Georgia Capital

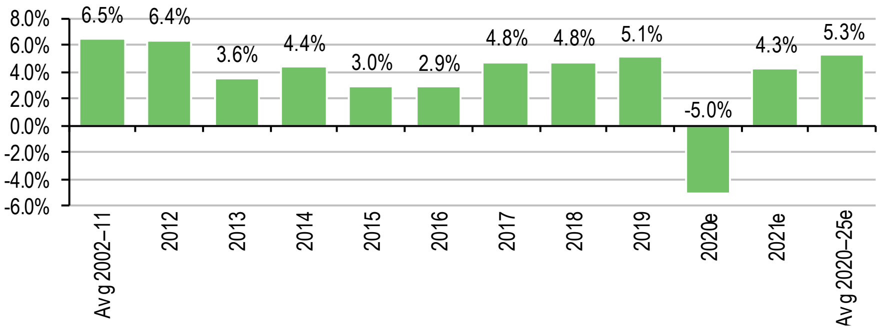
A private equity play on Georgia

Investment companies
Private equity

8 December 2020

Georgia Capital (GCAP) has a unique position as an experienced institutional financial investor in Georgia with superior access to attractive private investment opportunities. Its management team has built several market leaders before BGEO's de-merger into Bank of Georgia (BoG) and GCAP, which remain in GCAP's portfolio. A few of them are valued at c GEL0.5bn (c US$150m) and may be ripe for an exit in the medium term, which could help validate GCAP's strategy. Due to COVID-19, the company decided to focus its existing portfolio investments on the local renewable energy (wind and hydro) and private education sectors.

Georgia's economic outlook is consistent with its historical growth trend



Source: IMF Economic Outlook October 2020, updated for the results of the review under the Extended Fund Facility.

The Georgian market opportunity

GCAP provides geared exposure to Georgia, which has been in a secular growth trend for over 15 years, with a 5.6% average real GDP growth rate in 2002–19. This was assisted by structural reforms that made Georgia an attractive place for doing business with solid governance compared to other countries in the region. While COVID-19 has affected the country's tourism sector (it made up 11.6% of GDP in 2019), Georgia's fiscal deficit and external gap should be fully covered by funds from international financial institutions and rebounding remittances.

Why consider investing in GCAP?

- GCAP's team has 15+ years of experience in building local leaders across different industries, including banking, healthcare, insurance and real estate.
- Limited local competition from institutional financial investors translates into attractive acquisition prices (though also more limited exit options).
- Attractive cost structure with no external management or performance fees.
- Management team's interest aligned with shareholders through share-based compensation schemes and share ownership (6% of GCAP's share capital).

Wide discount to NAV

GCAP is trading at a c 42% discount to NAV, which is wider than its pre-COVID-19 levels of c 10–30% and the current average discount across listed private equity (PE) peers (c 23%). While GCAP is not paying dividends at present, it has conducted NAV accretive buybacks in the past and could do so again if the wide discount persists.

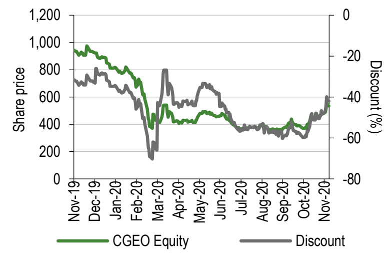
Price	**535.0p**
Market cap	**£256.3m**
NAV	**£421.3m**

NAV*	920p
Discount to NAV	41.9%

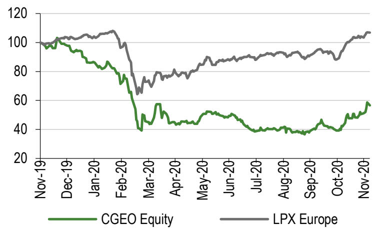
*At 30 September 2020.

Yield	0.0%
Ordinary shares in issue	47.9m
Code	CGEO
Primary exchange	LSE Premium
AIC sector	N/A
Benchmark	N/A

Share price/discount performance



One-year performance vs index



52-week high/low	975p	345p
NAV high/low	1,481p	741p

Gearing

Gross*	54.6%
Net*	45.1%

*At 30 September 2020.

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Georgia Capital is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

Georgia Capital focuses on scalable private equity opportunities in Georgia. These opportunities have the potential to reach at least GEL0.5bn equity value over the next three to five years and the company can monetise investments through exits as investments mature.

Recent developments

- 12 November 2020: Q320 results, NAV/share +19.5%, -24.4% y-o-y (in GEL)
- 20 August 2020: H120 results, NAV/share -32.4%, -41.2% y-o-y (in GEL)
- 5 August 2020: GHG delisting following the successful completion of the exchange offer resulting in GCAP acquiring a 100% stake
- 24 July 2020: GGU issues US$250m green bond
- 25 February 2020: buyout of minorities in renewable energy sector

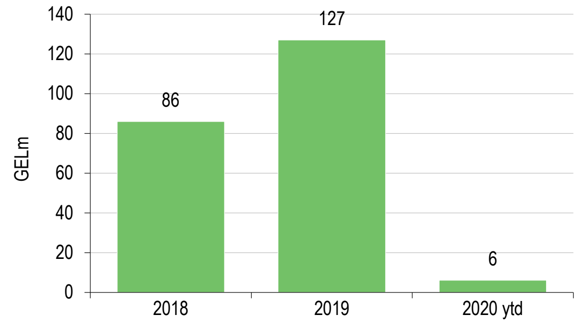
Forthcoming		Capital structure		Fund details	
AGM	Est. May/June 2021	Ongoing charges	1.8%* (LTM to end-Sep 2020)	Group	Georgia Capital
Annual results	Est. Q121	Net gearing	45.1%**	Manager	Team managed
Year end	31 December	Annual mgmt fee	N/A (self-managed)	Address	3-5 Tatishvili str. Tbilisi, 0179, Georgia
Dividend paid	None	Performance fee	N/A (self-managed)		
Launch date	2018	Company life	Indefinite	Phone	+995 322 000 000
Continuation vote	None	Loan facilities	US$300m bond	Website	https://georgiacapital.ge/

Dividend policy and history

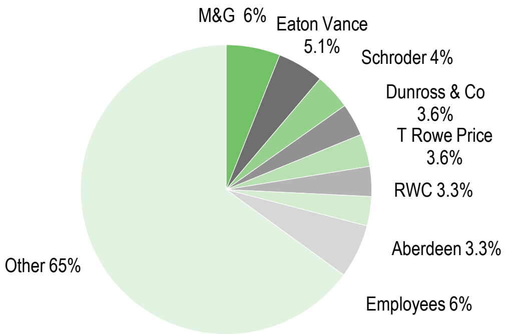
GCAP may by ordinary resolution declare dividends, provided that dividends do not exceed the amount recommended by the company's directors.

Share buyback policy and history

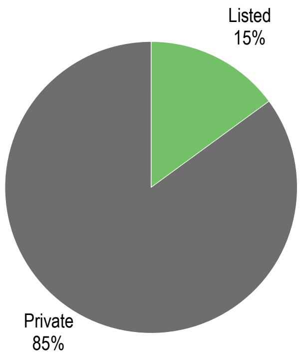
GCAP has done two buybacks so far: a US$45m programme (cancelling most of the repurchased shares), and US$20m management trust share purchase programme. Shares for the purposes of share-based compensation are held in the management trust, and additional shares may be purchased in the market.



