



შპს მ² რეალ ესტეიტი
REAL ESTATE

m² Real Estate

Leading real estate developer in Georgia

BGEO Investor Day

22 November 2016 | Tbilisi, Georgia

Strictly private and confidential

Content

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- ❑ Business overview
- ❑ Performance
- ❑ Wrap-up and Q&A
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Strategy

 Business overview

 Performance

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Strategy

NET ASSET VALUE DEVELOPMENT

M2 Real Estate strategy is based on three pillars

*Fully develop
remaining land bank*

*Expand franchising platform to
develop third party land plots*

*Grow portfolio of
income generating assets*

Current NAV excl. the value of the franchise* (3Q2016)

US\$ mln

Cash & cash equivalents	17
Inventory	55
Investment property	44
Deferred income	(29)
Debt	(36)
NAV	51

Projected NAV excl. the value of the franchise* (2020)

US\$ mln

Cash & cash equivalents	33
Inventory	0
Investment property	67
Deferred income	0
Debt	(23)
NAV	77

* - the value of m2 franchise and platform is estimated at US\$ 20mln.

** - US\$ 25mln to be distributed to shareholders in 2020

Strategy, cont'd

Strategic goals to be achieved by 2020

Develop remaining land bank

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

- *Value of the land bank to be unlocked: US\$ 25mln;*
- *Expected profit: US\$ 12mln.*

Franchise m2 brand

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

- *Current estimated value of the m2 brand and platform: US\$ 20mln.*

Grow yielding portfolio

- Grow portfolio of rent earning assets by retaining ownership of ground floors in m2 developed projects or by opportunistic purchases of yielding real estate in prime locations;
- Develop 3-star hotels under Ramada Encore brand in Georgia (2 hotels in Tbilisi and 1 hotel in Kutaisi).

- *Current value of the yielding assets: US\$ 18mln;*
- *Projected value of yielding assets: US\$ 57mln.*

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Business overview

Key Segments & market size

1

Residential Developments

Affordable housing

Market: US\$ 1.0bln¹

As a residential real estate developer, m² targets mass market customers by introducing high quality and comfortable living standards in Georgia and making them affordable.



2

Yielding Business

Commercial space

Market: US\$ 2.5bln²

As a property manager, m² makes opportunistic investments and manages a well diversified portfolio of yielding assets, primarily consisting of high street real estate, industrial properties and offices.



Hotels

Market: US\$ 1.9bln³

As a hotel developer and operator, m² targets 3-star hotels in mixed use developments (residential combined with hotel). m² finances equity needs of the hotel from the profits and land value unlocked through sale of the apartments in the same development.



Track record

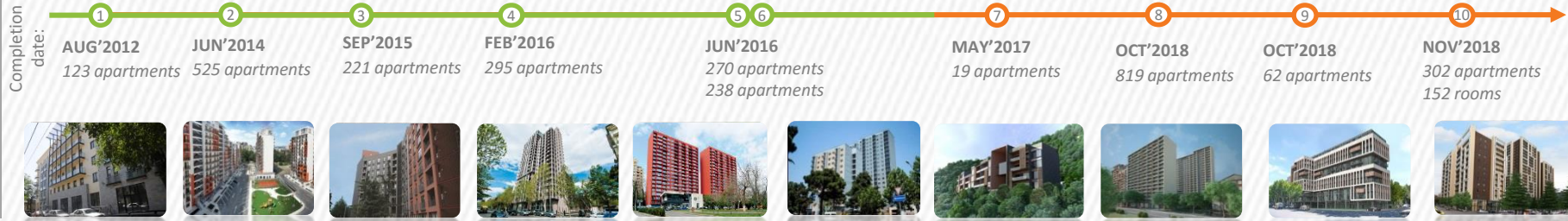
- **Generated IRR ranging from 31% to 165% on 6 completed residential projects**
- Started operations in 2010 and since:
 - **Completed 6 projects – 1,672 apartments**, 96% sold with US\$ 134mln sales value, land value unlocked US\$ 16mln, combined profit generated US\$ 17mln.
 - **Ongoing 4 projects – 1,202 apartments**, 30% sold with US\$ 32mln sales value, land value to be unlocked US\$ 17mln, combined profit generated US\$ 17mln.
- **All completed projects were on budget and on schedule**
- **Land bank of value US\$ 25mln, with c. 810 apartments**

