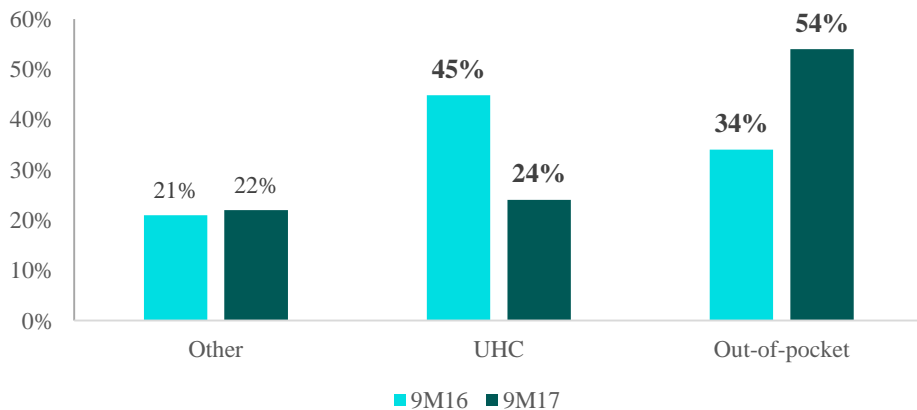


■ No, or very low revenue from state  
■ Higher revenue from state

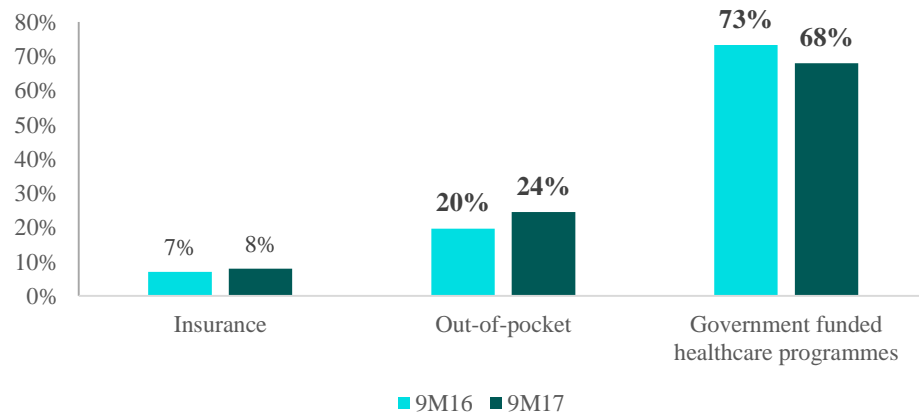
9M17



GHG revenue by payment sources



Healthcare services revenue by payment sources





# Launch of two flagship hospitals in Tbilisi

Increasing footprint in capital with 332- bed first class Tbilisi Referral hospital  
and 320-bed first class Deka hospital



## Tbilisi Referral Hospital

332 newly renovated beds are already enabling a population in east Tbilisi and in East Georgia to get access to significantly improved healthcare services closer to their home.

Occupancy level  
c.30% in September  
2017

## Deka Hospital

In August 2016 we opened Deka's diagnostic centre. Full renovation of 320 beds hospital is planned by the end of 2017, while the full launch scheduled for January 2018.

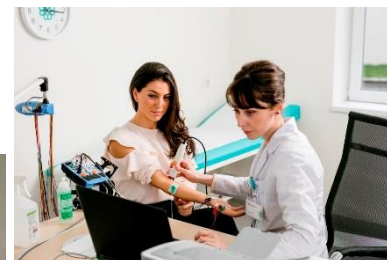
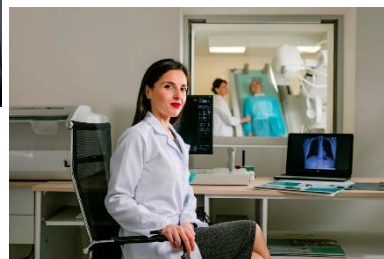
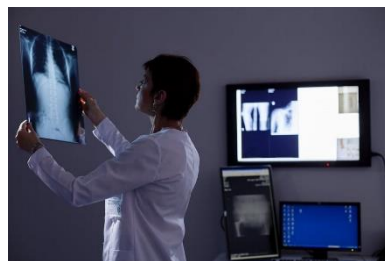






# Investing in and developing high quality elective care services

**Developing new, high-quality medical services in Georgia, particularly focusing on elective care, to cover existing service gaps. In 2017 we have already launched more than 30 new services in 15 our different hospitals, while more than 10 are in 4Q17 pipeline**



