



უძრავი ქონება
REAL ESTATE

Real Estate Business Overview

Speaker: Irakli Burdiladze, CEO, m² Real Estate

BGEO Investor Day

9 November 2017

Tbilisi, Georgia

Content

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- Market/industry overview
- Strategy
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m² at a glance

Project timeline

All projects were completed on budget and on schedule

Completion date:

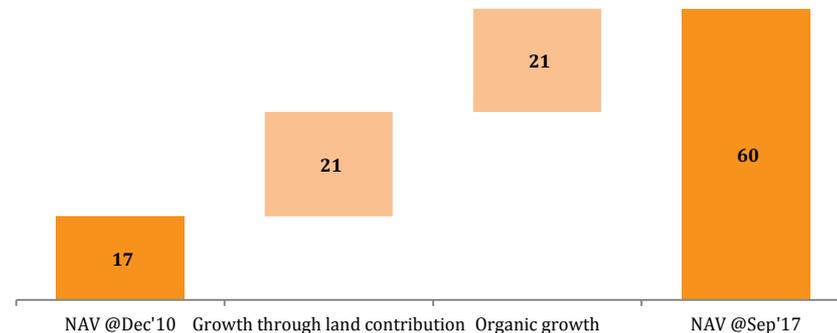


2,892 apartments in total: 1,672 apartments completed with 99% sales and 1,220 apartments under construction with 70% pre-sales

Project highlights

#	Project name	Number of apartments			Investment		Return	
		Total	Sold	Sold as % of total	Project cost w/o land	Land value	Profit	IRR
Completed projects		1,672	1,656	99%	109.5	16.4	16.4	Realised
1	Chubinashvili street	123	123	100%	6.7	0.9	1.2	47%
2	Tamarashvili street	525	523	100%	38.0	5.4	5.2	46%
3	Nutsubidze Street	221	221	100%	22.8	2.2	0.7	58%
4	Kazbegi Street	295	295	100%	13.3	3.6	5.4	165%
5	Tamarashvili Street II	270	266	99%	18.2	2.7	3.8	71%
6	Moscow avenue	238	228	96%	10.5	1.6	0.2	31%
On-going projects		1,220	855	70%	110.9	17.3	13.5	Expected
7	Skyline	19	10	53%	6.6	3.1	0.4	329%
8	Chavchavadze	82	62	76%	9.0	3.3	2.0	75%
9	Kartozia Street	801	604	75%	56.4	5.8	4.5	60%
10	Kazbegi Street II	302	173	57%	35.6	4.3	6.2	51%
11	Melikishvili	16	6	38%	3.2	0.8	0.4	101%
Total		2,892	2,511	87%	220.4	33.7	30.0	

NAV dynamics through 2010-2017 | US\$, mln



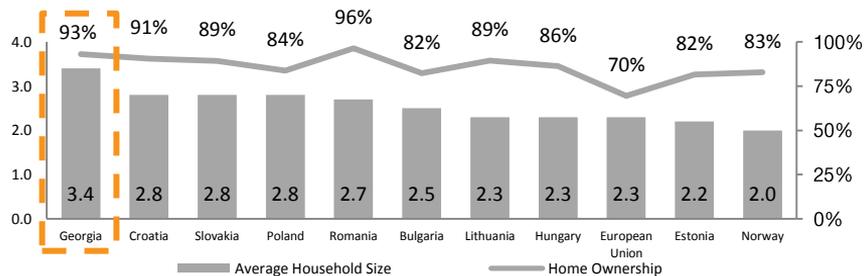
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Georgian residential market overview

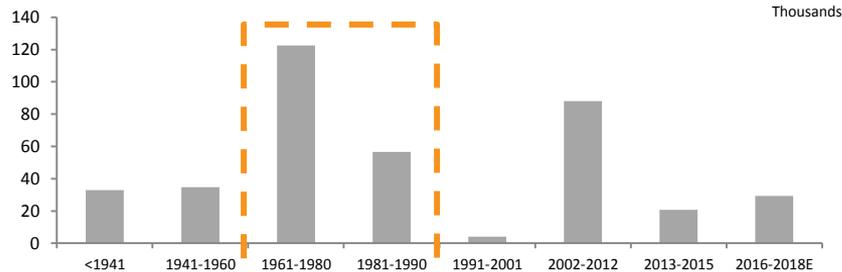
Significant growth potential in Georgian residential market

Average household size and home ownership



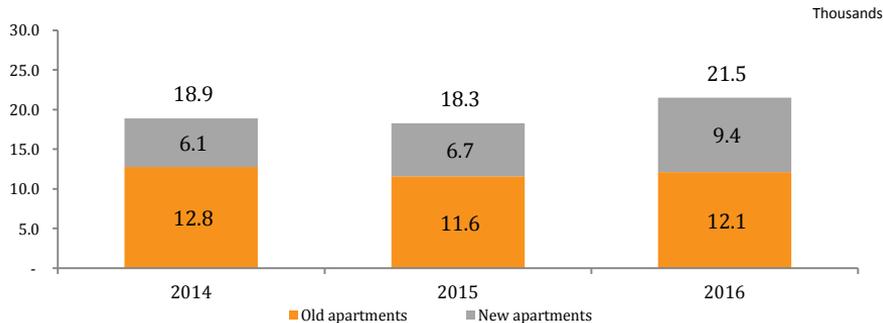
Georgia has one of the highest average household size of 3.4 people. Decrease in this number will increase the demand side for the real estate

