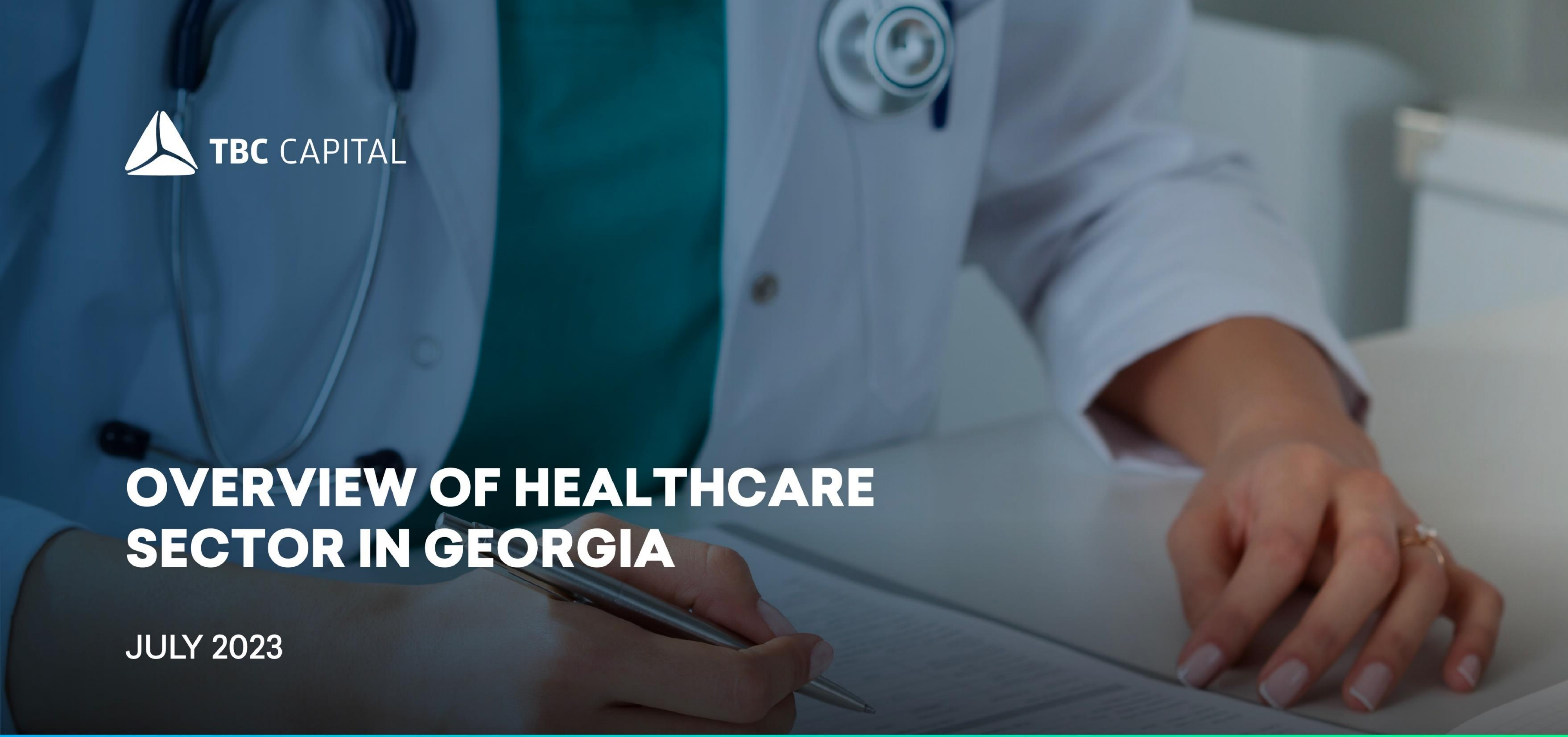

TBC CAPITAL

OVERVIEW OF HEALTHCARE SECTOR IN GEORGIA

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Irina Kvakhadze
Vice President

Irakli Urgebashvili
Analyst

Salome Deisadze
Senior research associate

Key takeaways

Healthcare is a growing and rapidly developing sector in Georgia. From 2013 to 2022, the output of the healthcare sector exhibited a consistent upward trend. Preliminary data for 2022 shows that the sector's output reached 2.4 billion GEL, which is 2.6 times higher than the corresponding indicator in 2013. Throughout this period, the sector achieved a Compound Annual Growth Rate (CAGR) of 10%.

Georgian healthcare sector is well diversified in terms of number of participants and their market share, leading to high levels of competition. Financially, the health sector has shown positive performance, with total revenue increasing from 1.2 billion GEL in 2018 to 1.8 billion GEL in 2021. The COVID-19 pandemic had a significant impact on clinic revenues and expenses in 2020, putting pressure on revenues and costs and pushed down NI margin to as low as 3%, however, in 2021, with the increase in funding for the management of the pandemic, the EBITDA margin in the healthcare sector increased to 25%, and the profit margin increased to 17%.

Healthcare expenditure in Georgia experienced a consistent increase from 2013 to 2022. In 2022, total healthcare expenditure amounted to 4.1 billion GEL, a 72% increase compared to 2013. The pandemic contributed to higher healthcare costs in 2020 and 2021, but with the end of the pandemic in 2022, Covid-19-related expenses decreased compared to the previous year.

With the expansion of the state's universal healthcare program from 2013 to 2022, the share of out-of-pocket costs in total healthcare expenditure decreased from 65% (2013) to 43% (2022). Additionally, the share of private health insurance in total expenditure decreased from 14% to 7%, while the corresponding share of government expenditure increased from 20% to 50%.

The largest share of government healthcare expenditure (on average 57%) is allocated to the universal health insurance program. Government of Georgia also implements targeted programs, with organ transplantation (bone marrow and liver transplantation) being added in 2022, offering future development prospects.

Key takeaways

The demand for healthcare services is influenced by the population size, which has been declining over the past decade. However, in 2022, the influx of migrants to Georgia increased due to the Russia-Ukraine war. Despite this, emigration of the young population and a decline in birth rates continue to have a negative impact on the demand for healthcare services.

As for the supply side, from 2013 to 2021, the number of healthcare service providers and beds in Georgia increased. However, the average bed occupancy rate remained low at 50%, indicating inefficient utilization of resources. Although the number of medical personnel also increased during this period, the nurse-doctor ratio in Georgia is low (0.98), suggesting potential strain on nursing resources and potential negative effects on patient treatment and monitoring.

The study identified the following future perspectives of the healthcare sector:

Hospital mergers: Market competition and recent or planned regulations present opportunities for consolidation. Through the consolidation of resources and services, hospitals can achieve cost reduction and enhance operational efficiency.

Partnerships with universities: Collaborating with universities through equity participation enables clinics to access a skilled workforce and explore development prospects, while simultaneously providing students with valuable practical experience opportunities.

Development of medical tourism: Georgia has a potential to foster medical tourism and attract patients from neighboring countries (Armenia, Azerbaijan), Central Asia (Kazakhstan, Uzbekistan, etc.), and the Persian Gulf countries.

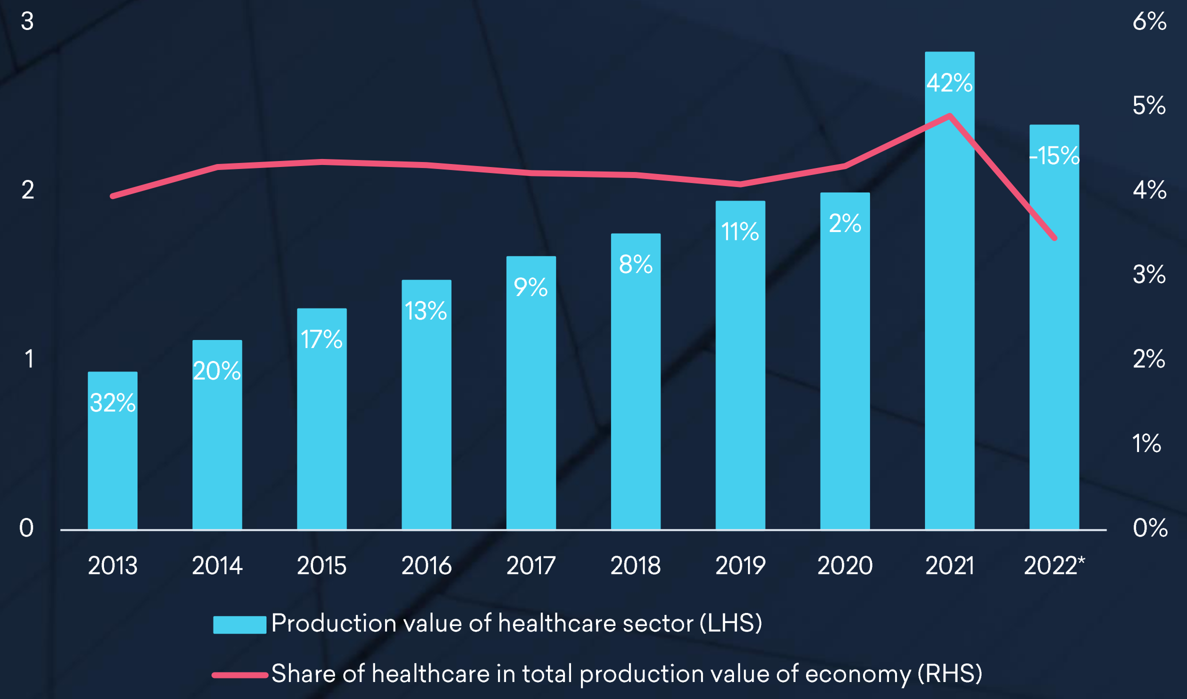
Areas with high growth potential: The healthcare sector in Georgia holds great promise in several areas, including organ transplantation, stroke management, and post-operative rehabilitation. Additionally, there is significant potential for growth in plastic surgery, dentistry, hair transplantation, and aesthetic medicine, which are not covered by the DRG system.

The output of healthcare sector reached GEL 2.4 bn in 2022.

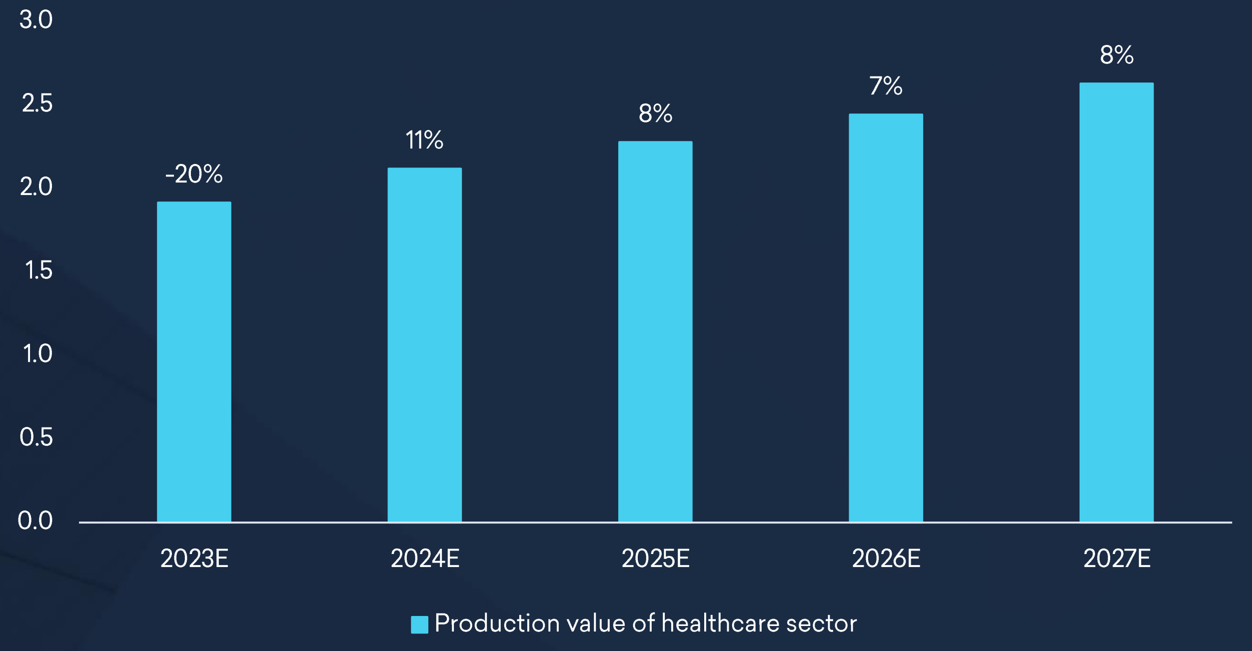
Preliminary estimates show that healthcare sector output reached GEL 2.4 bn in 2022, almost a threefold increase compared to 2013. In the same the sector grew at CAGR of 10%.

