



TBC CAPITAL

# TOURISM INDUSTRY OVERVIEW: THE NEXT DESTINATION



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## EXECUTIVE SUMMARY

Georgia's tourism industry has achieved a remarkable growth over the past decade, hitting record numbers of tourist arrivals and outpacing the economy growth with a 12.8% CAGR over the past ten years.

Tourism represents the largest component of service exports in the BOP, accounting for 72%, up from under 40% a decade ago. As of 2018, tourism revenues make up 36% of Georgia's total exports. Consumption by international visitors is significant, with 84% contribution in spending on short-term accommodation, 20% on food and beverages, 51% on culture and entertainment and 16% on ground transportation.

Despite the impressive figures, Georgia is still under-toured. With visitor-to-population ratio of 1.9, Georgia falls behind some European countries, however the share of same-day trips in visitor trips is significant. As the increase in overnight trips outpaces that of same-day trips for the past three years, supported with positive trends in the share of first-time and holiday visits, we see further potential for the industry growth. Average length of stay per visit increased from 3.4 in 2015 to 4.2 in 2018. Even though the number of international visits peak in summer, tourism in Georgia is more than a classic "Sun and Sea" destination, with winter months keeping the relative balance.

The residents of the neighboring countries account for over half of all visitors, with visits from Russia showing the fastest growth before the recent flight ban. However the share of EU citizens, a high-spending segment, is increasing (5.3% in 2018 in absolute numbers, up from 4.1% in 2015 and 11.6% in total tourist receipts, up from 6.9% in 2015). There is still a need for further diversification: In 2018, the top 5 countries of origin accounted for 76% of all international visitors to Georgia, significantly higher compared with other countries.

The share of air arrivals is rising, promising growth in average spending. The increasing air connectivity will keep underpinning the growth in future. Visitors spent GEL 7.9bn in Georgia in 2018, up 37.4% YoY. Average expenditure per trip picked up, totaling USD 447 per visit in 2018, up by 7.2% YoY. Country comparison indicates a high upside in average spending. Attracting visitors of older age would increase the tourist receipts.

We believe the effect of Russian sanctions is not long-lasting. The number of Russian citizen visiting Georgia by plane has been declining by around 75-80% YoY in July and August, however the alternative routes have been activated. Overall, we expect a low-single digit decline in tourism inflows YoY in 2019 and 5% growth in the absolute number of visitors.

A total of 30 million nights were spent by international tourists in Georgia. Tbilisi and Adjara see the highest total nights among the regions. The length of stay is on the rise in the major tourist destinations, with average nights spent in Tbilisi up from 2.4 in 2015 to 3.6 in 2018, and nights spent in Adjara rising from 3.1 in 2015 to 3.5 in 2018.

The share of stays at tourist accommodation is increasing, up from 40% in 2015 to 53% in 2018. The share of hotels and similar establishments is growing among the tourist accommodation, reaching 74% in 2018, up from 65% in 2015. At circa 25% of total accommodation stock, the share of large hotels in Georgia is currently lower than in Europe. Georgia's bed-per-visitor ratio at 12 per 1,000 visitors is among the lowest in Europe, indicating need for additional accommodation. The hotel occupancy rate of 64% in Georgia is among the leaders in Europe and it keeps growing. Even if the supply of tourist accommodation outgrows the tourist arrivals for a certain period, the occupancy rates will remain attractive. Currently, a sizable increase in accommodation facilities is expected. We expect the hotel accommodation stock to grow at a CAGR of 11% for 2018-2025. Tbilisi, Mtskheta-Mtianeti, Kakheti, and Imereti are interesting locations for additional stock, while Samegrelo, Guria, Racha are so far under-toured.

Currently, the branded hotel pipeline is mostly concentrated in Tbilisi and Batumi. We see the potential for unique local brand concepts on the market. We compare the hypothetical upscale and midscale hotels for the capital and the region to present the ranges of their returns. The annual occupancy rates in branded hotels are the highest in the country, averaging at 70% in Tbilisi and 64% in Batumi. Rates and prices for economy hotels as well as in seasonal resorts are lower. We expect the international tourism to grow at a slower tempo than accommodation supply in coming years, causing country's occupancy rate to somewhat decline, stabilizing at circa 60% in the three years' time.

