



Investment teaser - Hotel and Chalets investment opportunity in Shovi Racha-Lechkhumi and Kvemo Svaneti, Georgia

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1 INTRODUCTION AND GENERAL OVERVIEW OF RACHA-LECHKHUMI AND KVEMO SVANETI REGION, GEORGIA

1.1 Introduction and Limitations

- Upon receipt of a signed copy of the Confidentiality Agreement signed for Partnership Fund, the current leaflet is to represent potential hotel investment opportunity in Shovi, Racha-Lechkhumi and Kvemo Svaneti region. This document contains information in a summarised form and is therefore intended for general guidance only.
- The aim of this leaflet is to search for investors or co-investors for a **105-room internationally branded resort hotel and 40 chalets**.
- This document is directed only at persons having professional experience in matters relating to investments and was prepared based on the 'Market and Technical Feasibility Study for Racha Development Project', prepared by BDO Hungary Ltd together with BDO LLC Georgia. All further information are available in the subject report.
- Partnership Fund is committed to develop general infrastructure of the subject region and to participate in the selected hotel investment project.
- Financial indicators and investment costs are estimated and are in line with international and Georgian benchmark data and BDO's relevant research activities carried out in the period of September-November, 2015.
- Partnership Fund, BDO Hungary Ltd and BDO LLC Georgia shall not be held responsible in legal matters.
- State commitments, subsidies, tax- and further incentives are not definitive and subject to negotiations.
- In case of multiple investments, investors may apply for special offers and package deals by Partnership Fund.
- Legal and architectural matters require preliminary discussions.
- Preliminary architectural drawings have been prepared by Óbuda Stúdió, Hungary.

1.2 General overview of Racha-Lechkhumi and Kvemo Svaneti region

- Racha-Lechkhumi and Kvemo Svaneti region is located in the north-western part of Georgia on the southern slopes of the Central Caucasus, at wide range of elevations between 400 and 4,000 metres above sea level.
- **Capital of the region:** Ambrolauri
- **Total territory of the region:** 4,954 square kilometres (7.1% of the total territory of Georgia)
- **Nearest international airport:** Kutaisi (~76km)
- **Region's population:** 45,900 (1.04% of the population of Georgia)
- **Accessibility:** The region can be accessed by car in about 4-5 hours from Tbilisi and in about 1 hour from Kutaisi.
- **Nominal GDP (together with Imereti region):** GEL2,670.4 million (~10% of the national GDP)
- The region possesses highly attractive natural environment, diverse flora and fauna, unique tourists attractions, great wines, water and mineral water sources and fossil resources. Numerous mineral water springs are located in the mountains of Racha.
- As of today, touristic attractiveness of the region lies in its natural environment, cultural heritage and abundance of mineral waters, creating unique conditions for development of tourism.



- The selected key destination, proposed for investment is Shovi.
 - During the Soviet-era, Shovi was renowned as a year-round resort destination primarily visited by Russian leisure tourists. As of now, the Mamisoni Pass on the Georgian-Russian border is closed, making the resort's accessibility rather cumbersome from Russia. Currently the resort serves 600-800 tourists per summer season. The resort is known for its alpine climate, high mountains, pine forests, fresh air and mineral springs (16 types of mineral waters). Shovi is officially named as a climatic destination.
 - Shovi is located 314 km from Tbilisi. The area could become a year-round mountain and climatic destination. The climatic mountain health resort in upper Racha is 14 kilometres from Utsera.
 - The suggested new resort site is located at the North-West part of an existing but only partly functioned resort (plot No.: 88.02.30.045). Shovi can be found at the junction of two vallies that is why the quite wide space enables enough sunshine during the day which is required for outdoor wellness and other sport activities.



Shovi



Shovi resort

2 HOTEL INVESTMENT OPPORTUNITY

2.1 Shovi Climatic Resort and Spa and Chalets

Shovi Climatic Resort Hotel and Spa and Chalets



Why invest? This hotel could become one of the first internationally branded hotels in the region. The complex wellness facilities, the planned guest rooms as well as the highly attractive natural environment of the hotel will ensure the success of the project. The hotel has the potential to be an ultimate place for families and friends for vacations and also curative guests seeking fresh air.