Shareholder base (at 8 December 2020)



Portfolio exposure by asset type (at September 2020)



Top 10 holdings (at 30 September 2020)

Business area	Country	Portfolio weight September 2020	Portfolio weight September 2019
Retail (Pharmacy)	Georgia	19.7%	25.0%***
Healthcare Services	Georgia	19.6%	
Water Utility	Georgia	17.1%	22.6%
Bank of Georgia	Georgia	14.9%	21.7%
Renewable Energy	Georgia	8.4%	2.9%
Insurance (P&C and Medical)	Georgia	7.7%	7.3%****
Hospitality & Commercial Real Estate	Georgia	5.7%	11.0%
Wine business	Georgia	1.5%	3.4%
Education	Georgia	3.3%	2.3%
Beer business	Georgia	0.7%	0.7%
Top 10 (% of portfolio)		**98.6%**	**96.9%**

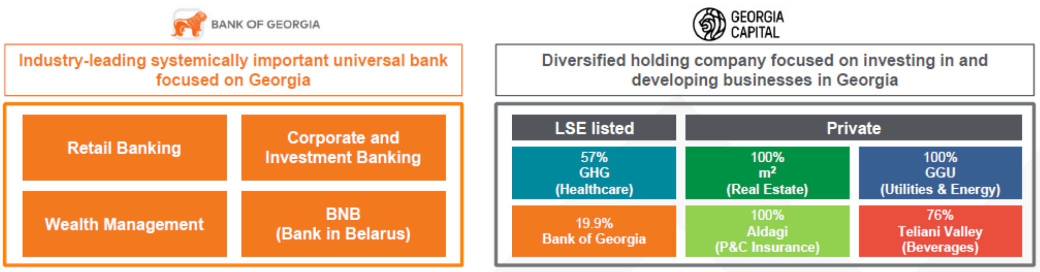
Source: GCAP, Edison Investment Research, Refinitiv. Note: *Expressed as a % of NAV; GCAP targets an ongoing charges ratio of below 2% of market capitalisation. **After including GEL103.4m loans issued to portfolio companies (in line with GCAP's approach), net gearing was 39.1% at end-September 2020. ***In September 2019, the businesses of pharmacies, healthcare services and medical insurance were recognised jointly as Georgia Healthcare Group. ****Property and casualty (P&C) insurance.

Fund profile: Broad exposure to Georgia

GCAP is an investment company primarily focused on equity investments in Georgia in sectors that are expected to benefit from the growth and diversification of the local economy. The company was established on 29 May 2018, when a UK-based holding company BGEO was split into BoG (a leading Georgian universal bank) and GCAP. Since then GCAP has been listed on the London Stock Exchange and has a wide shareholder structure, including 6% management ownership.

As a result of the de-merger, GCAP owns a 19.9% equity stake in BoG. It agreed that as long as its stake is greater than 9.9%, it will exercise its voting rights in accordance with the votes cast by all other shareholders (on a pro rata basis) during all shareholder votes at any general meeting.

Exhibit 2: Business/portfolio structure post de-merger in 2018



Source: Georgia Capital

GCAP's initial portfolio was the consequence of BoG's strategic decision to expand beyond its core banking business 10 years ago. For instance, to take advantage of new government programs in the healthcare space, the group expanded its existing property and casualty (P&C) insurance operations (Aldagi) to include health insurance and at the same time acquired several clinics and one hospital. Moreover, as a consequence of an increased level of defaults triggered by the global financial crisis (GFC) and Georgia's military conflict with Russia, BoG became the owner of a sizeable land portfolio (being the collateral of the defaulted loans). Amid a housing shortage coupled with limited new residential developments (negatively affecting BoG's mortgage loan book growth), the bank decided to enter the residential and commercial real estate development business (through its subsidiary m² Real Estate).

As BoG's exposure to non-banking businesses increased further, the company decided to move to a holding structure (completed in 2012) to free up the capital of the core banking franchise and maximise the value of both businesses as standalone entities. Subsequently, a decision was made to perform a de-merger into two LSE-listed companies. As a separate entity GCAP is no longer subject to the banking regulatory regime thereby improving its ability and flexibility to allocate capital. Moreover, it now has a separate management team with a sharpened focus and more aligned incentives (through share-based compensation). Last year, the company announced the intention to start managing third-party capital, but this initiative was put on hold due to the COVID-19 crisis.

The fund manager: Self-managed

GCAP is self-managed (ie it has no external investment manager) and has an experienced management team of around 25 members, with all senior team members coming from the former BGEO Group. The team is led by Irakli Gilauri as chairman and CEO, who was with BoG since 2004 and subsequently CEO of BGEO Group since 2011. He has around 20 years of experience in banking, investments and finance. According to the company, his strategic involvement and extensive relationship network over the last 10 years has been instrumental in creating major players in a number of Georgian industries, such as banking, healthcare, utilities and energy, real estate, insurance and wine businesses.

Importantly, former members of the BGEO Group retain board seats on the management boards of GCAP's key portfolio holdings. The team has a track record of executing more than 40 acquisitions under the BGEO Group in banking, insurance, healthcare, utilities, retail, FMCG and other sectors. After the de-merger, GCAP's management continued to expand the portfolio with 11 company acquisitions announced in 2019 (see Exhibit 3), including transactions carried out by existing portfolio companies.

Exhibit 3: Summary of acquisitions related to GCAPs current investment portfolio

Name	Date	Sector	Stake	Price (US$m)	Multiple
Aldagi	2004	Insurance	100%	7.3	0.94x P/GPW
BCI	2006	Insurance	100%	2.1	N/A
Block-Georgia Hospital chain	2011	Healthcare	100%	25.0	3.1x EV/EBITDA
ImediL	2012	Insurance	85%	22.4	4.9x EV/EBITDA
Caraps Hospital	2013	Healthcare	100%	4.8	6.0x EV/EBITDA
GGU	2014	Water utility	25%	26.4	4.7x EV/EBITDA
Trauma-hospital	2014	Healthcare	100%	3.6	3.9x EV/EBITDA
Avante Hospital	2014	Healthcare	100%	14.3	3.7x EV/EBITDA
HTMC Hospital	2015	Healthcare	50%*	17.1	6.4x EV/EBITDA
DEKA Hospital	2015	Healthcare	100%	12.8	N/A
GGU	2016	Water utility	75%	70.0	4.2x EV/EBITDA
GPC Pharmacies	2016	Healthcare	100%	13.9	5.7x EV/EBITDA
ABC Pharmacies	2016	Healthcare	67%	26.5	5.1x EV/EBITDA
Kindzmarauli Marani	April 2018	Beverages	60.5%	9.5	N/A
Kindzmarauli Marani	August 2018	Beverages	39.5%		
Kempinski hotel	February 2019	Hotels	40%	5.2	N/A
Kazbegi (brand acquisition)	March 2019	Beverages	-	3.7	N/A
Amboli	April 2019	Auto Services	80%	1.3	0.7x EV/Sales 2018
Redberry	May 2019	Digital services	60%	0.4**	N/A
British-Georgian Academy	July 2019	Education	70%	10.1	6.4x EV/EBITDA 2020
Buckswood International	July 2019	Education	80%	2.7	6.4x EV/EBITDA 2020
Green School	August 2019	Education	80–90%***	1.5	5.6x EV/EBITDA
Alaverdi winery	August 2019	Beverages	100%	N/A	N/A
Hydrolea	October 2019	Renewable Energy	100%	10.0	8.8-9.4x EV/EBITDA 2020
Qartli wind farm	December 2019	Renewable Energy	100%	14.4	7.2x EV/EBITDA 2020
Four restaurants	December 2019	Restaurants	50%	0.5	N/A
GHG	December 2019	Healthcare	13.6%	****	*****
GHG	August 2020	Healthcare	29.4%	****	*****

Source: Company data. Note: *Purchased a 50% stake in a company holding a 100% stake in the hospital. **A further US$2.8m new capital was injected for digital start-up development. ***80% equity stake in the current campus and 90% equity stake in three new schools that will be developed under green school brand. ****Settled with GCAP shares. *****Based on GCAP's share price on the date of the exchange.

The only exits performed so far have been the partial realisation of Georgia Healthcare Group (GHG) through an initial public offering (IPO) in 2015 (though the company was again taken private this year; see below for details) and the disposal of one hospital, which had a low return on invested capital (ROIC), owned by GHG this year. In Exhibit 4, we present an overview of GCAP's portfolio in terms of unrealised money multiple on Invested capital (MOIC) and in selected cases also gross internal rate of return (IRR) at end-September 2020. GCAP has not performed any meaningful exits since IPO and the multiples are based on current fair value of the investments.