- Generated gross annual yield of 9.7% in 2015 on portfolio rented out. Rent earning assets are with capital appreciation upside.
- m² has developed its current yielding portfolio through:
 - retaining ownership of commercial space (ground floor) at its own residential developments. This constitutes up to 25% of total yielding portfolio
 - acquiring opportunistically the commercial space. This constitutes over 75% of total yielding portfolio

- m² attained exclusive development agreement with Wyndham to develop Wyndham's 3-star brand Ramada Encore exclusively in Georgia. Plan is to build at least 3 hotels within next 7 years with minimum 300 rooms in total.
- 3 projects in the pipeline:
 - 1) 2 hotels in Tbilisi – land acquired, construction of the 1st hotel commenced in June 2016, 2nd hotel in design stage
 - 2) 1 hotel in Kutaisi – searching for property

Business overview, cont'd

All projects were completed on budget and on schedule



2,874 apartments in total: 1,672 apartments completed with 96% sales and 1,202 apartments under construction with 30% pre-sales

#	Project name	Number of apartments				Investment						Return		
		Total	Sold as % of total	Aavailable for sale		Pre-sales ²	Debt ³	Equity	Project cost w/o land	Land value	Equity as % of total cost	Cash equity (US\$ mln)	Equity multiple	IRR
Completed projects		1,672	1,601	96%	71	80.2	17.4	9.4	107.0	16.4	21%	9.4	x1.6	Realised⁴
1	Chubinashvili street	123	123	100%	0	5.4	0.9	0.4	6.7	0.9	17%	0.4	x1.7	47%
2	Tamarashvili street	525	523	100%	2	20.0	10.0	5.0	35.0	5.4	26%	5.0	x1.5	46%
3	Nutsubidze Street	221	221	100%	0	9.0	2.5	3.0	14.5	2.2	31%	3.0	x1.1	58%
4	Kazbegi Street	295	294	100%	1	18.5	2.5	1.0	22.0	3.6	18%	1.0	x2.2	165%
5	Tamarashvili Street II	270	249	92%	21	18.2	-	-	18.2	2.7	13%	-	x2.4	71%
6	Moscow avenue	238	191	80%	47	9.1	1.5	-	10.6	1.6	13%	-	x1.2	31%
On-going projects		1,202	364	30%	838	71.7	21.3	6.0	99.0	16.5	19%	6.0	x1.7	Expected
7	Skyline	19	9	47%	10	4.7	-	-	4.7	3.1	39%	-	x1.1	329%
8	Kartozia Street	819	261	32%	558	32.8	15.0	6.0	53.8	5.8	20%	6.0	x1.7	60%
9	Chavchavadze	62	22	35%	40	7.9	-	-	7.9	3.3	29%	-	x1.6	75%
10	Kazbegi Street II	302	72	24%	230	26.4	6.3	-	32.6	4.3	12%	-	x2.5	51%
Total		2,874	1,965	68%	909	151.9	38.7	15.4	206.0	32.9	20%	15.4	x1.7	

Note 1: Total sales was US\$ 166mln, of which US\$ 79mln or 47% was financed with mortgages

Note 2: Pre-sales is defined as sales before project completion

Note 3: Debt financing raised from IFC, FMO, GGF, issuance of local bonds. Total of US\$ 124mln during 2010-2016 period

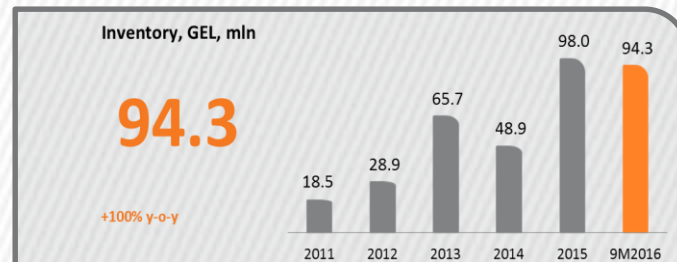
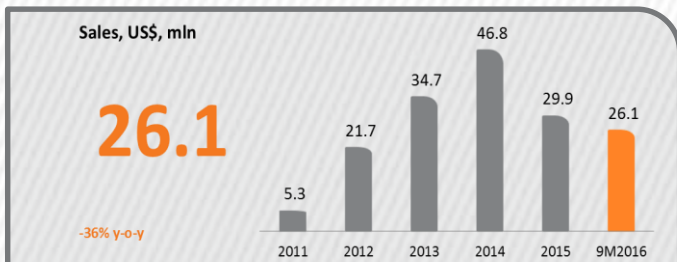
Note 4: IRR to be realised after sale of the remaining apartments

