



TBC CAPITAL

TOURISM INDUSTRY IN GEORGIA

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Executive Summary

Georgia's Tourism Sector experienced significant growth between 2015 and 2019. The number of international visitor trips was increasing steadily before industry faced huge contraction in 2020, caused by Covid-19 as travel restrictions and mass lockdowns reduced the number of visitors.

After the Russian invasion of Ukraine In February 2022, geopolitical circumstances have also been an influencing factor to the number of international tourists visiting Georgia, as regional tensions grew along with the ongoing conflict.

The geographical proximity and the ease of travelling is an important factor that tourists consider, which is why neighboring countries have held a significant share in Georgia's total international visitors. However, in 2021 and 2022, visitors are less concentrated in Georgia's neighboring countries. This could imply possible shifts of the market in the future as Georgian tourism industry starts to become more attractive.

In 11M 2022, the revenue generated by international visitors amounted surpassed USD 3 billion, recording a 4% growth compared to the 11M 2019 levels. Travel receipts fully recovered in July of 2022 and has experienced a steep growth in recovery rates ever since.

The vast majority of visitors cross the air and land border, implying that most tourists arrive by plane or cars. Tourists can choose to arrive at three different international airports. Arrivals of international visitors at the airports has not yet recovered to the pre-pandemic levels, but very strong growth rates in 2021 and 2022 imply positive outlook for the recovery.

The demographics of Georgia's international visitors has remained relatively stable compared to 2019. In the 9 months of both, 2019 and 2022, most of the tourists were aged from 31 to 50. In 2022, the share of visitors visiting for the first time has increased from 28% to 32%. Paired with more diversified sources of visitors and revenues, this suggests new market opportunities for tourism sector.

The share of non-residents in total non-cash spending has been volatile since 2020, as non-resident spending heavily depends on the number of international visitors. After the pandemic related regulations were lifted, Georgian tourism industry experienced huge growth in non-resident non-cash spending, especially in summer 2021 and in January of 2022, caused by both: low base effect and full absence of Covid related regulations.

Relatively loose budget constraints and increased preference for consumption causes large difference between resident and non-resident average non-cash transaction. Average non-cash transaction size analysis in hotels also indicates that average spending is notably higher for non-residents.

In 2019, 85% of all non-cash transactions in hotels were made by non-residents. In 2020, the share of non-residents spending significantly dropped to 51%. While the 2021 and 2022 figures show improvement in this indicator, non-resident share still remains below the 2019 level.

Number of businesses which offer accommodation services has been steadily increasing in Georgia. After the closure of accommodation businesses in 2020, the number of active hotels quickly recovered in 2021 and recorded a 69% increase in supply and number of active units surpassed the 2019 figure.

The Adjara region is first in terms of the average number of rooms in a hotel and average number of bed-places, with the numbers constituting 26 and 62 respectively. Adjara is closely followed by Tbilisi with average of 25 rooms in a single accommodation unit.

Average 11M occupancy in 2022 for Georgia amounted to 50% which is a 3-pp increase from the corresponding 2019 figure. Average Daily Rates shows signs of seasonality, however, price increase during the summer season is more evident for the regional hotels, while ADR for Tbilisi is more stable throughout the year.



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TOURISM DEMAND DRIVERS

Demand Drivers

Geopolitical Factors

Demand from international visitors can be heavily dependent on the geopolitical factors which are influencing Georgia and their respective regions. The Russian invasion of Ukraine, in February 2022 significantly changed the geopolitical atmosphere in the region as tensions grew and the conflict only became more intense during the following months.

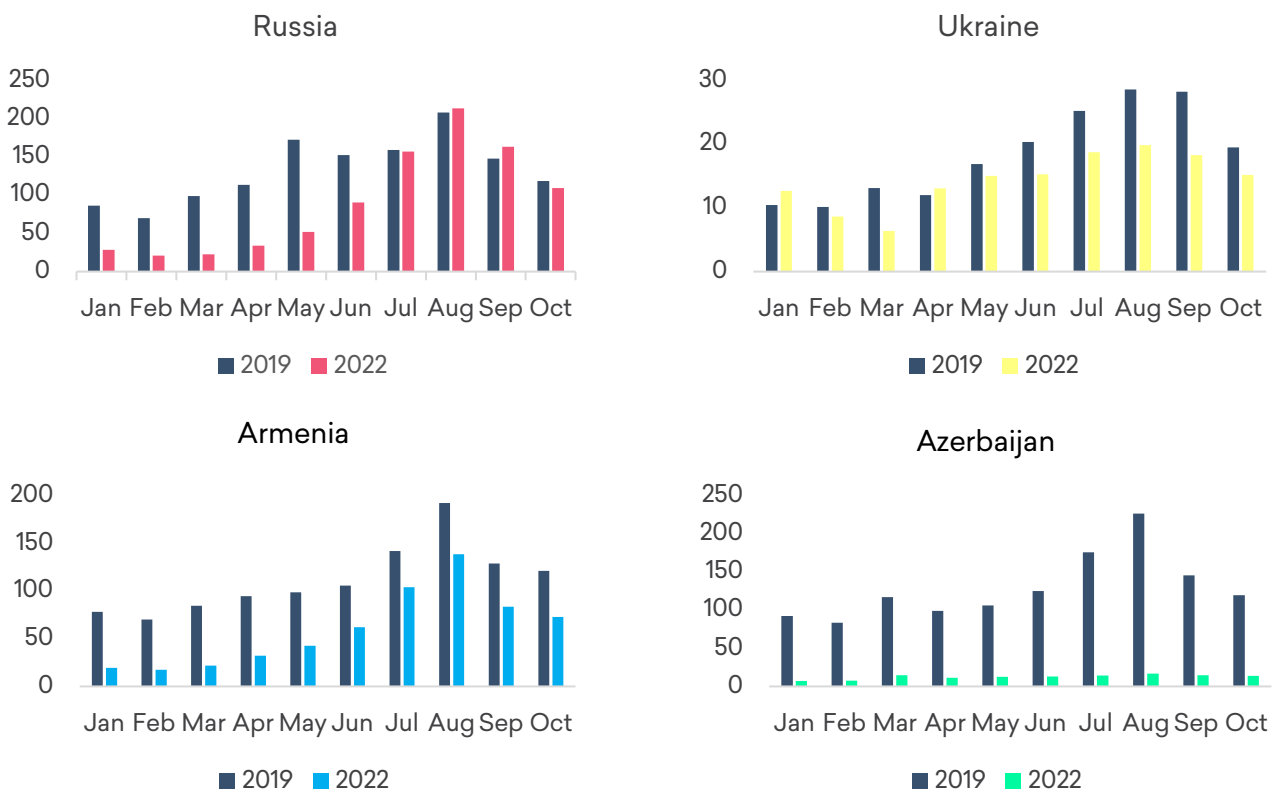
In terms of international travels, this meant that most of the Ukrainian citizens would no longer travel as tourists, possibly resulting in the reduced inflow of visitors in their destination countries. However, as migration processes started, Georgia also became a host for the Ukrainian migrants and while the number of incoming people is still less than the 2019 level, there wasn't a notable decline recorded in the number of visitors from Ukraine, due to the ongoing war.

Russia also saw a flow of emigration first, due to the imposed sanctions and the economic results that followed. Georgia received the first flow of Russian migrants in the first three months of the

war. Another notable flow of emigration was recorded in September 2022, when the Russian government announced mobilization of troops in the country. Besides migrants, the number of Russian visitors coming to Georgia for travel purposes increased and surpassed the 2019 levels in August and September. Large number of Russian visitors was mainly a result of closed border policies implemented by other countries neighboring Russia, including – Finland, Estonia, Lithuania, Latvia and Poland. With limited land and air transportation to other countries, a significant number of Russian tourists opted to go to countries that allowed their entry, including Georgia.

Another geopolitical circumstance that impacts tourist inflow in Georgia to certain extent is conflict between Armenia and Azerbaijan in the Nagorno-Karabakh region. The conflict hasn't had any direct effect on the international visits in Georgia, however, Azerbaijani visitors remain at a significantly low level compared to 2019 due to closed borders, which can be linked to pandemic, as well as security reasons.

Figure 01. International Visitors by Countries ('000)



Source: Georgian National Tourism Administration (GNTA)

Demand Drivers

Source Countries Analysis

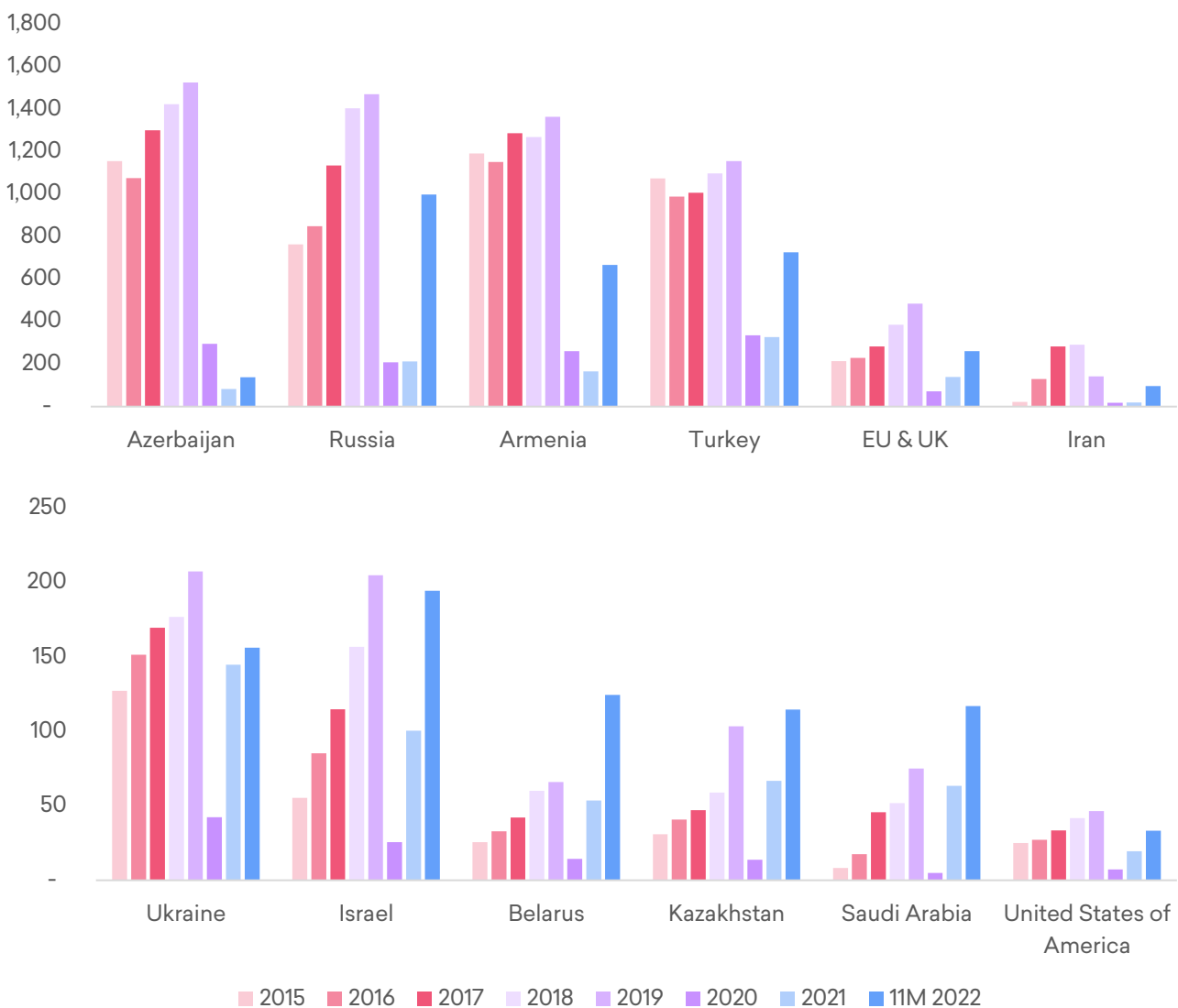
To understand the market demand for the Georgian tourism services, it is important to start with analysis of which countries generate the largest demand.

The geographical proximity and the ease of travelling is an important factor that tourists consider. Georgia's neighbors drive a significant part of the tourism industry demand. From 2015 up until 2020 number of international visitors from Armenia and Turkey was increasing steadily, while Russia experienced relatively larger growth rates. Visitors from Azerbaijan also registered high growth rates, which was

interfered first by the pandemic, and then by the land border closure between Georgia and Azerbaijan, which still remains closed.

Number of international visitors grew by exceptionally high rates in case of Israel, Kazakhstan and Saudi Arabia. EU & UK also had notable growth rates, which imply possibility of Georgia attracting more tourists from more diversified set of countries, which increases the possible market size and could lead to more resilient industry through diversification.

Figure 02. International Visitor Trips by Countries ('000)



Source: Georgian National Tourism Administration

Demand Drivers

Source Countries Analysis

Georgia's Tourism Sector experienced significant growth between 2015 and 2019. Number of international visitor trips was increasing steadily before industry faced huge contraction caused by Covid-19 as travel restrictions and mass lockdowns reduced the number of visitors by 80%.

The negative shock on the industry persisted in 2021 as well. Continued lockdowns and growing number of people infected with the virus, accompanied with the travel restrictions that were still in place, only enabled 14% growth in the sector.

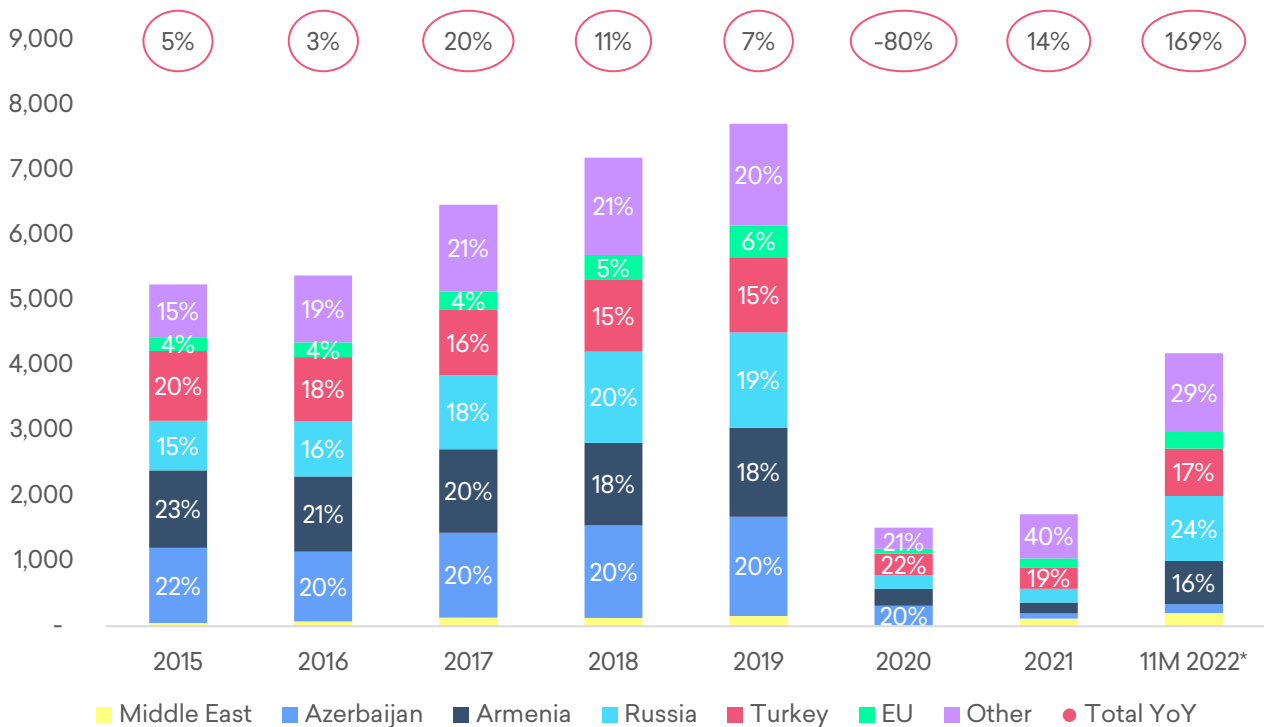
As all the restrictions were lifted and business activity got restored, tourism industry also started to recover. Just in 11 months of 2022, international visitor trips increased by 144% compared to last year's 11 month levels. Compared to the same period in 2019, number of international visitor trips is reduced by 41.6%.

