



TBC CAPITAL

Silknet

1H 2021 OVERVIEW

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Silknet – 1H 2021 overview

Silknet's revenue increased by c. GEL 13 mln (+6.9% YoY; -2.4% in USD) in 1H 2021.

EBITDA was up by 4.5% YoY in 1H 2021, with the EBITDA margin decreasing by 1.2 pp in the same period.

At 52.5% of total commercial revenues in 1H 2021, revenue from mobile services increased by 7.1% YoY.

Number of subscribers for mobile services grew by +2.6% YoY by the end of 1H 2021. The ARPU for the service segment grew at a higher pace, amounting to +7.3% YoY over the same period.

A minor decrease in market shares have been observed in the mobile, fixed internet, and pay TV categories in 1H 2021.

Silknet's key financial figures

	1H 2020	1H 2021	YoY change
Revenue (GEL mln)	184.9	197.8	6.95%
Revenue (USD mln)	61.0	59.6	-2.36%
EBITDA (GEL mln)	102.0	106.7	4.55%
Assets (GEL mln)	866.8	838.7	-3.24%
Equity (GEL mln)	-11.8	-41.5	252.21%
Total liabilities (GEL mln)	878.6	880.3	0.18%
Net debt (GEL mln)	605.9	612.2	1.04%
Leverage	2.78	2.83	+0.05 pp

Silknet's key operating figures

	JUN-2020	JUN-2021	YoY change
Mobile subscribers ('000)	1,647	1,690	2.59%
Internet subscribers ('000)	291	291	-0.19%
Pay TV subscribers ('000)	238	241	1.42%
Fixed telephone subscribers ('000)	228	204	-10.34%

Silknet's issuer credit rating

FitchRatings

B
Stable

Last action: Dec-2020

MOODY'S

B1
Negative

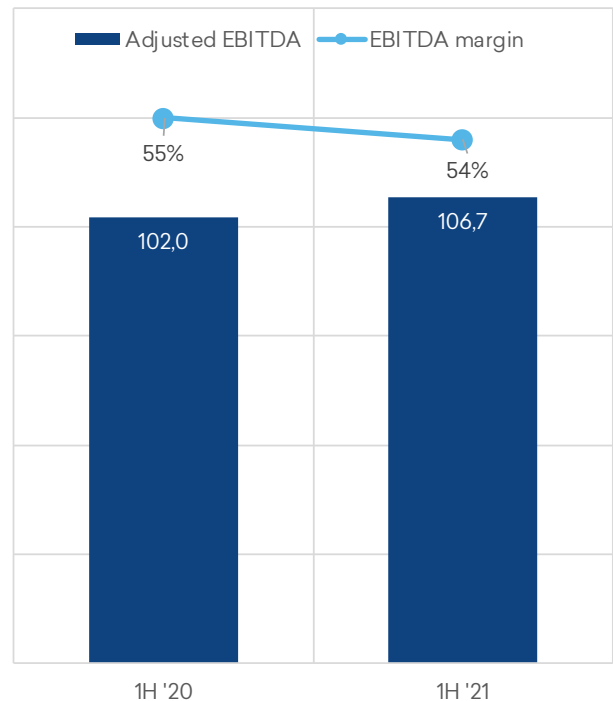
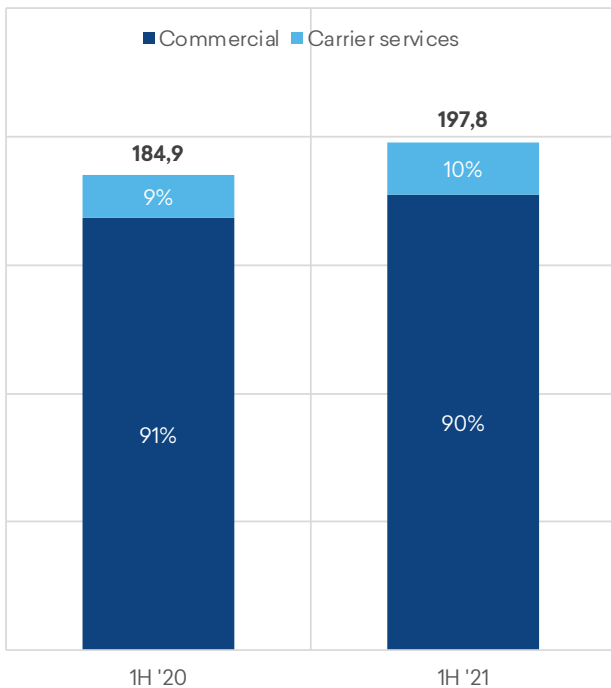
Last action: Mar-2021