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- ❑ Wrap-up and Q&A
- ❑ Annexes

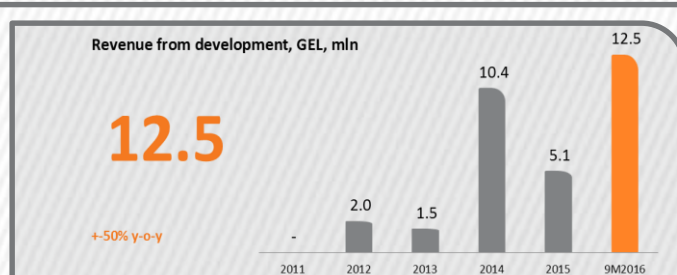
Performance

Financial performance

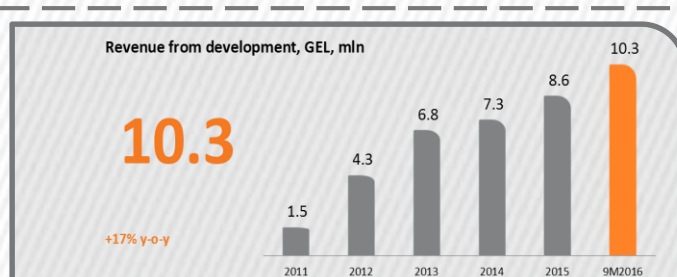
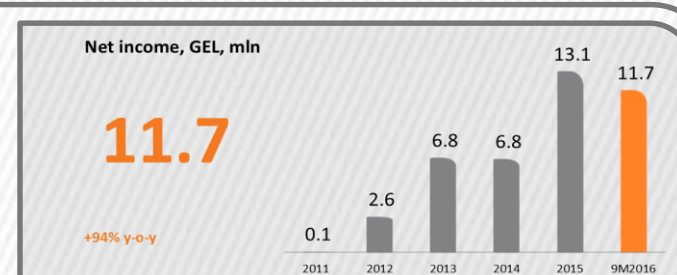
Balance Sheet



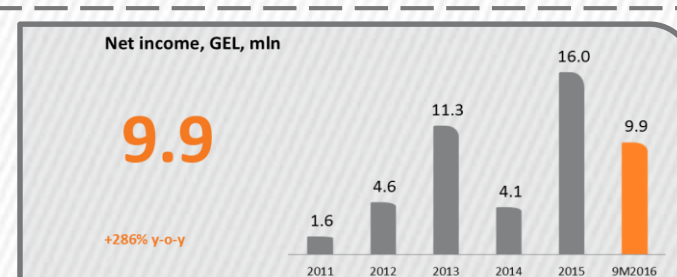
Income Statement



Current revenue recognition policy (in line with IAS 18)



Theoretical performance under IFRS 15



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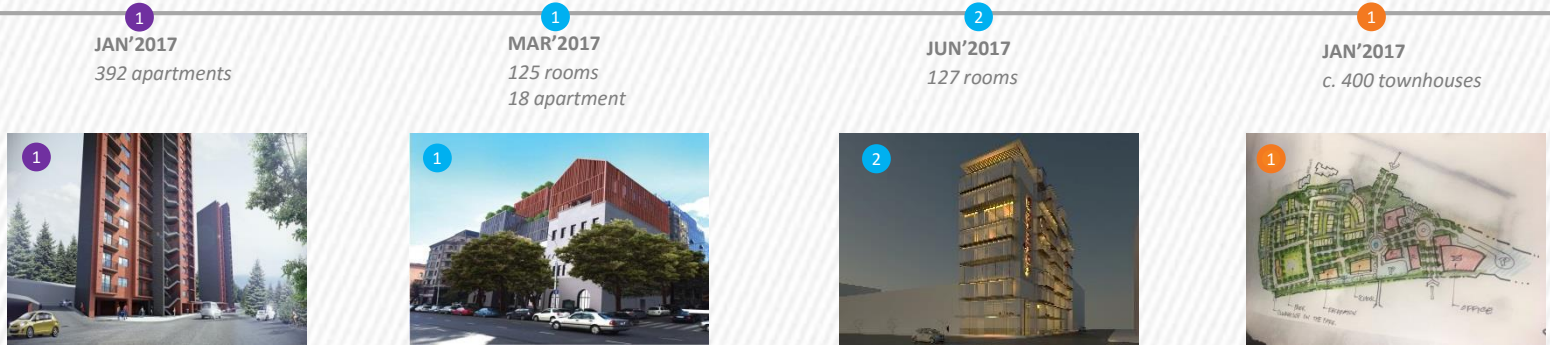
Q&A