Increase in the number of visitors from middle east also implies more diversification. Middle east started to become considerable part of the demand on Georgian tourism since 2016, when it amounted for 1% of total international visitor trips, but the share increased to 7% and 5% in 2021 and 11M 2022, respectively.

The share of EU has also increased from 4% in 2015 to 6% in 11 months of 2022. Despite the relatively low share of EU and Middle East countries in international visitor trips, such growth rates imply the possibility of attracting more visitors from those countries.

The on-going war between Russia and Ukraine with its spillover effects on many involved parties, along with closed land border with Azerbaijan makes Georgian tourism industry vulnerable, but increased diversification could have many positive outcomes. Diversification helps industries become less reliant on visitors from a single country, which results in more resilience of the industry, which is one of the keys to undisturbed economic activity.

Figure 03. International Visitor Trips ('000)



Source: Georgian National Tourism Administration
 *YoY changes for 2022 are calculated by using 11 Month levels in 2021.

Demand Drivers

Source Countries Analysis

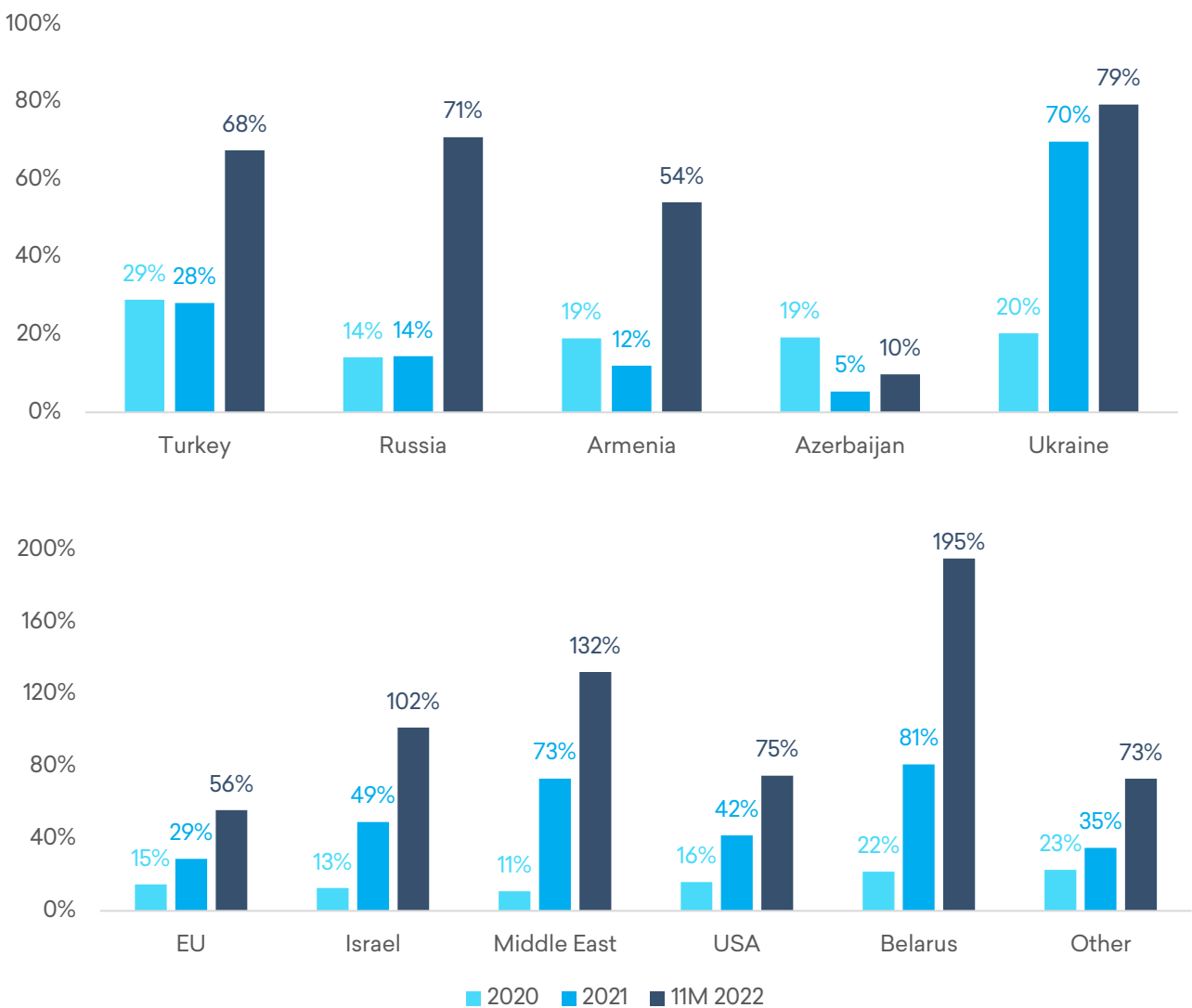
Due to the huge negative shock on the market, tracking the recovery of the industry gives an important insight. Compared to the 11 months of 2019, the number of international visitor trips has recovered by 58,4%. According to the data, only Belarus and Middle east countries have exceeded the 2019 levels with very steep growth rates. The number of visitors from Israel slightly exceeded the level depicted in 10 months of 2019.

Turkey, Russia, Armenia, Azerbaijan, Ukraine, EU and the United States remain below the 2019 levels, but strong growth rates imply promising outlook on the future.

Azerbaijan is the only country from where international visitor trips decreased below the 2020 levels, underlying the utter importance of the open land border between Georgia and Azerbaijan and the general significance of the ease of travelling on the tourist's decision-making process.

Additionally, the two different effects of the Russo-Ukrainian war is evident, as the war accelerated the rate of the recovery for Russian visitors but resulted in the opposite for Ukrainians.

Figure 04. Recovery of International Visitor Trips Relative to 2019



Source: Georgian National Tourism Administration

Demand Drivers

Source Countries - Macro Analysis

Consumption choices often reflect individuals' expectations about the future, which is strongly influenced by macroeconomic indicators of the country. Analyzing the macroeconomic outlook of the countries that generate the largest demand on Georgian tourism industry gives an useful insight for forecasting the tourism market stability and growth.

One of the largest source of international tourists in Georgia - Armenia experienced 5.7% growth in real GDP in 2021 compared to the last year. The strong growth rate was driven by growth in tourism, IT services and financial services.

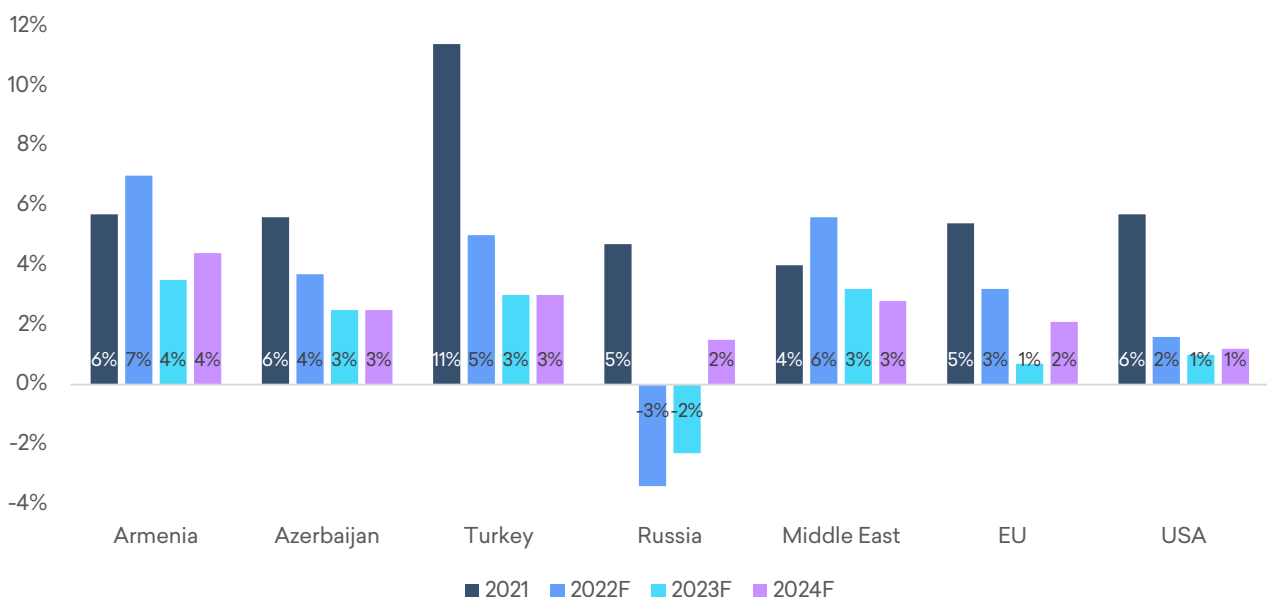
Turkish economy has been facing major challenges in the past few years. Political and economic crisis along with Covid-19 disrupted economic activity. Additionally, high inflation, which is projected to persist in the upcoming years, will negatively influence individual expectations, resulting in limited consumer spending. Georgia has been one of the top destinations for Turkish tourists for over a decade. Decline in consumer spending could result in reduced number of visitor trips. However, this indicates that Georgia could remain a leader destination and even attract more visitors due to its affordability.

Azerbaijan also deals with shaken consumer and business confidence, yielding lower spending and investment. On the other hand, the economy could be fueled by increased commodity prices. Current challenges along with the closed land border between Azerbaijan and Georgia creates low expectations regarding the growth in tourist trips as land crossing was the primary method of border crossing in Georgia for the past years.

Other than economic factors, on-going Russia-Ukraine war has significant spillover effects in the region and in Europe. Prolonged military conflict will continue to reveal its strong influence on the whole region in following years as it continues to alter many industries, including tourism.

Most of the countries that generate the largest demand on Georgian tourism sector face political and economic challenges that change people's consumption decisions. resulting in decreased overall outbound tourism. On the contrary, it could drive the demand up as individuals start to look for the destinations which better correspond to their reevaluated budgets and it could increase Georgia's attractiveness as a destination country.

Figure 05. Projected Real GDP Annual Growth Rates



Source: International Monetary Fund

Demand Drivers

Source Countries - Revenues

In 11 months of 2022, revenue generated by international visitors amounted 3.16 billion USD, exceeding the 11M 2019 levels by 4%. Compared to 2019 levels, travel receipts fully recovered in July of 2022 and has experienced a steep growth in recovery rates ever since. Foreign card operations and non-resident non-cash spending through TBC bank channels exceeded 2019 levels relatively earlier, in December 2021 and June 2021, respectively.

As large share of International visitors and migrants come from Russia, it is natural that largest share of travel receipts was generated

from Russia as well. Compared to 2019 levels, their share increased by 1% in 2022. Shares also increased for Ukraine, Israel, and Saudi Arabia, whilst a decrease was registered for Turkey, Azerbaijan, Armenia, EU & UK, and Iran.

The share of other countries dramatically increased from 16% to 24%, which parallels similarly less concentration of the number of international visitors in a few countries and suggests more diversification in the sources of revenue generated by tourism industry.

Figure 06. Recovery of Economic Indicators relative to 2019 Level

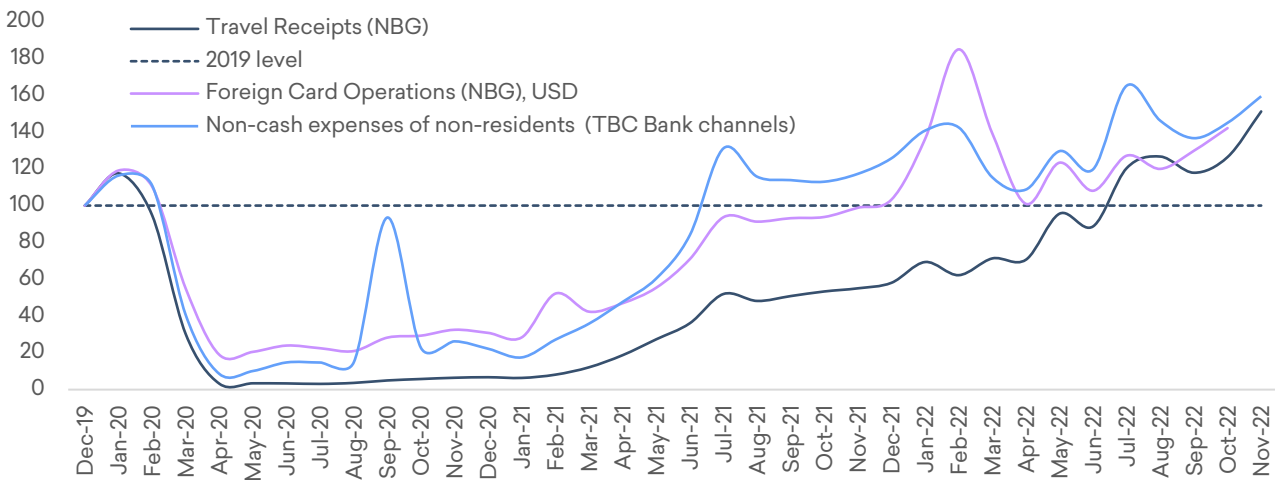
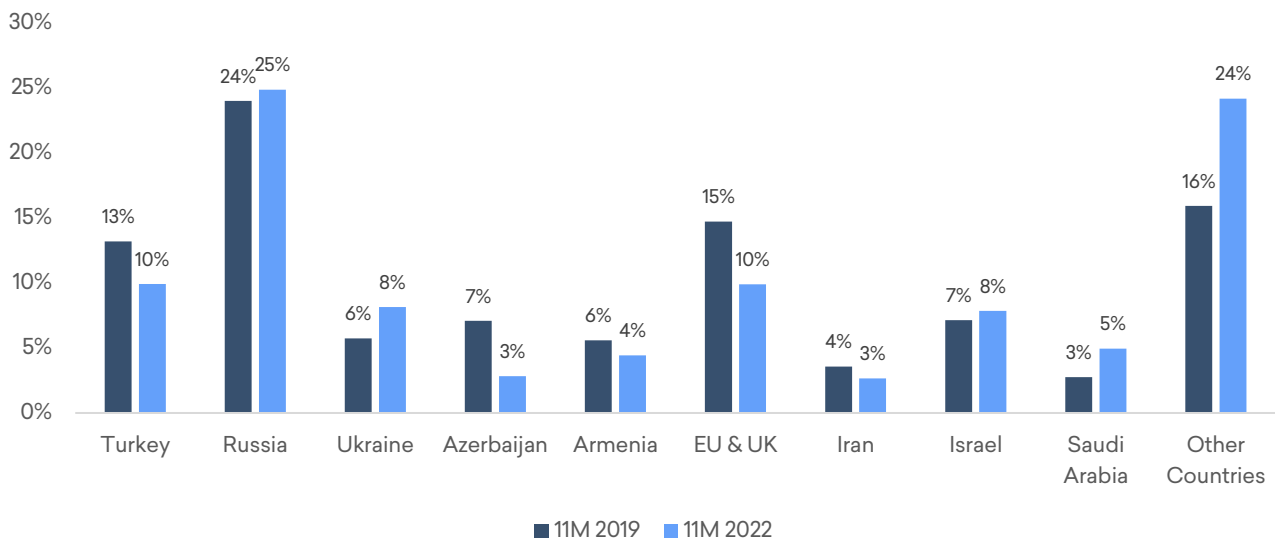


Figure 07. Share of Countries in Total Revenue Generated by International Visitors



Source: National Bank Of Georgia

Demand Drivers

Border and Transportation Analysis

Transportation is an important aspect of tourism as it brings tourists to their destinations. In that regard, Georgia offers its visitors variety of transportation modes that can be used to reach Georgian Borders.