A 6.9% YoY stronger half year in terms of revenues

Silknet’s revenue increased by c. GEL 13 mln (+6.9% YoY; -2.4% in USD) in 1H 2021. The growth was mainly driven by a 5.2% YoY growth in commercial revenue. The increased revenue in 1H 2021 was mainly a result of better performing Q2 2021 due to eased pandemic related restrictions, having a major impact on mobile services.

Silknet’s EBITDA was up by 4.5% YoY in 1H 2021, with the EBITDA margin decreasing by 1.2 pp in the same period. The improved EBITDA was mainly driven by organic growth, while the decreased margin was a result of a 10% YoY depreciated GEL against the USD, as well as increased utility expenses.

Revenue dynamics of 1H 2021 (GEL mln)



Source: Silknet, TBC Capital

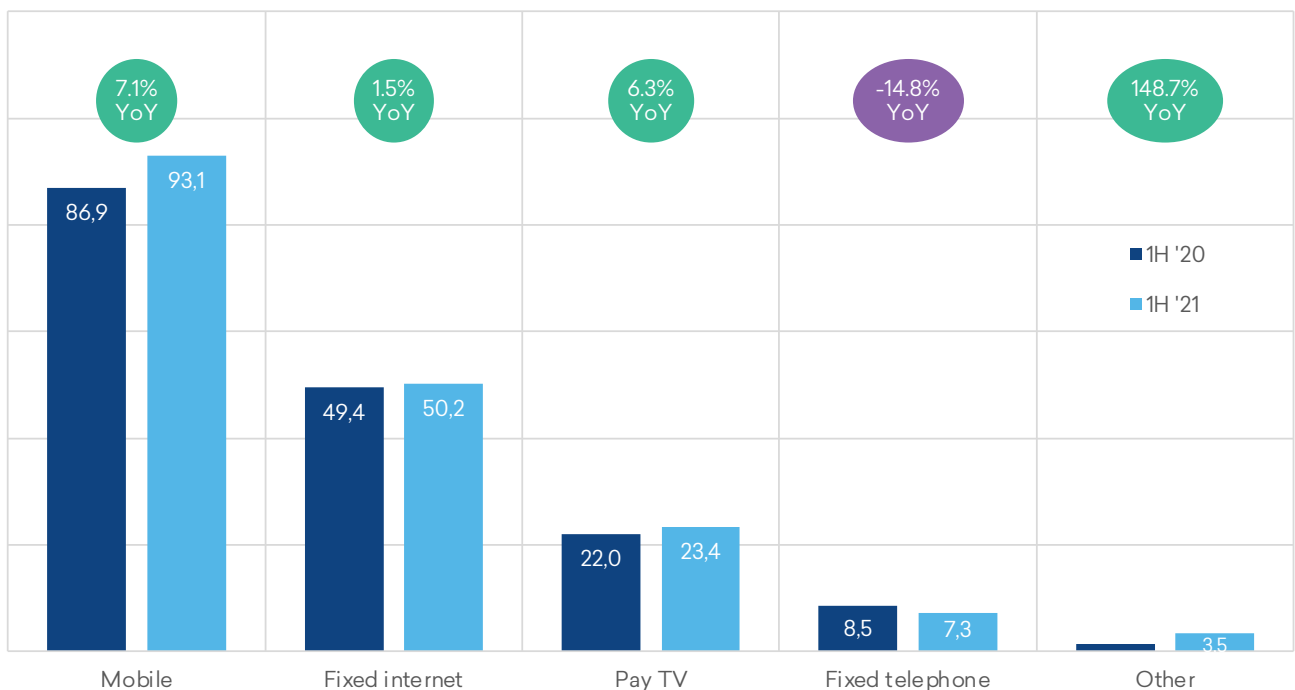
Mobile service remains the largest revenue generating category and the key driver for growth