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- ❑ **Annexes**

Developing remaining land bank: strong pipeline

Project timeline

Start date:



Project highlights

Existing land bank of US\$ 25mln value, with c.810 apartments

- | | | |
|--|---|---|
| <p>1 Kavtaradze street (economy/low cost development)</p> <ul style="list-style-type: none"> 392 apartments IRR: 36%, expected Expected sales: US\$ 27.6mln Start: Jan-17 Completion: Dec-18 Total completion cost: US\$ 23.9mln Land value: US\$ 2.6mln Equity multiple: x1.7 | <p>1 Ramada Encore (Meliqishvili–mixed-use)</p> <ul style="list-style-type: none"> Hotel: 125 rooms, 5900 sqm (gross) Start: Mar-17, Completion: Mar-18 Total completion cost: US\$ 11.9mln Profit stabilized year: US\$ 1.2mln ADR (stabilized year): US\$ 110 Residential: 18 apartments IRR: 70% Expected sales: US\$ 5.0mln Start: Mar-17; Completion: Mar-18 Total completion cost: US\$ 4.2mln Equity multiple: x1.4 | <p>2 Ramada Encore (Kutaisi– 3-star hotel)</p> <ul style="list-style-type: none"> Hotel: 127 rooms, 6000 sqm (gross) Start: Jun'17; Completion: Sep'18 Total completion cost: US\$ 11.3mln Profit stabilized year: US\$ 1.2mln ADR (stabilized year): US\$ 107 |
|--|---|---|

Digomi development

m² owns 13 hectares of land in close proximity to the city center. Plan is to develop a modern neighborhood with c. 400 townhouses, amenities, school and kindergarten and limited retail. Project is currently in the design stage and project master-plan is being developed. It is expected that the construction phase will take up to 3 years, with the commencement planned in fall 2017.

- 1** Digomi Project
- 400 townhouses
 - IRR: 26%, expected**
 - Expected sales: US\$ 76.7mln
 - Start: Jan-17
 - Completion: Apr-19
 - Total completion cost: US\$ 58.6mln
 - Land value: US\$ 18mln
 - Equity multiple: x1.5

Franchising real estate development in Georgia

m² brand name

1

m² puts its name behind the project

m² completed 6 projects with 1,672 apartments, only 71 apartments remaining for sale

m² has 92% customer brand awareness among real estate developers in Georgia

m² pricing power

2

Under m², apartments can sell at higher price than other brands

m² development expertise to increase efficiency in planning and design stages and drive revenues as well as margins

m² knowledge of current market demand (including pricing of apartments) on size and apartment mix

m² sales

3

m² ability to pre-sell

m² pre-sales power reduces equity needed to finance the projects

Top three banks in Georgia provide mortgages under m² completion guarantee

m² ability to accomplish strong sales performance through dedicated sales personnel and access to finance

m² execution

4

m² manages process from feasibility through apartment handover and property management

