



# Georgia Capital Investor Day

27 June 2019 | Tbilisi

# Forward looking statements

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# Georgia Capital Strategy & Capital allocations

**Irakli Gilauri**

*Chairman and Chief Executive Officer, Georgia Capital*

# Today's agenda

1 Georgia Capital at a glance

2 Georgia Capital strategy

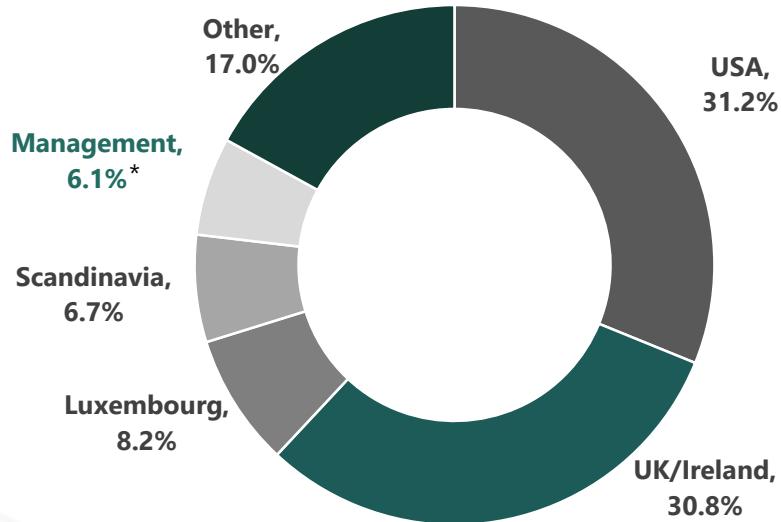
3 Capital allocations & managing investments

4 Further value creation potential – pipeline businesses

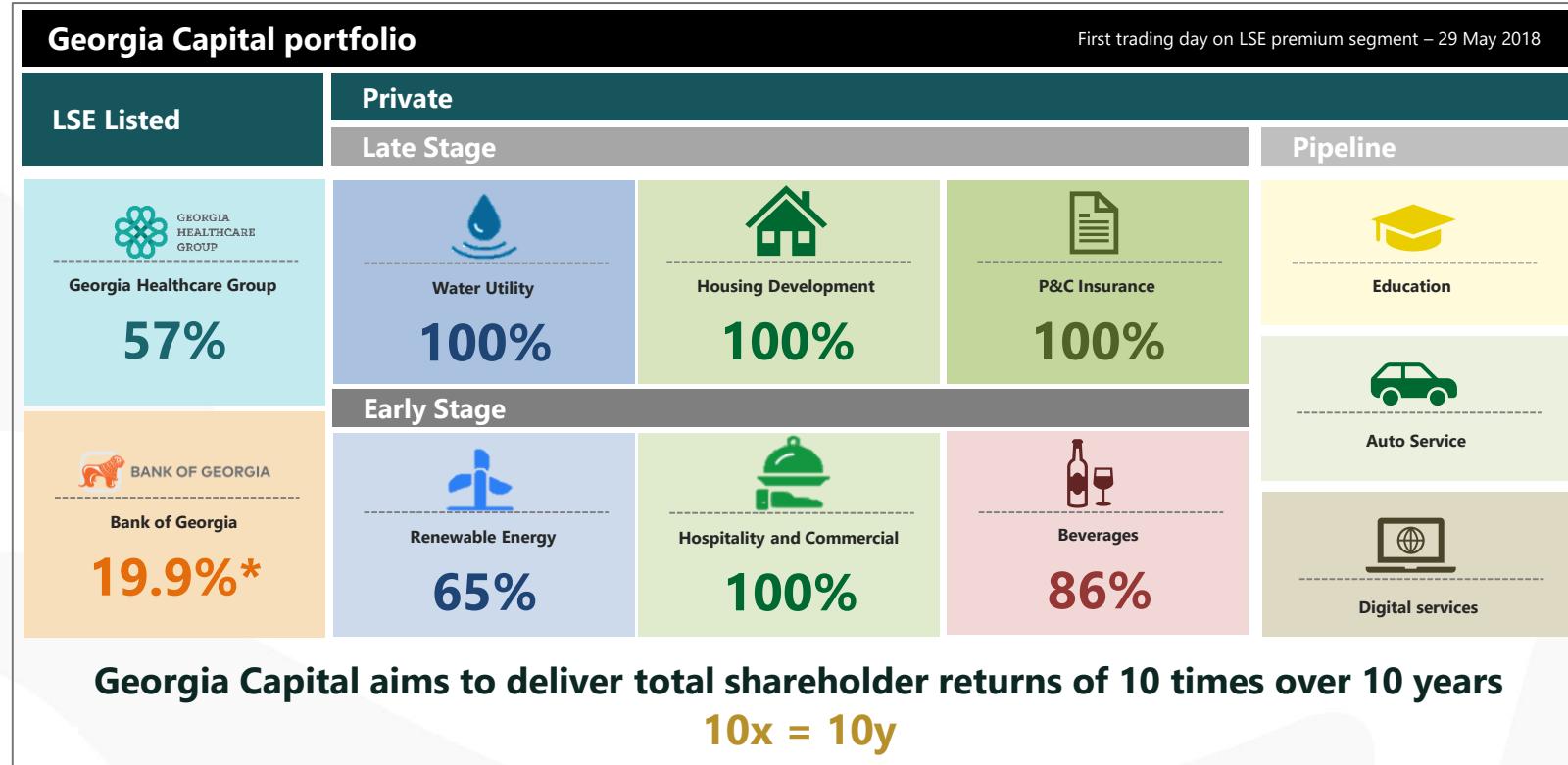
# Georgia Capital (GCAP) shareholders

*Listed on the premium segment of the London Stock Exchange with 100% free float and strong management buy-in*