Number of housing units developed by time periods



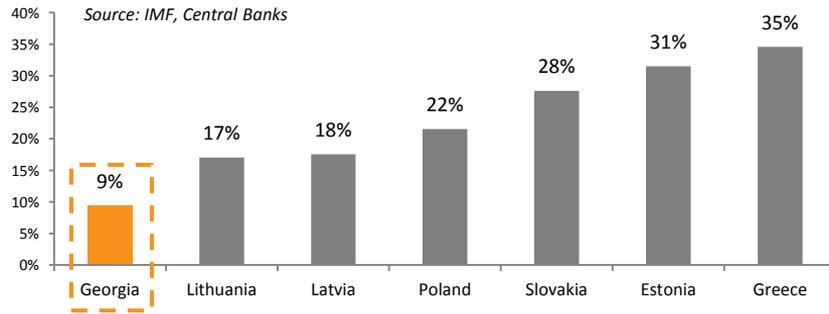
Around 120,000 (35%) of housing units in Tbilisi were built more than 40 years ago and are out of their usable lifecycle

Number of sales transactions / by unit types



Increasing number of transactions, but most importantly growing demand for new stock: share of new apartments increased by 11 ppts in 2016 compared to 2014

Mortgage loans as a % of GDP 2016

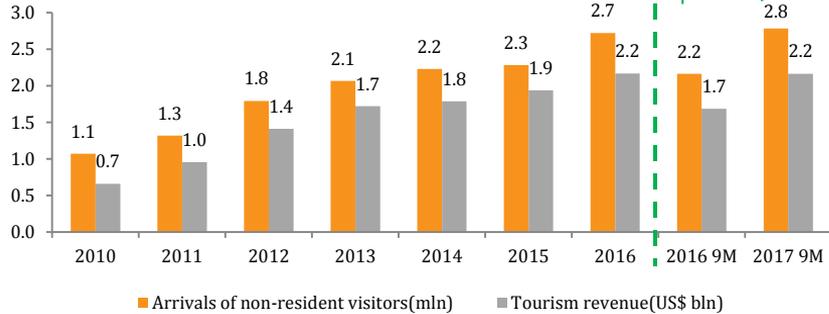


Compared to peers, Georgia has one of the lowest Mortgage loan as a % of GDP ratio. Implying that there is a room for increase on the total value of outstanding mortgage loans

Georgian hotel market overview

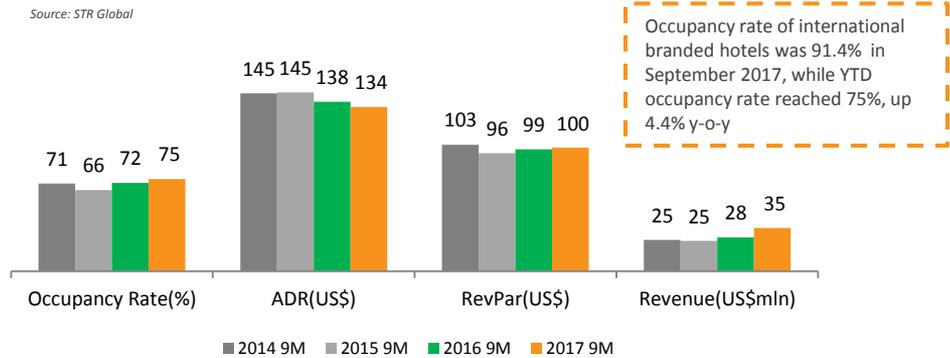
Arrivals of tourists and tourism revenue | Georgia

Source: gnta.ge

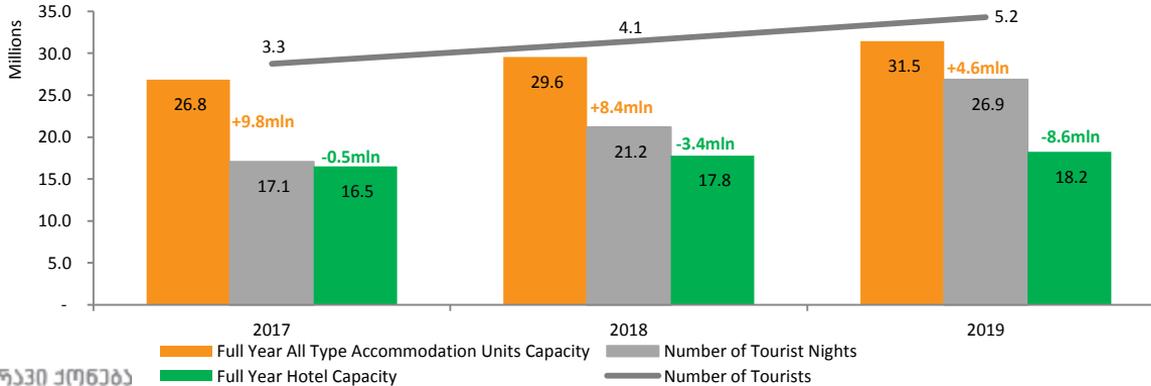


Comparison of key ratios | International branded hotels* | Tbilisi

Source: STR Global



Demand vs Supply | Hospitality Market | Georgia



Our projected ADR - \$ 115
Our breakeven ADR - \$ 67

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Strategic goals to be achieved by the end of 2020