As data suggests, vast majority of visitors cross the air and land border, implying that most tourists arrive by plane or cars. The total of railway and sea border crossing has reached maximum of 2% of total visitor arrivals in 2020, while in other analyzed years it only amounted for 1%. In 2020, share of land border crossing reached its maximum (80%) as air travel was

restricted due to Covid-19. It can also be observed that air border arrivals are showing relatively higher share after the pandemic.

Most of the international visitors in Georgia come from neighbor countries, which are the most active users of land borders. The reduction in border crossings at Tsiteli Khidi (Azerbaijan border) resulted in overall reduction of total land border crossings by 32%. The border closure with Azerbaijan is compensated by large growths in Kazbegi, Sarpi and Sadakhlo borders, resulting in more than the tripled number of arrivals at land borders in 11 months of 2022.

Figure 08. International Visitor Trips by Border Type ('000)

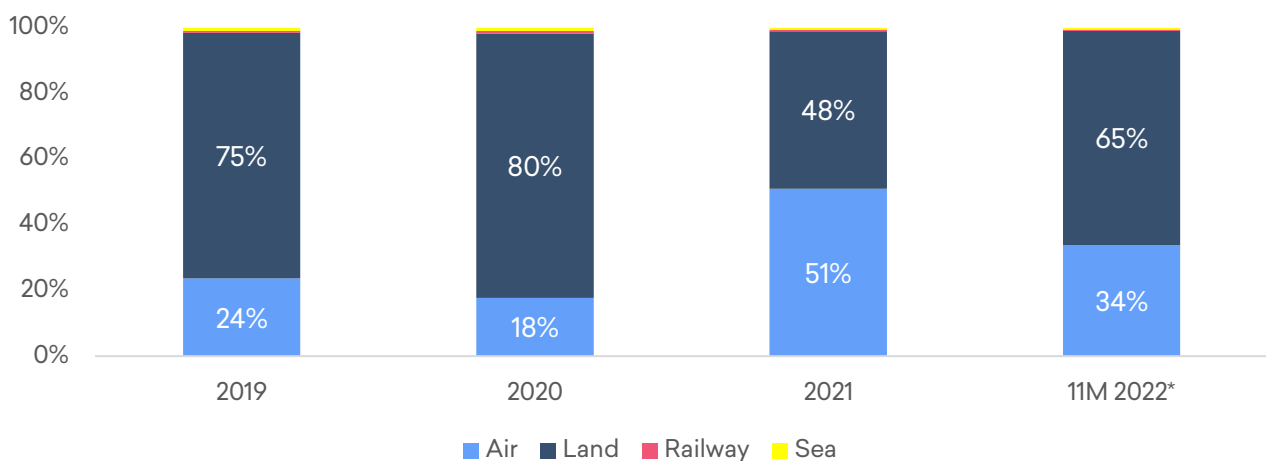
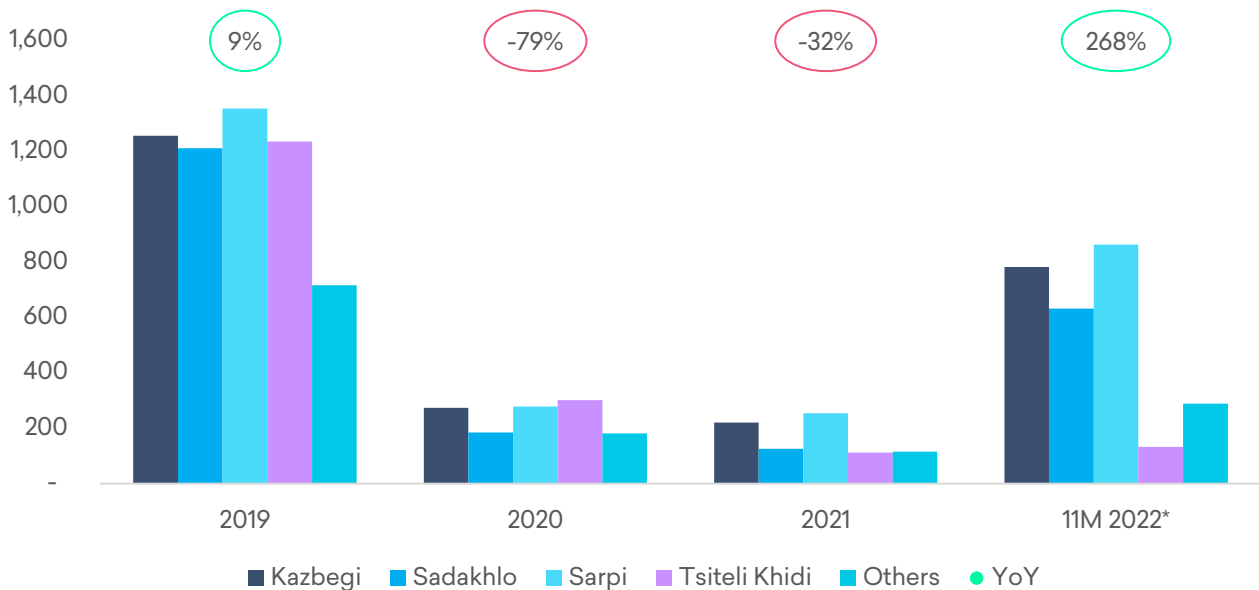


Figure 09. Land Border Crossings by Borders ('000)



Source: Georgian National Tourism Administration
 *YoY changes for 2022 are calculated by using 11 Month levels in 2021.

Demand Drivers

Border and Transportation Analysis

Tourists can choose to arrive at three different international airports. Arrivals of international visitors at the airports has not yet recovered to the pre-pandemic levels, but very strong growth rates in 2021 and 2022 imply positive outlook for the recovery.

Tbilisi Airport is the largest airport in Georgia and vast majority of tourists arriving by air transport land there. In just 11 months of 2022, arrivals at Kutaisi and Tbilisi airports have already exceeded last year levels, while Batumi Airport remains at stable levels. Number of flights also corresponds to the air border crossing data.

In 2021, 39 different airlines were operating at the Georgian Airports, amongst which Turkish Airlines amounted for the largest share in terms of the number of passengers. The distribution of top 10 airlines with largest shares imply that air transportation in Georgia mostly consists of the budget airlines.

Flight availability is vital for the further diversification of international visitors in Georgia as the existence of comfortable travel options, highly affects the overall decision to visit a country.

Figure 10. Air border crossings by Airports ('000)

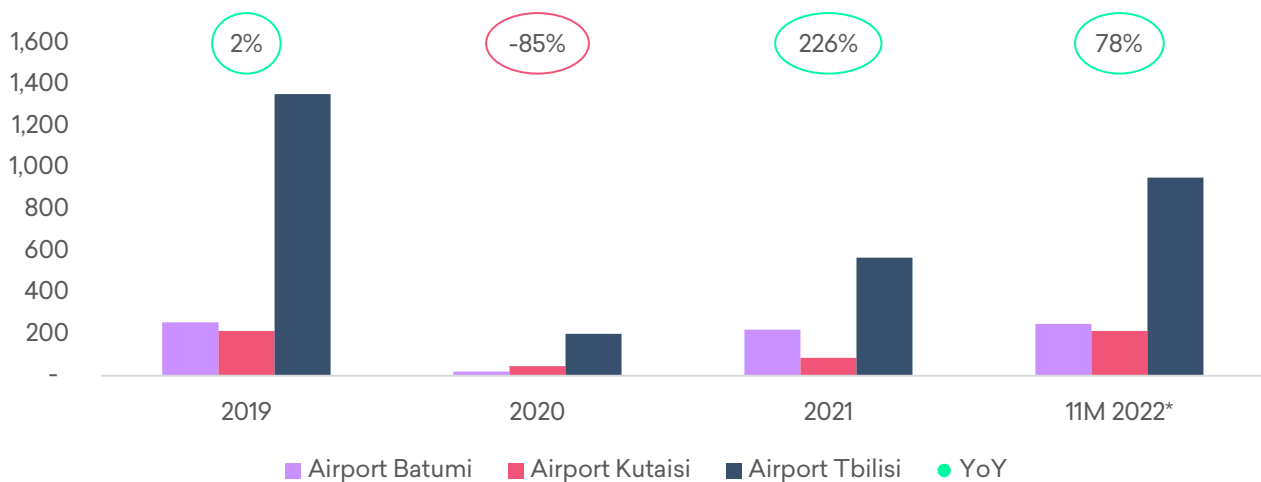


Figure 11. Number of Flights by Georgia's International Airports ('000)

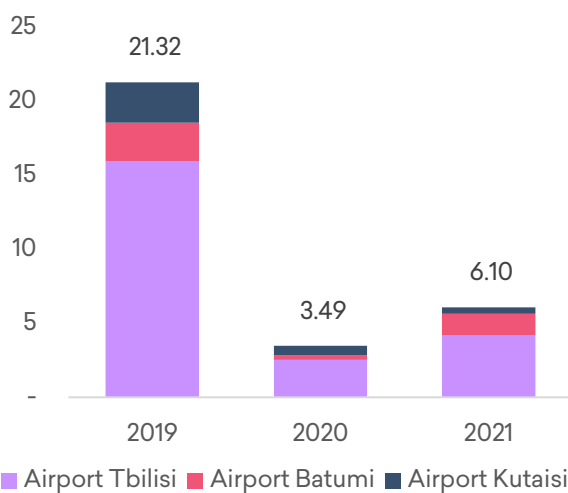
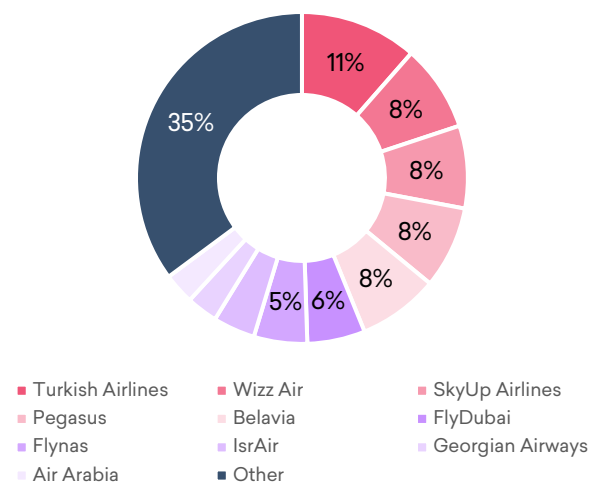


Figure 12. Shares of Airlines by Number of Passengers, 2021



Source: Georgian National Tourism Administration; Georgian Civil Aviation Agency
 *YoY changes for 2022 are calculated by using 11 Month levels in 2021

Demand Drivers

Budget Spending on Tourism

Demand on tourism is partly affected by the amount the government chooses to spend on the industry. International visitors can be influenced on the active marketing campaigns and focused advertisements placed in the social media.

The budget analysis displays that spending on tourism is highly volatile and significant changes were recorded in the government spending patterns during recent years. The biggest reduction in tourism spending occurred in 2020, when, due to the pandemic, there were practically no international tourists in the country and tourism industry became heavily dependent

domestic travelers and government subsidies to keep the businesses from closing down. As tourism recovers, government spending is also increasing. In 2022, budgeted spending shows 99% rise in the amount and another 45% growth is budgeted for year 2023. However, actual results for first three quarters of 2022 show that there is underspending on tourism and so far, only 68% of the budget has been fulfilled.

It is also beneficial to look at the share of tourism in GDP against the share of tourism spending in the budget. These indicators seem to share the same trend, but in 2020, cut in spending was much larger, than the reduction in share of GDP.

Figure 13. Government Spending on Tourism Support (Mln, GEL)

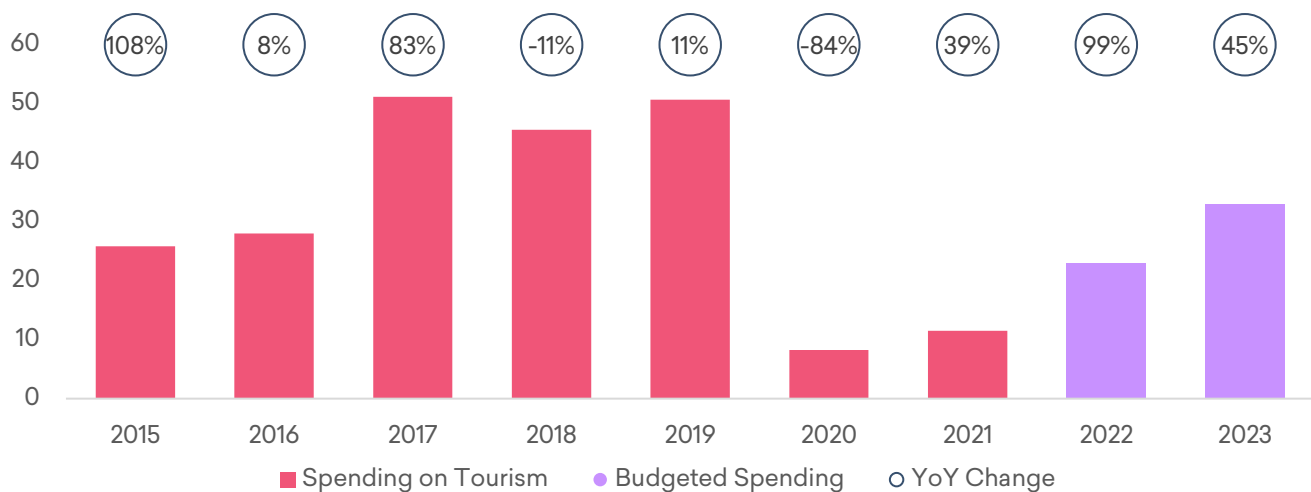
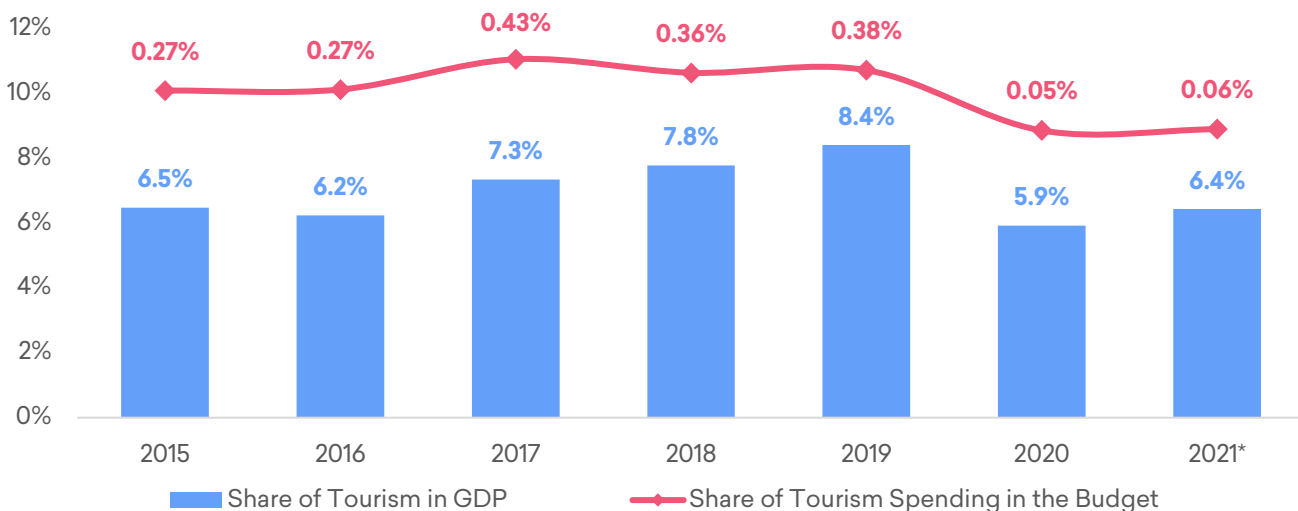


Figure 14. Share of Tourism in GDP and Share of Tourism Spending in the Total Budget



Source: Ministry of Finance (MoF), Georgian National Tourism Administration (GNTA)



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TOURISM DEMAND CHARACTERISTICS

Demand Characteristics

Demographics

The demographics of Georgia's international visitors has remained relatively stable compared to 2019. In the 9 months of both, 2019 and 2022, most of the tourists were aged from 31 to 50. The distribution by gender has also remained similar as most of the visitors were male, but the share of females has increased relative to 2019.