GCAP shareholders allocation by geography | 31-Mar-19



# Our portfolio at a glance



\* As long as Georgia Capital's stake in BoG is greater than 9.9%, it will exercise its voting rights in Bank of Georgia in accordance with the votes cast by all other shareholders on all shareholder votes.

# Today's agenda

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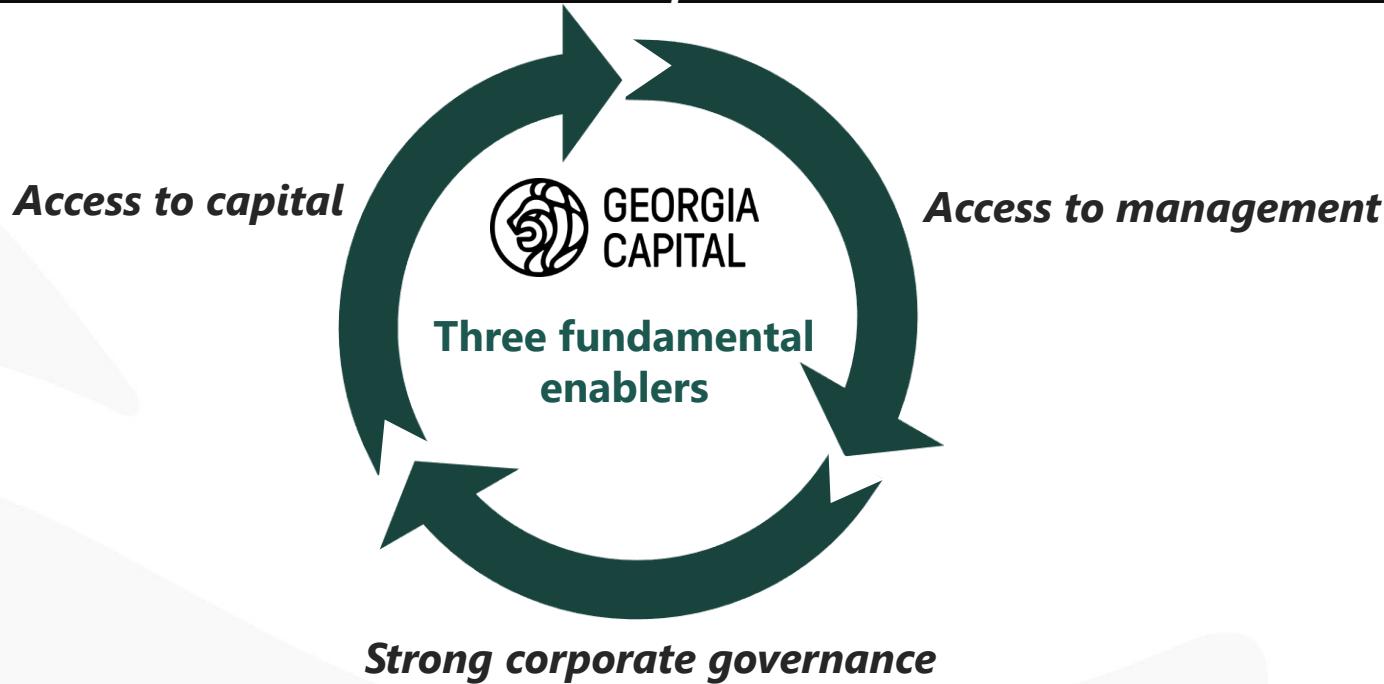
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# Georgia Capital - Your ground floor investment opportunity in Georgia

*Capitalizing on fast-growing economy with strong governance, management and access to capital*



# **Strong corporate governance**

## *How we run Georgia Capital*

**Strong board, composed solely of independent directors with extensive international experience**

**Approximately 25 employees at the management company level**

**Highly experienced management team in each portfolio company with a strong measure of independence**

**Solid corporate governance and oversight**

# Strong corporate governance

*Aligned shareholder and management interests by share compensation*

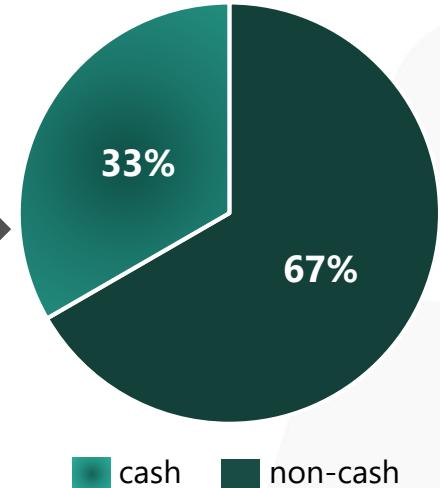
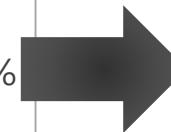
## Platform costs - targeted at maximum c.2% of MCAP

### Key things to know

1 Cash preservation is a key target for GCAP: **two thirds of total operating expenses are related to share-based compensation.**

2 c. 1% of executives compensation is in fixed shares; with another 1% being fully discretionary, subject to achieving KPIs.