Competitive advantages:

- Located in the renewed, gated climatic resort destination;
- Managed by an International Hotel Company;
- Larger sized complex indoor and outdoor wellness and spa facilities;
- Part of the complex public and private development in Shovi;

Project location: Shovi

Project description:

- This is an unique investment opportunity to develop an internationally branded resort hotel with indoor and outdoor wellness and spa facilities and 40 private chalets of high build quality with private saunas/hot tubs for sale in Shovi.
- The hotel is planned to feature up to 105 guest rooms, a main all-day restaurant (100 seats), bar/lobby bar (40 seats) with a terrace, and a larger sized complex indoor and outdoor wellness and sap facilities.
- The final room-mix of the hotel should reflect the requirements set by the proposed international operator.

Shovi Climatic Resort Hotel and Spa - Financial projections and investment costs

| Key Financial Indicators | | | | | |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
| Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Rooms Available | 25,725 | 38,325 | 38,325 | 38,325 | 38,325 |
| Occupancy | 42.0% | 45.0% | 48.7% | 52.0% | 55.5% |
| ADR (USD) | 91 | 96 | 99 | 102 | 105 |
| Revenues (USD) | 2,781,627 | 3,034,954 | 3,362,770 | 3,677,609 | 4,001,222 |
| EBITDA (USD) | 481,087 | 499,094 | 606,224 | 751,993 | 935,64 |

| Calculation of the Gross-Investment Costs for Shovi Climatic Resort Hotel | | | |
|---|--------------|------------|--------------|
| Total Investment without Land | | 10,500 | |
| thereof | in USD 1,000 | % of Total | in USD 1,000 |
| Substructure | | 3.0% | 315 |
| Superstructure | | 35.0% | 3,675 |
| Internal Finishes | | 13.0% | 1,365 |
| Fittings, Furnishings & Equipment | | 10.0% | 1,050 |
| Services (utilities, technical infrastructure) | | 24.0% | 2,520 |
| External works | | 5.0% | 525 |
| Other (preliminaries, overheads) | | 10.0% | 1,050 |
| Total | | 100.0% | 10,500 |



Estimated investment budget of the hotel: USD10.5 million

Shovi Chalets - Financial projections and investment costs

The following tables summarise the investment cost of chalets in Shovi and the anticipated revenues from the chalet sales.

| SHOVI CHALETS | | | | |
|-------------------|------------------|-------------------------|----------------|--------------------|
| all values in USD | Gross area (sqm) | Net sellable area (sqm) | Price per sqm* | Total sales price* |
| Standard | 60 | 48 | 4,000 | 192,000 |
| Deluxe | 90 | 72 | 4,250 | 306,000 |
| Luxury | 125 | 100 | 4,500 | 450,000 |

| Investment cost in USD/unit | | | | |
|-----------------------------|------------------|-------------------------|----------------|--------------------|
| all values in USD | Gross area (sqm) | Net sellable area (sqm) | Price per sqm* | Total sales price* |
| Standard | 60 | 48 | 1,300 | 78,000 |
| Deluxe | 90 | 72 | 1,600 | 144,000 |
| Luxury | 125 | 100 | 1,700 | 212,500 |

| Real estate roll-out scheme | | | | |
|-----------------------------|------|------|------|-----------------------|
| Types of units | 2018 | 2019 | 2020 | Total number per type |
| Standard | 23 | 4 | 2 | 29 |
| Deluxe | 2 | 3 | 3 | 8 |
| Luxury | 1 | 1 | 1 | 3 |
| Total number of units sold | 26 | 8 | 6 | 40 |

| Revenue projections - Net sales Proceeds (all values in USD) | 2018 | 2019 | 2020 |
|--|-----------|-----------|-----------|
| | 5,478,000 | 2,136,000 | 1,752,000 |
| Related costs | 712,140 | 277,680 | 227,760 |
| Marketing (5%) | 273,900 | 106,800 | 87,600 |
| Legal (1%) | 54,780 | 21,360 | 17,520 |
| Other (0.5%) | 27,390 | 10,680 | 8,760 |
| Total costs | 356,070 | 138,840 | 113,880 |
| | 4,765,860 | 1,858,320 | 1,524,240 |
| Total Sales Proceed w/o investment cost | 8,148,420 | | |

Estimated investment budget of the chalets: USD4 million
 Total investment budget of the hotel and chalets: USD14.5 million

Required private investment of the total budget: 50-100%

Required amount of capital: USD7.25 million

Tenth year ROI: 8.6%

Equity IRR (10-year):4.2%

Equity IRR (15-year):11.9%

Equity IRR (20-year): 14.4%

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