In 2022, the share of visitors visiting for the first time has increased from 28% to 32%. Paired with more diversified sources of visitors and revenues, this suggests new market opportunities for tourism sector.

The average score of satisfaction has been moderately increasing over time. Compared to 2019, it increased from 4.44 to 4.48. This positive change can partially increase the significant growth in the average length of stay. According to the survey data by Georgian National Tourism Administration, the average length of stay has reached record high number since 2015.

Figure 15. International Visitor Trips by Age Group

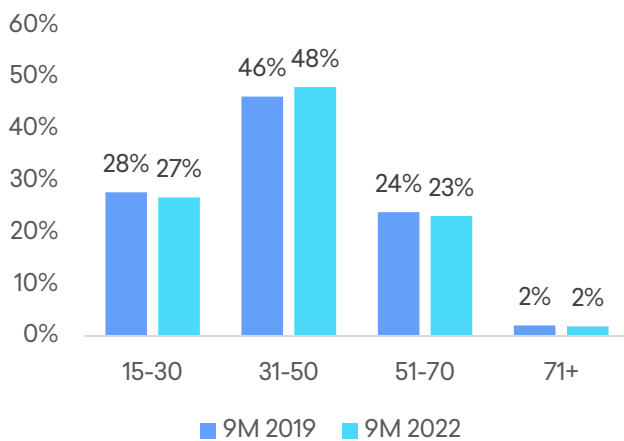


Figure 16. International Visitor Trips by Gender

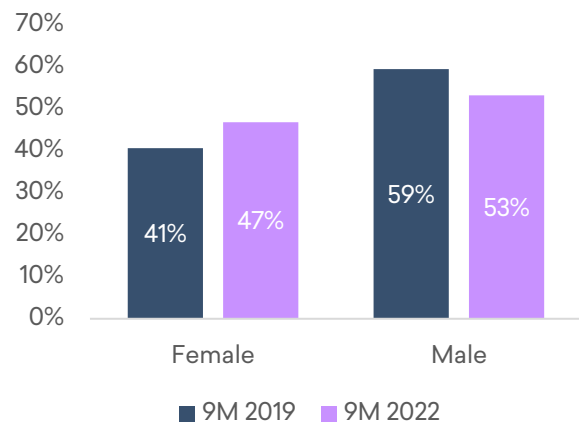


Figure 17. International Visitor Trips by Visiting Practice and Average Satisfaction Score (Out of 5)

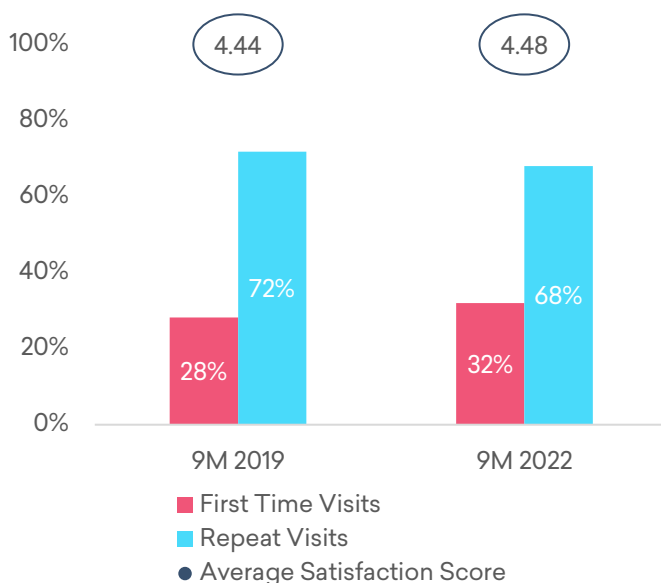
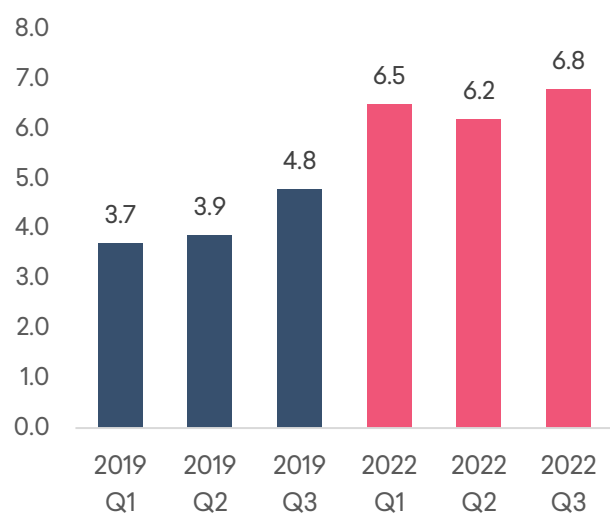


Figure 18. Average Length of Stay of International Visitors (Number of Nights)



Source: Georgian National Tourism Administration (GNTA)

Demand Characteristics

Demographics

According to the data, 56% of tourists visited Georgia for the purpose of holiday, leisure, and recreation. In 2022, Share of people visiting for shopping and business /professional purposes halved compared to 2019 levels. Most of the visitors come to Georgia with their family or relatives, while the second largest share visits alone. This implies that Georgian travel industry is

especially attractive for families and solo travelers. The reduction in the share of people travelling with their colleagues mirrors the reduction in business trips.

The distribution of regions by international visitor trips has remained similar to 2019. Majority of people visit Tbilisi, the capital, followed by Adjara and Mtskheta-Mtianeti.

Figure 19. International Visitor Trips by Purpose of the Trip

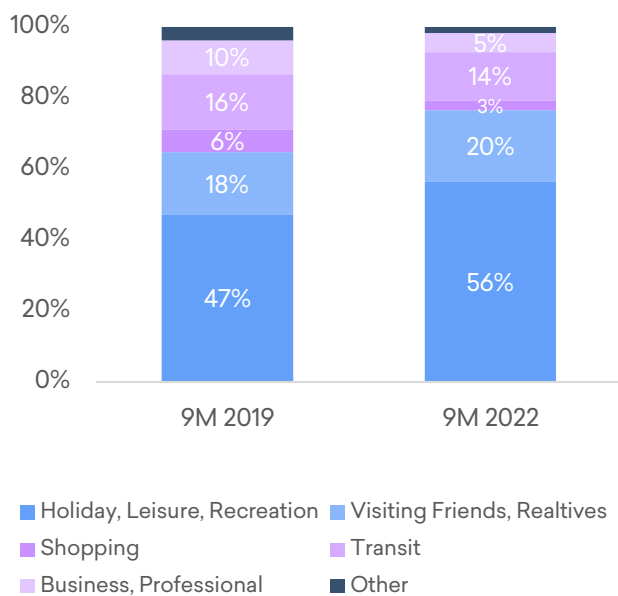


Figure 20. International Visitor Trips by Accompany

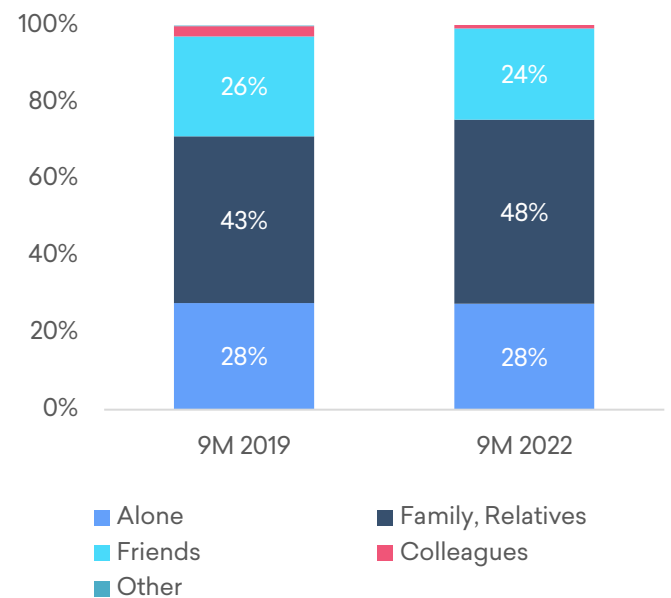
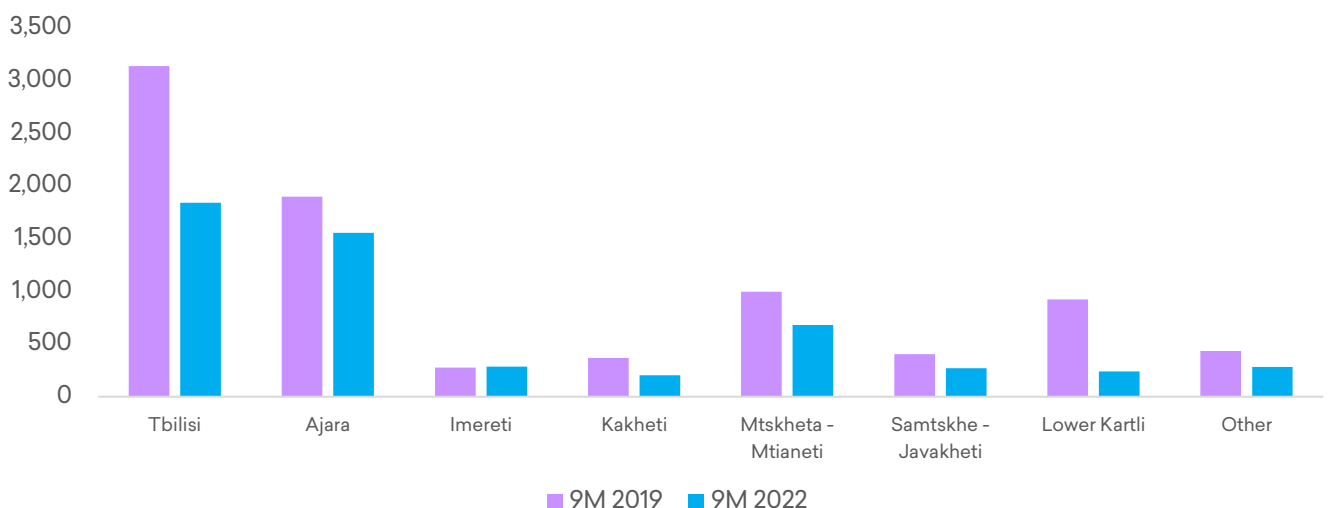


Figure 21. Regions by International Visitors ('000)



Source: Georgian National Tourism Administration (GNTA)

Demand Characteristics

Non-Cash Spending

Analyzing International visitors' non-cash transactions can be useful to draw important conclusions about international visitors' demand characteristics and spending habits.

The share of non-residents in total non-cash spending has been volatile in the analyzed periods, as it heavily depends on the number of international visitors. Consequently, changes in the two parallel each other. The share experienced a dramatic decrease in 2020, naturally corresponding to the decrease in overall number of tourists due to Covid-19 regulations.

A strong seasonality trend can also be observed in the dynamic. Non-residents' share in non-cash

spending increases in the summer months and starts to decline in October in the observed years.

For the past years, more than half of the non-cash transactions took place in Tbilisi in each month, but seasonality effect causes relatively lower concentration in summer months.

As regulations were lifted, Georgian tourism industry experienced huge growth in non-resident non-cash spending, especially in summer 2021 and in January of 2022, caused by both: low base effect and full absence of Covid related regulations.

Figure 22. Share of Non-residents in Non-Cash Transactions

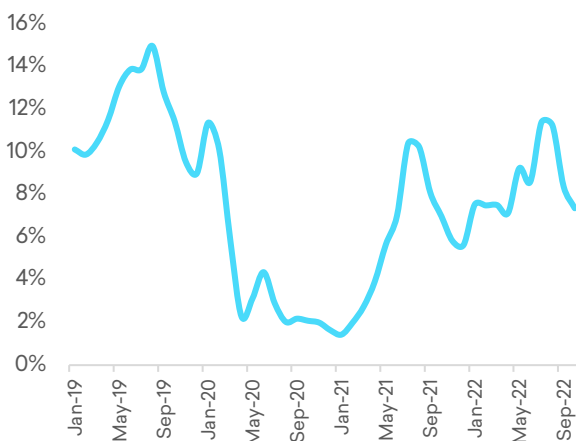


Figure 23. Share of Tbilisi in Total Non-Cash Transactions Through TBC Bank Channels

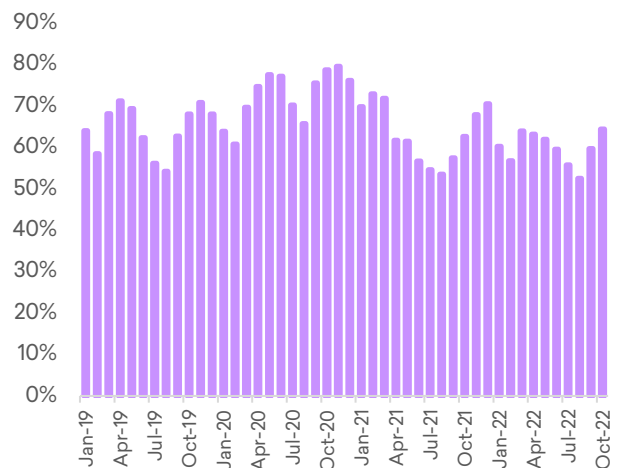
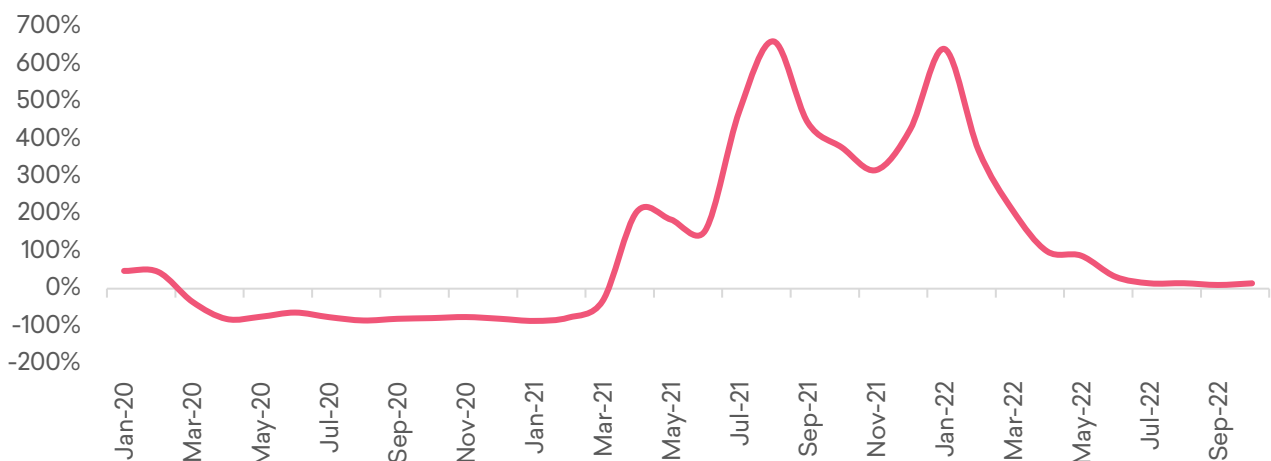


Figure 24. Total Non-Resident Non-Cash Transactions through TBC Bank Channels by Months (YoY change)



Source: TBC Bank's Channels

Demand Characteristics

Non-Cash Spending

As data suggests, the structure of non-resident non-cash payments in terms of the distribution of ranges has remained relatively stable since 2019. In 2019, the share of non-cash transactions amounting more than 7000 GEL reached 11%, while throughout 2020, the smallest range of transaction, 0-50 GEL, registered for the largest share of 21%.