Exhibit 4: GCAP's unrealised gains on existing investments at end-September 2020

Company/business	MOIC	IRR
Bank of Georgia Group	**6.0**	**18.6%**
Private large portfolio companies	**2.9**	**-**
GHG	2.9	38.5%
Water Utility	2.3	22.3%
P&C Insurance	17.8	30.2%
Private investment stage portfolio companies	**1.4**	**-**
Renewable energy	1.4	20.9%
Education	1.4	36.3%
Private other portfolio companies	**0.8**	**-**
Total portfolio	**2.2**	**-**

Source: Company data

The manager's view: Confident in its investment portfolio

GCAP has taken a number of actions in response to COVID-19. These include in particular: limiting capital allocations at GCAP level; minimising capital investments at each portfolio company; and optimising cost efficiencies at both holding and portfolio level. This has assisted net operating cash flow and the liquidity profile of its portfolio. GCAP's large and investment stage portfolio companies are mostly concentrated in structurally important and less cyclical sectors: education, renewable energy, water utility, insurance, healthcare services, as well as pharmacy and distribution. Looking ahead, management believes that all of these businesses are well positioned to remain resilient. This, together with the acquisition of the remaining stake in GHG, should support GCAP's dividend income from private companies, which management expects to be GEL30m in FY20 and GEL60–70m in FY21. GCAP sees significant value creation potential in its renewable energy and education businesses. At the same time, it intends to sell non-core and low-ROIC assets to enhance portfolio ROIC. Finally, management expects further progress in operational efficiencies and sees solid growth potential in the non-cyclical part of the portfolio.

Asset allocation: Focus on scalable businesses

GCAP's investment strategy is based on three 'fundamental enablers', including a strong corporate governance structure (which is aligned with the UK Corporate Governance Code), as well as good access to management and capital. It looks for **highly scalable businesses** that are well-positioned for rapid development (both through organic growth and market consolidation) to reach a meaningful market share, with GCAP's 'sweet spot' being around 30%. In this process, it assists businesses in bringing their **operating practices in line with international peers** and becoming mature businesses. That said, the GCAP team will also consider investments in more mature sectors where a strong market position can be achieved through a single acquisition. **GCAP's aim is to invest in companies that are well-placed to reach a market value of around GEL500m (or c US$150m) within three to five years**, making it a more attractive asset for a trade sale to foreign strategic or financial investors. Based on an IRR of 25% pa, this implies GCAP's total investment per deal of c GEL160–250m (c US$50–75m).

GCAP is interested in **industries that are part of the macro play on the Georgian economy**, including especially services sectors (which are by definition less capital-intensive), as management believes that Georgia is well-positioned to become a regional service hub. At present, GCAP's main investment focus is on the education and renewable energy sectors.

GCAP's management believes the company is able to **acquire assets cheaply** (to facilitate a solid return as measured by MOIC/ROIC) because of the limited access to institutional capital in Georgia, as well as the relatively early stage of development of several industries in the country. Following the GHG transaction (described later in this note) GCAP's exposure to listed holdings was c 15% at end-September 2020 and is attributable to its 19.9% stake in BoG.

Investment process

GCAP is sourcing acquisition targets in industries approved by its Investment Committee based on a comprehensive sector analysis. The deal origination process involves both inbound inquiries from potential sellers (facilitated by GCAP's unique positioning as a local institutional investor), as well as GCAP's active search for attractive businesses and market sounding to evaluate owner selling appetite. The above translates into c 100 investment leads per year. The company also considers participation in public auctions as illustrated by the acquisition of the Qartli wind farm last year.

The team involved in a deal consists of the core investment team (from GCAP and/or one of its portfolio companies), sector experts (both in-house and external), as well as an in-house due diligence team. The analysis of a given business is based on a number of factors, including interactions with key employees/stakeholders, site visits, company and public data as well as media coverage, sector analysis, product sampling and experiencing the customer journey. GCAP follows the **'First who, then what' approach**, prioritising a good understanding of the key personnel behind the business and dynamics within the team, as well as the analysis of their track record, growth mindset and vision. GCAP also puts much emphasis on **examining the business strategy for the next five to 10 years**, looking for: management ownership of the strategy, market drivers/opportunity, regulatory framework, competitive play and strategic priorities. It aims to generate a solid return through a proper **quantification of the value creation potential** combined with a **selective and cost-efficient approach** through direct contact with targets (with no involvement from bankers), often being the only bidders, and refraining from external accountants and legal advisers (relying solely on the in-house due diligence team).

GCAP's capital allocation decisions are based on the so-called **360-degree analysis**, which is a framework to estimate the optimal price for any potential acquisition. Before investing, GCAP assesses the following discounts: 1) the level of discount GCAP can buy an asset/company in relation to listed peers; 2) the level of discount GCAP is trading at to its NAV; and 3) the level of discount GCAP's listed portfolio companies are trading to their fair value. GCAP intends to buy assets/companies at a higher discount to their listed peers than GCAP's fair value discount.

Finally, it aims to ensure a **smooth transition process** within its portfolio holding through board participation (with the deal lead joining the board as well), aligning the company's accounting, tax and legal teams with GCAP standards, as well as capital expenditure monitoring. In case of selected deals, GCAP is partnering with existing entrepreneurs who retain a minority stake in the acquired business. A good example here are GCAP's recent transactions in the education sector.

With respect to **portfolio exits**, GCAP's investment horizon is five to 10 years from the initial investment and it aims to perform an investment realisation in two stages. **In the first stage**, it seeks to collect cash from portfolio companies through dividends, with dividend income at GEL122m or c US$45m in FY19. The process is usually facilitated by leveraging up its investments to free up equity. The team has extensive experience in accessing the debt capital markets, gained under BoG/BGEO. While at BoG the team managed to execute five Eurobond issues (total of US$1.5bn), and raise debt from international financial institutions, such as EBRD or IFC (US$3.0bn). **The final exit** is executed through standard PE routes, but with a particular focus on a trade sale to a strategic investor. For some of its larger businesses, it may also consider an IPO, though we believe this exit route is less likely to be utilised. It may also conduct a partial exit by establishing a promote structure and selling a minority stake to a 'silent partner' and continue to manage the business.

We note that in comparison to PE funds active in developed markets, GCAP may enjoy a more limited number of exit options and these opportunities may occur less frequently. This is due to the limited number of other institutional PE investors in the local market, as well as the relatively small size of the frontier Georgian economy. Having said that, we acknowledge that there were several notable large merger and acquisition (M&A) deals in Georgia in recent years, including eg Paddy Power Betfair's takeover of Adjarabet in the gaming and betting sector (US$131m for a 51% stake) and TEPCO Renewable Power (the renewable energy arm of Tokyo Electric Power Company) buying a 31.4% stake in JSC Dariali Energy (for an undisclosed price).

Consequently, GCAP's management believes that by growing its businesses to a market value of c GEL500m (US$150m), it will make them appear on the radar of foreign investors. It is also important to note that, unlike most listed PE companies, GCAP does not have any capital commitments to provide a defined amount of funding to its portfolio companies or exit its investments within a specified timeframe, which gives it additional flexibility in terms of liquidity and investment horizon. Nevertheless, the company has provided an outlook for capital allocation over the next three to five years during the capital markets day in November, highlighting that capital expenditures will be restricted to the education and renewable energy businesses and subject to GCAP's standard 360-degree evaluation process.

Environmental, social and corporate governance profile

GCAP has implemented a formal Environmental and Social Policy covering its commercial activities and investments. We also note that GCAP's portfolio include companies that seem to have an overall positive impact on society or the environment, including healthcare, education and renewable energy. GGU (wholly-owned by GCAP) has issued a US$250m green bond this year to finance renewable energy projects and develop sustainable water and waste water management practices in Georgia while building resilience to climate change (it obtained a Second-Party Opinion from Sustainalytics on the Green Bond Framework). Additionally, the company positively contributes to society through a number of activities, such as carrying out sponsorship and charitable activities (spending GEL3.4m in 2019), promoting and enhancing access to education, preserving nature, supporting people with disabilities, raising health awareness and promoting healthcare practices (through a TV programme, as well as free screening programmes covering up to 72,000 patients in 2019).

Value creation case study: Georgia Healthcare Group

We believe that GHG's history and the value creation measures introduced are a good illustration of the capabilities of GCAP's investment team (even if these were introduced under BoG/BGEO Group). Hence, we examine GHG's development in more detail below.

Expansion into the insurance sector

GHG was formally incorporated in 2015 ahead of its IPO, as a result of the reorganisation of insurance and healthcare businesses held by BoG. The bank first invested in the insurance sector, but as revenues from medical insurance increased, BoG decided to capture the cross-selling opportunities and capitalise on the growth potential in the Georgian healthcare services market. In 2006 it opened its first ambulatory clinic in Georgia's capital Tbilisi.