In the years 2013-2022 the share of healthcare sector in total output of the economy decreased from 4% (2013) to 3.5% (2022) indicating that healthcare sector grew slower than other sectors of the economy.

The production value of healthcare sector (GEL Bn, LHS), its share in total production value (RHS) and annual growth



The estimated production value of healthcare sector (GEL Bn)



Source: Geostat, TBC Capital estimates

Georgian healthcare sector is well diversified and highly competitive in terms of number of participants and their market share.

Distribution of healthcare market share in terms of revenues

47% of the healthcare market in terms of revenues is held by 10 major players, the rest of the market is distributed among 94 players that each hold less than 2.5% share of the market.

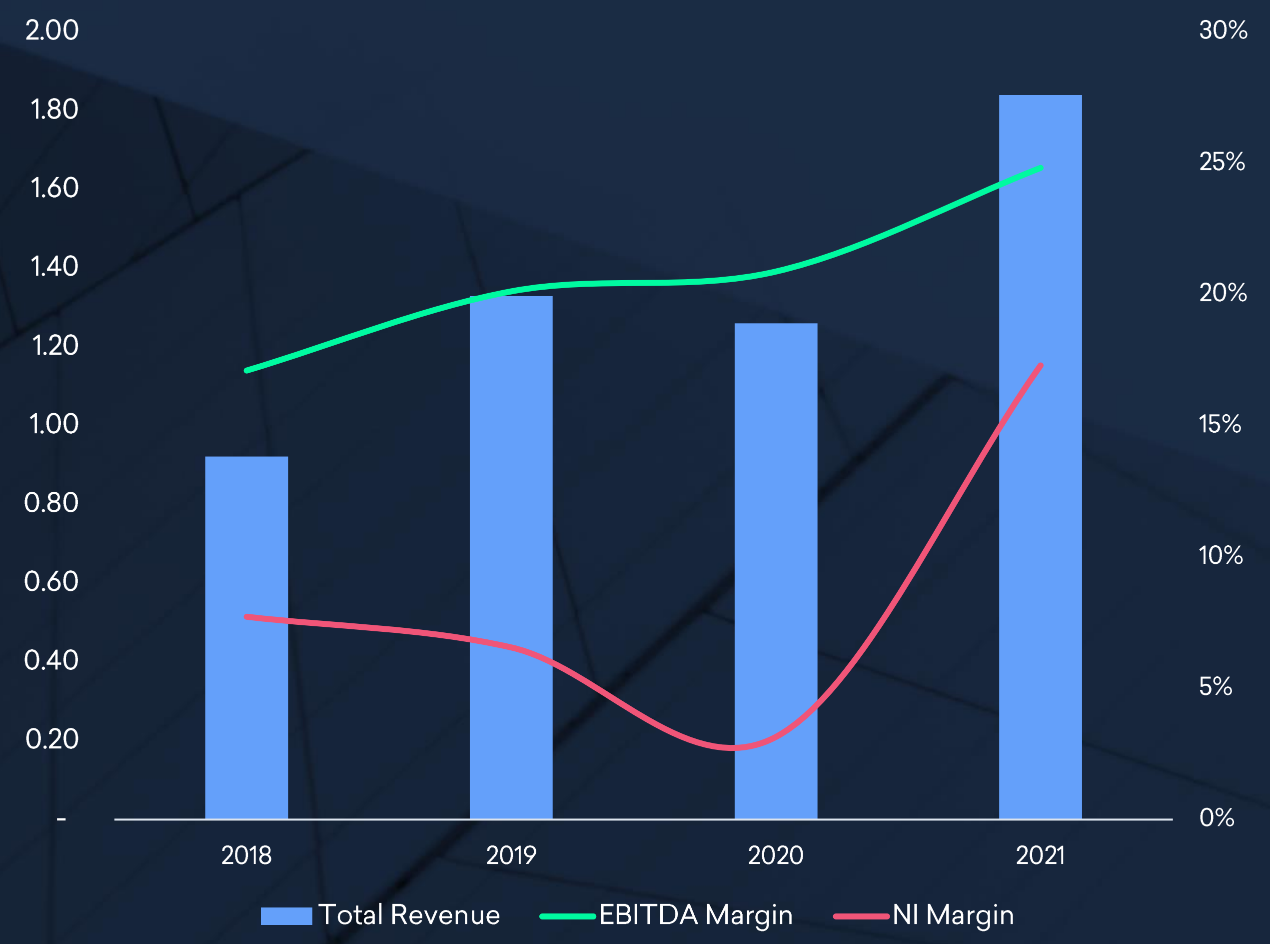
A highly fragmented and competitive market, along with recent and upcoming regulations, create conditions for market consolidation.

Source: SARAS, TBC Capital

* The calculations are based on the data of 104 hospitals and clinics.

In 2021, revenues of hospitals and clinics reached GEL 1.8 bn – a 38% increase compared to pre pandemic year of 2019.

Financial indicators of selected players



In 2019 revenues of hospitals and clinics increased by 44%. In 2020 Pandemic halted this growth as focus shifted to the management of Covid, restricting certain sources of revenues for the sector. The sector stepped in 2021 with increased funding for Covid management and this resulted in growth of the revenues to GEL 1.8 bn.

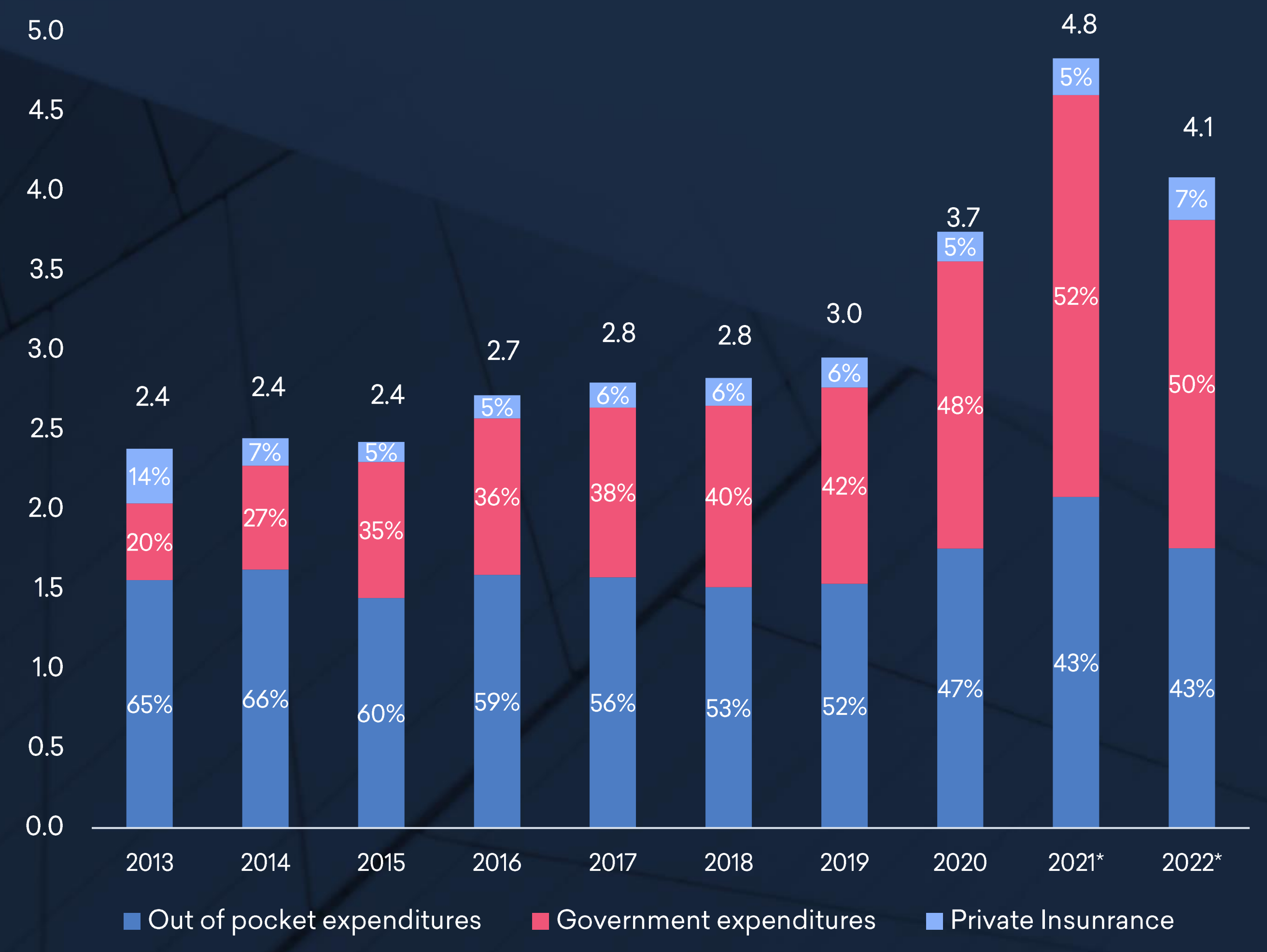
EBIDTA and NI margins were also impacted by Covid 19. In 2020, Covid put pressure on revenues and costs and pushed down NI margin to as low as 3%, however, as funding for Covid management increased and improved GEL positions generated nonoperational financial income for the sector, indicators of healthcare sector increased to 25% (EBITDA) and 17% (NI Margin).

Source: SARAS, TBC Capital

* The calculations are based on the data of 104 hospitals and clinics.

In 2023, as covid-19 challenges eased, healthcare expenditures decreased by 14.6% YoY and stood at GEL 4.1 bn, 36% higher than pre-Covid period (2019).