Generally, there is an observable difference between residents' and non-residents' spending habits. International visitors tend to be less

constrained by their budgets. Holidays also act as a preference shifter for people, resulting in increased consumption. Relatively loose budget constraints and increased preference for consumption causes large difference between resident and non-resident average non-cash transaction.

Average non-cash transaction for international visitors tended to be very volatile in 2020, but since March 2021, it has been at relatively stable levels.

Figure 25. Distribution of Ranges in Non-resident Non-Cash Transactions

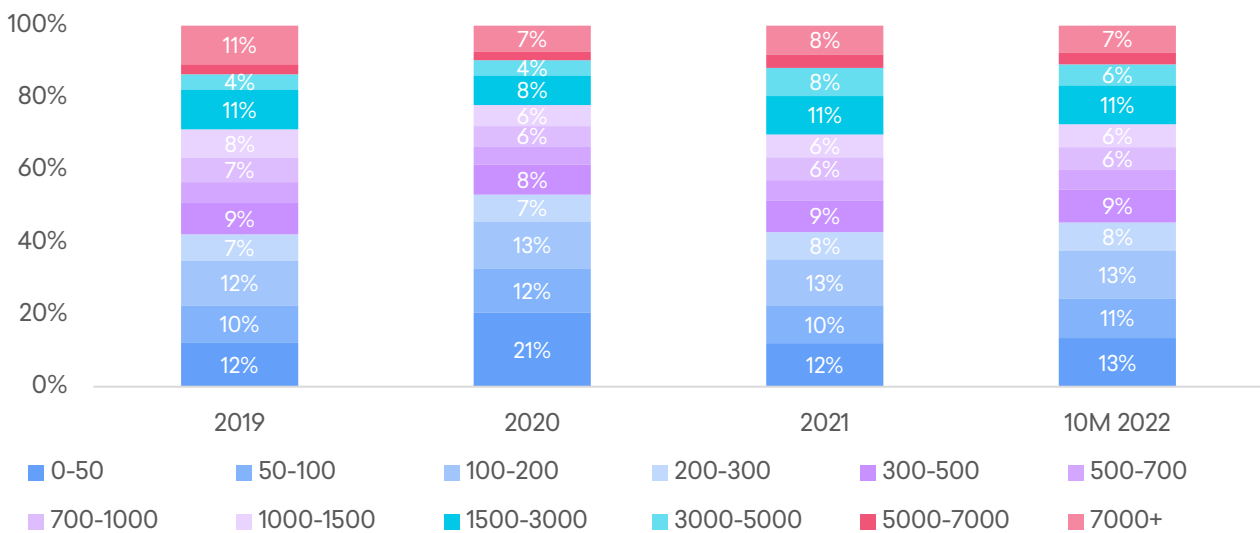
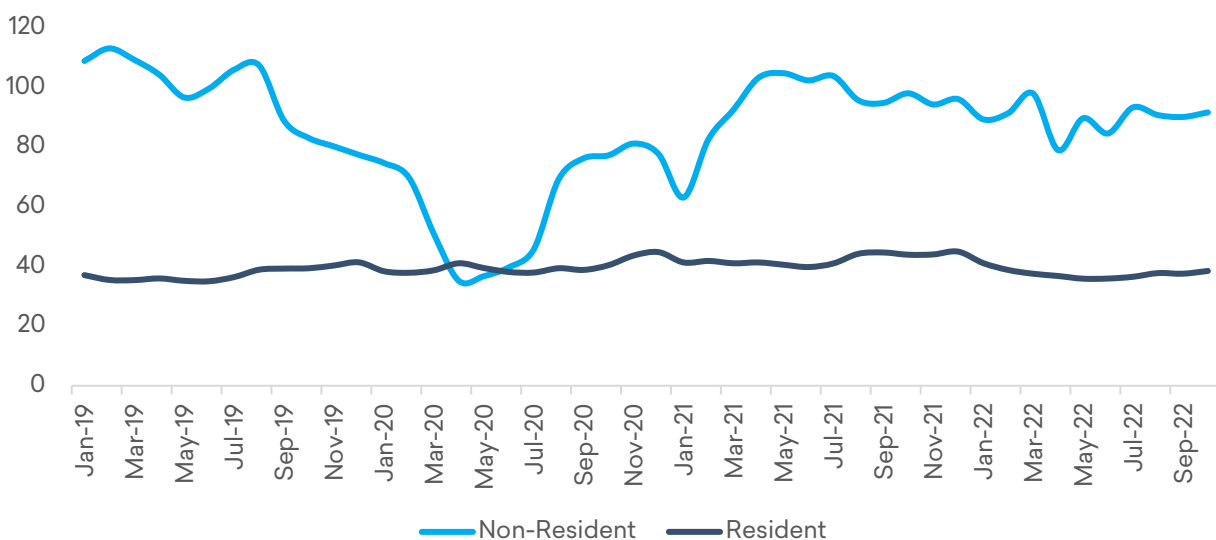


Figure 26. Average Transaction Size by Residency (In GEL)



Source: TBC Bank's Channels

Demand Characteristics

Non-Cash Spending - Categories

In the analyzed years, the majority of non-cash spending by tourists was attributed to services, exception to which was year 2020, when the overall supply of services was significantly reduced. The domination of non-cash expenditure on services imply larger positive influence on local businesses.

The structure of non-cash spending is relatively stable apart from 2020. Hotel and accommodation amount for the largest share, followed by eating out and grocery shopping.

2020 was clearly an exception in most regards in tourism sector, when the average spending by non-residents almost equated the residents' average levels.

The unusual circumstances brought residents and international visitors' spending habits closer, as grocery shopping and fuel held the largest shares compared to other years.

In services, significant share is attributed to Gambling, but it is noteworthy that share of gambling in the spending on services decreased from 17.66% in 2019 to 6.1% in 2022. While it still remains important part of tourists' spending, decreased share implies more diversified demand on different services and new opportunities for businesses that are not in gambling sector.

Figure 27. Distribution of Goods and Services in Total Non-Resident Non-Cash Spending

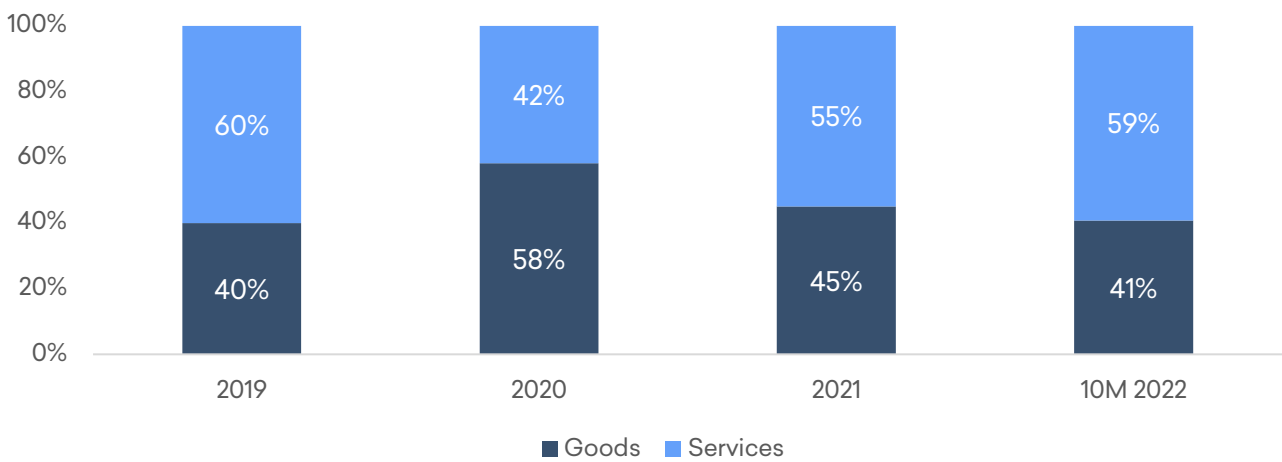
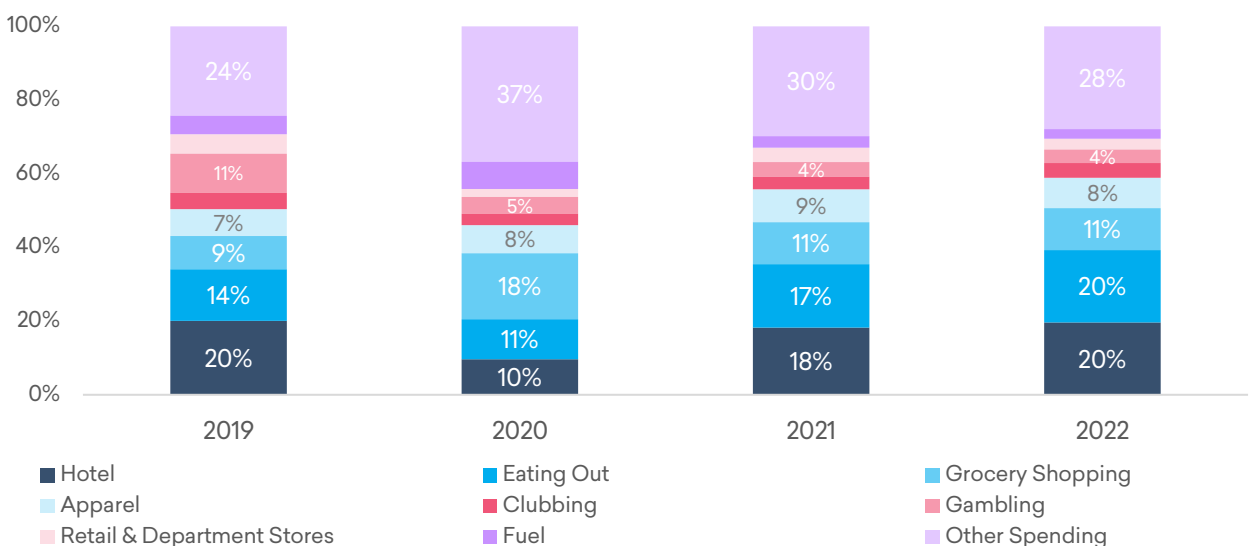


Figure 28. Distribution of Total Non-Resident Non-Cash Spending by Categories



Source: TBC Bank's Channels

Demand Characteristics

Non-Cash Spending – Countries and Regions

The distribution of regions in total non-cash spending also mirrors the changes in number of international visitors from respective regions.

The significant increase of shares in 2021 and 10M of 2022 of cards issued in Middle East Countries parallel the increased number of tourists from the region. The dramatic decrease in the share of neighbor countries is partly due to the decreased number of visitors from Azerbaijan and no track

of spending by Russian visitors, as cards issued in Russia were sanctioned.

As Russian visitors do not use the cards issued in Russia, in 10 months of 2022, Russia is not included in the top 5 countries by non-cash spending through TBC bank Channels. Turkey, USA and Israel were among the top spending countries in all observed years, Russia was also included from 2019 to 2021.

Figure 29. Share of Regions in Non-Resident Non-Cash Spending

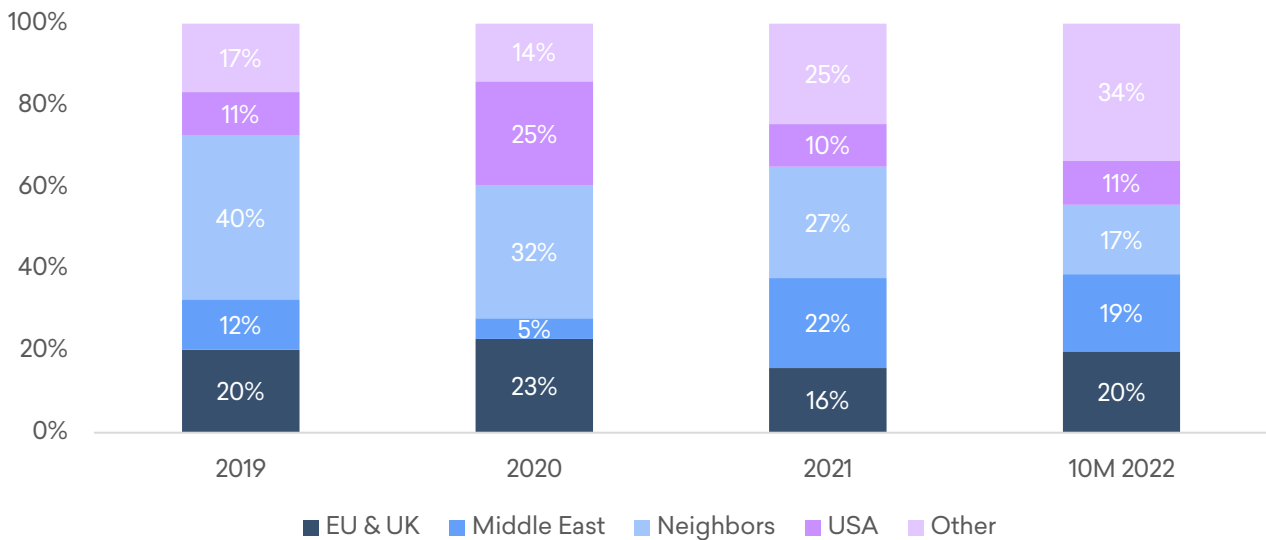
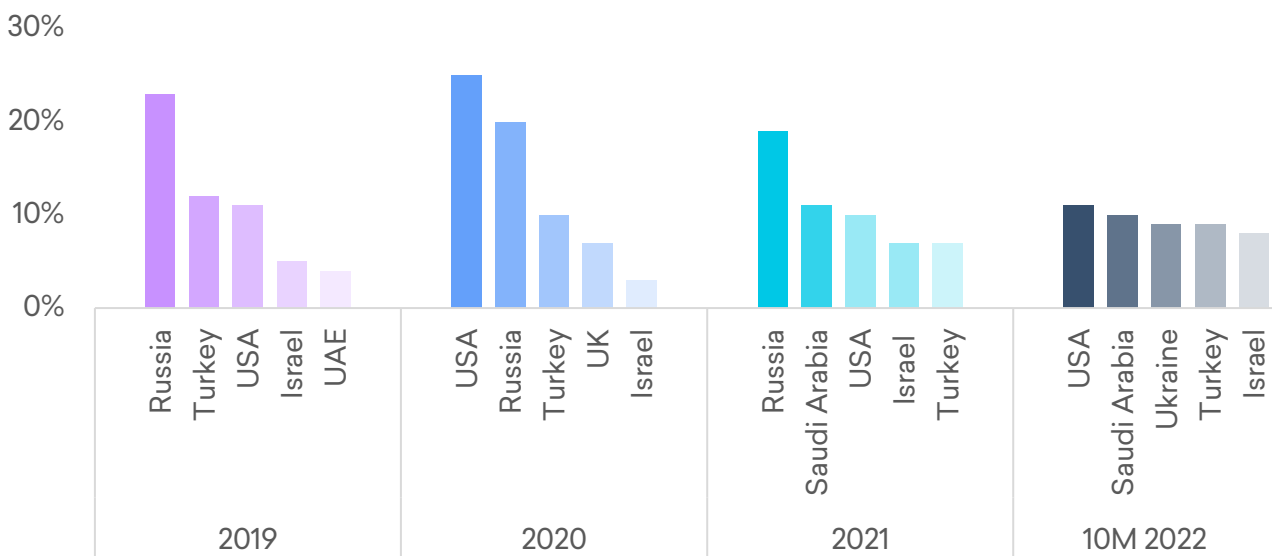


Figure 30. Top 5 Countries in Total Non-Resident Non-Cash Spending



Source: TBC Bank's Channels

Demand Characteristics

Spending on Hotels

The past several years have been challenging for the businesses offering accommodation services due to the Covid-19 pandemic and the travel restrictions which came along with it.