Subsequent years marked a rapid expansion of the healthcare business

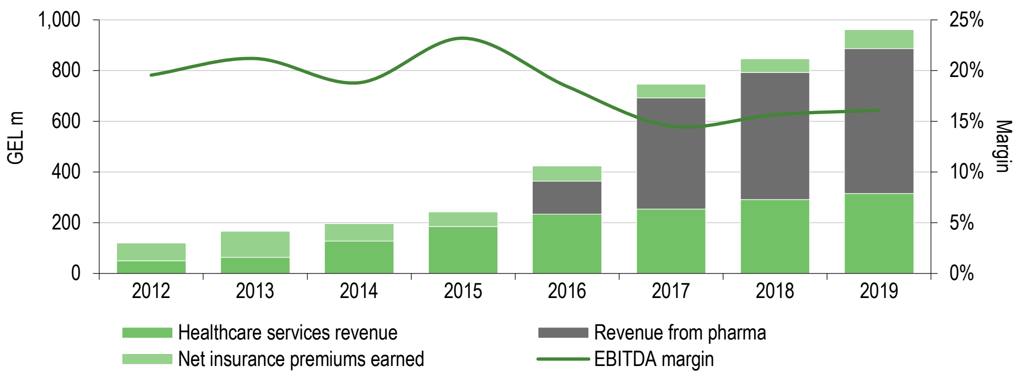
Aldagi BCI's strategy was to acquire pure healthcare services providers, as well as insurers that operated their own medical facilities. The rapid expansion was driven by a number of acquisitions performed at c 3.1–6.0x EV/EBITDA multiples (excluding smaller transactions with no publicly available data), well below global healthcare services valuations, which stood at 8.1x EV/EBITDA on average in the 2010–15 period (as measured by the MSCI World Health Care Providers & Services Index). In 2014, the healthcare business was already generating almost GEL200m (c US$113m) in revenues and GEL40m (US$23m) in EBITDA annually. In 2015 BoG split the company into a pure-play healthcare business (including medical insurance and healthcare services), and a P&C insurance business (Aldagi). Subsequently GHG was floated on the LSE in 2015 as a chain of 34 hospitals and six ambulatory clinics covering 14% of the Georgian healthcare services market as at end-June 2015.

GHG as a publicly listed company

GHG was listed on the LSE in June 2015 and as a result BoG received £66m (GEL234m) proceeds, while retaining a 65% stake in the entity. The IPO implied a GEL775m equity value of the company, and a last 12 months (LTM) EV/EBITDA (to end-H115) multiple of 16.1x (or 12.7x based on FY15 results). This was significantly higher than the add-on acquisition multiples.

GHG reached GEL154.2m in EBITDA in FY19 (excl. IFRS16), which implied a compound annual growth rate (CAGR) of c 30% pa since 2015 (as well as in 2012–19) fueled by both organic growth and M&A. The most notable expansion funded with IPO proceeds was the entrance into the pharmaceuticals distribution market through the acquisition of GPC (end 2016) and ABC (beginning 2017), the third and fourth largest pharmacy chains in Georgia with 100 and 123 locations. The group reached 309 pharmacies at end-September 2020 and is currently the largest pharmaceuticals retailer and wholesaler in Georgia, with a 32% market share. The transactions were value accretive (even before taking into account realised synergies), as they were performed at 5.7x and 5.1x EV/EBITDA multiples, respectively, while GHG was trading at around 20x in the first half of 2017.

Exhibit 5: GHG's key financials development 2012–19



Source: Company data; Note: 2019 EBITDA margin calculated excluding IFRS16 impact

Public market was not rewarding the company for its earnings momentum

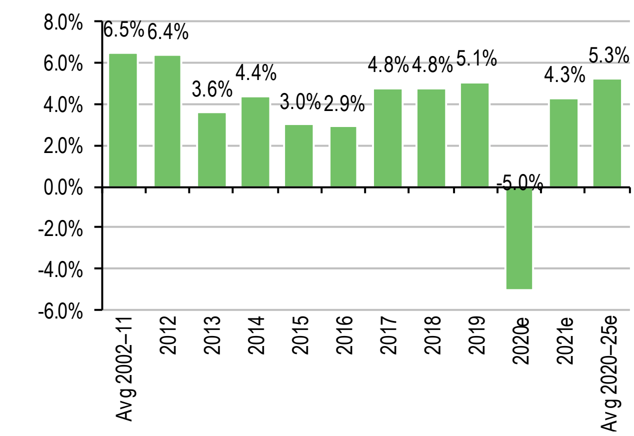
After the IPO of GCAP in 2018, the majority stake of GHG was held by another listed entity (GCAP). Despite growing earnings, the market capitalisation of GHG was shrinking and at end 2019 (before the disruptive onset of the COVID-19 crisis) it traded at 6.1x EV/EBITDA (on an LTM basis including IFRS16 impact). We believe that this could have at least partially been due to limited liquidity, with average daily traded volume around £70k since IPO. In late 2019, GCAP decided to run an exchange offer to regain full ownership of the company (delisting it) and increase stock liquidity for shareholders for both entities (the exchange offer was finalised in August 2020 through issuing new GCAP shares).

Market outlook: Georgia the regional 'star reformer'

The Georgian economy has remained in a consistent long-term growth trend over the 15+ years to 2019 driven by deep reforms in economic management and governance following the 'Rose Revolution' in 2003, with real GDP growing at an impressive CAGR of 5.6% pa between 2002 and

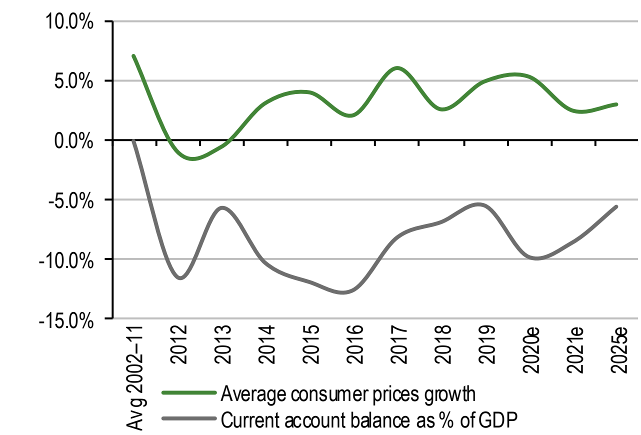
2019 (see Exhibit 6). This was despite a number of macro shocks, including most notably the GFC, the military conflict with Russia in 2008 and the decline in commodity prices in 2014 that affected major trading partners. The key GDP growth drivers were private investments (supported by foreign direct investment (FDI)), with additional support from consumption (net exports were normally a negative contributor). At the same time, inflation remained relatively limited with a three-year average of c 4.5%, based on IMF data (though somewhat above the target of the National BoG at 3.0% since 2018), see Exhibit 7. On the other hand, a persistent current account deficit (and the resulting higher external funding requirement vs regional peers) remains a vulnerability of the economy.

Exhibit 6: Real GDP growth in Georgia



Source: IMF Economic Outlook October 2020, updated for the results of review under the Extended Fund Facility.

Exhibit 7: CPI and current account balance in Georgia



Source: IMF Economic Outlook October 2020, updated for the results of review under the Extended Fund Facility.

High level of business friendliness and overall solid governance vs SEE/EE countries

Georgia offers an attractive business environment and solid governance structures compared to local peers. The country continues to be one of the most business friendly globally, being ranked seventh out of 190 countries in the World Bank's Doing Business 2020 rankings (even slightly ahead of the UK and Norway, for example). Moreover, it was featured on the list of top 10 improvers for three consecutive 'Doing Business' evaluation cycles. FDI in Georgia is assisted by free trade agreements with major trade partners, including the EU (DCFTA) and China (FTA).

Furthermore, most of Georgia's World Governance Indicators calculated by the World Bank are ahead of Southeastern and Eastern European countries (often even ahead of Bulgaria and Romania, which are EU members), most notably metrics related to control of corruption, regulatory quality, government effectiveness and rule of law. However, Georgia is somewhat lagging in the 'political stability and the lack of violence' category.

Georgia's political risks are particularly related to Russia, as its troops continue to occupy the Abkhazia and Tskhinvali/South Ossetia regions following the 2008 military conflict. These risks were further exacerbated by territorial conflicts in the South Caucasus, including the tensions between Armenia and Azerbaijan, Georgia's southern neighbours. We note, however, that Armenia, Azerbaijan and Russia signed a peace treaty on 9 November 2020.