The winter resort comparison indicates that Bakuriani lacks skiing infrastructure, Gudauri needs both more infrastructure and accommodation, and remaining resorts have the capacity for more visitors. The 2023 Freestyle Ski and Snowboard world championships will be held in Georgia, further highlighting Georgia as a winter destination. Niche and cultural tourism is on the rise, with wine, wellness and spa, gambling and eco-tourism having a potential to gain the momentum in the country.

The 2019 edition of the Travel & Tourism Competitiveness Index by the WEF ranks Georgia 68th out of 140 countries, ranking high on the safety and security and health and hygiene sub-pillars. However, the scores for international openness, and natural resources remain low.

The state is prioritizing tourism. GNTA implemented the Tourism Development Strategy, setting benchmarks to achieve by 2025, which is successfully followed so far. The Government of Georgia is engaged in co-financing of loan interest rates for entrepreneurs involved in the hotel industry, subsidizing the interest rates on loans. A state program "Film in Georgia" marked a major success in 2019, shooting parts of the first Hollywood project in the country.

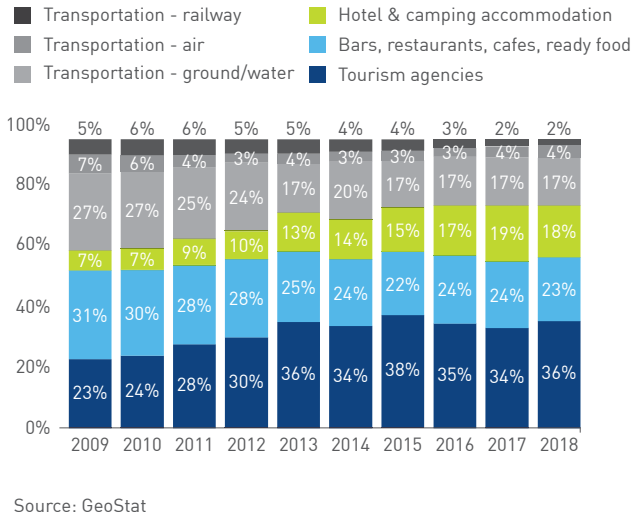
# THE BROAD PICTURE: A KEY PILLAR OF THE ECONOMY

There is a growth momentum in tourism, as the sector outpaced GDP growth over the past decade. VA (value added) by tourism-related services increased at a 12.8% CAGR between 2009 and 2018, reaching GEL 2.7bn to constitute 7.6% of the country's GDP (up from 5.8% in 2009). Compared to H1 2018, VA grew by 19.7% in H1 2019, accounting for 7.7% of GDP (up from 7.1%). The VA from tourism agencies in tourism related services has been gaining share, as the industry is becoming more structured.

**FIGURE 1: VA OF TOURISM RELATED SERVICES**



**FIGURE 2: TOURISM RELATED SERVICES BREAKDOWN<sup>1</sup>**

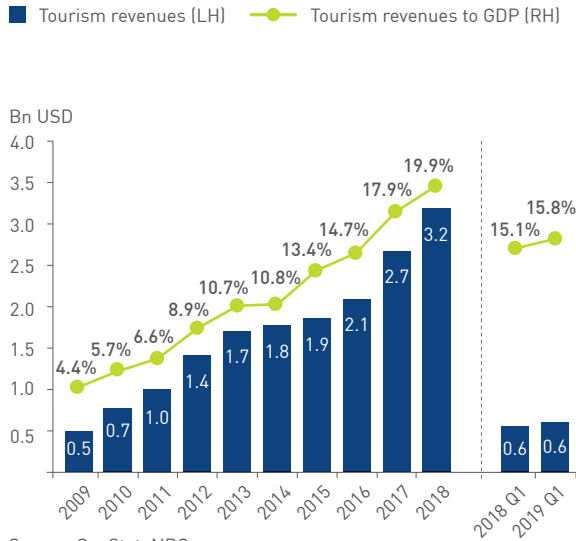


Tourism has become the largest component of service exports in the country, as the consistent growth has turned the sector into one of the main sources of currency inflows. Tourism receipts increased at a 23.7% CAGR between 2009 and 2018, reaching USD 3.2bn, which equals 19.9% of the country's GDP (up from 4.4% in 2009). According to the NBG, revenues from tourism in Q1 2019 grew modestly by 5.0% YoY, to total 15.8% relative to GDP (up from 15.1% in 2009).