m² Real Estate strategy major goals

Develop own land bank

- Fully develop land bank valued at US\$25.8mIn by 2020;
- Use part of the proceeds from developing remaining land bank to distribute US\$25mIn to the shareholders.

Franchise m² brand

- Focus on franchising m² brand and use its platform to develop third party land plots and generate fee income;
- Increase awareness of m² franchise and its platform among the land owners.

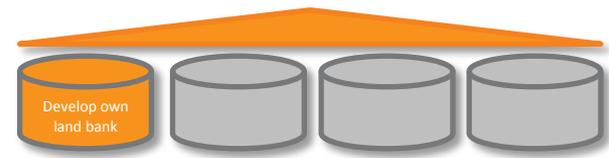
Grow yielding portfolio

- Grow portfolio of rent earning assets by developing as well as by opportunistic purchases of yielding real estate in prime locations;
- Develop 3 to 4-star hotels under Ramada Encore brand in Georgia (2 hotels in Tbilisi and 1 hotel in Kutaisi).

Construction Management

- Fully utilise benefits of most recent vertical integration and generate fee income from construction management both from franchised deals (exclusive contractor) and third party constructions.

Developing own land bank



Project timeline



Project highlights

Existing land bank of US\$ 20.47mln value, with c.4,690 apartments

1

Digomi Project

- 4,298 apartments
- IRR: 33.8%, expected**
- Expected sales: US\$ 166.6mln
- Start: Dec-17
- Completion: Jul-21
- Total completion cost: US\$ 131.8mln
- Expected Pre-tax profit : US\$ 34.8mln excl. potential profit from southern parcel
- Land value: US\$ 18mln
- Equity multiple: x3.2

1

Kavtaradze street (economy/low cost development)

- 392 apartments
- IRR: 36%, expected**
- Expected sales: US\$ 27.6mln
- Start: Apr-18
- Completion: Apr-20
- Total completion cost: US\$ 23.9mln
- Expected Profit: US\$ 1.9mln
- Land value: US\$ 2.47mln
- Equity multiple: x1.7

Franchising m² brand and platform



Works carried out by m²

- FEASIBILITY STUDY:** concept development, concept testing & financial model
- DESIGN:** soil survey, architecture, structural, MEP, permits & approval
- PERMITS & APPROVALS:** getting construction permit to develop the project from authorities
- FUNDING:** sourcing debt funding for the development
- PRE-SALES:** setting pre-sales targets: min. 20%-30% of the sellable area sold with at least 50% of the proceeds collected in cash
- CONSTRUCTION:** construction management
- FINISHING WORKS:** handover and property management

Fee structure

- Construction management fee (depending on size of the project) around 10% of total construction budget (incl. 8% allowance for overheads)
- Sales & marketing fee: 2.5%-3% of sales generated
- Incentive fee (share in net profit of the project): 20%-30% of the profit (for this purposes land is valued by third party)