These difficulties were evident in the recorded cash inflows as well as overall activity – the total of non-cash payments in 2020 declined by 68%, while the number of transactions reduced by 53%. This indicates that hotels reduced their prices in 2020 to adapt to the existing circumstances and customers also switched to the cheaper alternatives rather than stopping spending in hotels altogether.

The sharp decline in non-cash revenues was followed in even larger increase of spending in hotels, with annual growth constituting 207% in 2021. YoY growth is still at a high, 55% margin for the 11 months of 2022.

The revenues generated by the hotels are heavily dependent on the international visitors. In 2019, 85% of all non-cash transactions in hotels were made by non-residents. In 2020, the share of non-residents spending significantly dropped to 51%. While the 2021 and 2022 figures show improvement in this indicator, non-resident share still remains below the 2019 level.

Figure 31. Non-Cash Spending in Hotels, through TBC Bank’s Channels (YoY Change, GEL)

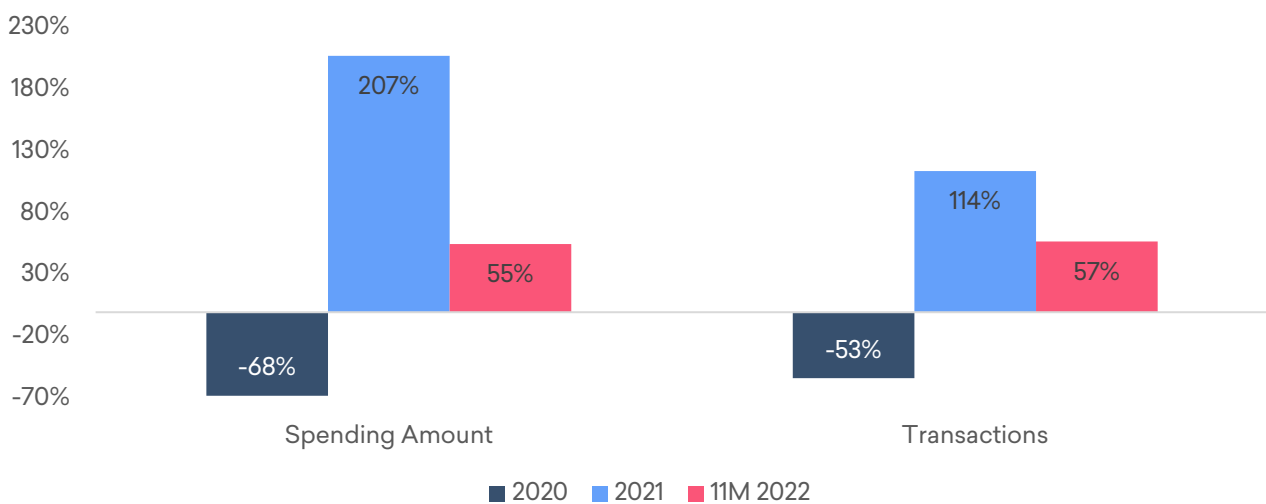
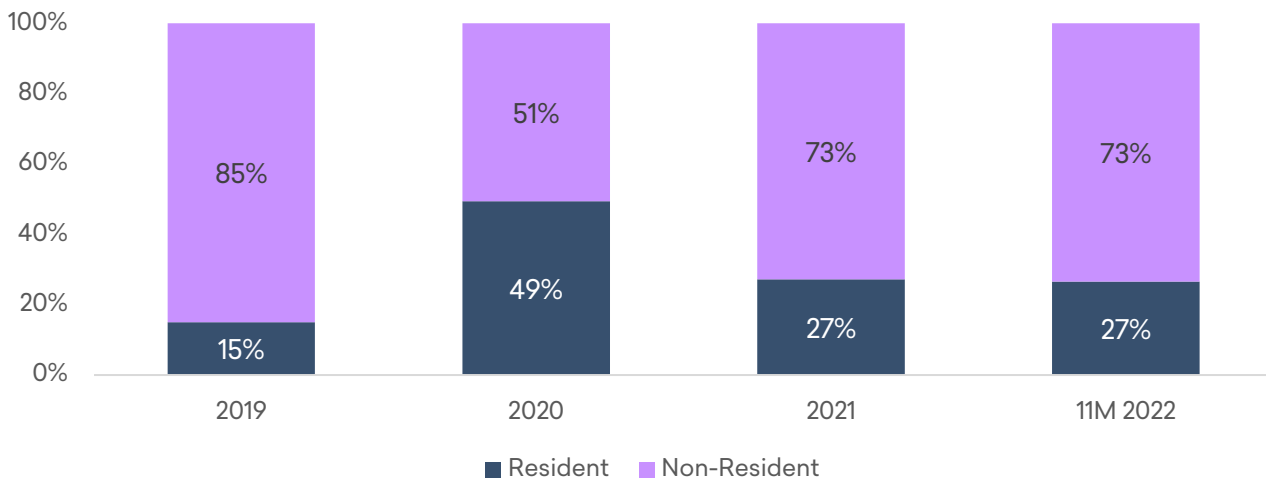


Figure 32. Distribution of Non-Cash Spending in Hotels, through TBC Bank’s Channels by Residency



Source: TBC Bank’s Channels

Demand Characteristics

Spending on Hotels

Non-cash spending amount ranges which generate the most revenues in hotels can also be used to describe consumer demand characteristics.

The range distribution of non-cash spending in hotels shows that the largest share of the total amount is generated from the GEL 1500-3000 range. This range constituted 20% of all payments in 2019, however the share decreased to 16% in 2020, as the accommodation businesses had to reduce the prices. The shares of higher range transactions increased to the 2019 figures in 2021, as the tourism sector started recovering from the pandemic.

The amount of distinct cards in the non-cash payments partially indicates the diversification of the revenues for the hotels, as businesses are not dependent on certain customers. In 2019, share of distinct cards was as high as 94%. This number declined to 89% in the 2020 as less tourists were able to visit the country, but the share has not recovered in 2022 and constitutes 86% for the first 11 months, which is a sign of larger number of repeated customers in hotels.

E-commerce payments in local channels are relatively uncommon for hotels in Georgia. While the booking might take place online, over 95% payments are still made at the hotels themselves.

Figure 33. Non-Cash spending in Hotels, Distribution Between Transaction Ranges

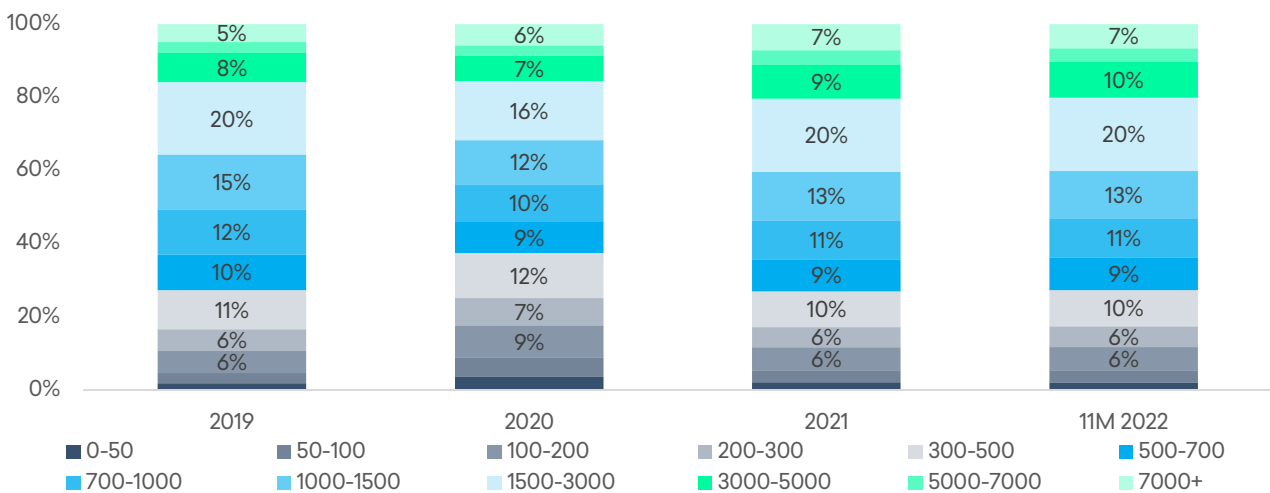


Figure 34. Distinct Card Shares in Total Non-Cash Transactions

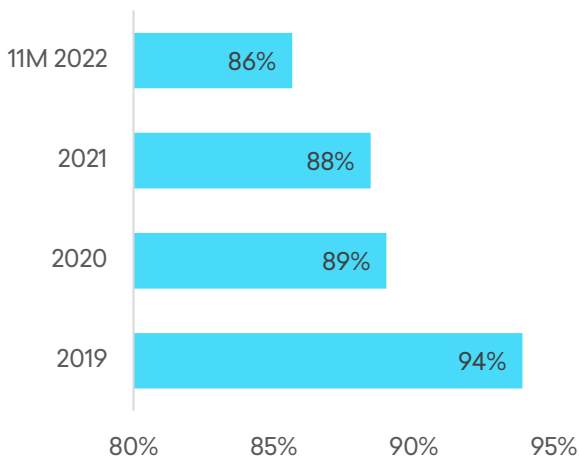
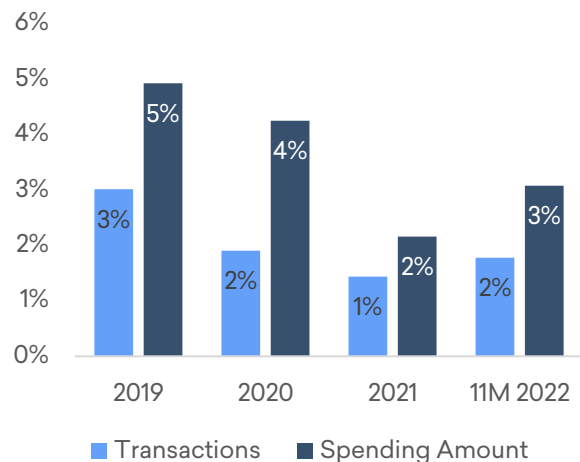


Figure 35. E-Commerce Non-Cash Spending Share in Hotel Transactions



Source: TBC Bank's Channels

Demand Characteristics

Spending on Hotels

The average transaction size is a good indicator for assessing whether the revenue growth is driven by customer retention and increasing their spending size or if it is driven by an increasing number of new customer payments.

Average non-cash transaction size analysis in hotels indicates that average spending is notably higher for non-residents. The average transaction volume became almost equal for both categories in 2020, when the pandemic began and the number of international visitors in the country was relatively low. As the number of visitors increased, average non-cash transaction size

quickly recovered. Non-resident average payments in hotels also show a more significant seasonality trend as there is a notable increase in the amount for the summer periods, while the same increase is less evident for average resident payments.

It is also important to consider which international visitors are driving high average spending in hotels. In 2019, on average, visitors from Kuwait were paying as high as GEL 812. In 2022, Kuwait is still on the first place in terms of average spending in hotels, however the amount has decreased from 2019 and amounts to GEL 783.

Figure 36. Average Non-Cash Transaction Size in Hotels (in GEL)

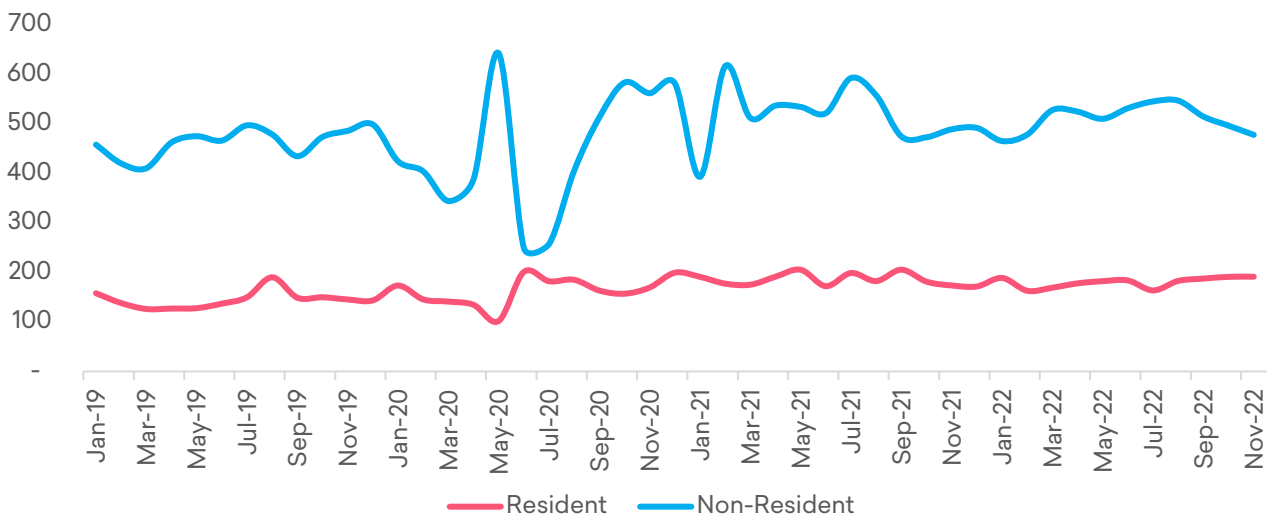
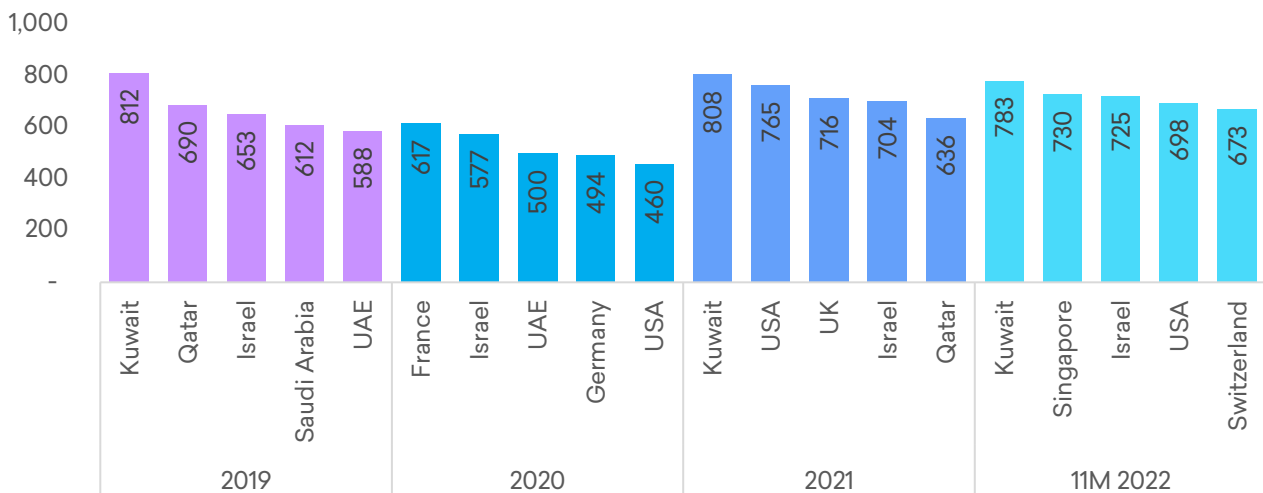


Figure 37. Average Non-Cash Transaction Size in Top Countries (in GEL)



Source: TBC Bank's Channels

Demand Characteristics

Spending on Hotels

The distribution of total spending amount between hotels with different star ratings can also be used to describe consumer spending characteristics. The 2019 data shows that almost 50% of all payments were attributed to the hotels with star rating of 3 or less. Transaction quantity is even higher for this rating category, constituting almost 60% of all non-cash transactions.