1. The category of "Tourism Agencies", counted to tourism related services value-added by GeoStat contains the services of cargo transportation companies as well as tourist agencies. Thus a part of services of companies under that category are not related to tourism and include general logistical business activities.

**FIGURE 3: TOURISM REVENUES (BN USD) AS % OF GDP**



Source: GeoStat, NBG

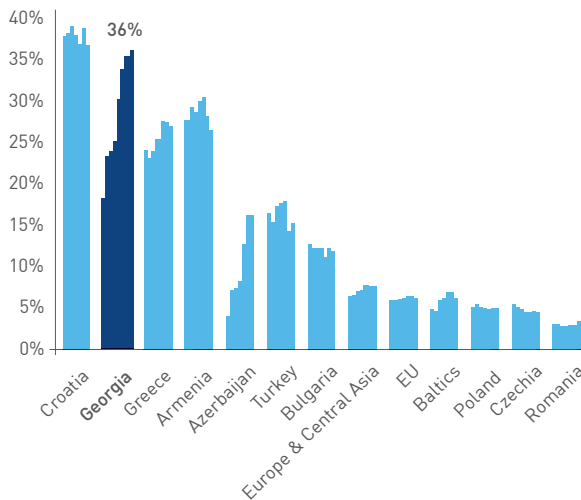
**FIGURE 4: TOURISM REVENUES CONTRIBUTION TO EXPORTS (%)**



Source: NBG

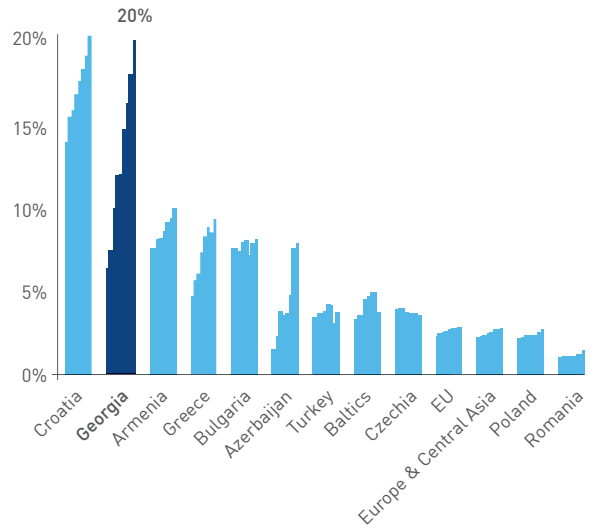
**Comparison to selected countries underlines the high significance of inbound tourism in the Georgian economy.** In 2018, the proportion of tourism revenues to Georgia's GDP totaled 20%, standing significantly higher than in select countries: tourism receipts stood at 9.9% relative to GDP in Armenia, 7.9% in Azerbaijan, 3.7% in Turkey and just 0.9% in Russia. In 2018, total tourism revenues accounted for 36% of exports of goods and services and 72% of service exports in Georgia, as the sector kept outgrowing other current account revenues in the BOP.