Why choose m² as a franchise partner

m²
brand
name

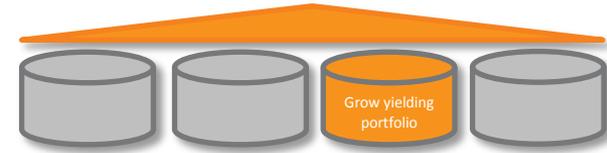
m²
pricing
power

m²
sales

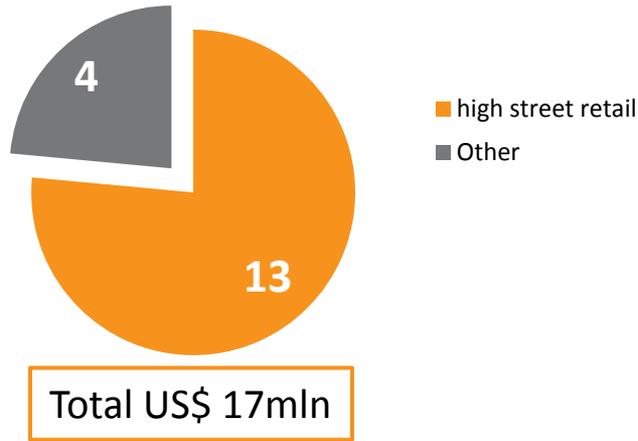
m²
execution

m²
accessibility
to financing

Grow portfolio of yielding assets



Current portfolio of yielding assets
(9M'17) US\$ mln



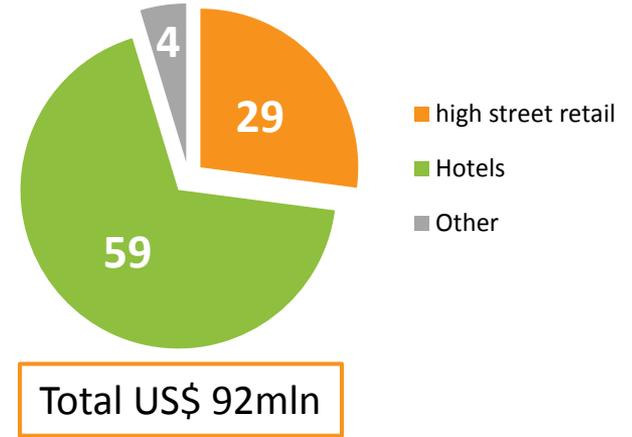
Total US\$ 17mln

- Blended yield*: 9% p.a.

* - blended yield includes rent from rent earning assets and NOI of the hotels the sum of two being divided by fair market value of the portfolio of assets;

** - hotels valued at 10 x NOI of the stabilised year.

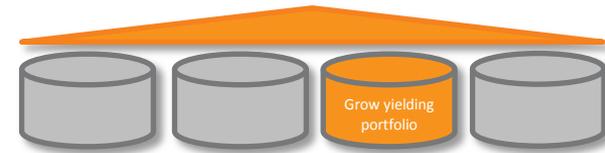
Projected portfolio of yielding assets
(2020) US\$ mln



Total US\$ 92mln

- Target blended yield*: 10% p.a.

Hotel opportunities



Develop 3 hotels during the next 3 years in Tbilisi catering to budget travelers – equity investment US\$ 16mln

Ramada (Melikishvili mixed use)



- **Hotel:** 125 rooms
- **IRR:** 23%, expected
- Start: Jun-17, Completion: Feb-19
- Total completion cost: US\$ 12.2mln
- Land value: US\$ 1.24mln
- Profit (stabilised year): US\$ 1.2mln
- ADR (stabilised year): US\$ 110
- Investment per room: US\$ 70k
- Occupancy rate: 65% (3rd year stabilised)
- ROE: 20%

Ramada Encore (Kazbegi str.15)



- **Hotel:** 152 rooms
- **IRR:** 25%, expected
- Start: Jun-16, Completion: Dec-17
- Total completion cost: US\$ 13.4mln
- Land value: US\$ 1.0mln
- Profit (stabilised year): US\$ 1.6mln
- ADR (stabilised year): US\$ 115
- Investment per room: US\$ 70k
- Occupancy rate: 69% (3rd year stabilised)
- ROE: 20%

Ramada Encore (Kutaisi hotel)



- **Hotel:** 121 rooms
- **IRR:** 22%, expected
- Start: Dec'17; Completion: Apr'19
- Total completion cost: US\$ 8.9mln
- Land value: US\$ 0.4mln
- Profit (stabilised year): US\$ 0.8mln
- ADR (stabilised year): US\$ 106
- Investment per room: US\$ 70k
- Occupancy rate: 65% (3rd year stabilised)
- ROE: 20%