The current segmental split of Silknet's commercial revenue clearly indicates mobile being the largest part of the company's business. At 52.5% of total commercial revenues in 1H 2021, revenue from mobile services increased by 7.1% YoY. A positive trend was also observable in the next two runner-up categories of fixed internet and pay TV,

having increased by 1.5% and 6.3% YoY, respectively, in the same period.

Silknet's revenues from the fixed telephone service continues the downward sloping trend, recording a 14.8% YoY decrease in 1H 2021. The decreasing revenues in this service category is driven by increasing mobile phone penetration.

Commercial revenue breakdown by service category (GEL mln)



Source: Silknet, TBC Capital

Average revenue per user on a rise on two of the biggest revenue generating categories

The increased overall revenue can be explained by the growing number of subscribers for mobile services (+2.6% YoY by the end of 1H 2021). The ARPU for the service segment grew at a higher pace, amounting to +7.3% YoY over the same period.

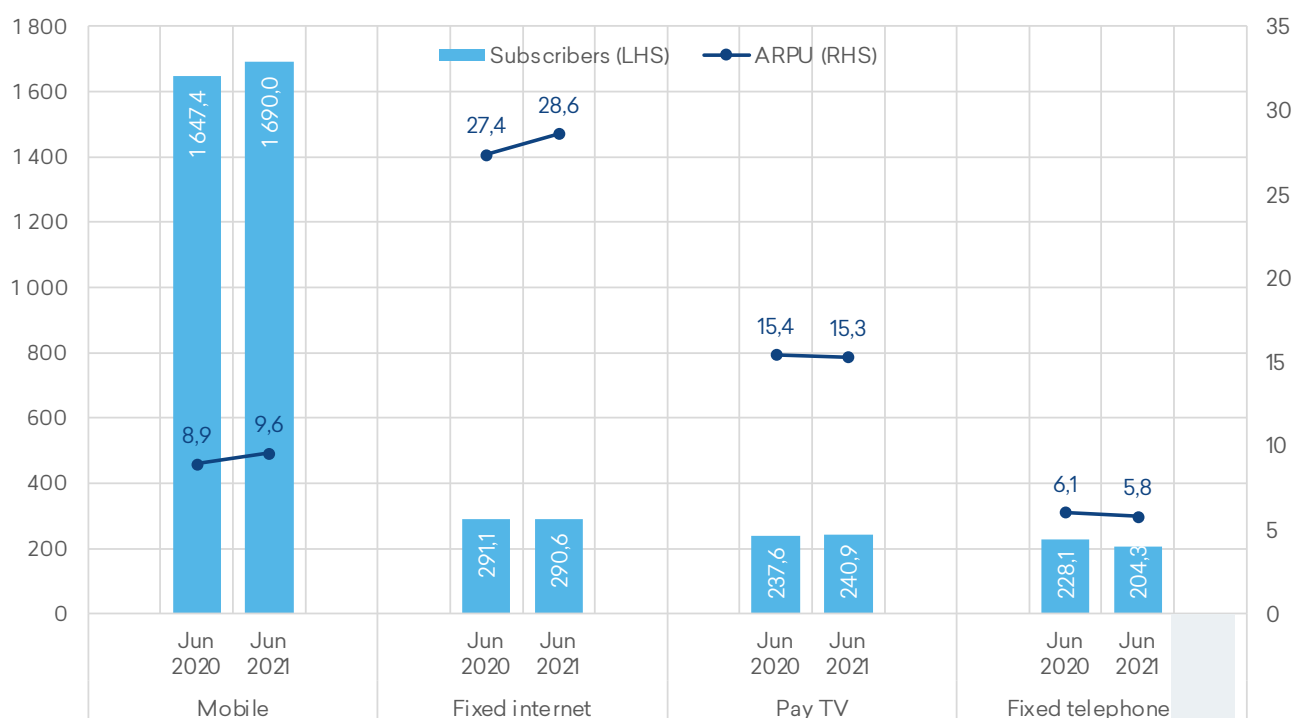
While no major change has been observed in the runner-up segment of fixed internet, the ARPU also saw a noticeable, +4.6% YoY, growth.