Healthcare expenditure by categories, GEL Bn

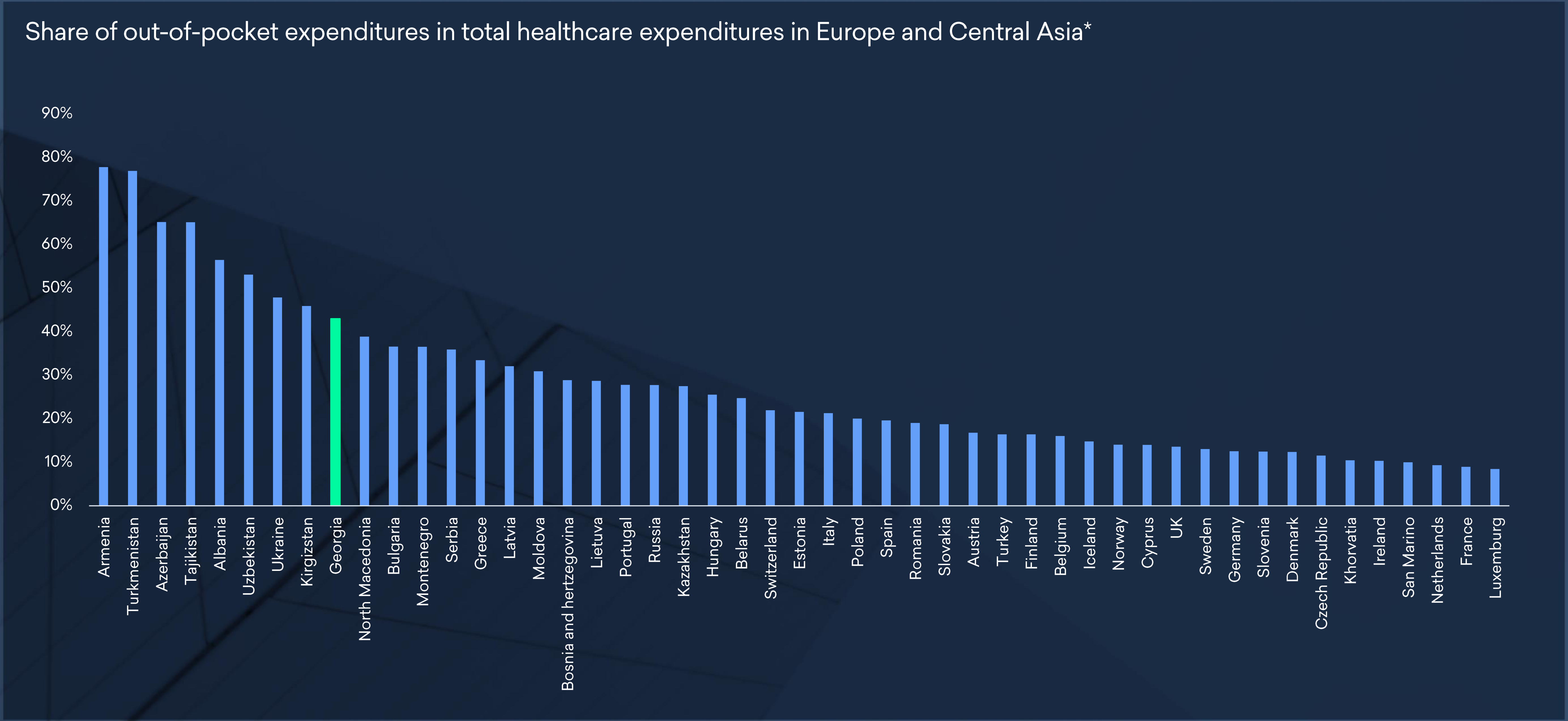


In 2013-2022 expenditures on healthcare grew significantly, exceeding the level of 2013 by 72%. In 2020 and 2021 pandemic pushed healthcare expenditures beyond historical growth trend. The end of pandemic in 2022 eased Covid-19-related expenditures and healthcare spending decreased to GEL 4.1 bn.

As the coverage of universal healthcare expanded in 2013-2022, out-of-pocket expenditures (including pharmaceutical expenses) decreased from 65% (2013) of total healthcare expenditures to 43%. In this period, the share of private healthcare insurance in total expenditures decreased from 14% (2013) to 7% (2022) on the background of increased public expenditures and stable volume of private insurance's expenditures.

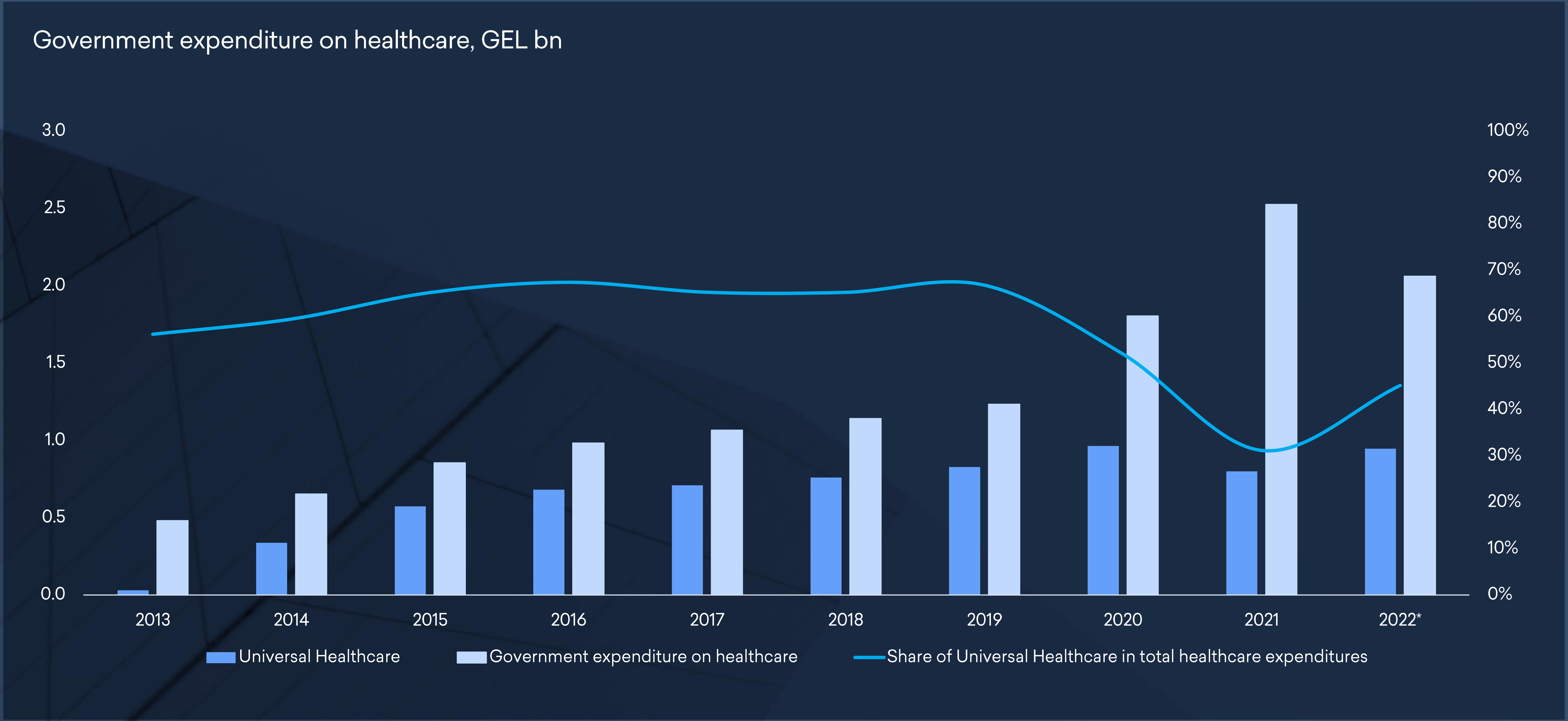
Source: Ministry of Health, Labor, IDPS and Social Affairs of Georgia, Ministry of Finance of Georgia, Geostat, TBC Capital

In 2022 out-of-pocket expenditures on healthcare stood at 43% of total healthcare expenditures, putting Georgia 9th by the share of out-of–pocket expenditures among 49 countries of Europe and Central Asia.



Source: The World Bank Open Data
*The most recent available data

In 2022 government expenditures on healthcare constituted GEL 2.1 bn, with 45% spent on Universal Healthcare.



Source: Geostat, Ministry of Finance of Georgia, TBC Capital

In 2013-2022 access to healthcare increased through Universal Healthcare Program with 20% of population being covered by the program. Increase of reimbursed amount and incidents also indicate at better access to healthcare services.

Number of universal healthcare beneficiaries and their share in total population of Georgia

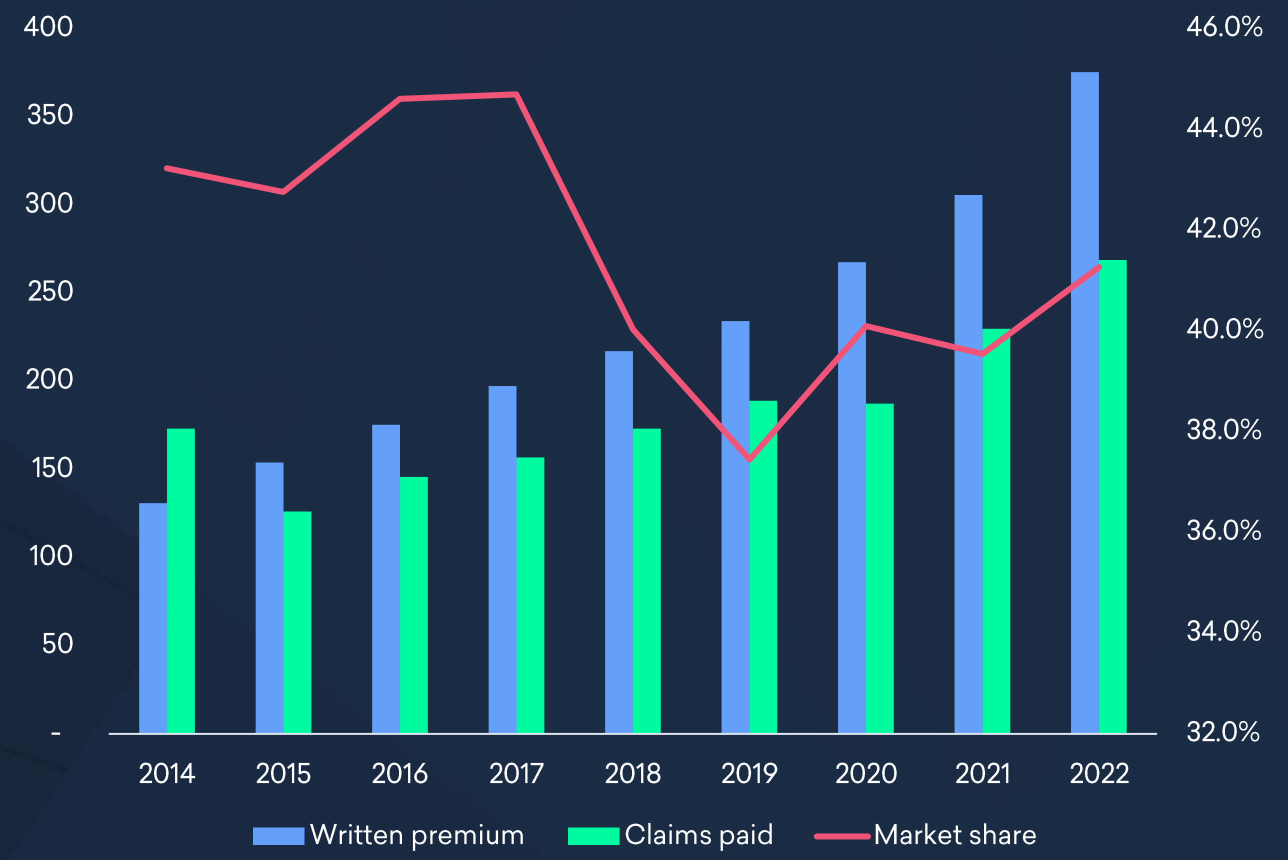
Number of incidents in Universal Healthcare program and reimbursed amount

Source: Ministry of Health, Labor, IDPS and Social Affairs of Georgia, Ministry of Finance of Georgia, Geostat, TBC Capital

The healthcare insurance market in Georgia , one of the drivers of the demand on healthcare services, experienced significant growth in 2022, with a rise in premiums and an increase in the number of policies issued. The number of policies issued saw a 19% increase compared to 2014. However, despite these positive trends, the overall coverage of healthcare expenses remains relatively low, indicating room for improvement in healthcare insurance penetration.