3 GCAP's management's compensation is paid in long-vested (6-year) shares only, with no cash component.



# Access to management

*Who before what*



**GCAP is a platform for entrepreneurs to build institutions**



- If we do not have the right people then we do not invest: no matter the attractiveness of the opportunity.
- We are building an entrepreneur development program tailored for GCAP companies.

**We compete with entrepreneur's desire to own his/her own venture**

# Access to management

*Solid track record demonstrated by management*

*Created three listed companies from Georgia, on the premium segment of the London Stock Exchange*



## Acquisitions

The Georgia Capital management team, under the BGEO Group, has a track record of executing **more than 40 acquisitions** in banking, insurance, healthcare, utilities, retail, FMCG and other sectors

Total number of acquisitions

executed

**40+**



## Capital raise

Uniquely positioned given the access to capital in a small frontier economy, where access to capital is limited:

- **c.US\$ 500 mln** raised in equity at LSE
- Issued five Eurobonds totaling **US\$ 1.5 billion**
- **US\$ 3 billion+** raised from IFIs (EBRD, IFC etc.)

Total amount of debt raised (US\$)

**4.5bn+**



## Exit IRR

**121% IRR** from GHG IPO

**66% IRR** from m<sup>2</sup> Real Estate projects

IRR from GHG IPO

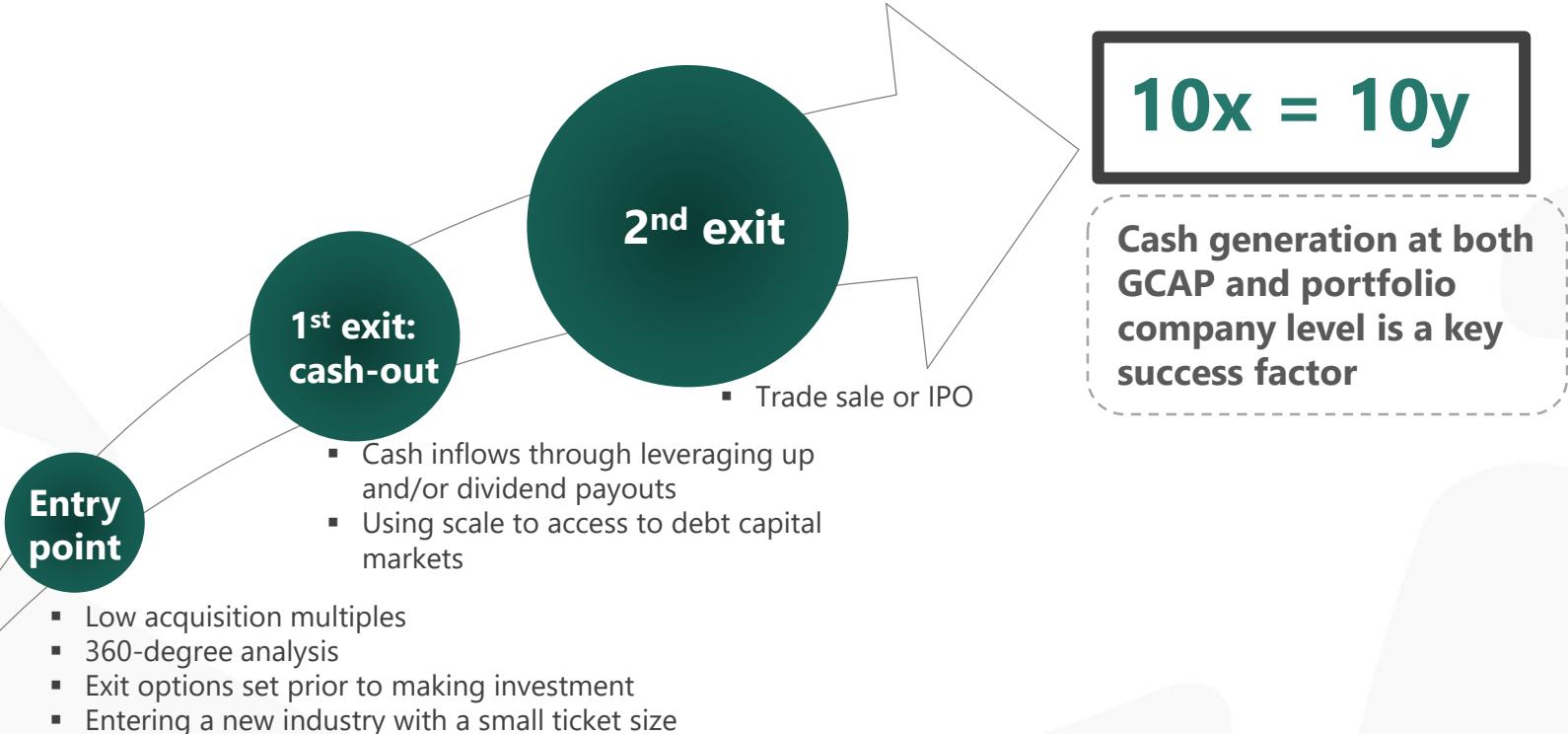
**121%**



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# Our investment philosophy