**FIGURE 5: TOURISM REVENUES TO TOTAL EXPORTS – 2011-2017 (GEORGIA 2011-2018)**



Source: WB, NBG, GeoStat

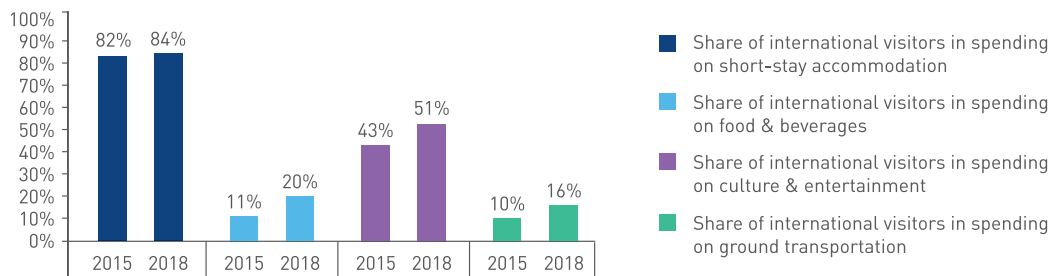
**FIGURE 6: TOURISM REVENUES TO GDP – 2011-2017 (GEORGIA 2011-2018)**



Source: WB, NBG, GeoStat

**Tourism has become a substantial driver for many industries in Georgia.** In 2018, 65% of international visitors stayed at fee-charging accommodation establishments, spending a total of GEL 1.9bn. In contrast, only 12% of domestic tourists stayed in fee-charging accommodation. International visitors accounted for 20% of spending on food and beverage in the country in 2018, spending GEL 2.3bn in total. In 2018, international visitors spent more on culture & entertainment services in Georgia than locals. As awareness of Georgian culture is rising internationally, more cultural events would translate into more tourism revenue. A significant part of ground transportation in the country also caters for the international demand.

**FIGURE 7: SHARE OF TOURISTS IN SPENDING ON SELECTED GOODS & SERVICES IN GEORGIA**



Source: GNTA, GeoStat, TBC Capital Research

**International visitors drive many other industries, directly or indirectly.** In our previous publications, we described the high contribution of tourism to total electricity consumption. Their total retail spending amounted to GEL 1.6bn in 2018, with other uncategorized expenditures making up additional GEL 0.2bn. These sums are plugged into Georgia's economy, multiplying their effect down the value chains of each domestic good or service that the international visitors consume.

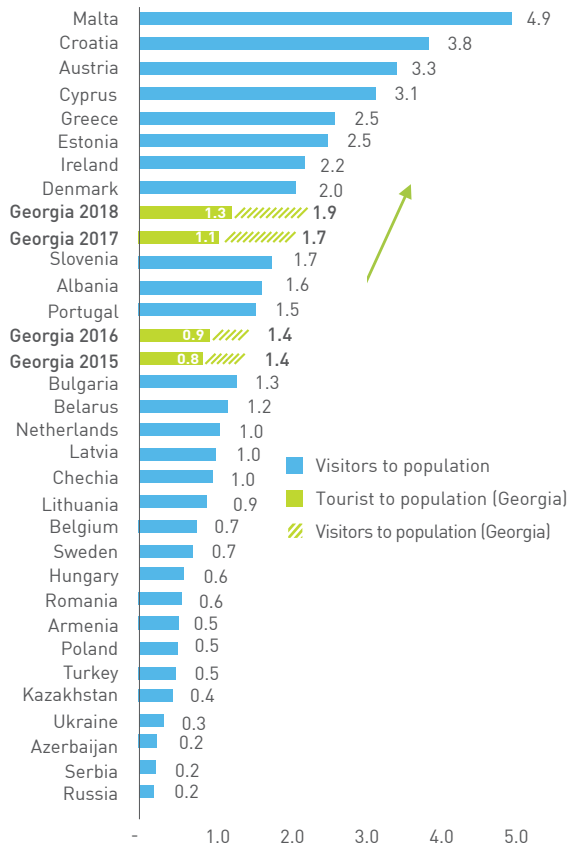
## INTERNATIONAL TOURISM DYNAMICS: FURTHER UPSIDE POTENTIAL

**Georgia is still under-toured.** The ratio of visitors to the population of Georgia stood at 1.9 in 2018, while the ratio of tourists to population stood at 1.3. As the proportion of tourist to visitors varies from country to country, we monitor both ratios. While Georgia ranks higher than many countries, comparison indicates a further upside potential. With 15% CAGR for past 7 years, we are quickly catching up.