Number of medical policies issued by private insurance companies, ('000)

Premiums collected by private insurance companies from medical insurance (mln. GEL), indemnified losses (mln. GEL) and share of medical insurance in total insurance

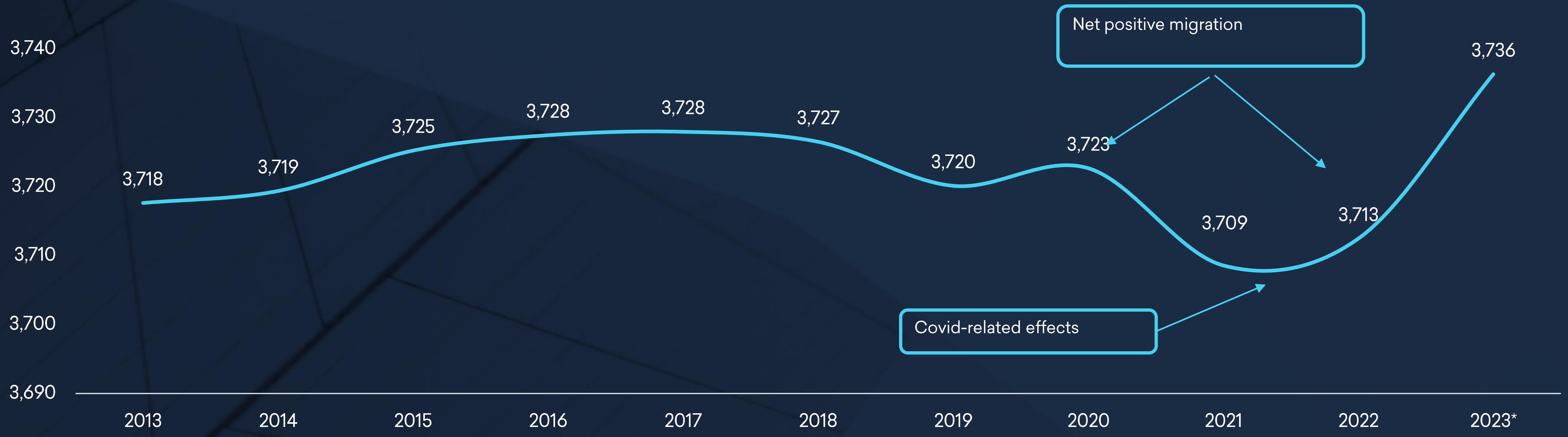


Source: Ministry of Health, Labor, IDPS and Social Affairs of Georgia, Ministry of Finance of Georgia, Geostat, TBC Capital

The demand for healthcare services is, among other factors, driven by demographic dynamics of the Country. In 2023, Georgia's population reached 3,736.4 thousand, the highest recorded in the past decade. The main contributing factors to population growth were migration to the country, changes in social factors, economic conditions, and individual choices.

Major demographic dynamics of Georgia are persistent negative net migration (except 2020 and 2022), declining birthrate and aging population. Negative net migration negatively impacts the demand for healthcare service, declining birthrate and aging population suggest a possible change in the structure of the healthcare services offered.

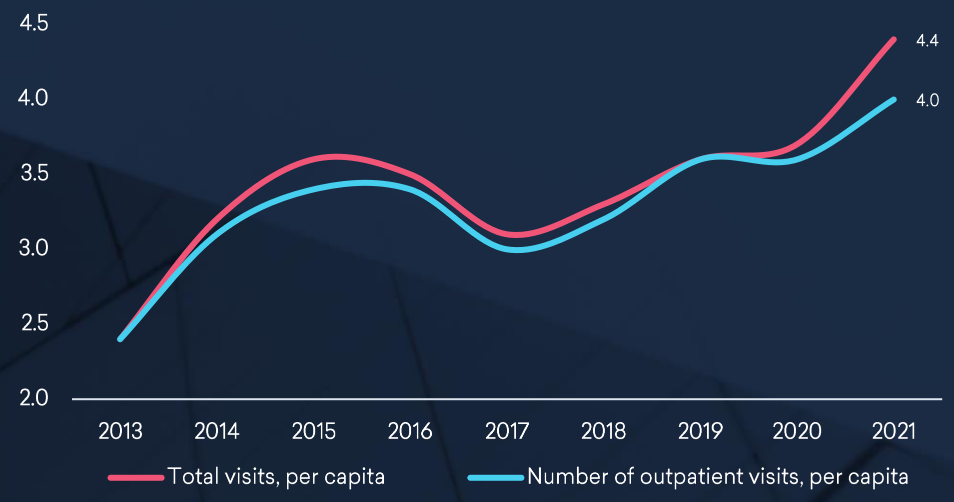
Number of population ('000)



Source: Ministry of Health, Labor, IDPS and Social Affairs of Georgia, Ministry of Finance of Georgia, Geostat, TBC Capital

Demand for healthcare services is also driven by morbidity with acute and chronic diseases in the country. In 2021, Georgia saw a significant increase in psychic and behavioral disorders, diseases of musculoskeletal system, and congenital malformations.

Number of out-patient and total visits per capita



In general, in comparison to 2013, there has been an increase in outpatient and inpatient care in 2021. The total per capita visits for the population amounted to 4.4, whereas this indicator was at 2.4 in 2013. Regarding physician visits, this indicator increased from 2.4 in 2013 to 4 in 2021. The growth in visits is significantly associated with the development of comprehensive healthcare programs. The trend indicates a higher demand for healthcare services.

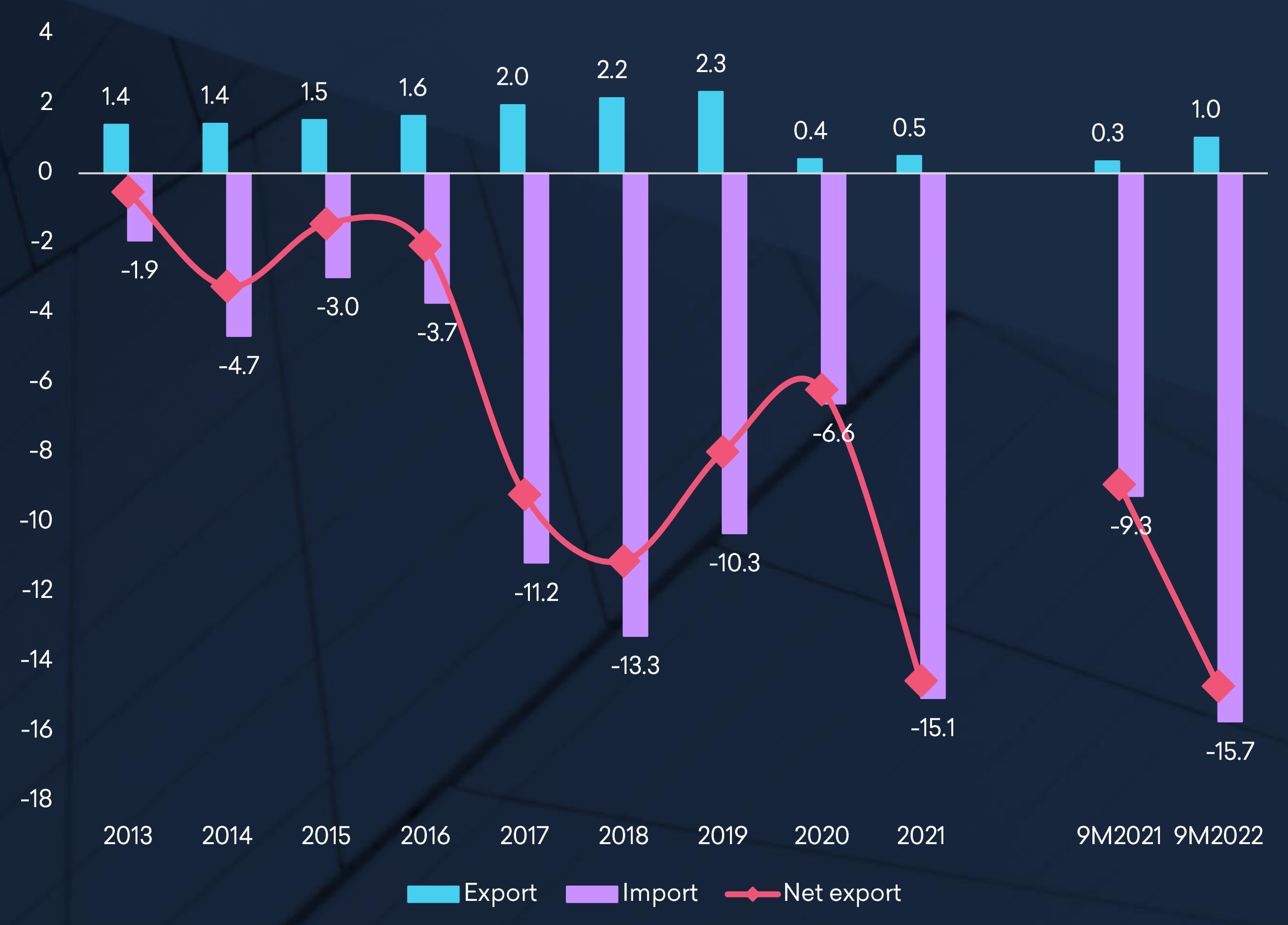
Morbidity with acute and chronic diseases by main disease groups, 3 groups with highest growth, 3 groups with highest decrease (‘000), 2013-2021

	Psychic and behavioral disorders	Diseases of musculoskeletal system and connective tissue	Congenital malformations	Diseases of the digestive organs	Complications of pregnancy, childbirth and postnatal period	Injuries and poisonings	Other diseases	Total
2013	7.5	58.2	2.1	292.4	14.6	58.3	1362.8	1795.8
2021	20.0	75.8	3.2	63.4	3.4	26.4	808.1	1000.4
Change, %	165.8%	30.4%	53.2%	-78.3%	-76.5%	-54.7%	-40.7%	-44.3%

Source: Geostat

Import of healthcare services saw significant changes during this period, with a nearly eightfold increase in 2021 compared to 2013.