COVID-19 impact: Fiscal and external imbalances mitigated by IFI support

During the first pandemic wave, Georgia was able to contain the spread of COVID-19 by timely and strict measures (the number of new daily cases was well below 50), with restrictions introduced in late April 2020 gradually loosened from July 2020. Some containment measures were re-introduced in early September as the infection spread accelerated (now at c 4,500 cases daily), and government announced it is ready to purchase vaccine. The country's economy was affected by a significant decline in demand in the tourism sector (11.6% of GDP in 2019 as per the World Travel Tourism Council), as well as a decline in exports. However, after an initial sharp fall, remittances rebounded quickly (now growing at a record pace) and there was also a recovery in FDI in Q220 vs Q120. The World Bank believes that both the fiscal and current account deficits will widen sharply in 2020, but support from international financial institutions should ensure that the deficit is fully funded and foreign exchange reserves remain at safe levels (these reached record-high levels historically on the back of foreign financing). In August 2020, Fitch reaffirmed Georgia's long-term foreign currency issuer default rating of BB, but with a negative outlook. In the same month, Standard & Poor's also reaffirmed its BB/B long- and short-term foreign and local currency rating for Georgia with a stable outlook.

Current portfolio positioning

GCAP currently has a portfolio of diverse holdings from a number of sectors, including in particular financials, healthcare, utility, education and renewable energy, many of which occupy a significant/leading share in their respective markets.

During its capital markets day (CMD) on 12 November 2020, the company introduced a new segmentation of its portfolio (see Exhibit 8). At the same time, it has divided GHG into three separate business lines: Healthcare Services (covering hospitals and clinics), Retail (pharmacies) and Medical Insurance (which was merged with GCAP's P&C insurance business). As a consequence of the above, GCAP's portfolio at end-September 2020 consists of:

- **Listed companies (15% of NAV)** – GCAP's 19.9% stake in BoG is currently valued at c GEL350m (US$112m).
- **Large portfolio companies (64% of NAV),** which GCAP's management considers as potentially attractive to international buyers. These currently include healthcare services, retail (pharmacies), water utility and insurance (P&C and medical). We note that except for the insurance business, they are currently valued at around GEL400–500m each, ie close to GCAP's target equity value for companies ripe for an exit. During the CMD, Irakli Gilauri (chairman and CEO) highlighted that GCAP will aim to complete an exit of one of the large portfolio companies within the next 18–24 months, although we believe the process is at a relatively early stage.
- **Investment stage portfolio companies (12% of NAV)**, which GCAP believes have the potential to become GEL0.5bn+ businesses, including the renewable energy and education businesses, where GCAP will focus its prospective investments in the near term. GCAP expects to make total net investments of c US$50m over the next three to five years (with c US$36m over three years in renewable energy and c US$14m over five years on education), of which c US$10m should be spent in 2021. We estimate that an increase in value of both businesses to GEL0.5bn each by 2023–25 would (after adjusting for the planned US$50m investments) translate into c 6–10pp growth in GCAP's NAV pa (based on its NAV at end-September 2020).
- **Other portfolio companies (9% of NAV)** are subscale businesses with limited potential to become GEL0.5bn+ companies. We note that this segment includes also some businesses acquired (auto service, digital services) or expanded through M&A (beverages) in 2019. The subscale businesses are likely to be sold to local strategic buyers within the next two to three years.

Q320 valuations for some of the holdings, including healthcare services, retail (pharmacy) and medical services, were prepared by external valuation company Duff & Phelps, which was commissioned to perform the valuation of GHG. Starting from Q420, Duff & Phelps will also be responsible for valuing GCAP's water utility and P&C insurance businesses. **Consequently, external valuations will be carried out for all of GCAP's large holdings on a semi-annual**

basis, with Q1 and Q3 valuations performed internally. **80% of GCAP's portfolio will be valued externally starting from Q420.** The investment stage portfolio and subscale holdings will continue to be valued internally. Having said that, all valuations will be reviewed/audited by independent external auditors on a semi-annual basis.

Exhibit 8: GCAP's portfolio summary at end-September 2020

	Carrying value		As % of total portfolio	Valuation multiple	Valuation method	
	(GELm)	(US$m)			Q320	Q420
Bank of Georgia	**360**	**112**	**15%**	**-**	**Public markets**	**Public markets**
Large portfolio companies	**1,546**	**479**	**64%**	**-**	**-**	**-**
Healthcare Services (GHG)	474	147	20%	**12.2x** LTM EV/EBITDA*	External	External
Retail (pharmacy, GHG)	475	147	20%	**8.7x** LTM EV/EBITDA*	External	External
Water Utility (GGU)	412	128	17%	**10x** LTM EV/EBITDA**	Internal	External
Insurance (P&C and Medical (GHG))	185	57	7%	**8.0-8.3x** LTM P/E***	External/ Internal***	External
Investment stage portfolio companies	**282**	**87**	**12%**	**-**	**-**	**-**
Renewable Energy (GGU)	201	62	8%	**9.7x** EV/EBITDA****	Internal	Internal
Education	81	25	4%	**12.5x** LTM EV/EBITDA	Internal	Internal
Other portfolio companies	**223**	**69**	**9%**	**-**	**-**	**-**
Housing development	12	4	0.5%	N/A	Internal	Internal
Hospitality & Commercial Real Estate	137	42	6%	N/A	Internal	Internal
Beverages	52	16	2%	N/A	Internal	Internal
Auto Services	12	4	0.5%	N/A	Internal	Internal
Digital Services	9	3	0.4%	N/A	Internal	Internal
Other	1	0.3	0.04%	N/A	Internal	Internal
Total portfolio value	**2,411**	**747**	**100%**	**-**	**-**	**-**
Net debt*****	(678)					
Net other assets/liabilities	(1)			-		
NAV	**1,732**					
NAV per share (GEL)	**37.84**					

Source: Company data. Note: External valuation carried out by Duff & Phelps. *LTM EV/EBITDA multiples for Healthcare services and Retail (Pharmacy) are presented including IFRS16 impact as at end-June 2020. **Calculated based on LTM EBITDA as of end-June 2020. ***P&C insurance business valued internally (8.3x LTM EV/EBITDA), Medical insurance valued externally (8.0x LTM EV/EBITDA as at end-June 2020). ****Blended multiple for Hydrolea Hydro Power Plants (HPPs) and Qartli wind farm valued using run-rate EBITDA and related EV/EBITDA multiple (Mestiachala HPPs and other pipeline projects valued at cost). *****Cash and equivalents used to calculate net debt include loans issued to portfolio companies as per GCAP's methodology.

Ongoing costs and planned investments largely covered by liquid position and dividend streams

In response to the COVID-19 outbreak in March 2020, GCAP put all capital allocations on hold. Subsequently, the management has identified education and renewable energy businesses as key investment areas. It has earmarked investment of US$50m or c GEL167m over three to five years (subject to GCAP's 360-degree analysis, see above), which is largely covered by GCAP's current cash (US$43m) and marketable securities (US$8m). The liquidity position of portfolio companies seems secured with an aggregate cash balance of private businesses of c US$108m (GEL361m) at end-September 2020 (up 97% vs end-FY19). At the same time, GCAP regularly receives dividends from its mature businesses (BoG, GHG, P&C insurance and water utility businesses in particular). It expects to receive GEL30m (c US$9.0m) and GEL60–70m (c US$18–21m) in dividends in FY20 and FY21, respectively (vs GEL122m in FY19). This should cover most of GCAP's ongoing cash operating and interest expenses, which according to the company now stand at c US$5.0m and US$18.0m, respectively. Given GCAP's current gearing (see below for details) and the discount at which its shares are traded, we believe any further major investments may require some portfolio realisations or increased dividend distributions from the portfolio.

BoG (15% of portfolio at end-September 2020)

BoG is an LSE-listed universal bank and one of the two largest players in the local banking sector (with a c 36% market share in terms of total assets and client deposits as of end-2019), which has grown at a CAGR of 16.2% pa over the 10-year period to 2019 in terms of assets. Its strategic priorities include a return on average equity (ROAE) of at least 20% (vs adjusted ROAE at 26.1% in 2019), loan book growth of c 15% pa (loan book growth in 2019 was 27.0%) and a 25–40% dividend payout ratio (no dividend was paid for 2019 due to COVID-19). BoG's end-September 2020 nonperforming loan (NPL) ratio was relatively low at 3.8% (though higher than the 2.1% as of end-2019) and its NPL coverage ratio stood at 76.8% (vs 80.9% as of end-2019). Current analyst consensus as provided by Refinitiv indicates a 2020e return on equity of 12.2% compared to the peer average of 8.3%. Despite the superior return on equity and good loan book quality, BoG shares are traded close to its book value (with a current P/BV ratio of c 1.0x based on the end-September 2020 balance sheet).