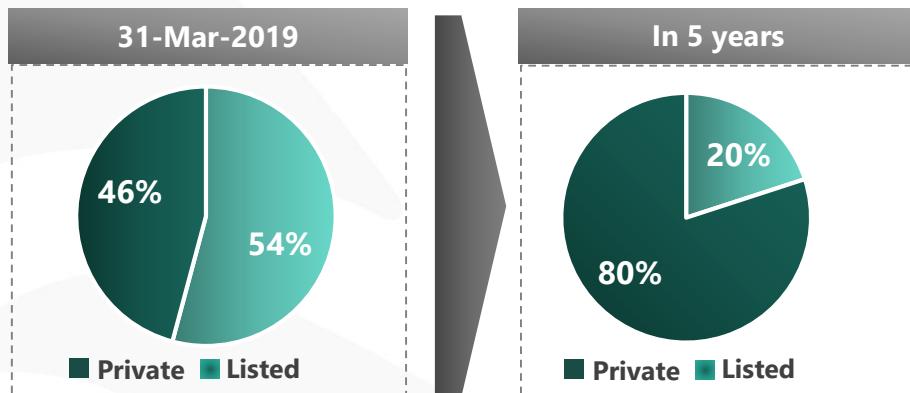
We will pick well, we will manage very well and sell extremely well



# Two new strategic priorities

***Over time Georgia Capital will:*** 1. Decrease share of listed assets to 20% and  
2. manage third-party money

Over the next 5 years we will reshape our balance sheet



Management company

GCAP investment portfolio

Third-party managed capital

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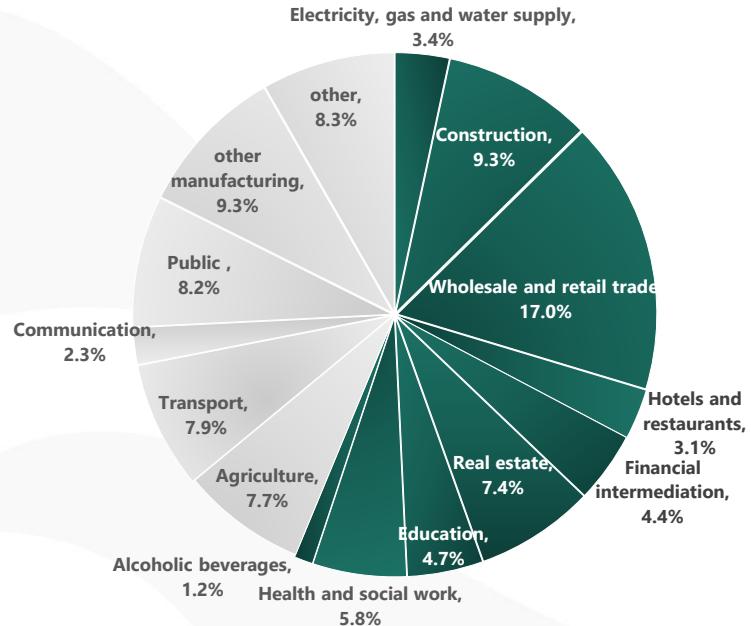
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# Capital allocations

## *Targeting attractive service industries*

### High growth industries, where Georgia Capital is present as a % of GDP



### Where we like to be

- High multiple, capital-light service industries
- Sectors that are expected to benefit from the continued growth and further diversification of the Georgian economy
- Consolidating fragmented or underdeveloped sectors in Georgia

# Capital allocations

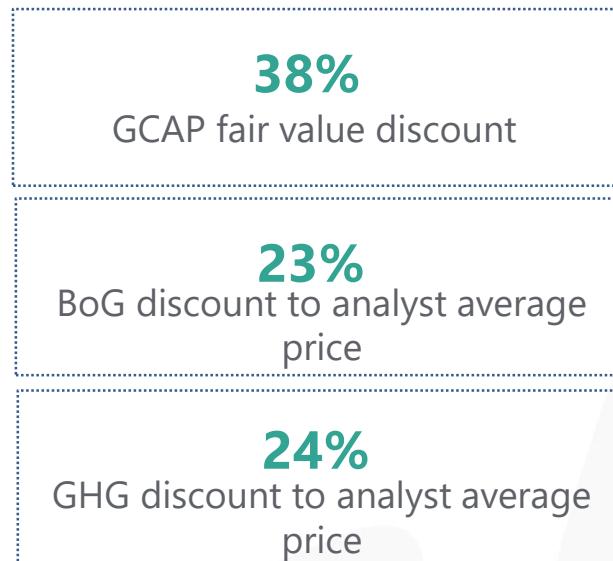
## *360-degree analysis – a strong foundation for value creation*

**Buying assets at affordable prices is key part of our investment philosophy**

**Targeting to buy assets at a higher discount to their listed peers than GCAP's fair value discount**



**Discounts at 31-May-2019**



## Capital allocations

### Buybacks

**US\$45 million share buyback programme commenced in June 2018**

- We consider GCAP shares to be attractively priced and we are buying an asset we very well know and is accretive.