The share of payment amounts in 5 star hotels grew in the pandemic years 2020-2021 to 43%. This is partially due to the reduced prices and more affordability of 5 star hotels, as well as the closure of many smaller scale hotels which could not continue to operate in the pandemic period

when the number of international visitors and therefore, the generated revenue significantly diminished, while the fixed operating costs remained high.

The average transaction size also significantly differs for the hotels with different star ratings. The price variation is more notable for non-residents, while the price paid by the local residents does not significantly change between different star rating categories. In 2020, average non-resident average transaction volume decreased for all rating categories. For 11M 2022, 5 star rating hotel average non-resident transaction increased to a high figure of GEL 724.

Figure 38. Shares of Non-Cash Spending Amounts and Transactions by Hotel Star Ratings

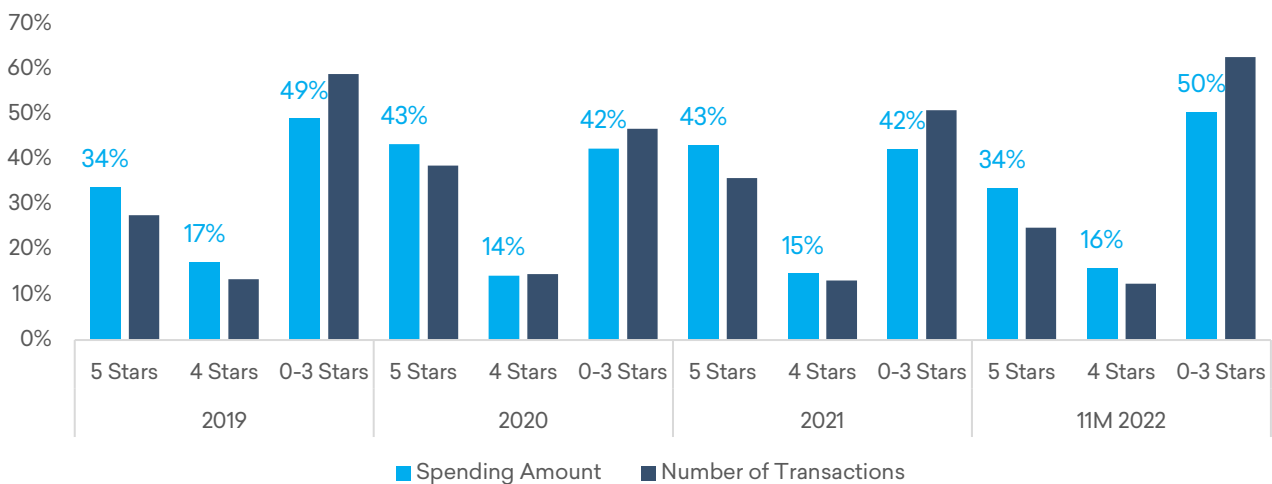
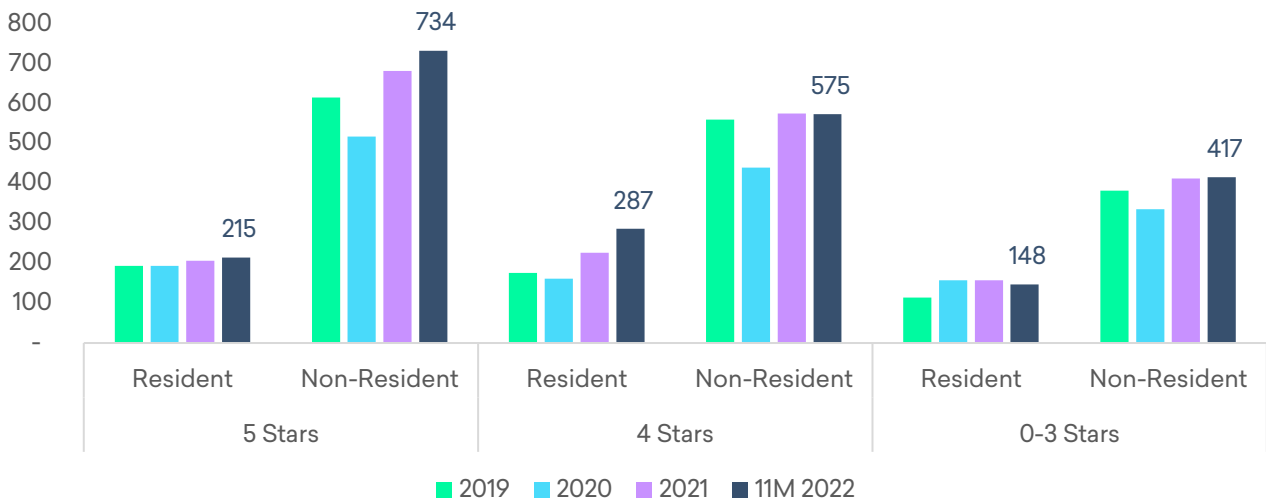


Figure 39. Average Non-Cash Transaction Size in Hotels for Hotel Star Ratings



Source: TBC Bank's Channels
 Note: The star ratings are based on the GNTA accommodation database



TBC CAPITAL

ACCOMODATION SUPPLY

Accommodation Supply

Overview of Hotels

Number of businesses which offer accommodation services has been steadily increasing in Georgia. Only exception was 2020, the year when the Covid-19 pandemic began, and businesses had to stop operating due to the diminished demand on the accommodation services. However, the number of active accommodation businesses quickly recovered, as 2021 recorded a 69% increase in supply and number of active units surpassed the 2019 figure.

Georgian National Tourism Administration identifies three main categories of accommodation which are available in Georgia:

Hotels, Family Hotels and Guesthouses, with hotels offering 64% of all bed-places based on the December 2022 data.

The regional analysis of the accommodation supply shows that at December 2022, the largest number of accommodation units were registered in the Samegrelo-Zemo Svaneti region, with its share constituting 19%. However, the regional share distribution significantly shifts when analyzed in terms of number of rooms or number of bed-places offered, indicating that Samegrelo-Zemo Svaneti mostly has hotels with small number of rooms and bed-places.

Figure 40. Number of Active Businesses Providing Accommodation Services in Georgia

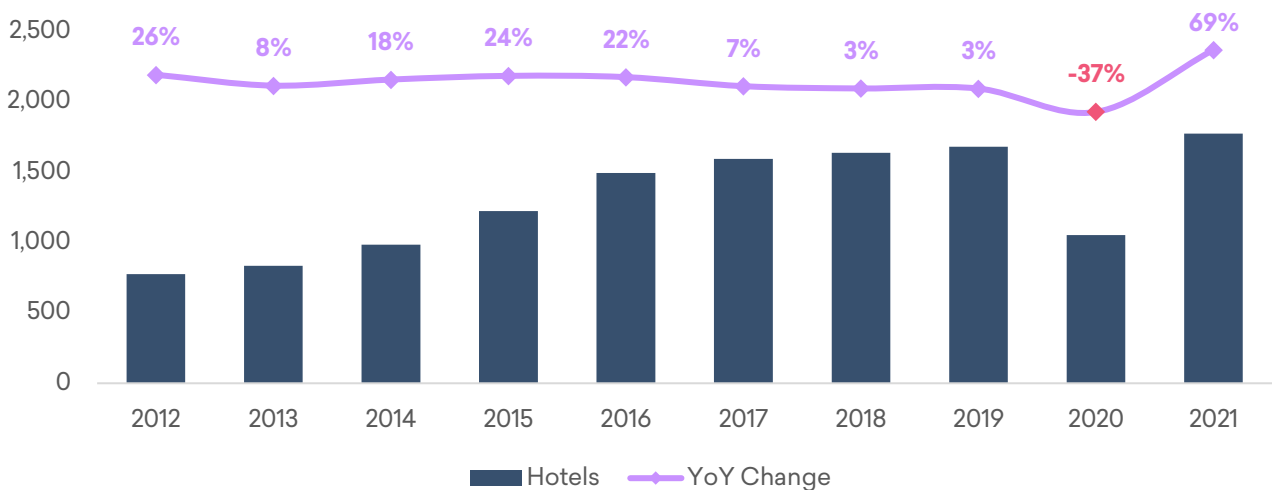
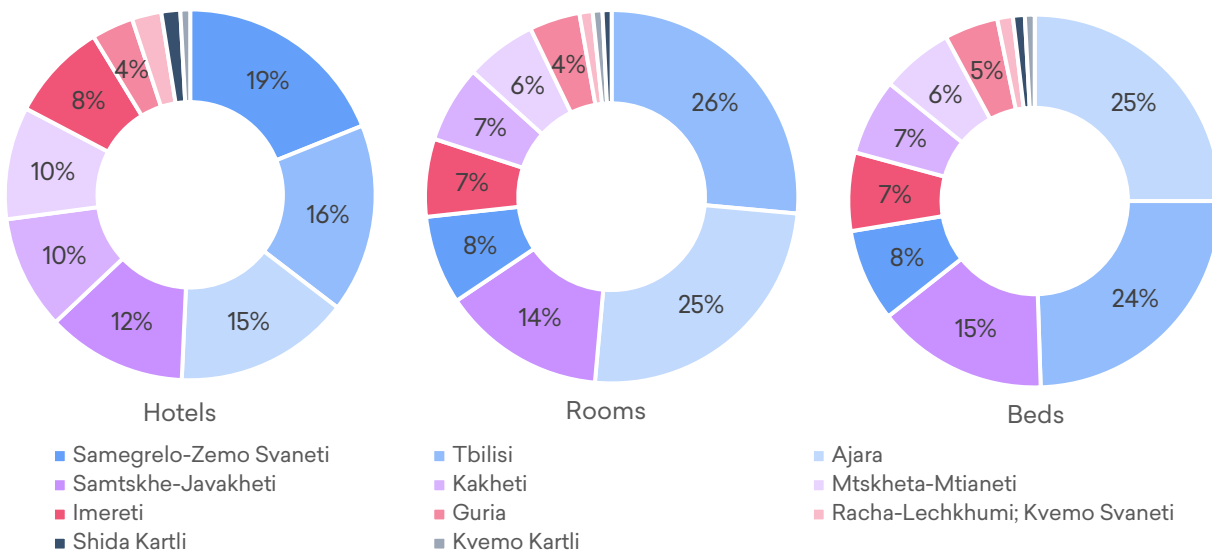


Figure 41. Regional Distribution of Hotels (December, 2022)



Source: National Statistics Office of Georgia; Georgian National Tourism Administration (GNTA)

Accommodation Supply

Overview of Bed-Places

Average number of rooms and bed-places in the accommodation units is also an important factor when analyzing regional supply. Despite not having the largest number of distinct accommodation units, the Adjara region is first in terms of both – average number of rooms in a hotel and average number of bed-places, with the numbers constituting 26 and 62 respectively. Adjara is closely followed by Tbilisi with average of 25 rooms in a single accommodation unit.

Samegrelo-Zemo Svaneti ranks the last in the both analyzed indicators, which further confirms that the accommodation units in the region are

mostly family guesthouses, offering only a small number of rooms. Average bed-places in a room show a similar picture for all regions, with every unit hosting rooms which have 2 or 3 beds.

Accommodation supply can also be assessed in terms of its alignment with the demand on accommodation services. Comparing offered bed-places per thousand visitor across countries displays that this indicator was relatively stable for Georgia in the pre-pandemic period, however the ratio grew in 2020, when the number of visitors significantly declined and still remained high in 2021, despite partial tourism recovery,

Figure 42. Average Number of Rooms and Bed-Places in Georgian Hotels, by Region

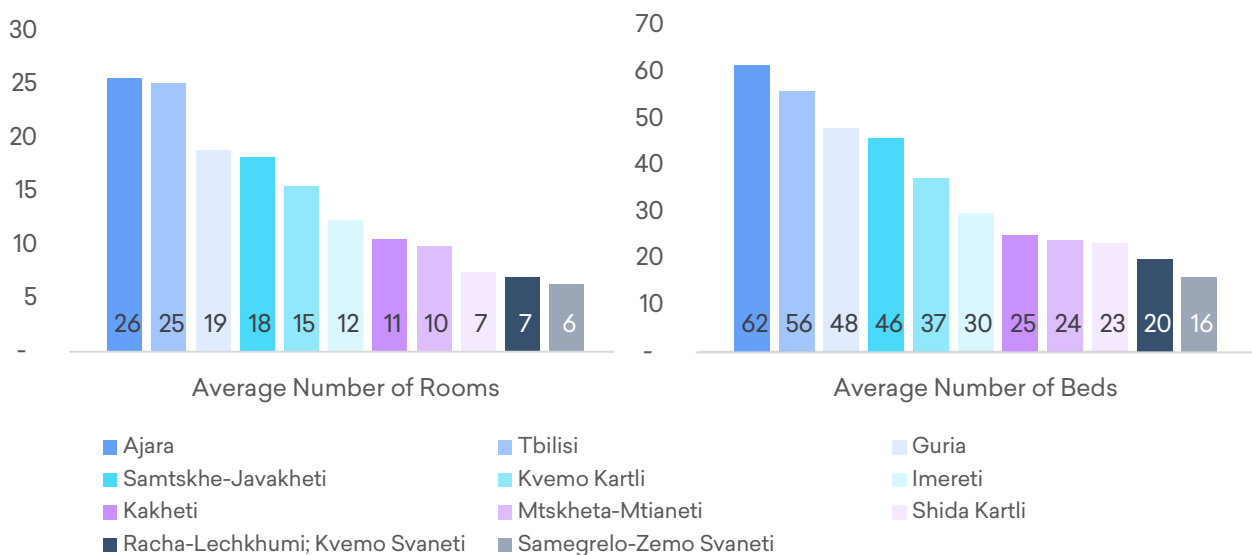
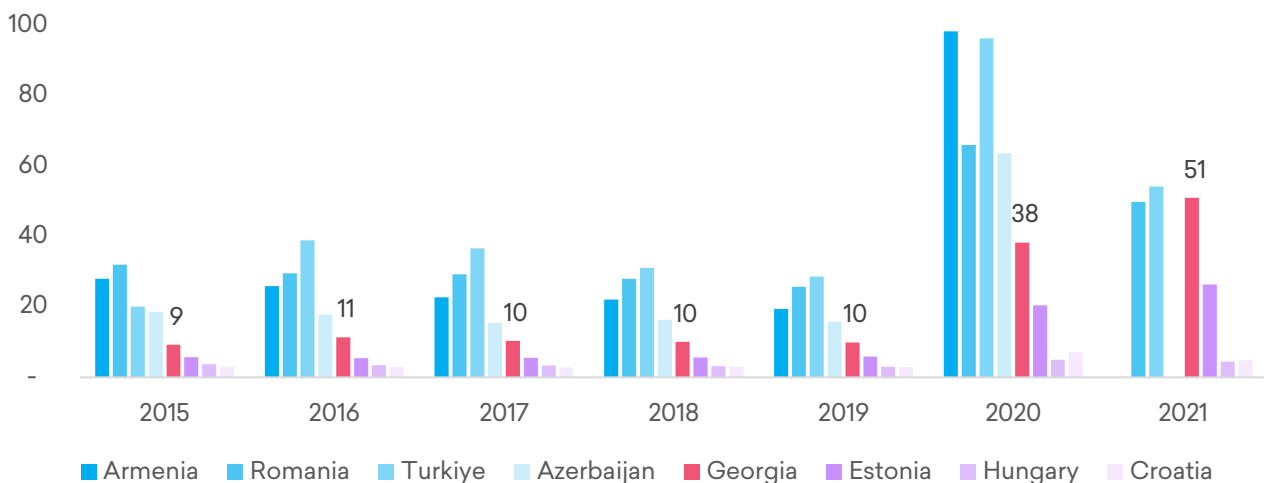