Healthcare services (20% of portfolio)

The healthcare services business has a 20% share of total hospital bed capacity in Georgia at end-September 2020. This business comprises 17 referral hospitals with a total of 2,596 beds, 19 community clinics with 353 beds and 15 polyclinics, as well as a diagnostics business operating the largest laboratory in the Caucasus region (Mega Lab). GCAP targets a ROIC of 15–17% in the medium term for its healthcare businesses (healthcare services and retail pharmacy) vs 12.7% in FY19. Healthcare services should be supported by growing demand from medical tourism and clinical trials, the addition of new services such as dental and aesthetic (the first aesthetic retail branch opened in 2020), an increasing bed occupancy rate (currently 60%) and disposal of non-core and low-ROIC assets.

Retail pharmacy (20% of portfolio)

GCAP holds an indirect 67% stake (through GHG) in the retail pharmacy business, with the remaining stake owned by its two managing partners. It operates the largest retail pharmacy chain and wholesale business in Georgia (c 33% market share by revenue). The pharmacy chain has a total of 309 pharmacies (305 in Georgia and four in Armenia). It has also entered the beauty retail market by starting a partnership with The Body Shop (with a right to operate under this brand in Georgia for an initial term of 10 years).

P&C and medical insurance (7% of portfolio)

The insurance business is a leading player in the local P&C insurance market (28% market share based on gross premiums as of Q220), with five business lines: motor, property, credit life, liability and other insurance services. The medical insurance business is the largest Georgia-based private medical insurer (26.0% market share based on net insurance premiums as of Q220) serving primarily Georgian corporate and state entities. The medical insurance business has a significant role as a feeder for other GHG's operations (polyclinics, pharmacies and hospitals).

Water utility (17% of portfolio)

The water utility operations cover a regulated monopoly in Tbilisi and the surrounding area, providing water and wastewater services to 1.4 million residents (around one-third of Georgia's population) and c 36,000 legal entities. Additionally, it operates hydro power plants of 149MW capacity (with c 50% of the generated power used for water supply purposes). The business has a mid-term ROIC target of 13–15% in Georgian lari terms (vs 12.5% in FY19), which the company expects will be supported by growing electricity prices and an increase in water utility tariff from 2021. The company reduced the consumption of self-produced electricity by c 45% or 145GWh from 2015 to 2019 and upgraded a significant part of its water and wastewater networks (through extensive capital expenditure in 2017–18). Starting from 2019, capital expenditure has gradually decreased to a normalised level, contributing to positive free cash flow generation.

Renewable energy (8% of portfolio)

The renewable energy business is a platform for developing hydro and wind power plants across Georgia and has an overall medium-term target EBITDA margin of 75–80% and ROIC at 11–13% in US dollar terms. It consists of three wholly owned commissioned renewable assets, including the **50MW Mestiachala** hydro power plant (HPP), **20MW Hydrolea** (acquired in October 2019) operating three HPPs with a 19MW greenfield HPP project (to be commissioned by end-2022) and the **21MW Qartli** wind farm (acquired in November 2019 through a public auction). The business also has a pipeline of up to 172MW of renewable energy projects to be completed over the next three years: wind farms in Tbilisi and Kaspi, as well as HPPs in Zoti and Darchi.

Education (4% of portfolio)

GCAP plans to take advantage of the organic growth and consolidation opportunity in the Georgian K-12 private education market, which has grown by 16% pa in 2013–19 in Georgian lari revenue terms (according to Galt & Taggart and GCAP), but remains very fragmented (GCAP highlights that its education business is the largest player with a 4.2% market share). The company is building a diversified business combining premium, mid-level and affordable school segments based on the following companies acquired in H219: **British-Georgian Academy** (70% stake), the leading school in the premium segment, with 800 learners upon acquisition; **Buckswood International School** (80% stake), well-positioned in the mid-level segment with a capacity of 760 learners at the time of acquisition; **Green School**, where GCAP holds an 80% stake in existing and 90% in upcoming schools to be developed under Green School Brand.

Former owners of these education businesses became minority partners and continue to independently manage them. GCAP intends to limit its involvement to setting the broader strategy, as well as carrying out oversight and contributing to capex spending. By 2025, GCAP aims for its education business to become the leading integrated education player by increasing learner capacity from the current 2,810 to 21,000 learners and to generate GEL50m EBITDA, compared to c GEL10m expected by GCAP for the 2020/21 academic year. Capacity will be grown both organically and through M&A, especially in the mid-level and affordable segments.

Other holdings (9% of portfolio)

The rest of GCAP's portfolio includes the following subscale businesses:

- **Housing development** is a leading real estate developer in Georgia, a US$1.6bn market, operating three business lines: 1) a residential development aimed at mass market customers by offering affordable, high-quality and comfortable housing; 2) construction, engaging in construction contracts for both other GCAP businesses and third parties; and 3) distressed asset management, developing suspended projects.
- **Hospitality & commercial real estate** consists of rent-earning commercial assets (10% yield target) and a hotel development business across Georgia.
- **Beverages** (where GCAP holds an 87% stake) has three business lines: 1) a wine business, producing and selling wine locally and to 18 countries, 2) a beer business, with a 10-year exclusive licence to produce Heineken brands in Georgia and sell them in the South Caucasus, and 3) a distribution business.
- **Auto service** – acquired by GCAP to build a diversified business model with a digital platform combining different auto-related services: car services and parts, secondary car trading, car insurance and periodic technical inspection (PTI).

- **Digital Services** – in May 2019 GCAP acquired a 60% equity stake in Redberry, a leading Georgian digital marketing agency, as a platform for investments in digital businesses.

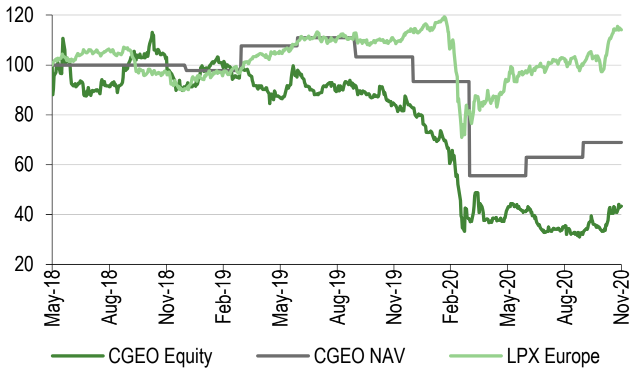
Performance: Curtailed by listed assets

Before GCAP's listing, the investment portfolio of BoG/BGEO was reported at book value, which makes performance prior to end-2017 incomparable. Between end-2017 and end-2019, GCAP's NAV per share was flat in Georgian lari terms and decreased by c 7% in sterling terms. The main negative value drivers were GCAP's listed holdings BoG and GHG, which made up 50% of the portfolio at end-2017 and posted losses of c 27% and 65% in sterling total return terms over the period, respectively. We estimate that in Georgian lari terms, the decline in shares of listed holdings was offset by the total return on GCAP's private portfolio (c 12%) and NAV accretive buybacks.

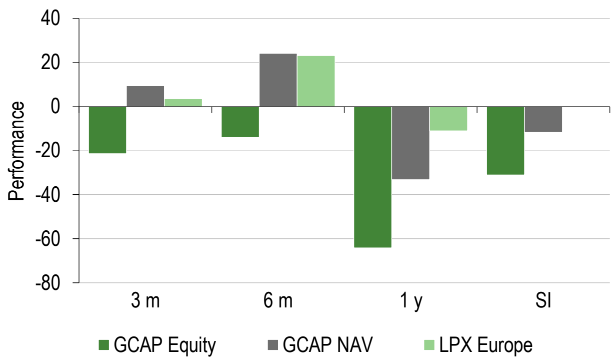
In the first nine months of 2020 (9M20), GCAP's NAV per share decreased by c 26.1% in sterling terms (19.2% in Georgian lari terms), clearly behind the 4.4% decline posted by LPX Europe NAV. The main driver was again GCAP's listed exposure, which followed the COVID-19-induced sell-off but has not fully rebounded. Q320 performance was largely determined by GHG's take-private transaction and subsequent revaluation, which increased GCAP's NAV by c GEL620m (or c 52% of end-June 2020 NAV). However, due to its dilutive effect (the consideration was paid entirely in GCAP shares issued at a discount to NAV), GHG's impact on GCAP's end-June 2020 NAV per share was c 36.0pp, translating into Q320 NAV/share total return (TR) in sterling of 9.2%. We estimate that excluding GHG, the year-to-date return on GCAP's private portfolio would have been c -17.8%. This includes some positive impact from greenfield development in the renewable energy and education businesses (adjusted for which the return would be c -22.3%). The negative impact came in particular from the operating performance in the hospitality and commercial real estate businesses, but also housing development.