The pay TV segment remained more or less stable throughout 1H 2021 and no major changes have been observed in the number of subscribers or the ARPU.

The fixed telephone service segment continued the downward sloping trend as a result of the general consumers' attitude towards the technology.

GNCC's recent decision to give mobile network operators and mobile virtual network operators the freedom to negotiate on commercial bases without any participation from the regulator, provides a basis for positive outlook for future ARPUs.

Silknet's subscribers and respective ARPUs by service category ('000; GEL)



Source: GNCC

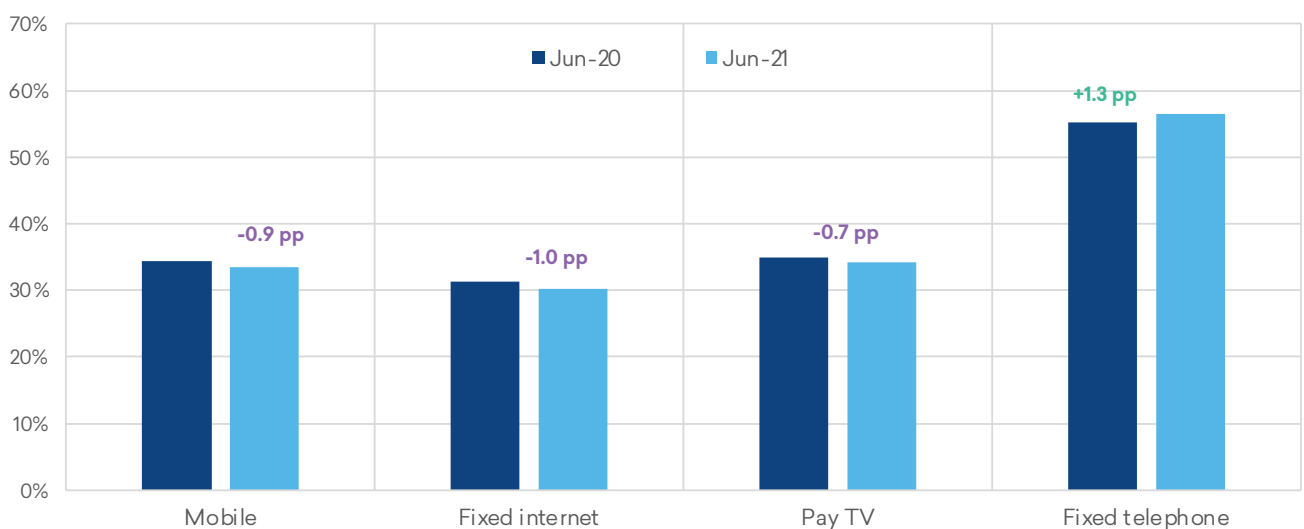
Market shares slightly deteriorating in major service categories in 1H 2021

A minor decrease in market shares has been observed in the mobile, fixed internet, and pay TV categories in 1H 2021. The largest loss was recorded in the fixed internet category at -1.0 pp YoY, however in terms of more detailed segments, Silknet lost its share the most in