**US\$ 38.6 million**

Utilized portion out of  
US\$ 45mln programme

**2,834,643**

# of shares bought back

**GBP 10.48**

Average price of shares  
bought back

**2 million shares were cancelled in June 2019 and 0.7 million shares were transferred to employee benefit trust**

*The cancellation reflects the Group's strong financial position and is an efficient allocation of capital*

# Capital allocations

## Clear exit paths

	Trade sale	IPO	Fund	Promote
 Water Utility	X	X		X
 P&C Insurance	X			
 Housing Development				X
 Renewable Energy	X	X	X	
 Hospitality & Commercial				X
 Beverages	X			X
 Education	X	X		
 Auto Service	X			
 Digital services	X			

Exit options set prior to making an investment decision

# Capital allocations

## *How we evaluate investment performance*



### ROIC, MOIC and IRR combination is the key decision making matrix

#### MOIC and IRR at GCAP level

**Money multiples.** We want to know achievable money multiples with all acquisitions and analyze them in combination with the expected IRR.

**MOIC and IRR combination.** Targeting to have a combination of high MOIC and high IRR.

**Realised and unrealised MOICs are equally important for us.**

#### ROIC for financing projects and reinvestment at portfolio companies' level

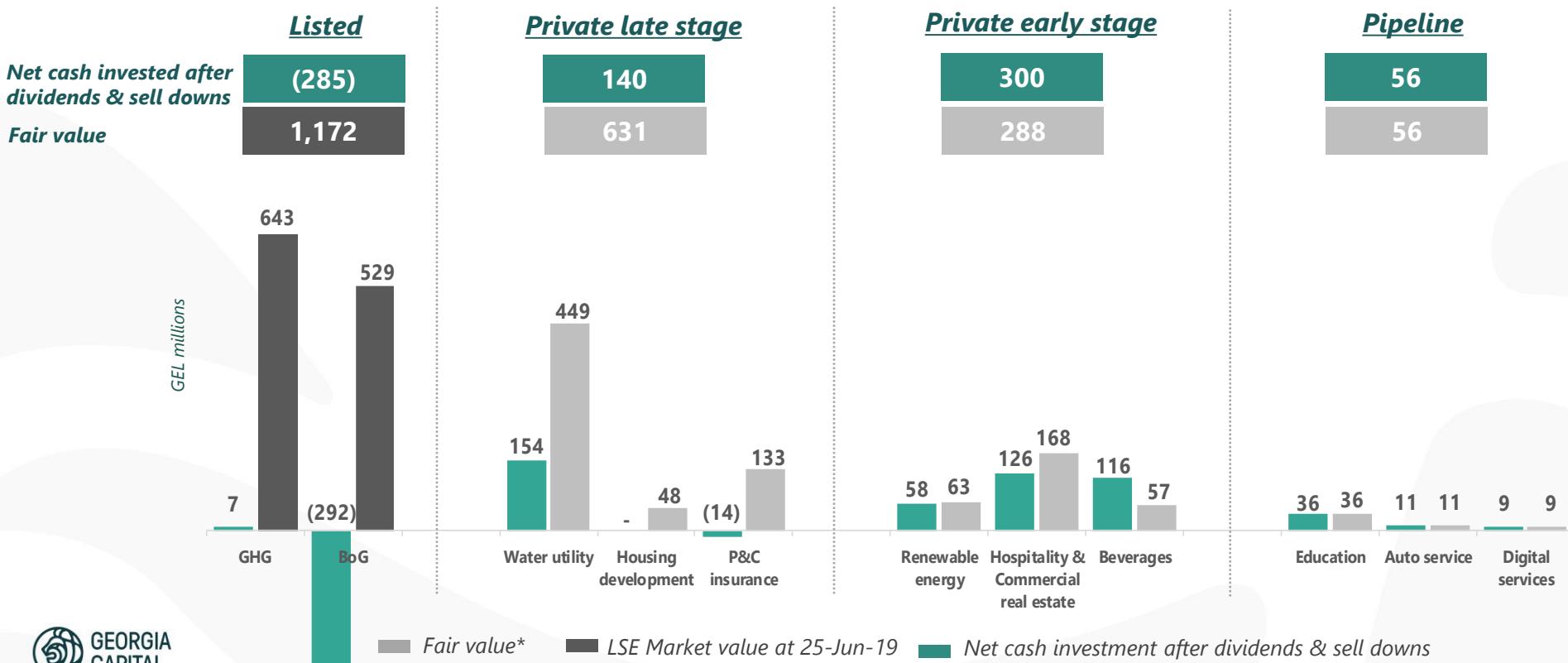
**ROIC.** We measure our expected return on the total invested capital at each portfolio company level.