Construction management

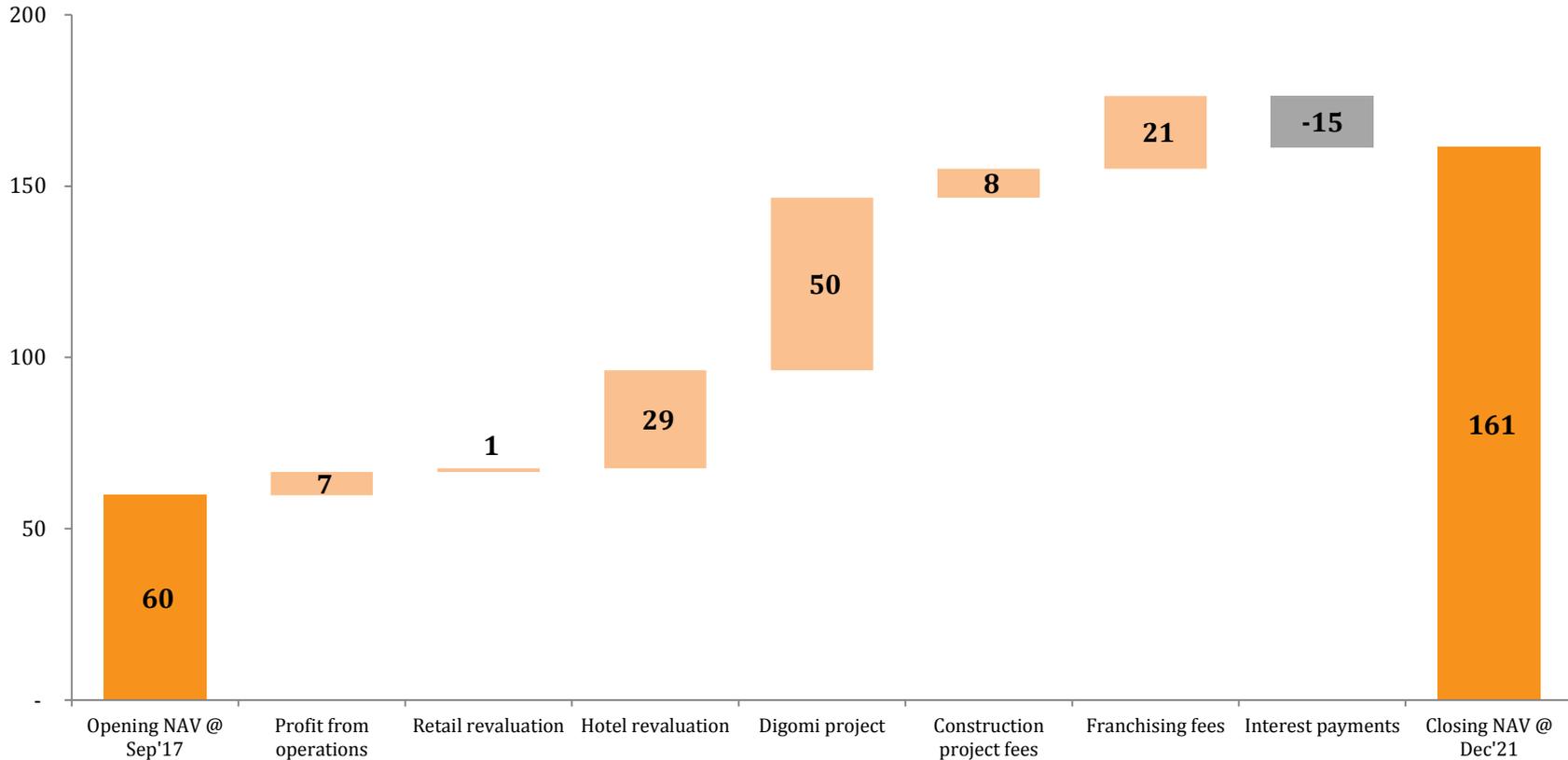


In May 2017, m² Real Estate acquired BK Construction LLC, a local real estate construction company



m² expects that the vertical integration brought by its new captive construction company will enable it to bring construction costs down and further improve the profitability.

