Bank of Georgia’s healthcare subsidiary announces intention to float

Bank of Georgia Holdings PLC’s (“BGH” or the “Group”) healthcare subsidiary Georgia Healthcare Group PLC (“GHG” or the “Company”) has today announced its intention to make an initial public offering of its ordinary shares, which are expected to be admitted to listing on the premium listing segment of the Official List and to trading on the London Stock Exchange plc (the “IPO”).

GHG is the single largest scale healthcare services and medical insurance provider operating in the fast-growing, predominantly privately-owned, Georgian healthcare market, which is characterised by low utilisation and high fragmentation, leaving significant room for medium-to-long term growth. The healthcare services market (including hospitals and ambulatory clinics) is estimated at GEL 2.1 billion for 2015, with a strong compound growth momentum of 13.5% between 2011 and 2014, which is expected to continue growing at 13.3% during the period 2014-2018. Healthcare services spending per capita is currently at a very low base of only US$ 217, with annual outpatient encounters of only 2.7 per capita and hospital bedutilisation of only 50%, all significantly lower than many comparable countries. Supportive government reforms and the engagement of private players in the sector have resulted in significant improvements in the overall standard of infrastructure and greatly boosted demand for quality healthcare services. With GHG’s scale, efficient operations, breadth and quality of service offering and proven management team, the management of GHG believes that GHG is ideally positioned to take advantage of the expected long-term macroeconomic and structural growth drivers favourably influencing the Georgian healthcare services market.

As previously announced, reflecting these long-term growth prospects, the management of GHG is targeting at least doubling of 2015 revenues by 2018 through a combination of:

- Expanding through the further development of both existing and recently acquired hospitals, focusing predominantly on the higher revenue referral hospital segments in Tbilisi

The addressable hospital market is GEL 1.2 billion in 2015 and is forecasted to grow at a compound annual growth rate of 11.3% during the period 2014 to 2018. GHG’s market share was 14.0% and 22.1% by revenue and bed capacity, respectively, at 30 June 2015. Following the acquisition of High Technology Medical Centre University Clinic in August 2015, GHG’s market share by beds grew to 26.6%, and (on a pro forma basis) market share by revenue increased to 17.6%
• Launching of a network of new ambulatory clinics across Tbilisi and in other major cities in Georgia

The addressable ambulatory clinic market is GEL 0.9 billion in 2015 and is forecasted to grow at a compound annual growth rate of 15.9% during the period 2014 to 2018. GHG’s market share was under 1% at 30 June 2015, with the rest of the market similarly fragmented, with no single player having more than 1% market share and no other player having comparable access to capital and management, allowing GHG a unique first mover advantage in this highly fragmented and underpenetrated outpatient segment.

• Continuing to grow over the medium-term by developing new services and investing in medical technology to fill existing medical service gaps in the country and improve efficiencies

Currently service gaps exist in a number of basic diagnostics areas and treatments, such as MRI, laparoscopic surgeries, oncology, pediatrics, neonatology, intensive care, cardiology, and rehabilitation services.

• Continued focus on improving operational efficiency and utilisation to further improve margins

GHG’s healthcare services EBITDA margin was 25.3% in the first half of 2015, improving compared to 23.1% for the same period last year toward a target of approximately 30%. GHG is in the process of integrating its newly acquired hospital facilities, and is targeting a second wave of integration which among other things will include the centralisation of engineering, archiving, and ERP roll-out.

The planned IPO is an important transaction for BGH, as it represents the first realisation of BGH’s investment in non-banking businesses, and demonstrates the potential to unlock the significant value described when the Group announced its new corporate strategy in December 2014. Shortly after the GHG IPO, BGH will hold an investor day in London, where the Group will update the market on its business strategy and capital management plans.

Nikoloz Gamkrelidze, CEO of Georgia Healthcare Group PLC, commented: “The IPO, premium listing and admission to trading of GHG’s shares on the London Stock Exchange will enable us to finance our immediate growth plans and if necessary provide access to capital markets for our future growth. We are targeting to increase market share within the estimated GEL 2.1 billion Georgian healthcare services market in 2015 by accelerating revenue enhancement at our hospitals and replicating our hospital consolidation experience in the outpatient segment by expanding organically into ambulatory clinics where GHG’s current market share is close to zero.

The IPO will enhance GHG’s profile with investors, business partners and patients and will increase the ability of GHG to attract and retain key management, physicians and other employees, and diversify the shareholder base of the Company. Perhaps most importantly, it will also help to provide improved healthcare services to the Georgian population.”

Irakli Gilauri, Group CEO of Bank of Georgia Holdings PLC and Chairman of Georgia Healthcare Group PLC said: “In 2010 we saw an attractive investment opportunity in the healthcare industry – it was larger than the banking sector when measured as a percentage of GDP. Georgia’s healthcare reform had just started And even today, Georgia’s current healthcare industry is in a very early stage of development, where capital and management resources are limited. It reminds me of the banking industry 10 years ago. Since 2010, we have created the single largest scale player in the Georgian healthcare market, with over four times the hospital beds of our nearest competitor. GHG is now institutionalising best practices in the Georgian healthcare industry, just as we have done in banking. However unlike in banking, competition in the Georgian healthcare industry is limited. We believe that GHG has significant upside through having a first mover advantage, first class management team and access to capital.

Whilst remaining absolutely committed to the development of GHG, we are now looking to crystallise our investment in GHG in the forthcoming IPO. BGH’s strong corporate governance standards have been replicated in GHG and GHG’s culture of transparency, its executive remuneration policy and its adherence to robust corporate governance policies strongly position GHG for its premium listing and expected FTSE All-Share Index inclusion. As far as possible, it is our firm intention to allow our shareholders to participate in the IPO. The Boards and management teams of BGH and GHG appreciate the growth potential that GHG has and I, along with many of my colleagues on the Board and management team, intend to invest in the IPO.”
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