**Different yields will be appropriate for different industries, dollar and Lari businesses**

**Targeting to have a realised MOIC of 1 up to 5 years**

# How we demonstrate capital allocation discipline

**Gross cash invested of GEL 959 million translating into GEL 2.1 billion portfolio value**



# Multiple of Invested Capital (MOIC) | 31-Mar-19

	Gross investment	Sell down & distribution	Fair Value	MOIC	MOIC realized
<b><i>Listed investments</i></b>	<b>268</b>	<b>527</b>	<b>1,097</b>	<b>6.1x</b>	<b>2.0x</b>
<b><i>Private late stage portfolio</i></b>	<b>335</b>	<b>195</b>	<b>631</b>	<b>2.5x</b>	<b>0.6x</b>
<b><i>Private early stage portfolio</i></b>	<b>300</b>	<b>-</b>	<b>288</b>	<b>1.0x</b>	<b>-</b>
<b><i>Pipeline</i></b>	<b>8</b>	<b>-</b>	<b>9</b>	<b>1.1x</b>	<b>-</b>
<b>Total</b>	<b>911</b>	<b>722</b>	<b>2,025</b>	<b>3.0x</b>	<b>0.8x</b>

# Capital allocation outlook through 2023

Highly disciplined approach to unlock value through investments

Together with the available GEL 581mln liquid funds & short-term loans, we are well-positioned to create long-term shareholder value

GEL millions	2019E <sup>2</sup>	2020E	2021E	2022E	2023E	Total capital allocation 2019-2023
Listed investments	BoG	(25)	(27)	(29)	(31)	(33)
	GHG	(4)	(6)	(8)	(11)	(13)
Private investments	Water Utility	(28)	(32)	(34)	(35)	(36)
	Housing Development	(10)	(15)	(20)	(25)	(30)
	P&C Insurance	(12)	(14)	(18)	(22)	(25)
Private investments Early stage	Renewable Energy	21	80	21	37	(28)
	Hospitality & Commercial	30	9	-	-	-
	Beverages	25	18	1	-	(4)
Pipeline	Education	60	52	26	3	-
	Auto service	11	-	(2)	(2)	(3)
	Digital services	9	2	2	2	2
	Other	1	1	1	1	1
Total <sup>1</sup>	78	68	(60)	(83)	(169)	166 million Net capital inflows

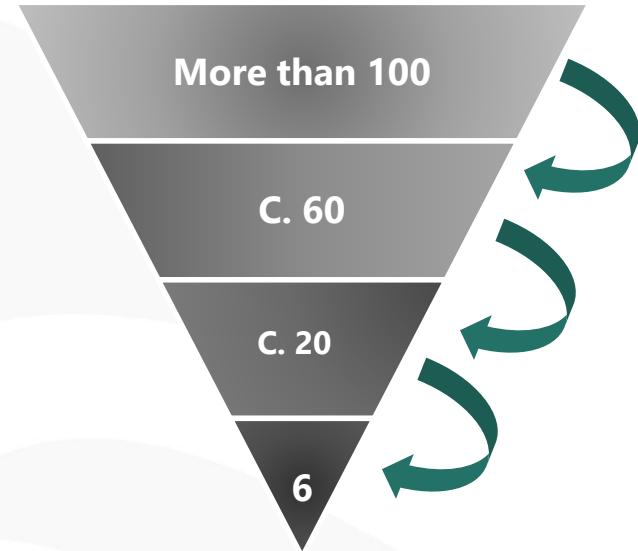


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(1) Buybacks are not included within the capital allocations.  
(2) Includes actual capital allocations in 1Q19.

# Active and disciplined pursuit of new investment opportunities

Building of an investment process that allowed for screening more than 100 cases in the first year



- Total number of opportunities / deal flow
- Number of opportunities actively reviewed
- Number of bids made
- Acquisitions made

Good deal flow provides waiting room for right opportunities at attractive prices

# Managing investments

## *Share ownership plan of management in portfolio companies*

Investment stage	Pipeline	Acquisition/ Entrance	Early			Late	Target to exit	Listed	Possible completion of Exit		
Sector	Digital services	Education	Auto Service	Renewable Energy	Hospitality & Commercial	Beverages	Housing Development	P&C Insurance	Water Utility	Georgia Healthcare Group	Bank of Georgia Group
Portfolio Company Development Focus	➤ Discovery stage			<ul style="list-style-type: none"> <li>➤ Hands-on management approach</li> <li>➤ Rapid growth organically and through M&amp;A;</li> <li>➤ Active investment stage;</li> </ul>			<ul style="list-style-type: none"> <li>➤ Strategic guidance / advisory approach</li> <li>➤ Focus on efficiency improvements;</li> <li>➤ Diversification of revenue streams;</li> <li>➤ Introduction of dividend discipline;</li> </ul>			<ul style="list-style-type: none"> <li>➤ Sustainable shareholder value creation and dividend distributions</li> </ul>	
Institutionalisation/ Independence	Low									High	

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# Further value creation opportunity – education business

## Industry investment rationale

- Highly fragmented private school market
- Large and growing market
- Efficiency upside
- High trading multiples
- Low base – 3.5% of GDP, compared to 5.4% of peers\*