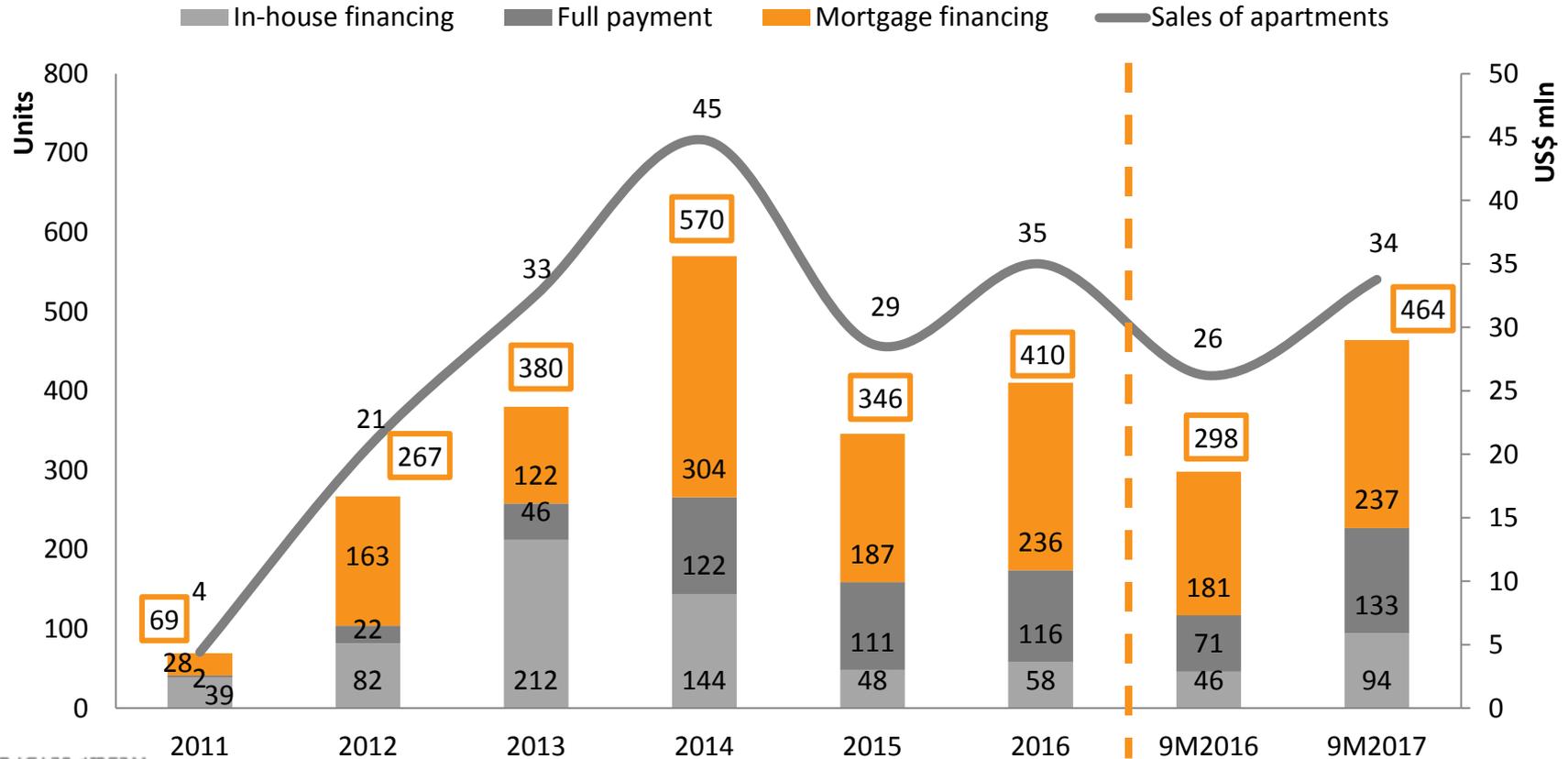
NAV forecast for 2021, US\$, mln



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2017 year-to-date numbers looking strong: the best year

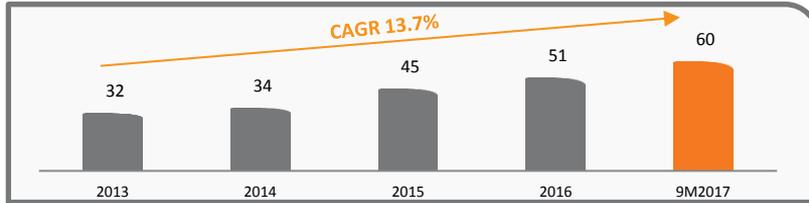


Performance

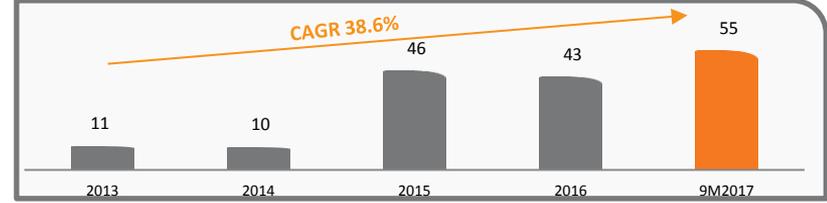
Financial performance

Balance Sheet

NAV, US\$, mln

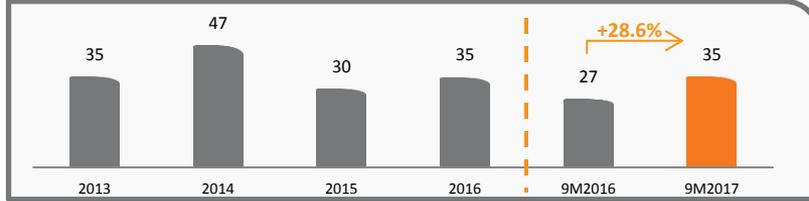


Investment Property, US\$, mln

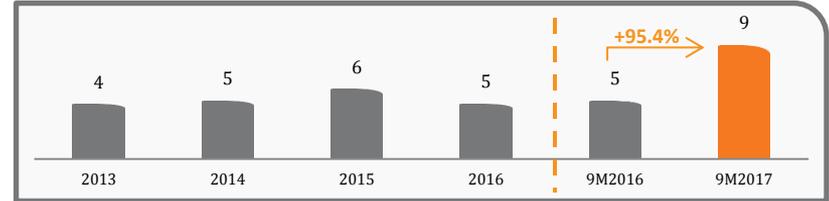


Income Statement

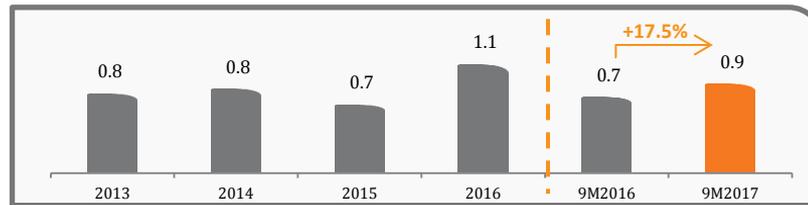
Total sales, US\$, mln



Net income, US\$, mln



Net revenue from operating leases, US\$, mln



QUESTIONS?