m² completed all projects on time and on budget

m² has discounts from contractors and can do development at much lower cost

m² can do turn-key

Annexes, cont'd

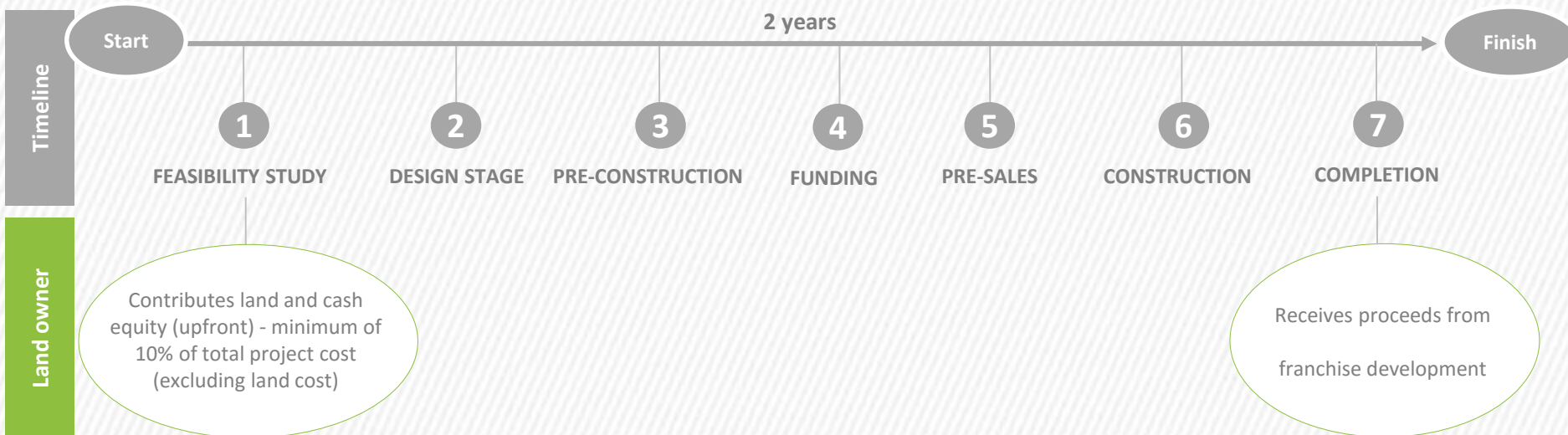
m2 pricing power

(US\$)		m2			competition			
#	Project name	White frame price / sqm	Refurbishment	Total	White frame price / sqm	Refurbishment	Total	Difference
1	Chubinashvili street	854	110	964	600	250	850	114
2	Tamarashvili street	984	130	1,114	700	300	1,000	114
3	Kazbegi Street	1077	130	1,207	800	300	1,100	107
4	Nutsubidze Street	899	130	1,029	600	300	900	129
5	Tamarashvili Street II	992	130	1,122	700	300	1,000	122
6	Moscow avenue	664	100	764	400	250	650	114



Annexes, cont'd

Franchise Development Agreement details



Works carried out by m ²
1. FEASIBILITY STUDY: concept development, concept testing & financial model
2. DESIGN: soil survey, architecture, structural, MEP, permits & approval
3. PRE-CONSTRUCTION: search of contractor & setting pricing
4. FUNDING: sourcing debt funding for the development
5. PRE-SALES: setting minim % of total presales proceeds: 20-30%
6. CONSTRUCTION: signing agreement with contractor, project/construction management
7. FINISHING WORKS: handover and property management

Fee structure
<ul style="list-style-type: none"> Project Management & Development Fee (depending on size of the project): 6-10% of total project cost (land value not included) Sales & Marketing Fee (net): 2.5-3% of sales revenue Incentive Fee (Share in Net Profit): 20-30% - for this purposes land is valued by third party

Annexes, cont'd

Growing portfolio of yielding assets

Current portfolio of yielding assets (3Q2016)

High street retail:	US\$ 12mln
Hotels:	none
Other:	US\$ 4mln
TOTAL:	US\$ 16mln

Projected portfolio of yielding assets (2020)

High street retail:	US\$ 22mln
Hotels**:	US\$ 31mln
Other:	US\$ 4mln
TOTAL:	US\$ 57mln

- Blended gross yield*: 9.7% p.a.
- Leverage: US\$ 1mln

- Target blended gross yield*: 10% p.a.
- Leverage: US\$ 23mln

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

** - hotels valued at 7 x EBITDA of the stabilized year.

Annexes, cont'd

Financial performance as of 3Q2016

Consolidated Statement of Financial Position <i>(Amounts in GEL'000, unless otherwise stated)</i>	Sep-16 Actual	Sep-15 Actual	Sep-14 Actual
Current assets:			
Cash and cash equivalents	40,160	40,217	36,765
Time deposits with credit institutions	-	-	8,828
Available-for-sale securities	2,114	1,828	1,402
Accounts receivable, net	677	307	585
Inventory	22,514	87,495	16,434
Short-term loans issued	-	-	14,973
Prepayments and other current assets	10,214	23,260	9,426
Total current assets	75,679	153,107	88,413
Long-term assets:			
Investment property	97,167	75,866	18,866
Investment property under construction	4,566	-	-
Inventory	71,781	24,337	31,376
Property and equipment, net	1,628	1,265	703
Intangible assets, net	153	89	88
Deferred income tax assets	892	3,927	267
Prepayments and other long-term assets	24,780	12,222	196
Total long-term assets	200,967	117,706	51,496
Total assets	276,646	270,813	139,909
Current Liabilities:			
Accounts payable	3,280	5,378	878
Short-term loans	2,433	35	4,318
Debt securities issued	46,361	111	-
Deferred income	11,611	108,192	13,039
Current income tax liabilities	2,349	339	-
Retention payable to general contractor	2,545	-	-
Accruals and other current liabilities	5,721	6,081	3,296
Total current liabilities	74,300	120,136	21,531
Long-term liabilities:			
Long-term loans	36,030	3,778	7,293
Debt securities issued	-	46,643	-
Deferred income	46,278	15,712	46,873
Deferred income tax liabilities	279	1,443	161
Retention payable to general contractor	706	-	-
Other long-term liabilities	-	4,138	2,504
Total long-term liabilities	83,293	71,714	56,831
Total liabilities	157,593	191,850	78,362
Share capital	4,180	3,524	2,782
Share premium / (deficit)	85,552	72,760	54,305
Retained earnings / (accumulated losses)	17,594	5,976	(2,244)
Net income / (loss) of the period	11,727	(3,297)	6,704
Total shareholders equity	119,053	78,963	61,547
Total liabilities and shareholders equity	276,646	270,813	139,909