## Medium term demand outlook for private high schools

➤ Currently - 10% private      In 5-years - 20% private

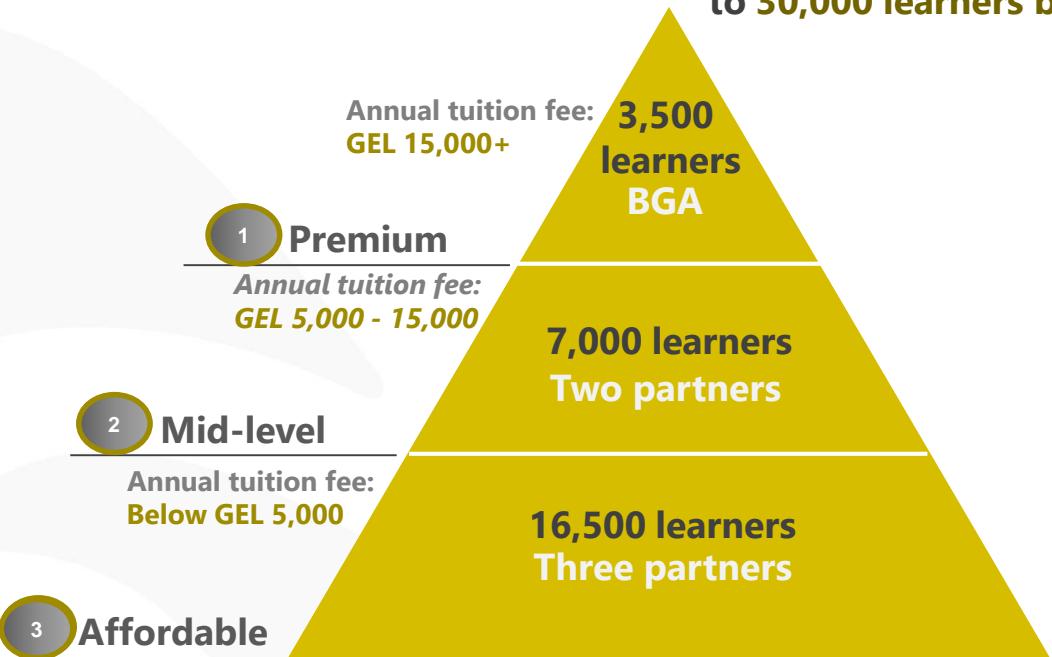


➤ Currently c.650,000 learners across Georgia

# Education business strategy

## Diversified business model with strategy 1-2-3

Strong platform to facilitate growth and scale to become the leading integrated education player with up to 30,000 learners by 2025



- Partnership model, with 70-90% majority stakes
- Education business holding company won't exist
- GCAP involvement will be limited to:
  - Strategy setting
  - Hiring financial director
  - Oversight of CAPEX spending

**GEL 70 million+ EBITDA by 2025**  
**GEL 185 million gross capital allocation from GCAP through 2025**

# Acquisition of the leading premium school in Georgia - British-Georgian Academy

**Well-established business with a strong management team, strong dollar-linked cash flow generation and 40%+ EBITDA margin**

**One of the strongest private school brands in Georgia providing high quality education at best-in class owned facilities.**

## Transaction highlights

- Purchase of **70% equity stake**.
- Valued at **6.4x EV / EBITDA 2020**.

## Medium-term business plan

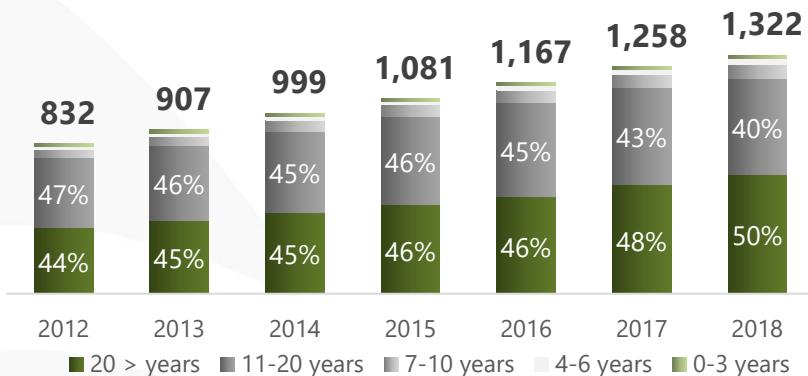
- Increase the capacity from current 750 learners to **approximately 3,500 learners** by 2021.
- **Total capital deployment of GEL 88.2 million** (25%:75% debt to equity).

	GEL millions	2018A <sup>1</sup>	2019E	2020E
Revenue		12	15	16
EBITDA		4.9	6.9	7.5
EBITDA margin		40%	46%	46%
Net debt		(10)	(10)	(10)

## Attractive service business – Auto service

### Number of registered vehicles in Georgia ('000) – 8% CAGR 2012-2018

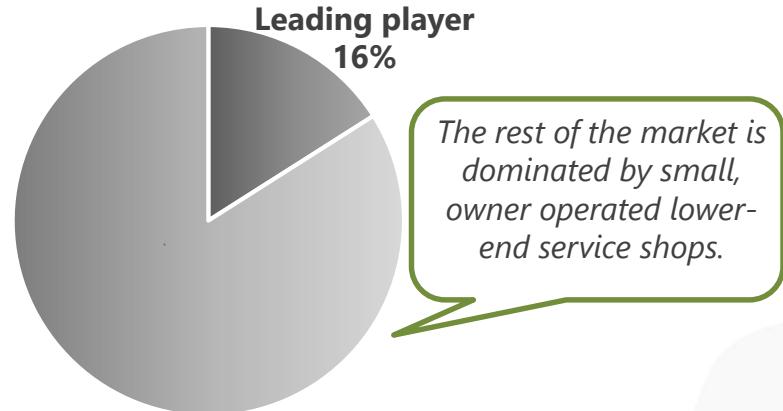
Average age of cars is high, hence spending is expected to increase due to the stricter regulatory environment