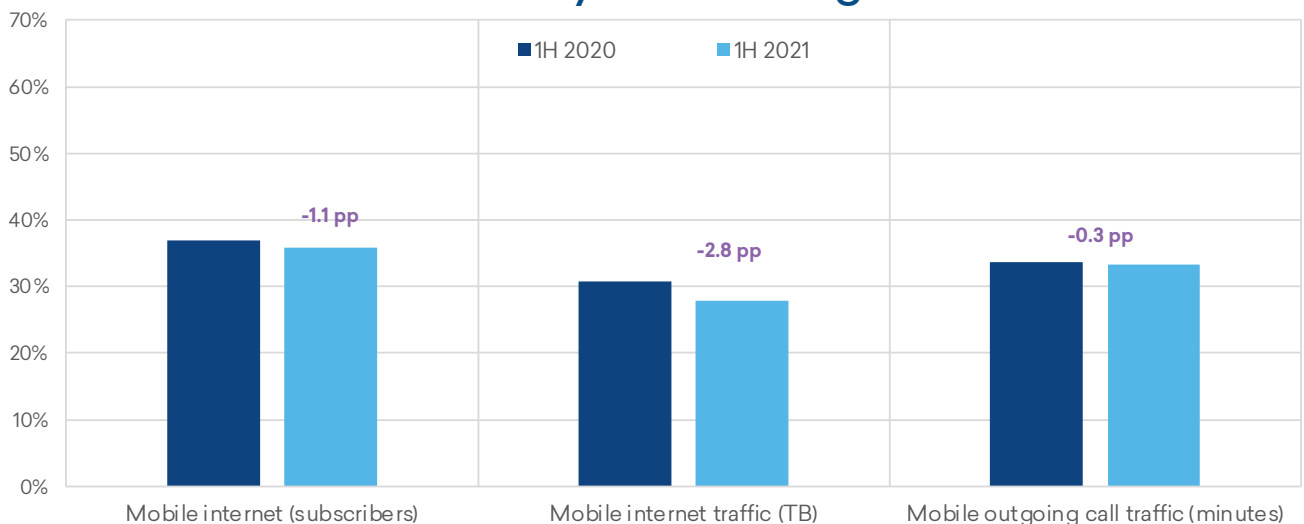
terms of mobile internet traffic at -2.8 pp YoY.

At +1.3 pp YoY, the fixed telephone is the only category where Silknet gained its market share.

Silknet's market shares by categories (number of subscribers)