Launched 60 new services

2016

- In vitro Fertilization
- Childrens Cardio Surgery
- Oncology Centre

Launched 33 new services

- Bone Marrow Transplant
- Childrens Oncology
- Onco surgery

More than 10 services in the pipeline

2017

- Childrens Neuro Surgery
- Ophthalmology
- Bariatric Surgery
- Mental Health
- Home care

Also some basic services that are not presented in some of our regional hospitals, such as: neonatology, diagnostics, ophthalmology, mammography and breast surgery, gynaecology, cardio-surgery, traumatology, angio-surgery, maternity



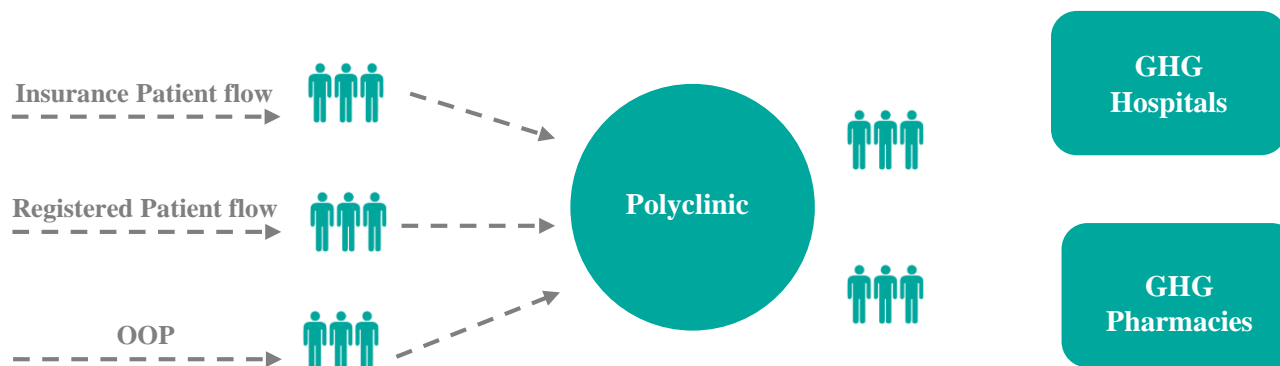
# Increasing the number of patients at our Polyclinics

Through expanded Polyclinics network and its rebranding strategy started in June 2017, the average monthly number of patient visits is up by 47%

The number of registered customers at our Polyclinics in Tbilisi



**The Polyclinic business is to become the number one tool for customer acquisition at GHG**





# Successful completion of pharma integration process

Our key focus during the first half of 2017 was to ensure the full integration of the two pharma companies with as little business disruption as possible. The process went smoothly, within schedule and the companies have been integrated successfully

1

**Pharma integration** - the process has gone smoothly and fully on track – already integrated IT, Back office, Legal and Finance units

2

**Delivering revenue growth** – up 11.6% y-o-y (*compared to last year 9M16 combined results*)

3

**Synergies in Pharmadepot** - out of GEL 11.8 million initial guidance on synergies that should be achieved in 2017 and 2018 years on an annualised basis, GEL 9.6 million annualised is already extracted

4

**Private label products** - 24 private label medicines are presented in our pharmacies, out of which 11 products were added during the 9M17. Annualised sales from these products is c.2 million

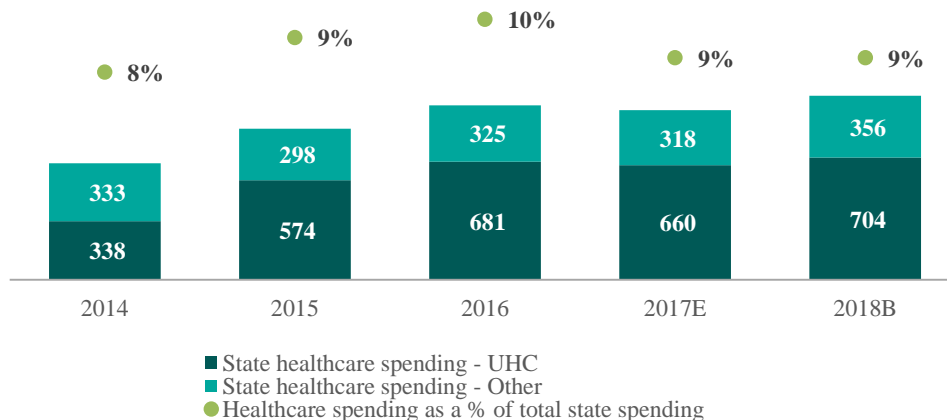
## Changes in government regulations and market:

- Introducing a revised reimbursement mechanism for intensive care services
- Implementing UHC coverage eligibility for citizens based on their income level and introducing deductible amounts
- Introducing e-prescription

**For small and medium sized players the market is becoming less attractive, while GHG capitalises on its scale**

## State financing - Ministry of Health is in line with its budget

*GEL millions*



Source: Ministry of Finance of Georgia



# Progress toward our strategic goals in 2017

Segment	Hospitals	Polyclinic	Pharma	Insurance
<b>Market shares</b> (now - by addressable revenue market)	<b>21%</b>	<b>2%</b>	<b>29%</b>	<b>30%</b>
<b>Progress toward our strategic goals in 2017</b>	<ul style="list-style-type: none"><li>• <b>Launched Tbilisi referral hospital with 220 renovated beds</b> – full launch scheduled by the end of November (total 332 beds)</li><li>• <b>Renovation is on track for 320 beds Deka hospital</b> - to be launched beginning of January 2018</li><li>• <b>Launched 33 new services</b> with target annual revenue of GEL 13.5 million</li></ul>	<ul style="list-style-type: none"><li>• <b>Launched one cluster</b></li><li>• <b>Couple of more to be launched/acquired in 4Q17</b></li><li>• <b>Average number of visits increased by 47% in last four months</b></li><li>• <b>Total number of registered patients reached c.37,000 as of now</b>, up from c.5,000 in January 2017</li></ul>	<ul style="list-style-type: none"><li>• <b>Successful integration of pharma companies:</b> process went smoothly and on track within the expected schedule</li><li>• <b>Added 133 pharmacies</b> through Pharmadepot acquisition and new openings</li><li>• <b>Synergies:</b> on track of extracting anticipated synergies in Pharmadepot</li><li>• <b>Gross margin 24.2% in 9M17</b></li><li>• <b>EBITDA margin 8.0% in 9M17</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Increased claims retained within the group</b> from 22.6% to 35.4%</li><li>• <b>Getting back to profitability</b></li></ul>

# Progress towards long-term KPI's

(GEL'000)		9M16	9M17	Change, y-o-y
<b>GHG</b>				
	Revenue	288,512	<b>548,423</b>	+90.1%
	EBITDA	53,738	<b>77,269</b>	+43.8%
	ROAE, normalised*	12.4%	<b>11.5%</b>	-0.9 ppts
	EPS	0.18**	<b>0.17</b>	-5.6%
<b>Healthcare services</b>				
	Revenue	176,639	<b>195,263</b>	+10.5%
	EBITDA margin	29.6%	<b>26.3%</b>	-3.3 ppts
	EBITDA margin without roll-outs	30.4%	<b>29.2%</b>	-1.2 ppts
<b>Pharma</b>				
	Revenue	76,416	<b>328,948</b>	330.5%
	Gross margin	20.2%	<b>24.2%</b>	+4.0 ppts
	Gross margin, retail	22.1%	<b>26.4%</b>	+2.6 ppts
	EBITDA margin	3.1%	<b>8.0%</b>	+4.9 ppts
<b>Medical insurance</b>				
	Retention claims within the Group	22.6%	<b>35.4%</b>	+12.8 ppts
	Loss ratio	83.6%	<b>84.5%</b>	+0.9 ppts
	Combined ratio	104.4%	<b>103.0%</b>	-1.4 ppts

\*normalised for non-recurring items and roll-outs

\*\* normalized and adjusted for non-recurring income/expense, deferred tax adjustments and foreign currency translation gain/loss

Source: GHG internal reporting



⌘ GHG overview update

⌘ Performance in 2017

⌘ **Strategy going forward**

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## Key focus areas in medium and long term

**Market share**  
(by addressable  
revenue & beds)

**21%| 24%**  
by revenue | by beds

**1**

**Enhancing footprint in Tbilisi**

**2**

**Strengthening existing services in elective care**

*Investing in key doctors – eight teams already contracted*

**3**

**Filling service gaps**

*Launching new services: mental health, home care etc.*

**4**

**Opportunity to develop fee business**

**5**

**Enhancing digital channels**

*Customer application / web; e-prescription*

**2018**

**c.25%| 28%**  
by revenue | by beds

**Medium to long  
term**

**30%+**  
by revenue | by beds

**Gradually  
improving to**

**c.30%  
EBITDA  
margin**





# Polyclinic business strategy

**Market share**  
(by addressable  
revenue)

## Key focus areas in medium and long term

**2%**

**1**

### Accelerated footprint growth

*To launch/acquire new polyclinics - up to 20 clusters over next two years*

**2**

### Increasing number of registered patients

*Currently 37K registered customer, increasing up to 200K through 2018*

**3**

### Sales growth through various channels

*New services, corporates, Group offerings*

**4**

### Enhancing digital channels

*Customer application / web; e-prescription*

**2018**

**c.5%**

**Medium to long  
term**

**c.15%+**

**Gradually  
improving to**

**c.30%  
EBITDA  
margin**



Market share  
(by addressable  
revenue)