Trade with healthcare services, mln. USD, 2013-2021



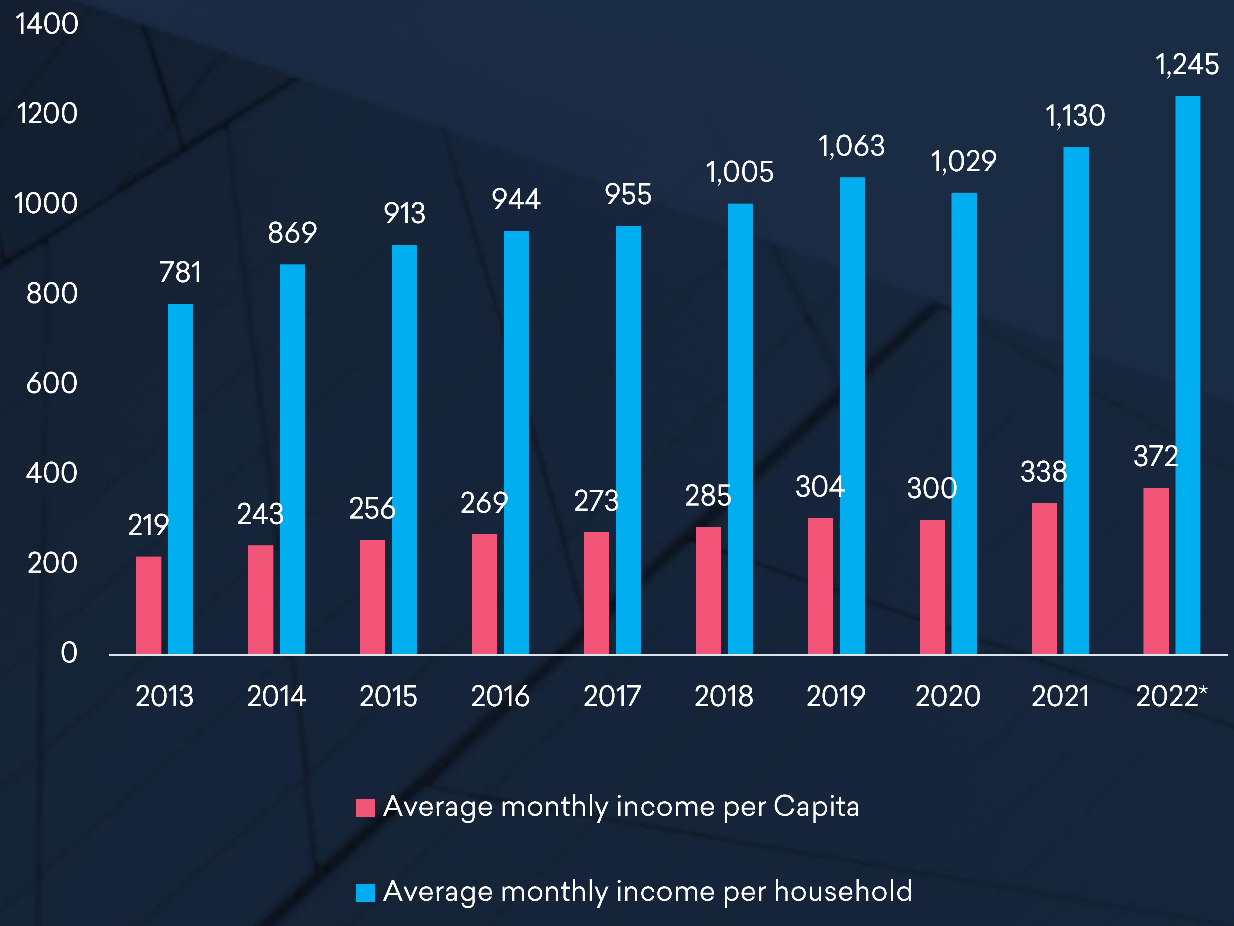
From 2013 to 2021, Georgia experienced stable growth in the export of healthcare services. However, there was a decline in 2020 and 2021, primarily due to the COVID-19 pandemic and related restrictions. Azerbaijan and Armenia were the main countries which imported healthcare services from Georgia.

As for the import of healthcare services, it reached USD 15.7 mln in 2021. Turkish hospitals were the primary destination for Georgian patients seeking medical treatment of cancer abroad. Residents of Georgia frequently traveled abroad for heart and liver transplantation as well. In some cases, when receiving healthcare services is also possible in Georgia, patients still prefer medical facilities abroad, trust in medical institutions being the major reason behind such decision.

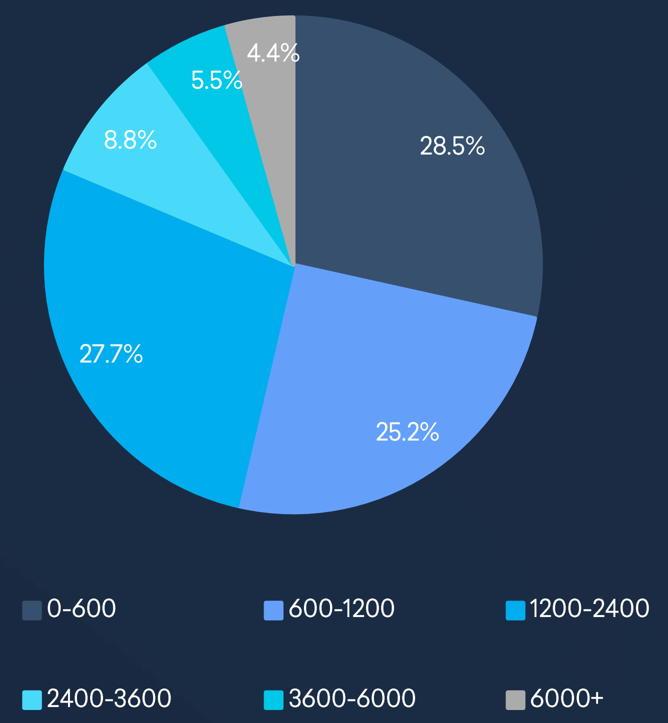
Source: National Bank of Georgia

In 2013-2022 period average monthly income per capita increased by almost 70%, positively impacting demand for healthcare services. On the other hand, distribution of income shows that 54% of the income recipients earn monthly income of less than GEL 1200.

Average monthly income of population (GEL)



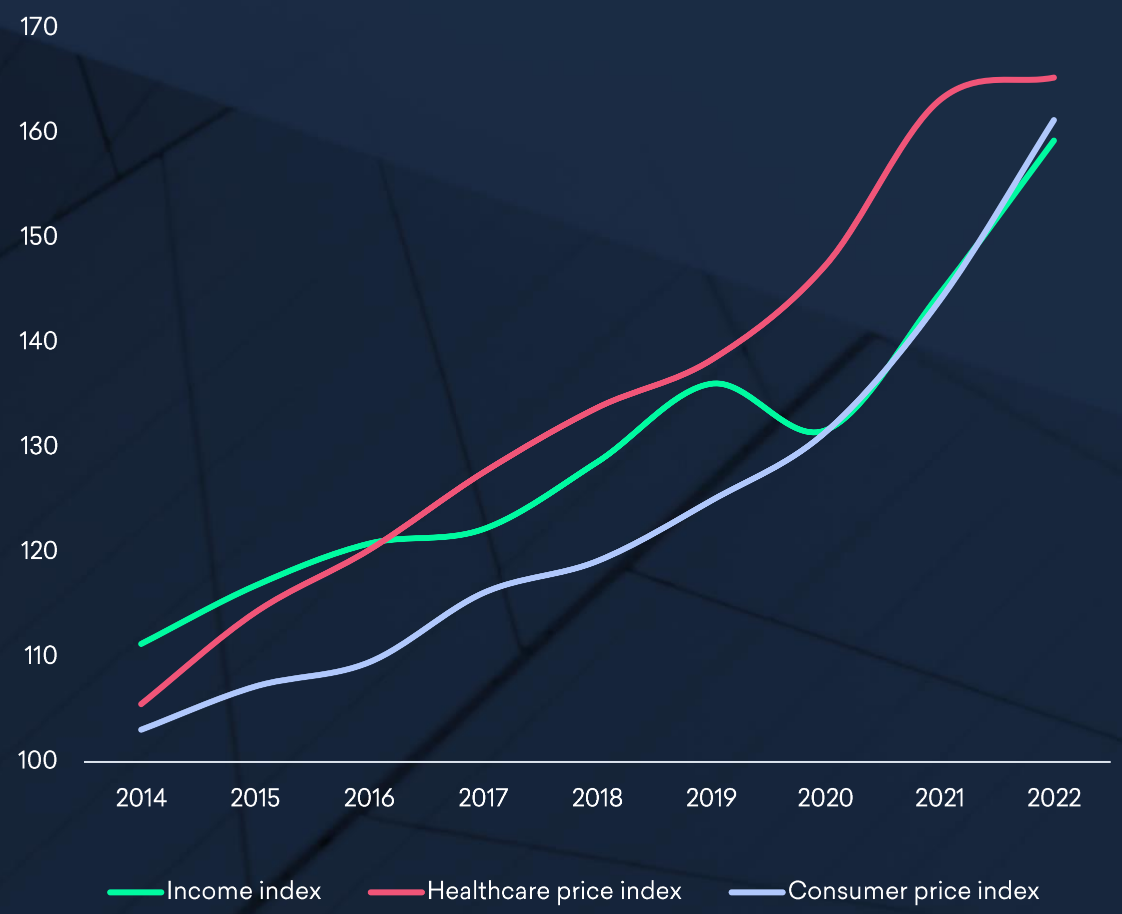
Distribution of income recipients by monthly income groups



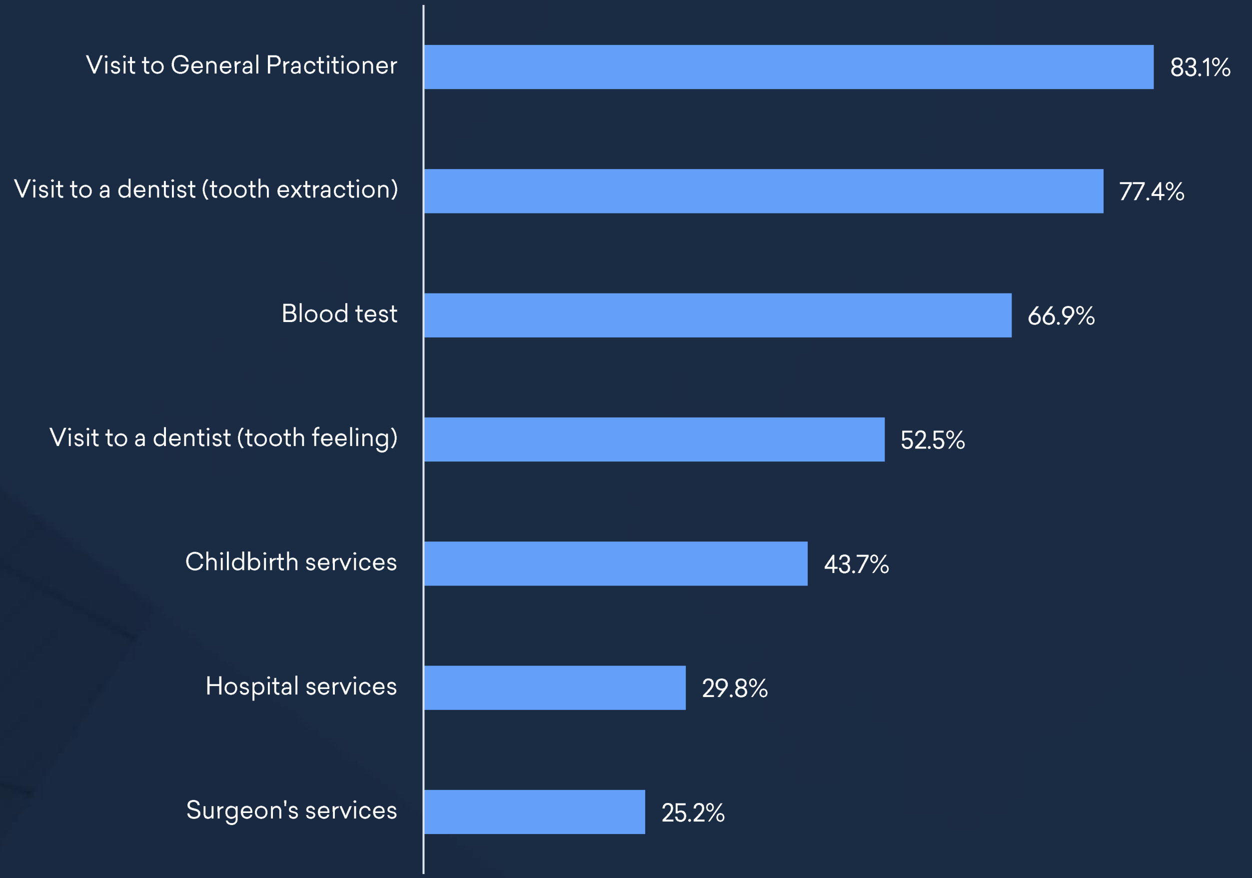
Source: Geostat, Ministry of Finance of Georgia

In 2022 the prices on healthcare services increased more than consumer prices - by 65.3% compared to 2013. The largest increase (83%) was seen in the price of General Practitioner's services.