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Annex #1 Financial Highlights

Income Statement

GEL thousands, unless otherwise noted

	3Q17	3Q16	Change y-o-y	2Q17	Change q-o-q	9M17	9M16	Change y-o-y
Revenue from sale of apartments	27,530	53,664	-48.7%	15,926	72.9%	61,855	86,991	-28.9%
Cost of sale of apartments	(25,532)	(47,826)	-46.6%	(15,076)	69.4%	(57,717)	(74,592)	-22.6%
Net revenue from sale of apartments	1,998	5,838	-65.8%	850	135.1%	4,138	12,399	-66.6%
Revenue from operating lease	833	733	13.6%	881	-5.4%	2,613	1,919	36.2%
Cost of operating leases	(142)	(83)	71.1%	(197)	-27.9%	(422)	(180)	134.4%
Net revenue from operating leases	691	650	6.3%	684	1.0%	2,191	1,739	26.0%
Revaluation of commercial property	1,297	951	36.4%	21,306	-93.9%	23,082	951	NMF
Gross real estate profit	3,986	7,439	-46.4%	22,840	-82.5%	29,411	15,089	94.9%
Gross other investment profit	163	(31)	NMF	47	NMF	221	(19)	NMF
Revenue	4,149	7,408	-44.0%	22,887	-81.9%	29,632	15,070	96.6%
Salaries and other employee benefits	(712)	(491)	45.0%	(504)	41.3%	(1,623)	(1,124)	44.4%
Administrative expenses	(1,784)	(781)	128.4%	(1,050)	69.9%	(4,261)	(3,162)	34.8%
Operating expenses	(2,496)	(1,272)	96.2%	(1,554)	60.6%	(5,884)	(4,286)	37.3%
EBITDA	1,653	6,136	-73.1%	21,333	-92.3%	23,748	10,784	120.2%
Depreciation and amortization of investment business	(64)	(65)	-1.5%	(63)	1.6%	(193)	(178)	8.4%
Net foreign currency gain (loss) from investment business	73	179	-59.2%	(90)	-181.1%	(211)	1,201	-117.6%
Interest income	192	305	-37.0%	290	-33.8%	671	305	120.0%
Interest expense	(44)	(46)	-4.3%	(47)	-6.4%	(139)	(180)	-22.8%
Net operating income before non-recurring items	1,810	6,509	-72.2%	21,423	-91.6%	23,876	11,932	100.1%
Net non-recurring items	(48)	(182)	-73.6%	193	-124.9%	69	23	200.0%
Profit before income tax	1,762	6,327	-72.2%	21,616	-91.8%	23,945	11,955	100.3%
Income tax (expense) benefit	(1,073)	319	NMF	-	0.0%	(1,073)	(525)	104.4%
Profit	689	6,646	-89.6%	21,616	-96.8%	22,872	11,430	100.1%

Annex #1 cont'd, Financial Highlights

Balance Sheet

GEL thousands, unless otherwise noted

	Sep-17	Sep-16	Change y-o-y	Jun-17	Change q-o-q
Cash and cash equivalents	51,434	40,160	28.1%	52,817	-2.6%
Amounts due from credit institutions	50	-	NMF	386	-87.0%
Investment securities	2,974	2,311	28.7%	2,979	-0.2%
Accounts receivable	13,749	677	NMF	6,517	111.0%
Prepayments	35,265	20,374	73.1%	26,312	34.0%
Inventories	68,967	93,081	-25.9%	68,822	0.2%
Investment property	137,197	101,733	34.9%	136,594	0.4%
<i>Land bank</i>	64,868	61,681	5.2%	68,622	-5.5%
<i>Commercial real estate</i>	72,329	40,052	80.6%	67,972	6.4%
Property and equipment	22,429	1,628	NMF	14,486	54.83%
Other assets	23,683	15,700	50.8%	20,604	14.94%
Total assets	355,748	275,664	29.05%	329,517	7.96%
Amounts due to credit institutions	59,643	38,463	55.1%	56,723	5.1%
Debt securities issued	63,288	46,361	36.5%	60,268	5.0%
Deferred income	72,249	57,889	24.8%	58,654	23.2%
Other liabilities	11,957	15,085	-20.70%	6,915	72.9%
Total liabilities	207,137	157,798	31.30%	182,560	13.46%
Share capital	4,180	4,180	-	4,180	-
Additional paid-in capital	84,788	84,662	0.1%	86,987	-2.5%
Other reserves	7,251	-	NMF	4,087	77.4%
Retained earnings	52,392	29,024	80.5%	51,703	1.3%
Total equity	148,611	117,866	21.10%	146,957	1.13%
Total liabilities and equity	355,748	275,664	-1.50%	329,517	7.96%