Silknet's market shares by mobile segments



Source: GNCC

A high yielding Eurobond in the comparable telecommunications Eurobond universe

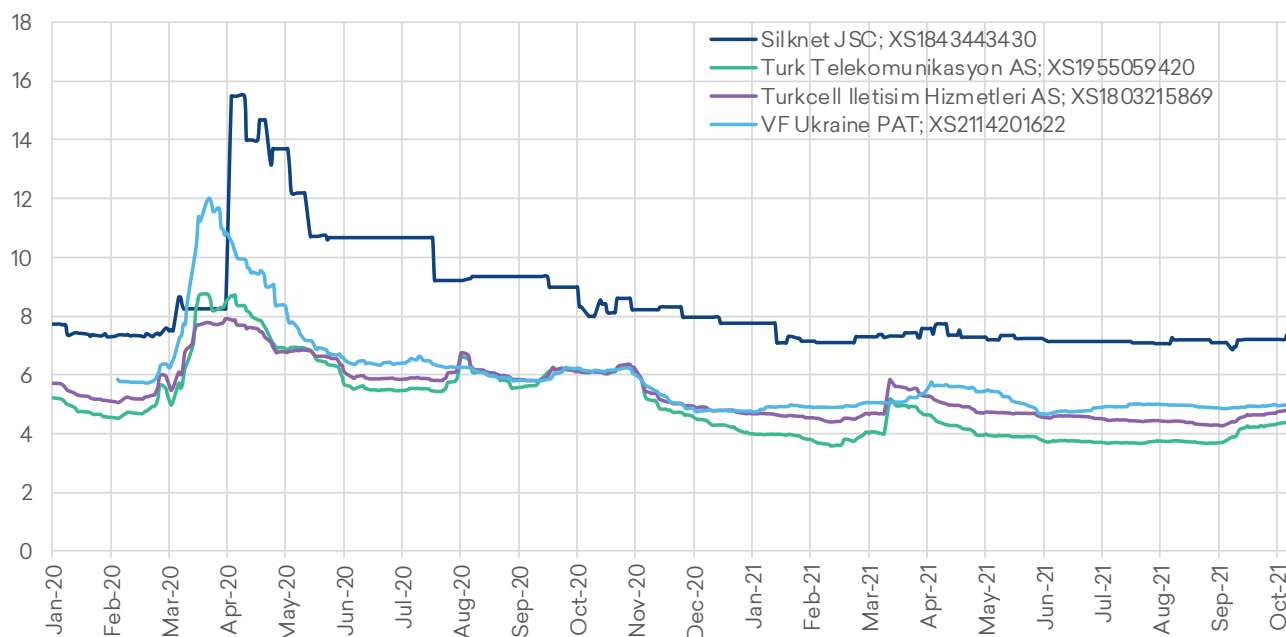
In the Eurobonds from the telecommunications sector with similar maturity, rating, and embedded call option, the Silknet Eurobond is rather high yielding. From the industry risk standpoint, it remains a good option.

Even with an increased leverage of 2.83 in 1H 2021, Silknet remains below the 3.5 threshold set by the Eurobond covenant.

Silknet Eurobond details

Issuer	Silknet JSC
Issuer Ratings (Moody's/Fitch)	B1/B
Rank	Senior Unsecured
Issued Amount	USD 200 mln
Settlement Date	02-Apr-2019
Maturity Date	02-Apr-2024
Coupon/Frequency	11.000%/Semi-annual
Callable/Price	02-Apr-2022/105.500
Price at issue	100.0000
Use of proceeds	Acquisition financing/refinance
Book runner	JP Morgan, TBC Capital, UBS

Silknet and selected peer Eurobonds' yield to maturity (%)



Source: Bloomberg

Annex: financial statement highlights

Profit and loss highlights ('000 GEL)

	H1 2020	H1 2021
Commercial revenue	168,622	177,428
Carrier services	16,285	20,329
Depreciation and amortization expenses	(58,372)	(58,035)
Employee benefits expense	(28,332)	(30,981)
Purchased services	(18,158)	(21,038)
Interconnect & roaming expenses	(7,467)	(8,928)
Other expenses	(25,164)	(23,458)
Profit from operating activities	39,298	47,135
Finance income	2,101	2,353
Finance cost	(43,928)	(45,838)
Net change in fair value of financial instrument at FVTPL	2,400	(8,850)
Net FX gain/loss	(40,341)	23,156
Net finance cost	(79,768)	(29,179)
Profit and total comprehensive income	(40,470)	17,956
Adjusted EBITDA	102,017	106,649
Adjusted EBITDA margin	55%	54%

Balance sheet highlights ('000 GEL)

	H1 2020	H1 2021
Total Non-current assets	760,839	478,841
Total current assets	120,958	89,894
Total assets	881,797	838,735
Total equity	(59,313)	(41,518)
Total non-current liabilities	754,810	735,337
Total current liabilities	186,300	144,916
Total liabilities	941,110	880,253
Total equity and liabilities	881,797	838,735

Cash flow highlights ('000 GEL)

	H1 2020	H1 2021
Net cash from operating activities	109,732	101,358
Net cash used in investing activities	(79,716)	(48,882)
Net cash used in financing activities	(50,188)	(85,211)
Net change in cash and cash equivalents	(11,736)	(31,717)
Cash and cash equivalents	63,126	46,074

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