Exhibit 9: Investment company performance to 30 September 2020 in sterling terms

Price, NAV and index total return performance, since IPO rebased



Price, NAV and index total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Performance since IPO annualised.

Exhibit 10: Share price and NAV total return performance, relative to indices in sterling terms (%)

	Three months	Six months	One year	Since inception
Price relative to LPX Europe	(24.9)	(37.2)	(53.2)	(67.6)
NAV relative to LPX Europe NAV	7.1	25.5	(34.2)	(51.7)
Price relative to MSCI World	(24.7)	(37.9)	(70.0)	(90.4)
NAV relative to MSCI World	6.2	0.3	(39.0)	(56.6)
Price relative to FTSE All-Share	(18.5)	(20.9)	(47.6)	(52.5)
NAV relative to FTSE All-Share	12.4	17.3	(16.6)	(18.6)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-September 2020. Geometric calculation.

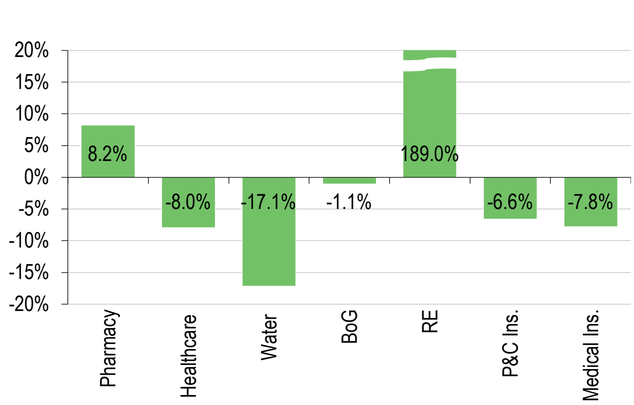
Exhibit 11: 9M20 portfolio performance by assets

GELm	Carrying value (Q320)	Carrying value (FY19)	Investments/ distributions*	Revaluation gain/(loss)		NAV TR attribution
GHG	993,000	430,079	138,265	424,656	98.7%	24.2pp
Water Utility	412,313	483,970	(3,476)	(68,181)	(14.1%)	(3.9pp)
BoG	360,100	597,735	0	(237,635)	(39.8%)	(13.5pp)
Renewable Energy	201,497	106,800	40,712	53,985	50.5%	3.1pp
P&C Insurance	140,505	164,923	(4,972)	(19,446)	(11.8%)	(1.1pp)
Education	80,678	56,350	63	24,265	43.1%	1.4pp
Other	223,178	413,226	18,235	(208,283)	(50.4%)	(11.9pp)
Portfolio	**2,411,271**	**2,253,083**	**188,827**	**(30,639)**	**(1.4%)**	**(1.7pp)**
Net debt*	**677,865**	**493,565**				
Net other assets/liabilities	1,240	5,650				
Operating expenses				(23,028)		(1.3pp)
FX impact, liquidity and other				31,965		1.8pp
						Change
NAV	1,732,166	1,753,868				(1.2%)
number of shares	45,772,547	37,441,971				22.2%
NAVPS	37.84	46.84				(19.2%)

Source: GCAP. Note: *Cash and equivalents used to calculate net debt include loans issued to portfolio companies as per GCAP's methodology.

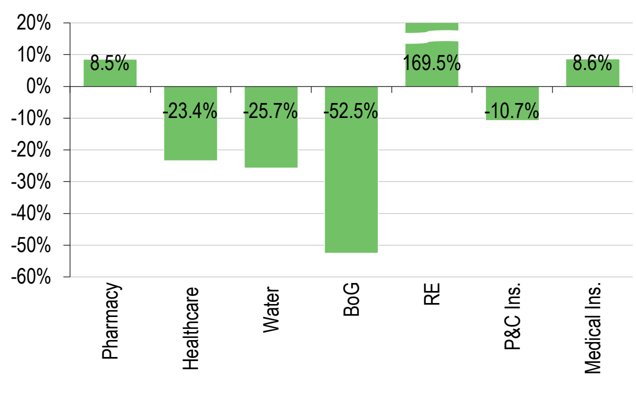
In Exhibits 12 and 13, we present the change in revenue and EBITDA in 9M20 for GCAP's major portfolio holdings. Results in renewable energy were supported by expanding capacity and the acquisitions of Qartli wind farm and Hydrolea HPP, as well as the fact that 60% of electricity sales are covered by long-term purchase power agreements. Pharmacies proved to be relatively resilient as well, while healthcare services saw lower utilisation levels in hospitals during the lockdown (rebounding in Q320), amplified by higher materials consumption (more protective disposables). The water utility business suffered from extraordinarily low precipitation and resulting low inflows to Zhinvali HPP (energy sales down 68% y-o-y in 9M20), and lower water consumption due to lockdowns (water supply revenues down 10% y-o-y).

Exhibit 12: GCAP's assets 9M20 y-o-y revenue* change



Source: GCAP, BoG, Edison Investment Research. Note: *Net interest income for BoG; net premiums earned and underwriting profit for insurance businesses.

Exhibit 13: GCAP's assets 9M20 y-o-y EBITDA* change



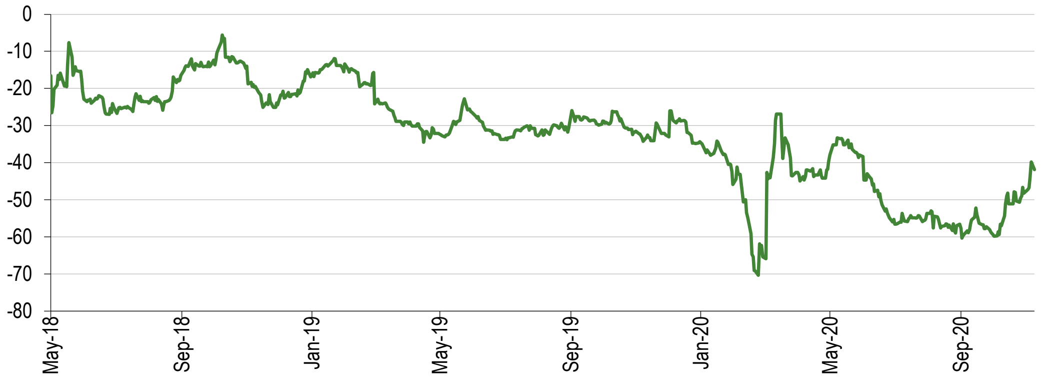
Source: GCAP, BoG, Edison Investment Research. Note: *Net income for BoG and insurance businesses.

Despite the earnings decline, a strong focus on generating a healthy cash position translated into a 106% y-o-y increase in aggregate net operating cash flow across GCAP's private portfolio companies in 9M20. This was assisted by the new investments being put on hold, high emphasis on cost efficiency and prudent working capital management, as well as government subsidies. Moreover, GHG received US$12m from the sale of a 40% stake in one of its lowest ROIC hospitals.

Discount: At around 40% of NAV

At 7 December 2020, GCAP's shares traded at a 41.9% discount to its end-September 2020 NAV. GCAP's shares had traded in a 10–30% corridor from IPO until the COVID-19 outbreak, when the share price decline drove the discount to the all-time high of 70% (similarly to other listed PE companies). We believe that the wide discount may at least partially be attributable to the lack of full exits conducted by GCAP so far, which would reinforce its reported carrying values of portfolio holdings. We also note that part of the Q320 NAV uplift was due to the higher valuation of GHG upon taking it private. Another factor may be investors' risk perception of Georgia as a frontier market.