Annex #1 cont'd, Financial Highlights

Cash flow

<i>GEL thousands; unless otherwise noted</i>	3Q17	3Q16	Change y-o-y	2Q17	Change q-o-q	9M17	9M16	Change y-o-y
Cash flows from operating activities								
Proceeds from sales of apartments	33,553	23,083	45.4%	17,880	87.7%	79,173	58,327	35.7%
Cash outflows for development of apartments	(24,869)	(20,977)	18.6%	(14,191)	75.2%	(61,421)	(62,889)	-2.3%
Net proceeds from yielding assets	691	631	9.5%	644	7.3%	2,191	1,739	26.0%
Cash paid for operating expenses	(2,061)	(991)	108.0%	(3,320)	-37.9%	(7,106)	(4,667)	52.3%
Interest paid	(44)	(2,186)	-98.0%	(4,020)	-98.9%	(5,651)	(5,163)	9.5%
Income tax paid	(110)	(315)	-65.1%	-	NMF	(3,964)	(686)	NMF
Net cash flows from operating activities	7,160	(755)	NMF	(3,007)	NMF	3,221	(13,339)	-124.15%
Cash flows from investing activities								
Purchase of investment properties	-	-	0.0%	(1,401)	-100.0%	(1,401)	(2,281)	-38.6%
Capital expenditure on investment property	(7,945)	(3,139)	153.1%	(6,754)	17.6%	(17,697)	(5,454)	NMF
Purchase of property, plant and equipment	(33)	(13)	153.8%	(2,218)	-98.5%	(2,315)	(446)	NMF
Net cash flows used in investing activities	(7,978)	(3,152)	153.1%	(10,373)	-23.1%	(21,413)	(8,181)	161.7%
Cash flows from financing activities								
Repayment of debt securities issued	-	-	-	-	-	(34,099)	-	NMF
Contributions under share-based payment plan	(2,958)	-	NMF	-	NMF	(2,958)	(2,613)	13.2%
Proceeds from borrowings	-	2,343	-100.0%	19,421	-100.0%	19,421	39,724	-51.1%
Repayment of borrowings	(54)	(574)	-90.6%	(55)	-1.8%	(1,275)	(1,637)	-22.1%
Net cash flows from financing activities	(3,012)	1,769	NMF	19,366	-115.6%	(18,911)	35,474	-153.3%
Effect of exchange rate changes on cash and cash equivalents	2,111	(191)	NMF	(1,598)	NMF	(4,623)	(1,784)	159.2%
Net increase in cash and cash equivalents	(1,719)	(2,329)	-26.2%	4,388	-139.2%	(41,726)	12,171	NMF
Cash and cash equivalents at the beginning of the period*	53,203	42,488	25.2%	48,815	9.0%	93,210	27,989	NMF
Cash and cash equivalents at the end of the period*	51,484	40,160	28.2%	53,203	-3.2%	51,484	40,160	28.2%

* The balances include cash and cash equivalents and amounts due from credit institutions

Annex #2, Experienced management team

Senior Executive Compensation Policy applies to top executives and envisages long-term deferred and discretionary awards of securities



Irakli Burdiladze, CEO – Prior to his current role, Irakli served as the Bank of Georgia's chief operating officer from March 2007 to June 2010 after having spent a year as CFO. Prior to joining the bank, he served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. He has a graduate degree in international economics and international relations from the Johns Hopkins University School of Advanced International Studies.



Giorgi Natroshvili, Deputy CEO, Finance and Operations – Prior to joining m2 Real Estate in December 2016, Giorgi held various positions in finance at Geocell – one of the leading telecommunications companies in Georgia. Prior to Geocell, Giorgi has worked at Ernst and Young. Giorgi has undergraduate degree in business administration from Free University of Tbilisi. In 2016 he earned his CFA Charter.



Shorena Darchiashvili, Deputy CEO, Sales and Marketing – Prior, was Head of Internal Brand Management Unit of BOG. Prior that, Shorena had worked on managerial positions of sales and marketing departments at various real estate developers operating in Georgia. Also worked at Sarke and Butterfly. Graduate degree at the BA Mosbach, Germany and Bachelor from FSM.



Shota Berekashvili, Deputy CEO, Construction Management – Shota joined m2 in 2017. Before joining m2 he was the CEO of "BK Capital" from 2009. From 1999 to 2001 he worked on Wall Street as the project coordinator for consulting company "Basic International Development Corporation". He worked at "Elgin Capital" and "BM Capital". He has Bachelors degree in Political Science and Economics and Masters Degree in Corporate Finance and Risk Management.



Nato Bochorishvili, Head of Property Management Department – previously worked at Swiss based Business and Finance Consulting. Prior to that Nato spent 11 years at Procredit Bank at various position in loan origination, business development and marketing. Nato holds Master's Degree in finance from Caucasus University and Bachelor's Degree in International Relations from Tbilisi State University.



Irakli Beridze, Head of Real Estate Development & Project Management Department – has 10 years of work experience in real estate business. Prior to joining m2 Real Estate in 2013 he was Development Director at JSC Lisi Lake Development. Prior to Lisi Lake Development Irakli served as Development Manager at Axis LLC. He has Master's degree in Real Estate from University of Reading, UK.



Nikoloz Jalagania, Deputy CEO, Legal and HR – Nikoloz has been with the company since 2010. He was the head of Legal Department from March 2013 to May 2015. Prior, he had been providing legal services to a number of private companies. He holds a BA degree in Law obtained from the Tbilisi State University and is a member of the Lawyers' Association of Georgia



Tamar Guledani, Deputy CEO, Hospitality Industry – Tamar joined m2 in 2017. She leads the entry process and will manage hotels of Ramada. Before joining m², she was the GM of Hotel chain Ambassador; Throughout 1996-2015 was an Executive Team member of the 5 star international brand Sheraton. During her 20 year career, she has participated in the several openings of International hotels, as an Executive Team member or General Manager.

Forward Looking Statements

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 JSC m² Real Estate and its subsidiaries (the “m²”)’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 m² 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.