Consolidated Income statement <i>(Amounts in GEL'000, unless otherwise stated)</i>	Sep-16 YTD	Sep-15 YTD	Sep-14 YTD
Revenues			
Revenue from development	12,515	280	10,517
Income	86,991	5,010	48,921
CoGS	74,476	4,730	38,404
Revenue from operating lease, net	1,739	1,253	1,137
Revenue from operating lease	1,919	1,253	1,137
Property operating expense	180	-	-
Revenue from property management	(54)	36	-
Income	193	186	-
CoGS	247	150	-
Net gain (losses) from revaluation of investment property	953	342	1
Other operating income	35	35	73
Total operating revenues	15,188	1,946	11,728
Personnel costs	893	746	966
General & administrative expenses	605	788	467
Operating lease	478	538	265
Consulting & professional services	356	345	263
Sales & marketing	1,551	1,506	1,679
Repair & maintenance	82	17	77
Operating taxes	88	108	136
Other operating expenses	2	2	12
Total recurring operating costs	4,055	4,050	3,865
EBITDA	11,133	(2,104)	7,863
Depreciation & amortization	178	136	114
Impairment charge of other assets	-	(4)	48
Revenue from disposal of property and other assets	30	(60)	(23)
Income	1,503	-	-
CoGS	1,473	-	-
Other non-recurring income	295	45	(12)
Other non-recurring expense	302	(105)	(11)
EBIT	10,978	(2,296)	7,678
Interest income	305	387	360
Interest expenses	180	386	174
Foreign exchange gain / (loss)	1,201	(1,584)	23
EBT	12,304	(3,879)	7,887
Income tax expense / (benefit)	577	(582)	1,183
Net income / (loss)	11,727	(3,297)	6,704

Annexes, cont'd

Completed and ongoing projects (1/2)



Apartment building:
Chubinashvili street
Completion status: **100%**



Apartment building:
Tamarashvili street
Completion status: **100%**



Apartment building: **Kazbegi avenue**
Completion status: **100%**



Apartment building:
Nutsubidze Street
Completion status: **100%**



Apartment building:
Tamarashvili Street II
Completion status: **100%**



Apartment building:
Moscow avenue
Completion status: **100%**



Apartment building:
Kartoza Street
Completion status: **21%**



Apartment building: **Skyline**
Completion status: **56%**



Apartment building: **Kazbegi avenue II**
Completion status: **7%**



Apartment building:
Chavchavadze Avenue
Completion status: **1%**

Annexes, cont'd

Completed and ongoing projects (2/2)



Apartment building:
Chubinashvili street
Completion status: **100%**



Apartment building:
Tamarashvili street
Completion status: **100%**



Apartment building: **Kazbegi avenue**
Completion status: **100%**



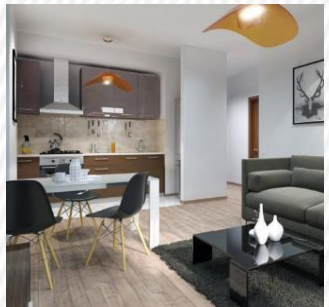
Apartment building:
Nutsubidze Street
Completion status: **100%**



Apartment building:
Tamarashvili Street II
Completion status: **100%**



Apartment building:
Moscow avenue
Completion status: **100%**



Apartment building:
Kartoza Street
Completion status: **21%**



Apartment building: **Skyline**
Completion status: **56%**



Apartment building: **Kazbegi avenue II**
Completion status: **7%**



Apartment building:
Chavchavadze Avenue
Completion status: **1%**

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