## Key focus areas in medium and long term

29%

1

### Footprint expansion

*Heading up to 300+ pharmacies over two years*

2

### Enhancing retail margin

*Extracting synergies; adding more private label medicines and personal care products*

3

### Growing wholesale revenue

*Medical devices and disposables*

4

### Enhancing digital channels and customers loyalty

*Customer application / web; e-prescription*

2018

30%+

Medium to long  
term

30%+

8%+ EBITDA margin



# Medical insurance business strategy

## Key focus areas in medium and long term

**Market share**  
(by addressable  
revenue)

**30%**

**1**

**Portfolio re-pricing and cost-efficiencies**

**2**

**Growing high margin products**

*Life insurance, critical illness insurance, personal incident insurance*

**3**

**Participating in compulsory insurance program**

*Compulsory motor third party liability insurance to be launched in 1Q18*

**4**

**Retaining more claims within the Group**

**2018**

**30%+**

**Medium to long  
term**

**30%+**

**Loss ratio <75%**

**Combined ratio <97%**



# GHG has full presence in Georgian healthcare ecosystem

Segment	Hospitals	Polyclinic	Pharma	Insurance
Market share targets by addressable markets	BY REVENUE   BEDs	BY REVENUE	BY REVENUE	BY REVENUE
In 2018	c.25%   28%	c.5%	30%+	30%+
Long-term	30%+	c.15%+	30%+	30%+
Key focus areas in medium-term and long term	<ul style="list-style-type: none"><li>1 Footprint</li><li>2 Services</li><li>3 Fee business</li><li>4 Digital channels</li></ul>	<ul style="list-style-type: none"><li>1 Footprint</li><li>2 Registered customers</li><li>3 Various channels</li><li>4 Digital channels</li></ul>	<ul style="list-style-type: none"><li>1 Retail footprint</li><li>2 Margin</li><li>3 Wholesale revenue</li><li>4 Digital channels and customers loyalty</li></ul>	<ul style="list-style-type: none"><li>1 Portfolio re-pricing and cost-efficiencies</li><li>2 Patients redirection</li></ul>

# QUESTIONS?

**GHG Investor Day**

*Tbilisi, Georgia / 10 November 2017*

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## **Wrap-up**

*Speaker: Nikoloz Gamkrelidze, CEO*

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# Progress toward our strategic goals in 2017

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# GHG has full presence in Georgian healthcare ecosystem

Segment	Hospitals	Polyclinic	Pharma	Insurance
Market <i>Addressable (2017)</i>	GEL 1.2bln	GEL 0.7bln	GEL 1.6bln	GEL 0.09bln (1H17)
Market shares	BY REVENUE   BEDs	BY REVENUE	BY REVENUE	BY REVENUE
Now	21%   24%	2%	29%	30%
In 2018	c.25%   28%	c.5%	30%+	30%+
Long-term	30%+	c.15%+	30%+	30%+





# GHG has full presence in Georgian healthcare ecosystem

Segment	Hospitals	Polyclinic	Pharma	Insurance
Key focus areas in medium-term	<b>1</b> Enhancing footprint in Tbilisi	<b>1</b> Accelerated footprint growth	<b>1</b> Expanding retail footprint	<b>1</b> Portfolio re-pricing and cost-efficiencies
	<b>2</b> Strengthening existing services in elective care (Investing in key doctors)	<b>2</b> Increasing number of registered customers	<b>2</b> Enhancing retail margin (synergies; private label)	<b>2</b> Redirecting more patients to GHG Polyclinics & pharmacies
	<b>3</b> Filling service gaps (Mental health, Home care, etc.)	<b>3</b> Sales growth through various channels (new services, corporates, state)	<b>3</b> Growing wholesale revenue	
	<b>4</b> Developing fee business line	<b>4</b> Enhancing digital channels	<b>4</b> Enhancing digital channels and customers loyalty	
	<b>5</b> Enhancing digital channels			

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