CPI Index, Healthcare price index, and Income index, 2013 = 100



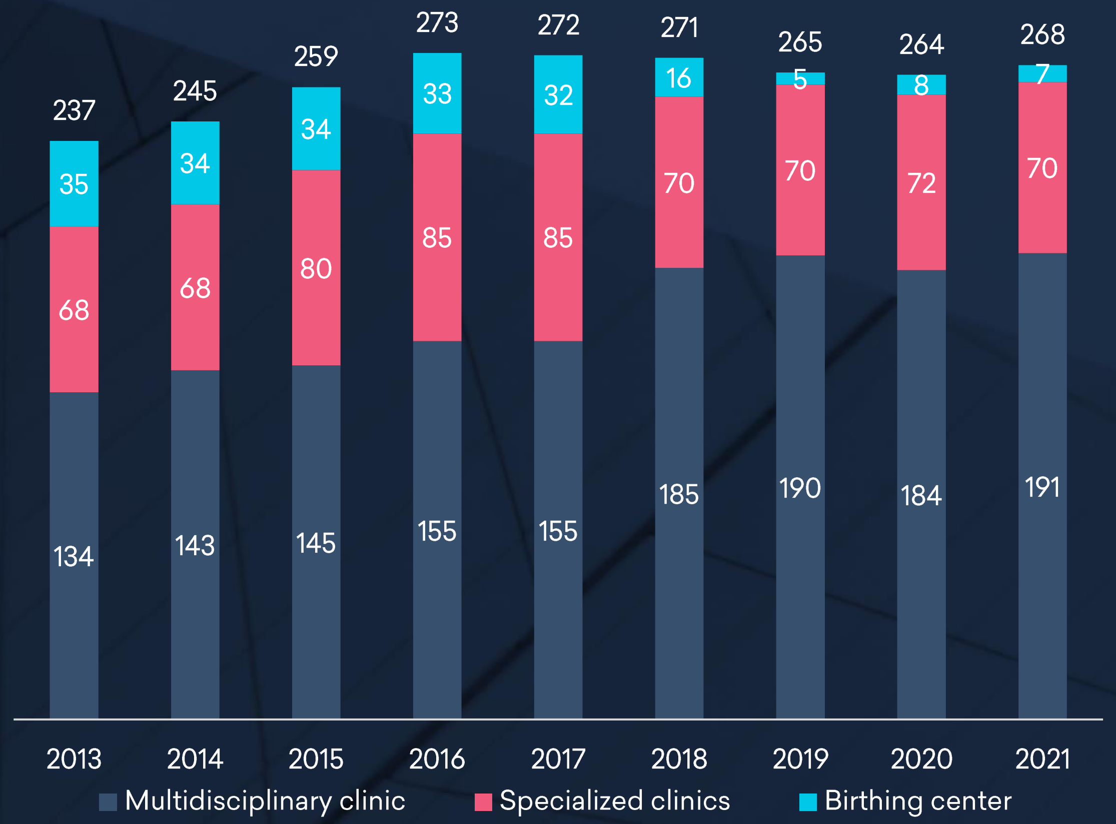
Change of prices on healthcare services in 2022 compared to 2013



Source: Geostat, TBC Capital

In 2013-2021, the number of healthcare providers increase by 13% in Georgia, from 237 to 268. The increase was mainly driven by the multidisciplinary healthcare providers.

Number of hospitals and medical centers

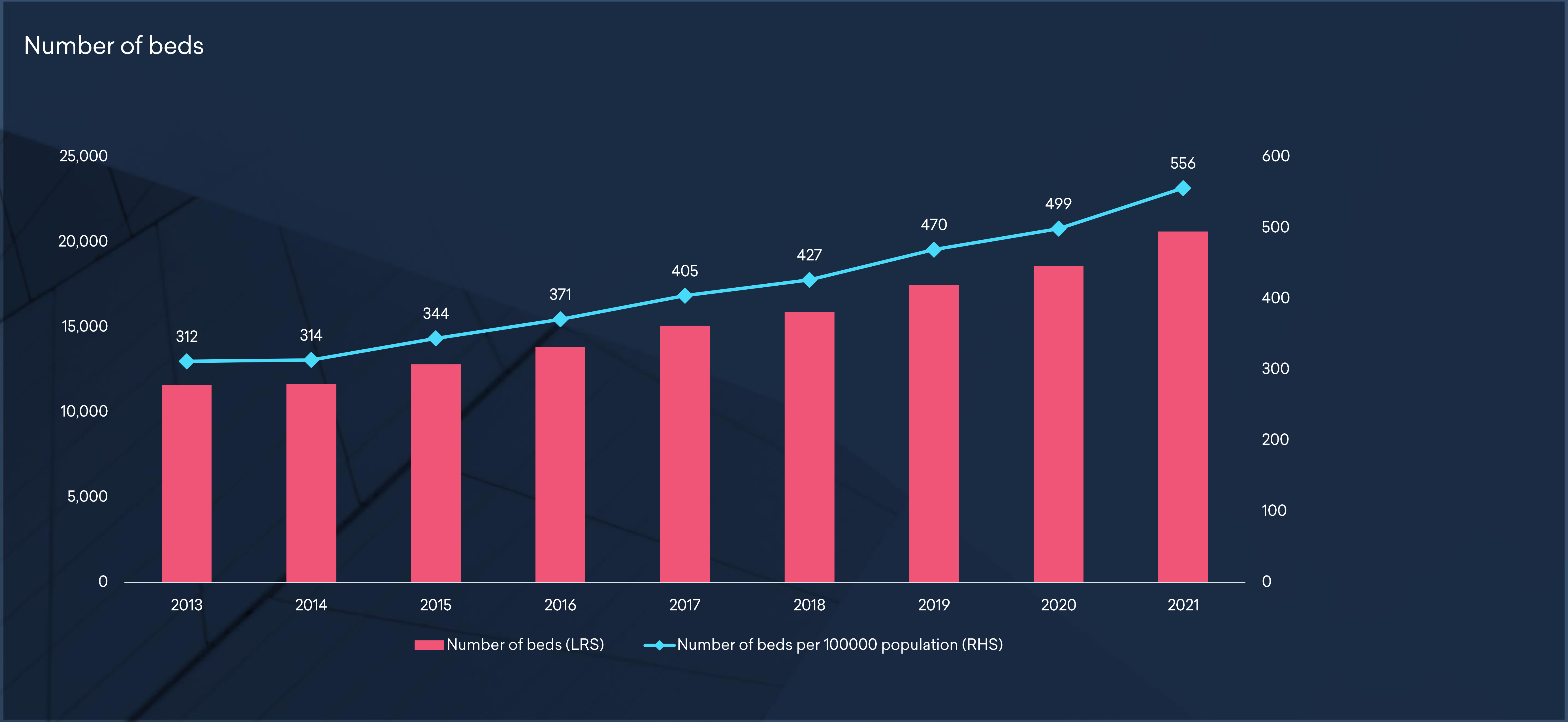


Alongside the increase of multidisciplinary hospitals, the number of independent birthing houses declined significantly, from 35 to 7 in 2013-2021. The decrease is caused by declining birth rates, which make the operation of independent birthing house financially ineffective.

In 2019-2022 16 permits for construction of medical institutions were granted, which puts upward pressure on the supply. However, highly fragmented market and recent or upcoming regulations create a room for market consolidation.

Source: NCDC, TBC Capital

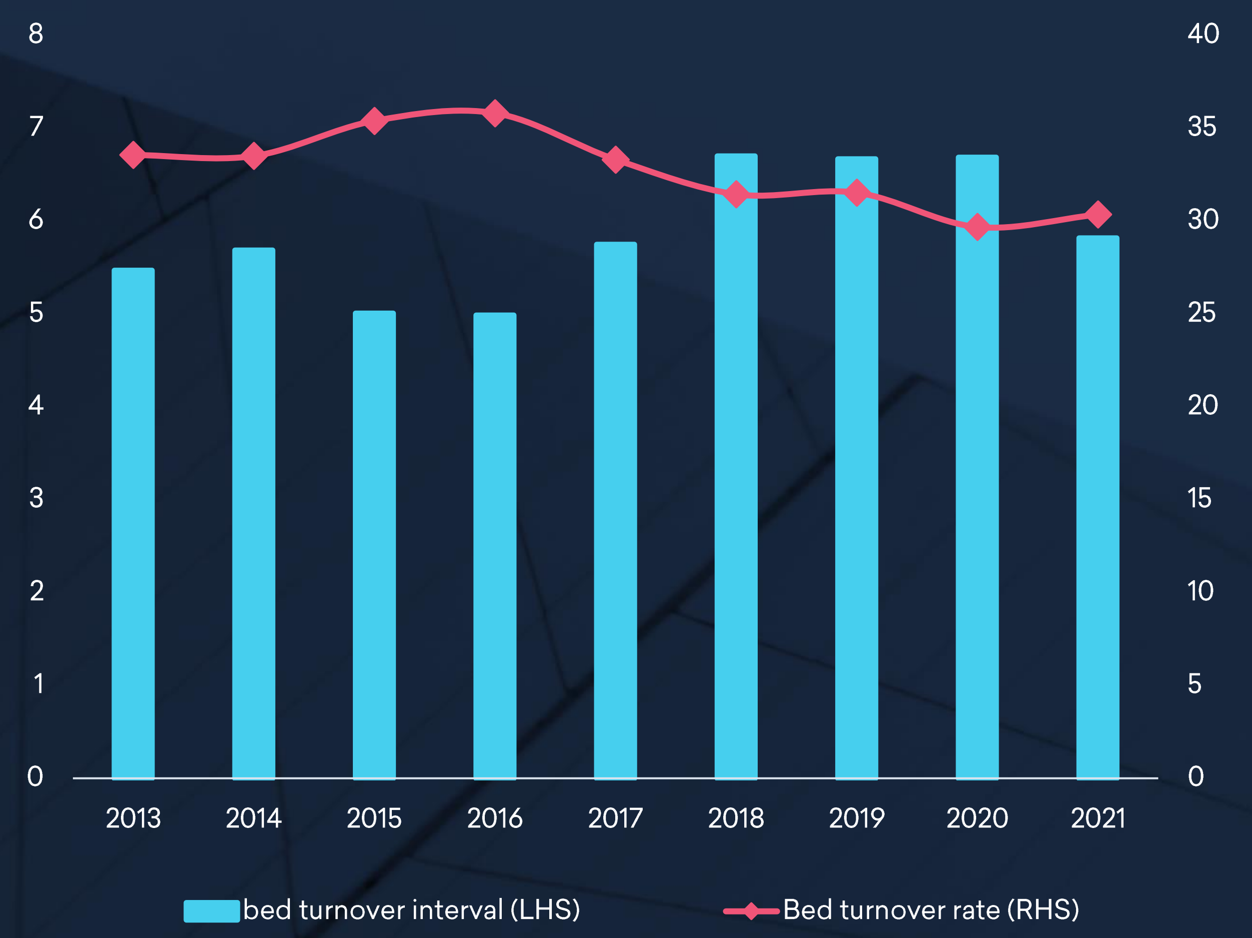
In 2013-2021, the number of beds increased by 77.7%, from 11,600 to 20,633. The increase was driven by increased supply of the hospitals, as well as expansion of the existing healthcare service providers.