Exhibit 14: Share price discount to NAV since IPO (%)



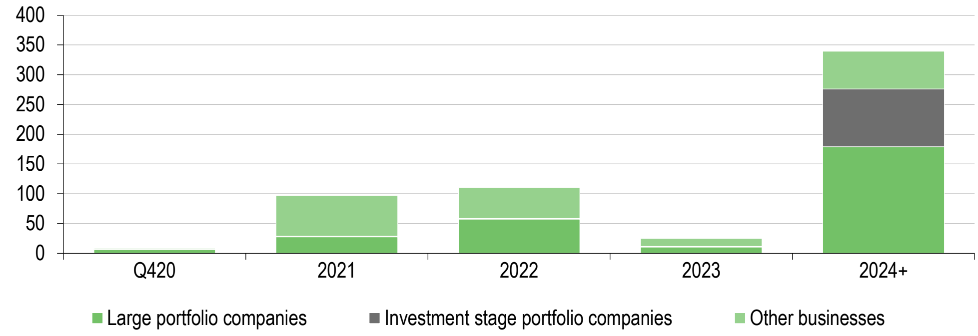
Source: Refinitiv, GCAP, Edison Investment Research

Gearing: Targeting an LTV below 30%

GCAP has structural gearing through its US$300m 6.125% Eurobonds maturing in March 2024 (with an interest expense of c US$18m pa). At the same time, GCAP's policy involves keeping a buffer of at least US$50m in highly liquid assets. At end-September 2020, it had US$81m funds it considered overall liquid, including highly liquid assets such as cash (US$45m, c 95% held in US dollars) and marketable securities (US$8.0m), mostly internationally listed bonds such as Eurobonds of Georgian corporates. It also held loans issued primarily to portfolio companies of US$30m.

GCAP is targeting a loan-to-value (LTV) of below 30%, calculated as net debt at holding level divided by portfolio value (including loans to portfolio companies). Its LTV recently declined from 41.9% at end-June 2020 to 33.5% at end-September 2020 (as reported by the company), mostly assisted by the positive portfolio valuation impact from taking GHG private. This compares with a pre-COVID-19 average (between end-2018 and end-2019) of 22%. GCAP's Eurobond has a covenant limiting net debt to equity (adjusted for the excess market cap of listed holdings over their book value) to 45%. The ratio was close to 45% at end-September 2020 (potentially prohibiting GCAP from raising further debt if needed), though the recent increase in the share price of BoG from 893p to around 1,200p reduced it somewhat. In Exhibit 15 we present leverage at GCAP's portfolio level.

Exhibit 15: GCAP's debt maturity profile at portfolio level (US$m)



Source: Company data, Edison Investment Research

Fees: Attractive compared to standard PE market terms

As GCAP is self-managed, there is no management or performance fee being charged by an external investment manager. Nevertheless, the company incurs management expenses in the form of salaries and bonuses to its senior staff and management, with an internally targeted cap at 2% of GCAP's market capitalisation. Its reported LTM management fee at end-September 2020 stood at 2.3%, up from 1.7% at end-September 2019, but the increase was due to GCAP's share price decline following the pandemic outbreak. When expressed as a percentage of NAV, the LTM ratio to end-September 2020 was c 1.3% of NAV and after accounting for administrative expenses, GCAP's ongoing charges to NAV stood at 1.8%. This is broadly in line with the prior comparable period and other listed direct PE companies (see below).

Importantly, around 57% of its management expenses (or c 0.7% of NAV) in the 12 months to end-September 2020 were share-based (ie non-cash) in the form of nil-cost options. Based on our discussion with the company, we understand that the maximum number of guaranteed and discretionary shares that can be awarded to the executive director and key senior managers in a given year are set out in five-year agreements (which were signed in 2018). In the past, GCAP secured the share awards entirely through buybacks and we estimate that at the current GCAP share price, the buyback expense to cover the maximum annual awards represents 0.8% of GCAP's NAV (of which half is attributable to discretionary shares). Having said that, we understand that **at present GCAP has enough shares in its management trust (a subset of treasury shares) to cover the awards for around three years**. Each award will vest over six (guaranteed) or four (discretionary) years. The share-based remuneration for other staff members is discretionary and has no particular limit but we understand that it is a minor part of their remuneration. **Consequently, we believe that the above represents a quite cost-efficient performance-based remuneration structure compared to the standard PE industry terms (20% performance fee subject to an 8% hurdle rate).**

Peer group comparison

In Exhibit 15, we show a group of PE funds specialising in direct investments (including co-investments), which we consider peers for GCAP. Having said that, these funds differ from GCAP (which invests exclusively in Georgia) in terms of regional exposure and sector (eg Hg Capital being tech-focused). As such, none of the selected companies may serve as a perfect comparator. Over one year, GCAP's performance is behind the peer average, which partially stems from its exposure to listed assets (as discussed above). It has a significantly higher leverage and does not pay dividends at this stage (as opposed to most peers).

Exhibit 16: Listed private equity investment companies peer group at 23 November 2020* (in sterling terms)

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (cum-fair)	Ongoing charge**	Perf. fee	Net gearing	Dividend yield
Georgia Capital	**256.30**	**(33.2)**	**N/A**	**N/A**	**(41.9)**	**1.8**	**No**	**130**	**0.0**
Wendel SE	3,934.93	(39.7)	(44.3)	(12.1)	(33.3)	1.0	No	107	2.9
HgCapital Trust	1,254.9	22.1	76.7	167.2	1.2	1.6	Yes	100	10.5
NB Private Equity Partners	502.7	1.4	26.5	74.0	(24.0)	2.2	Yes	119	4.3
Oakley Capital Investments	490.3	14.1	60.9	108.4	(23.3)	1.1	Yes	100	1.7
Princess Private Equity	699.4	13.3	40.5	116.8	(13.6)	1.8	Yes	111	4.3
Symphony International Holding	134.2	(37.3)	(28.6)	(12.4)	(46.7)	2.4	No	100	13.4
Peers average	**1,169.4**	**(4.3)**	**22.0**	**73.7**	**(23.3)**	**1.7**		**106**	**6.2**
Rank	**6**	**5**	**N/A**	**N/A**	**6**	**4**		**1**	**7**

Source: Morningstar, Refinitiv, Edison Investment Research. Note: *Performance to September 2020 based on latest available ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. 100=ungeared. **Operating expenses at fund/holding level including management fee but excluding performance fee.

The board

GCAP's management board consists of seven directors, six of whom are independent. One board member (William Huyett) resigned in June 2019, replaced by Maria Chatti-Gautier (March 2020), while the six other directors were all appointed in February 2018.

Irakli Gilauri (chairman and CEO), formerly CEO of BGEO Group since 2011, has c 20 years of experience in corporate banking, investment and finance. Additionally, Mr Gilauri brings a strong understanding of the Georgian economic, political (his brother Nika Gilauri was prime minister of Georgia in 2009–12) and cultural context.

David Morrison (chairman of the audit and valuation committee) is a lawyer focused on advising public companies in a transactional context (capital raisings, IPOs, M&A) with vast experience in corporate governance and compliance. He was a non-executive director of GHG and previously served as the senior independent non-executive director of BGEO Group (2011–18).

Kim Bradley (chairman of the investment committee), formerly an independent non-executive director of BGEO Group (2013–18), has experience in strategic consultancy as well as property and real estate investments (15 years at Goldman Sachs as a professional in the real estate division).

Massimo Gesua' sive Salvadori has an investment background and experience with international markets and strategy as a bank analyst covering financial stocks globally (at Odey Asset Management, a London based hedge fund, since 2011). He worked as a management consultant at the London office of McKinsey and Co. (2002–11), specialising in financial services.

Caroline Brown brings a strong understanding of corporate finance and accounting practices (she is a fellow of the Chartered Institute of Management Accountants) and over 20 years' experience on the boards of listed companies. She has worked as a corporate finance adviser to governments and corporations with Merrill Lynch, UBS and HSBC.

Jyrki Talvitie (chairman of the nomination and the remuneration committees) has significant board experience, having served on over 10 boards of both public and private companies in Georgia, Finland, Russia, Kazakhstan and Ukraine. He has also a deep understanding of regional context as well as the financial industry (with 28 years' experience in banks).

Maria Chatti-Gautier has a background in PE (over 25 years) and understanding of investment strategies, alongside her board experience (she has sat on the board of directors of over 30 companies). She currently serves as partner of Trail Management, an independent Euro-Chinese PE investment firm.

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