Figure 43. Number of Bed-Places per Thousand Visitor



Source: Georgian National Tourism Administration (GNTA); UNWTO

Accommodation Supply

Changes in Supply

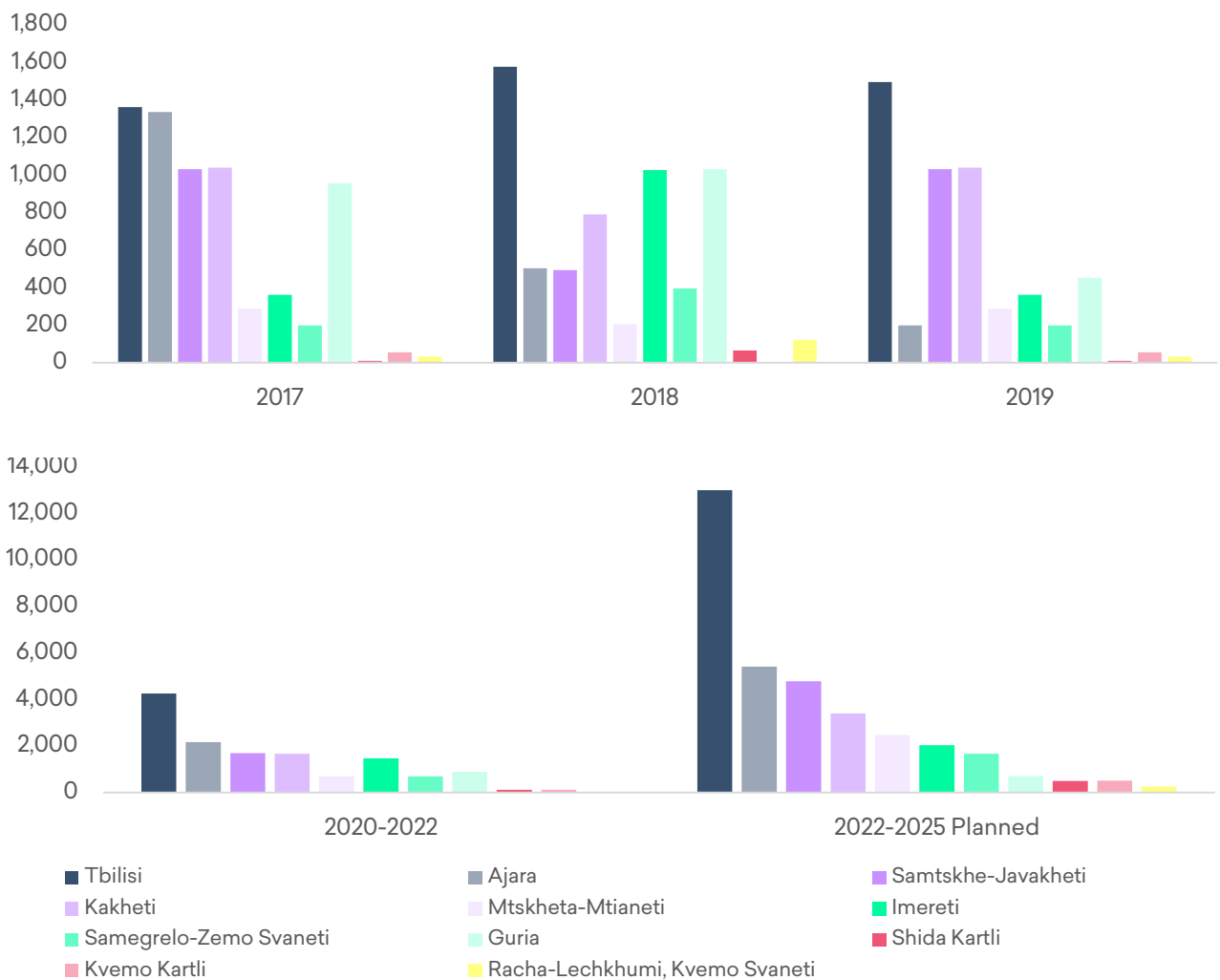
The number of newly opened accommodation units and corresponding bed-places can be a good indicator for assessing the development and growth of the hotel industry. The data indicates that regional attraction for the industry varied across the years. In 2017 Adjara and Tbilisi had the largest number of new bed-places, while 2018 recorded notable increase in bed-places in the Imereti region.

New hotel openings for the years 2020-2022 show that, despite the Covid-19 pandemic, new accommodation unit opening figure did not significantly drop in value. This is partly due to the pre-planning and lengthy construction period

required to open a hotel – most of the 2020 openings had already been planned as the pandemic couldn't have been predicted. The newly opened accommodation units in those years, however, had to start operating in a stressed environment with low occupancy rates.

The 2022-2025 planned accommodation units show a strong outlook for the hotel industry and indicate positive expectations toward the tourism recovery in the upcoming years. Tbilisi is the leader as over 4,000 new bed-places are planned to be added in 2022-2025, followed by over 2,000 new bed-places in the Adjara region.

Figure 44. Number of Bed-Places Added in Georgia, by Regions



Source: Georgian National Tourism Administration (GNTA)

Accommodation Supply

Hotels – Key Performance Indicators

Occupancy rates are one of key performance indicators (KPIs) when analyzing the performance of a hotel. Occupancy rates of Georgian hotels show a clear seasonal trend, with rates increasing during the summer season.

This trend remained strong in the beginning of a pandemic, year 2020 as well, when despite the diminished occupancy rates, summer months filled around 20% of the hotel rooms with guests. The data based on the hotel sizes indicates that occupancy rates have been higher for large hotels than small and medium ones for the whole analyzed period, with average large hotel

occupancy constituting 59% for 11M 2022, while the same indicator is 42% for small and medium hotels. Average 11 month occupancy in 2022 for Georgia amounted to 50% which is a 3 pp increase from the corresponding 2019 figure.

Average Daily Rate (ADR) is also an important metric as it shows how the average profitability is changing based on the occupied rooms in a hotel. ADR also shows signs of seasonality, however, price increase during the summer season is more evident for the regional hotels, while ADR for Tbilisi is more stable throughout the year.

Figure 45. Average Hotel Occupancy Rates

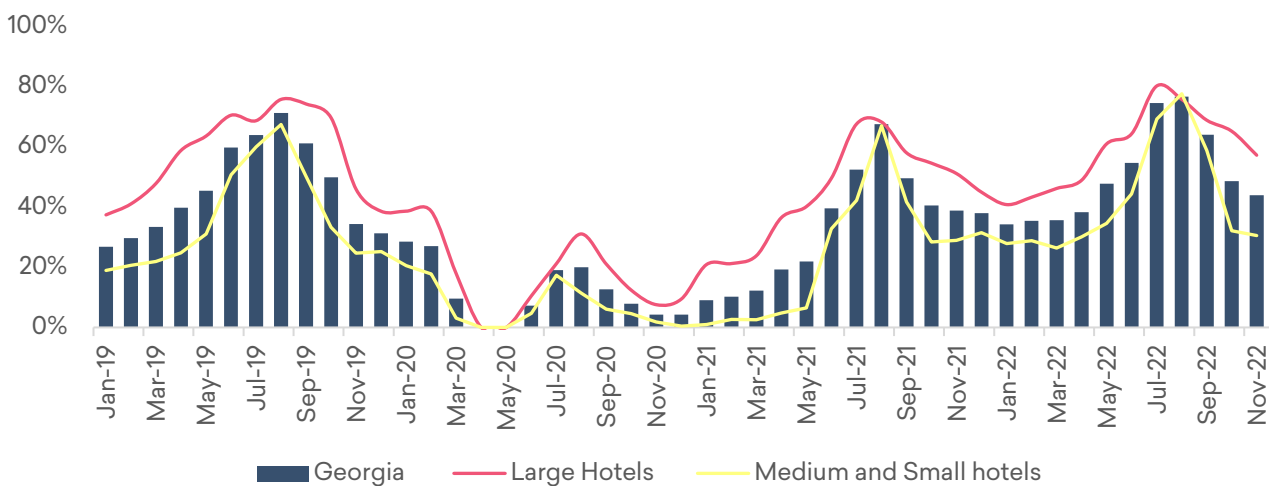
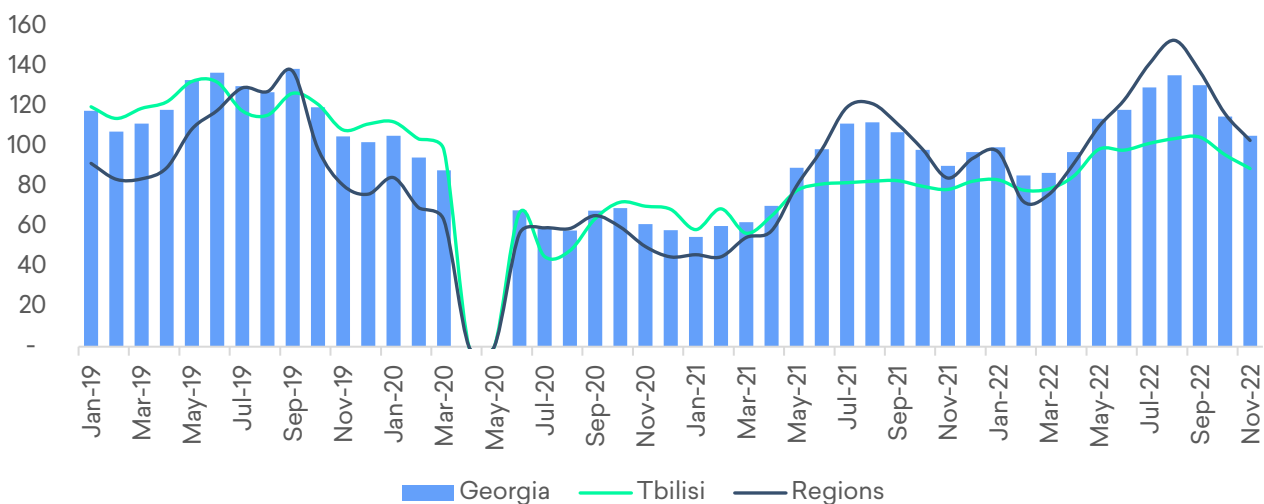


Figure 46. Average ADR in Large Hotels (USD, excl. VAT)



Source: TBC Capital Hotel Survey

Accommodation Supply

Hotels - Financial Performance

Financial performance of Georgian hotels reflects the tourism market dynamics and can be used as an indicator to assess the overall health of the accommodation industry.

Gross profit margin has been relatively stable since 2018 and only recorded minor decreases in 2019 and 2020. The largest fluctuation was observed in terms of the net profit margin as the pandemic-related challenges in the industry directly interfered with the profitability of hotels. The most notable growth in hotel expenses were

related to the foreign exchange losses related to the significant devaluation of Georgian currency in 2020. As profitability worsened the Return on Assets (ROA) ratio also remained negative.

In contrast to profitability, Assets to Debt ratio improved in 2020 as the businesses were oriented on restructuring the existing financial obligations and due to the uncertainty in the market, loan additions to the financial statements were insignificant.

Figure 47. Profitability Metrics for Georgian Hotels

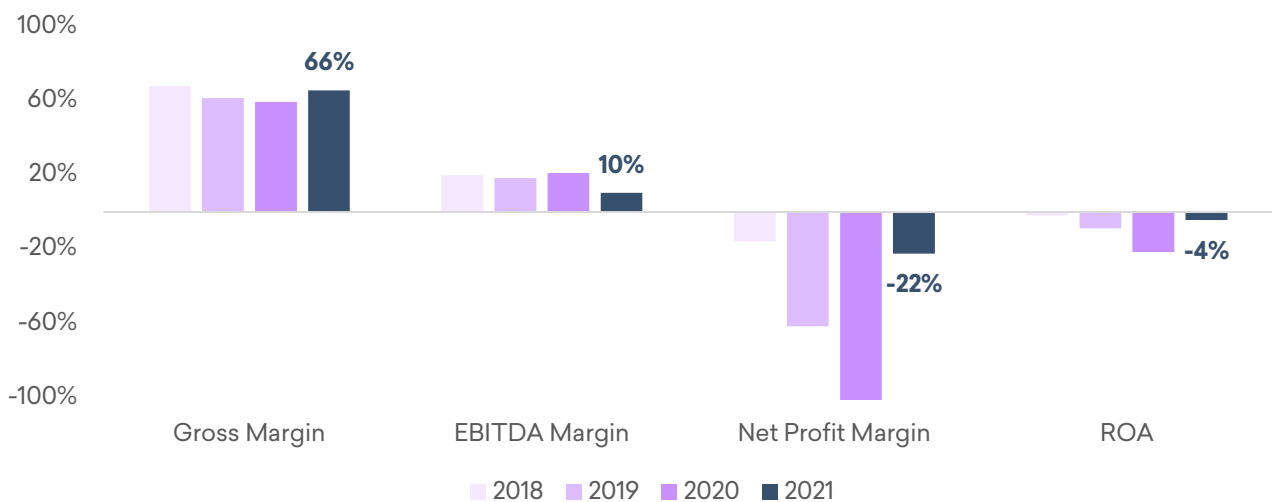
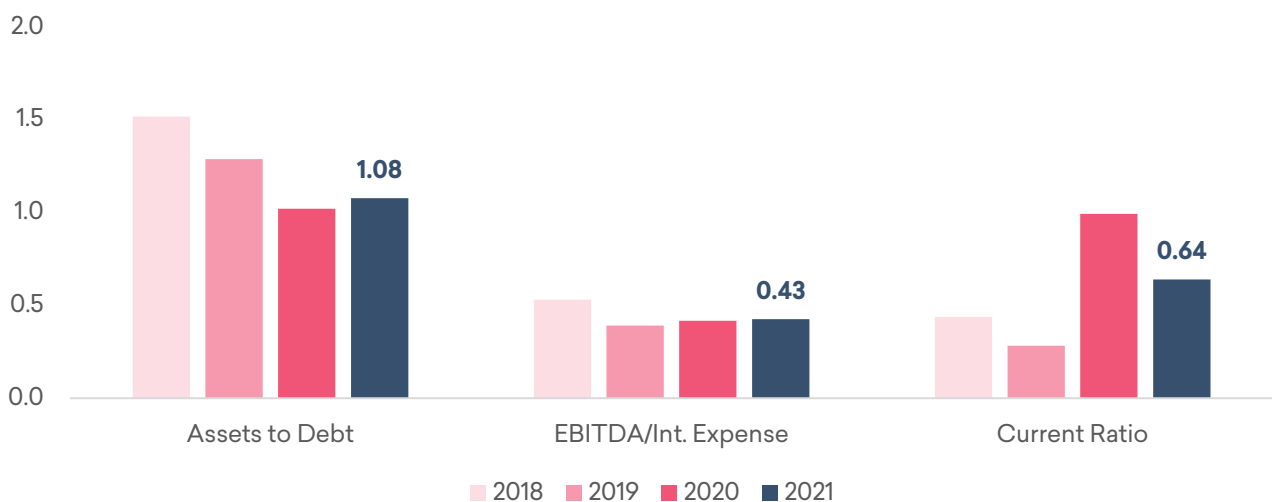


Figure 48. Solvency and Liquidity Metrics for Georgian Hotels



Source: SARAS

Note: The financial performance analysis does not include IV category entities.

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