Source: NCDC.

In 2021, the bed turnover rate as well as the bed occupancy rate in Georgia decreased.

Bed turnover interval (days) and bed turnover rate



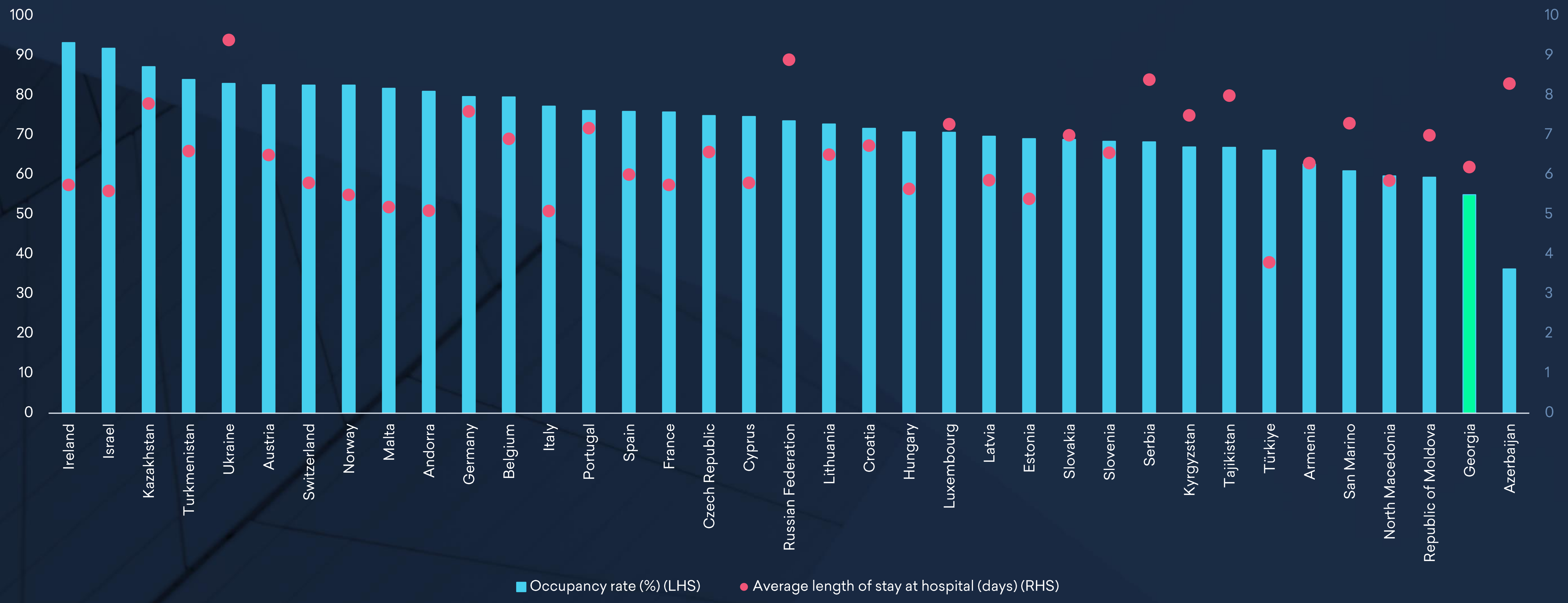
Bed turnover, i.e. number of days between patient discharges and admissions, fluctuated around 5.5 in 2013-2021 in Georgia, indicating no significant improvement in terms of bed utilization in this period. Another indicator pointing at the room for the improvement of efficiency is bed turnover rate, i.e. the number of patients served by one hospital bed. The indicator has slightly deteriorated since 2013 (from 33.6 in 2013 to 30.4 in 2021). The supply of beds has increased by 78% in this period, however, hospitals have not yet managed to improve the utilization of beds. Consolidation could be a solution to low efficiency.

Source: SARAS, TBC Capital

* The calculations are based on the data of 104 hospitals and clinics.

Georgia has a low bed occupancy rate of 55%, and the average length of hospital stay for patients is 6.2 days, which is lower than the average rate of the selected countries (6.6 days).

Bed occupancy rate (%) and average length of hospital stay (days) by country

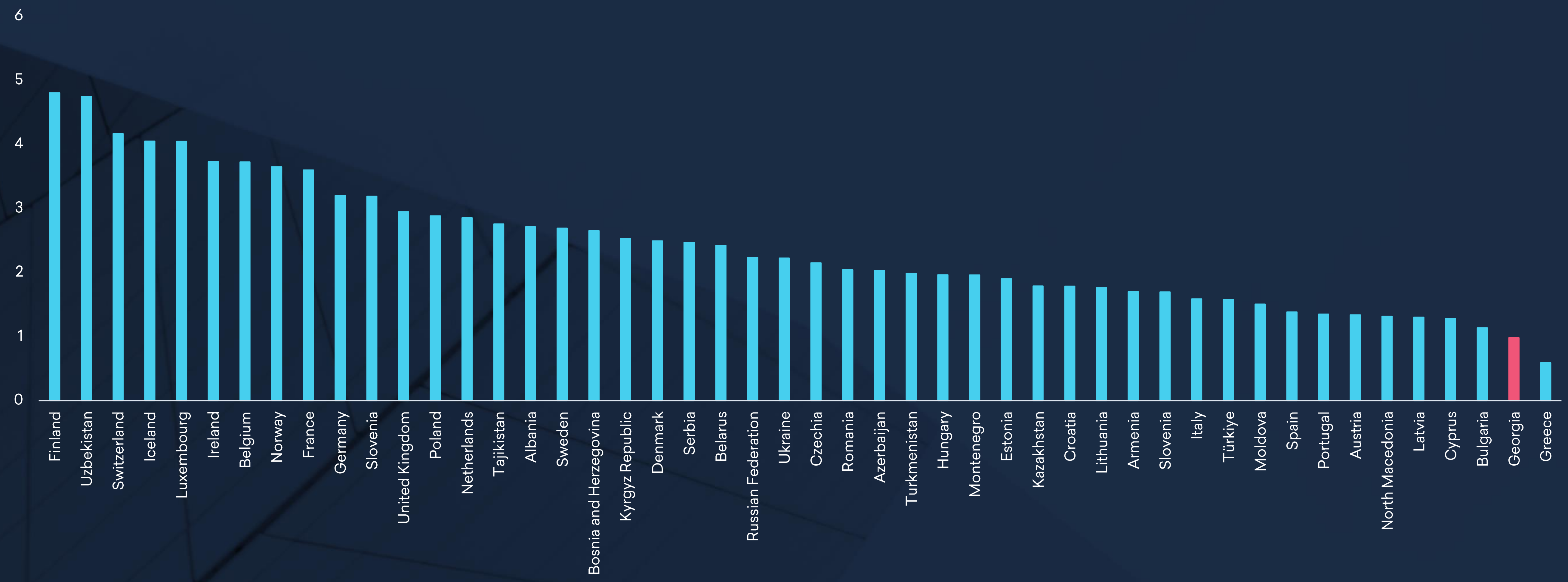


Source: WHO

*Most recent available year

In 2021, Georgia had a nurse-doctor ratio of 0.98, which is lower than that of most European and Central Asian countries.