Source: MOIA

### Highly fragmented auto service market

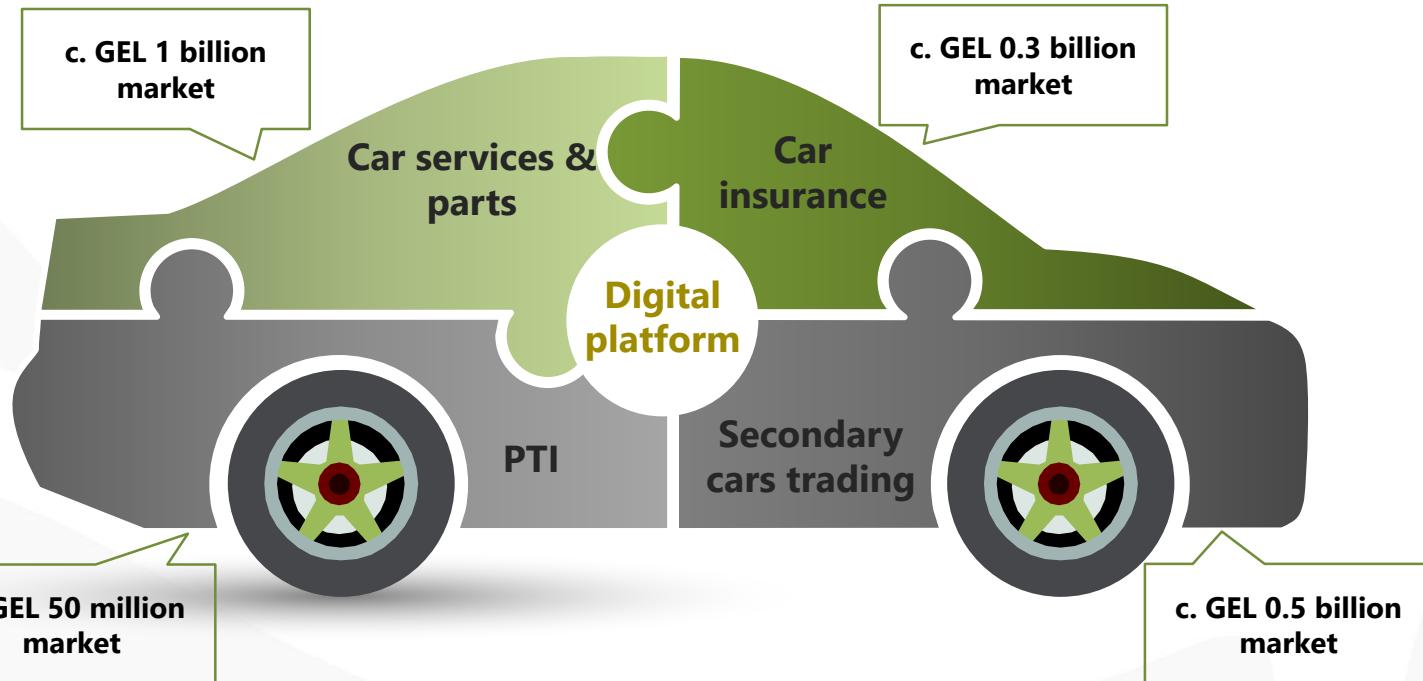
Significant room for growth in the highly fragmented auto service market in Georgia



We aim to build a diversified business model combining many different auto-related services to capitalise on the large and growing automotive services market

# Auto service business strategy

Diversified business model to access c. GEL 1.8 billion market



# Auto service business update

We have allocated GEL 11 million<sup>2</sup> capital to auto service business

Successfully launched the periodic technical inspection business (PTI)

*PTI key operating highlights | 25 June 2019*

Allocated capital	<b>GEL 5mln</b>
Number of inspection lines	<b>51</b>
Market share <sup>1</sup>	<b>34%</b>
Cars serviced	<b>133,655</b>

➤ Targeting 400,000 to 450,000 vehicles annually from 2020

Acquisition of the second largest player, Amboli, in Georgian auto service industry

*Amboli transaction Highlights*

Equity stake purchased	<b>80%</b>
Total cash consideration	<b>GEL 3.8mln<sup>2</sup></b>
Enterprise Value	<b>0.7x EV/Sales 2018</b>
Additional equity capital injection	<b>GEL 2mln</b>

# Acquisition of the leading Georgian digital marketing agency - Redberry

Acquisition of Redberry enables us to have a platform for investments in the digital business

## About Redberry

- One of the most successful Georgian digital marketing agency
- Providing tech-based marketing solutions to large Georgian corporates and government agencies
- **50%+ revenue growth in 2018, with 25% net profit margin**
- US\$ 0.4 million cash consideration to acquire 60% equity stake

**US\$ 2.8 million new capital injected for digital start-up development**

1

**Joint ventures with corporates - partnership model with minority stake of c. 20%.**

2

**Creating digital start-ups focused and applicable to Georgia (c. US\$ 0.1mln per start-up)**

- Redberry has developed **app “Lunchoba”**, engaged in delivering ready-food made to the offices.

# Questions?