Nurse-physician ratios in European and Central Asian countries

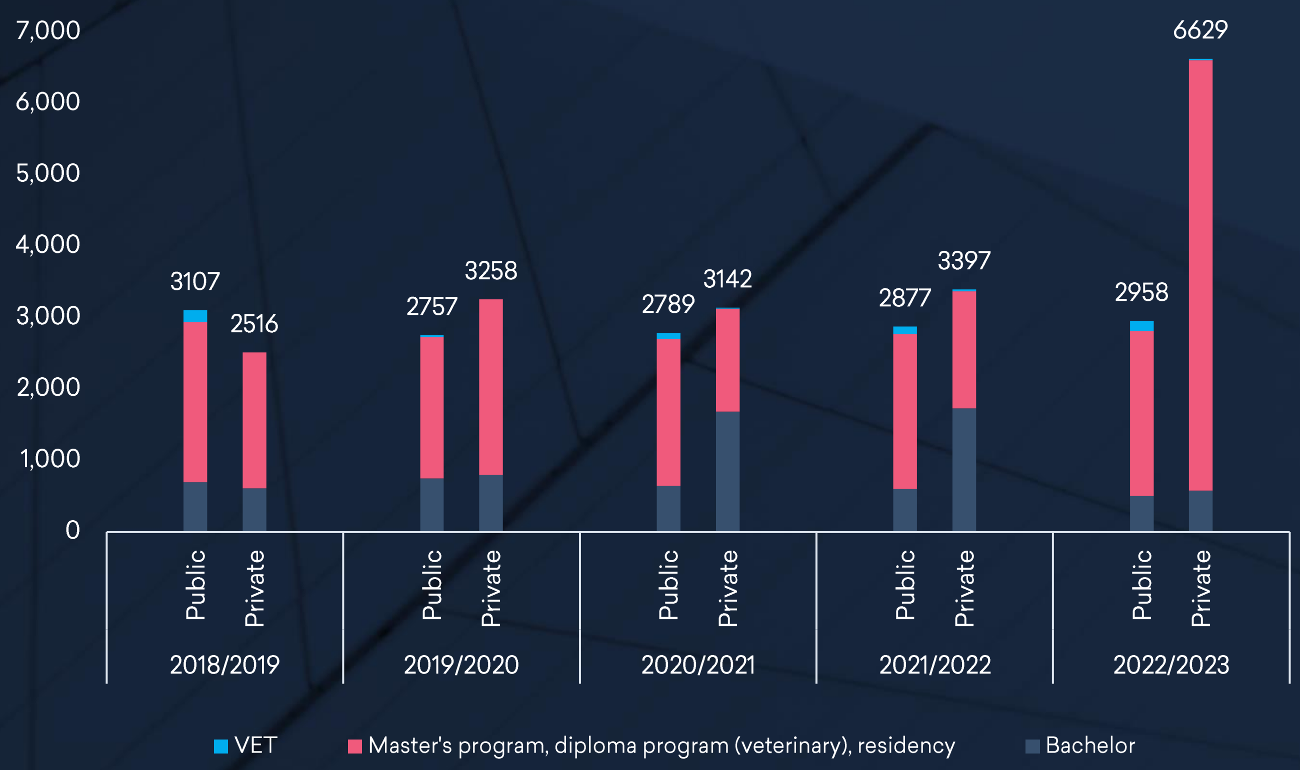


Source: World Bank Open Data, TBC Capital
*Most recent available year

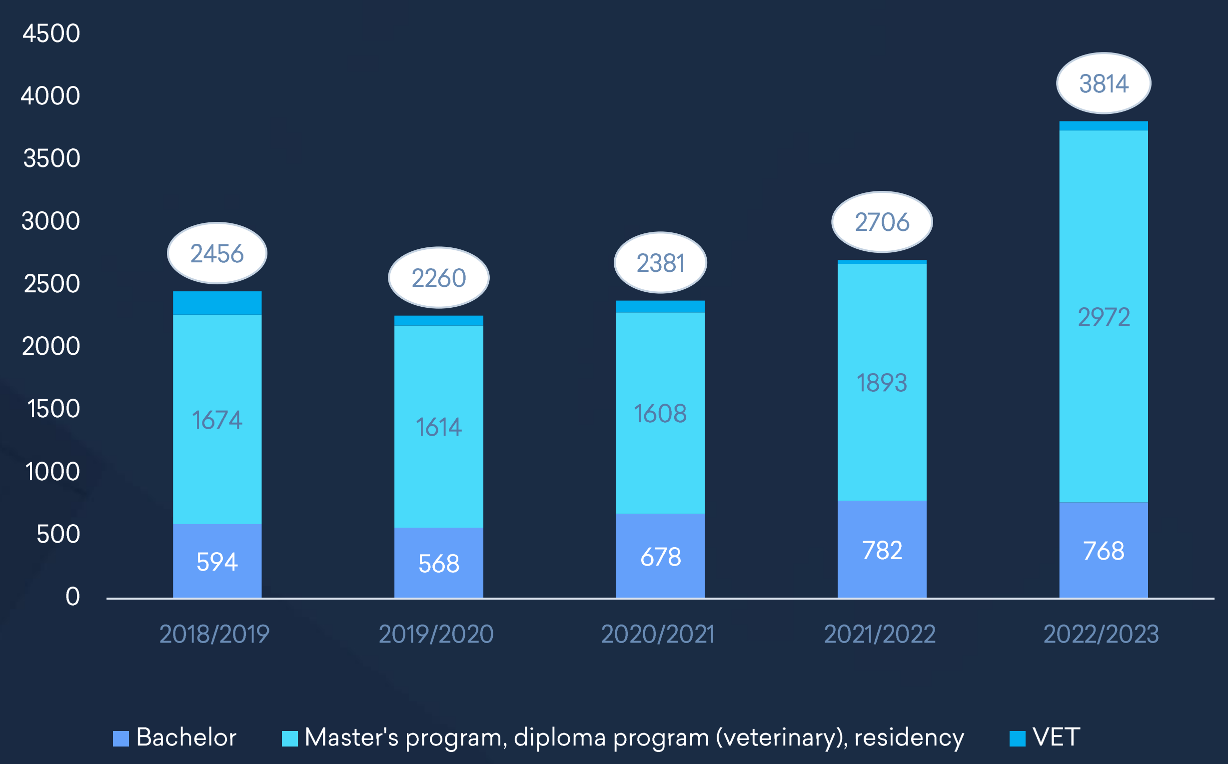
In 2022/2023, the number of students admitted to the healthcare program increased by 53% compared to the previous year, and the number of graduates also rose by 41%.

These increases are primarily driven by foreign students, who are less likely to enter the labor market in Georgia after completing their education. Therefore, the shortage of medical personnel will continue to be one of the main challenges in delivering healthcare services in the coming years.

Number of students admitted to the healthcare program

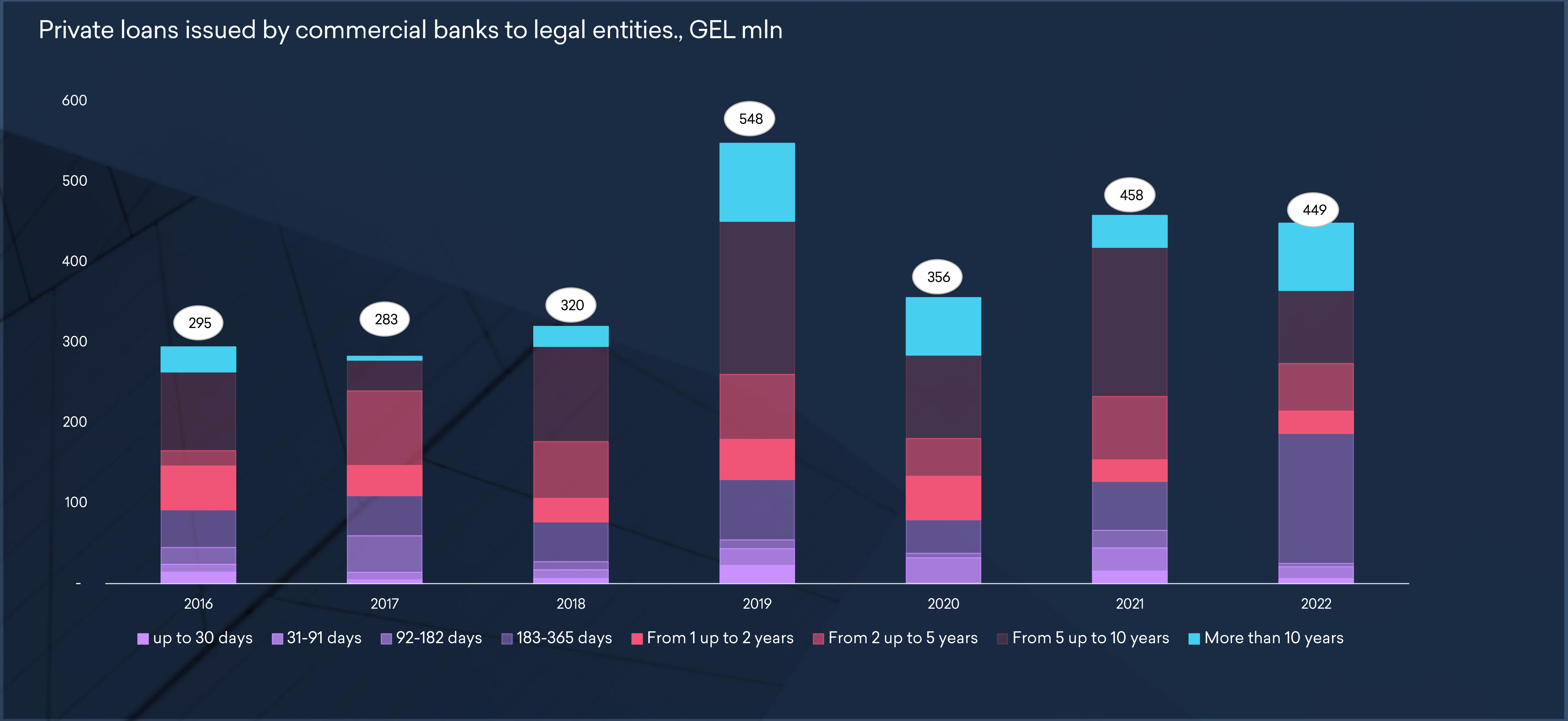


Number of graduates from healthcare program



Source: Geostat.

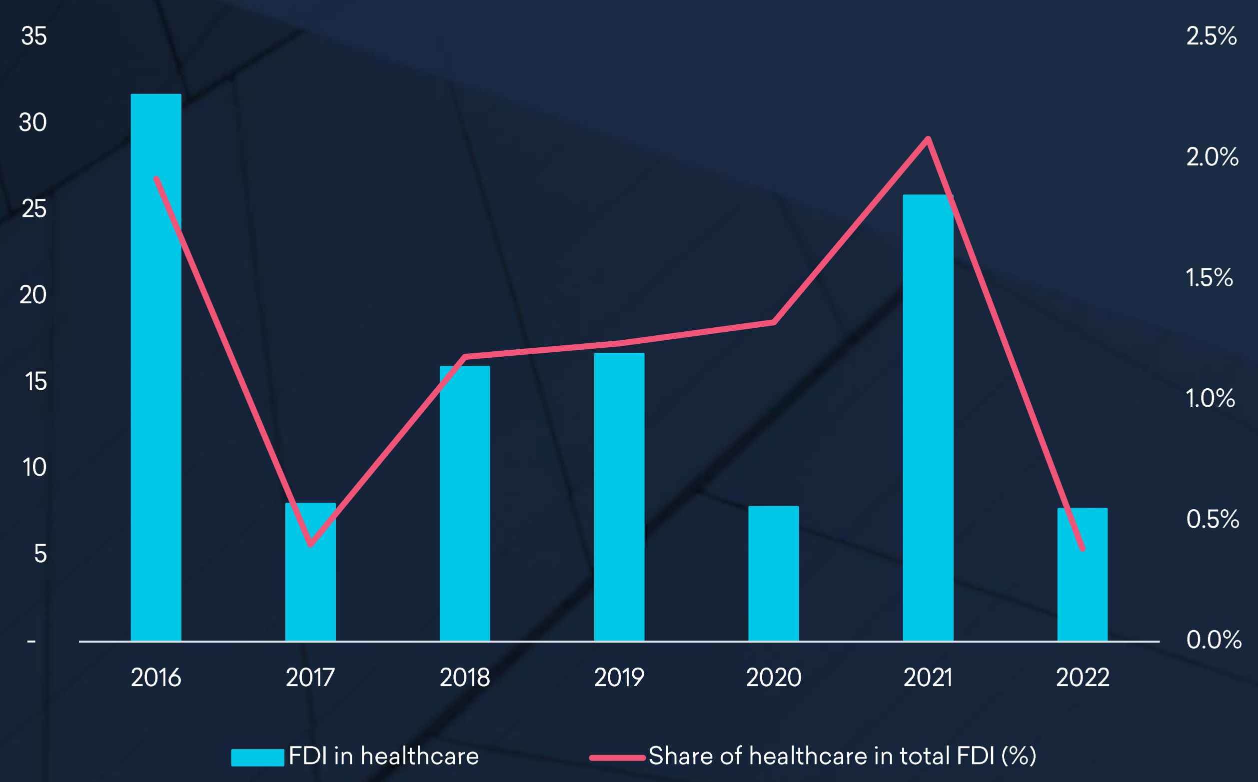
In 2022, private loans issued by commercial banks to legal entities with a duration of more than 10 years doubled compared to the previous year, indicating an increased investment in the healthcare sector.



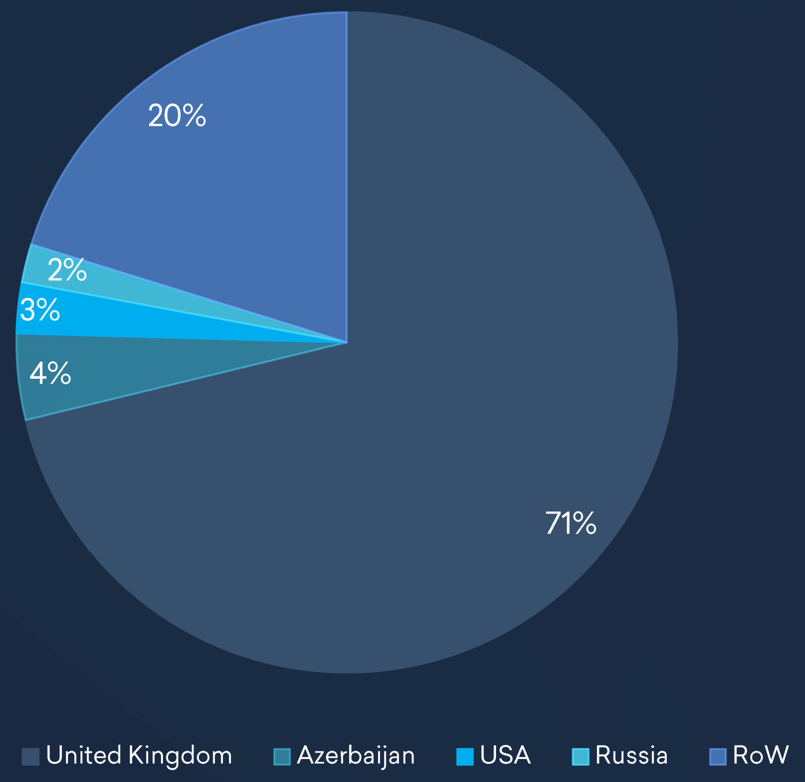
Source: National Bank of Georgia

Foreign Direct Investment (FDI) in the healthcare sector is generally low, averaging around 1-1.2% of the total FDI.

FDI in healthcare (mln. USD)



FDI in healthcare during 2013-2022 by country



Source: Geostat

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