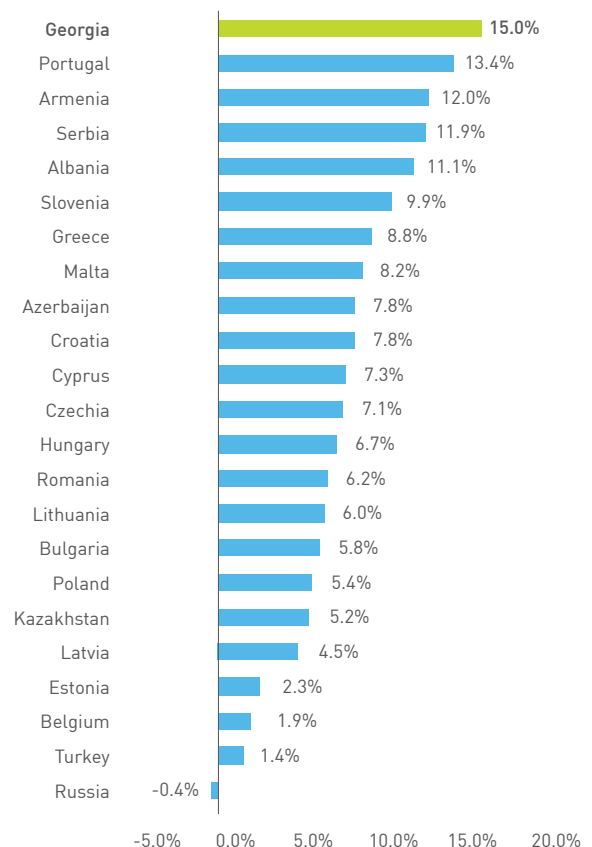


**FIGURE 8: INTERNATIONAL VISITORS TO POPULATION 2017 (GEORGIA 2018)**



Source: WB, GNTA, TBC Capital

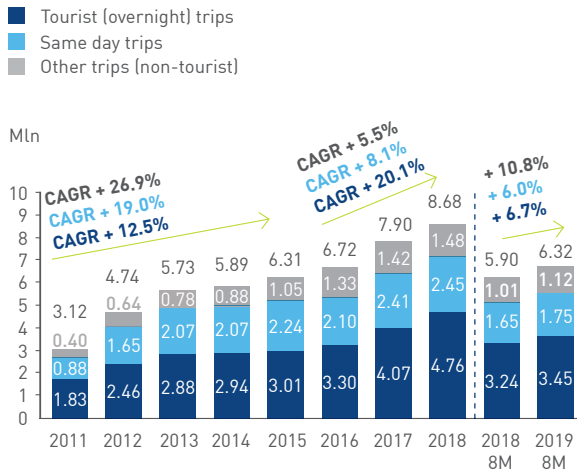
**FIGURE 9: INTERNATIONAL VISITOR TRIPS - CAGR 2011-2017 (GEORGIA 2011-2018)**



Source: WB, GNTA, TBC Capital

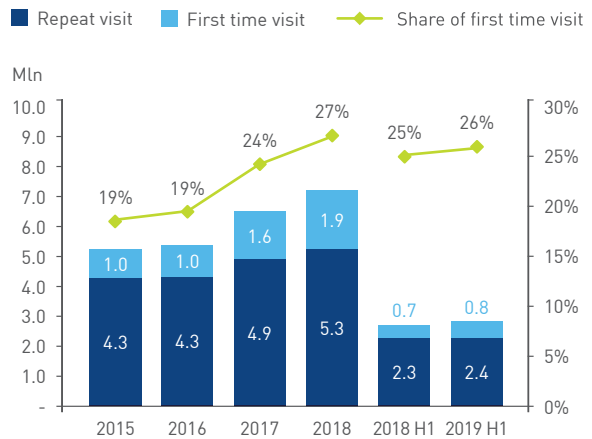
**For past three years the growth in tourists outpaced the growth in same-day visits and non-tourist trips.** Number of visitors reached 7.2mln in 2018, of which tourist trips accounted for 66%. Implemented in 2015, the National Tourism Development Strategy has positively affected tourist arrival dynamics, improving the CAGR for overnight trips (+20.1% over 2015-2018 vs. 12.5% over 2011-2015). 2019 was shaping up to be a strong year as in H1 2019 international visitor trips increased 7.7% to 3.23mln, compared to 2018 (+10.0% for overnight stays, +3.6% for same day trips). This growth was up to extent affected by the Russian flight ban imposed in July 2019, as discussed later in this report.

**FIGURE 10: INTERNATIONAL TRAVELER TRIPS: TOURIST (OVERNIGHT), SAME DAY, OTHER**



Source: GNTA

**FIGURE 11: INTERNATIONAL VISITOR TRIPS: FIRST-TIME AND REPEAT (%)**

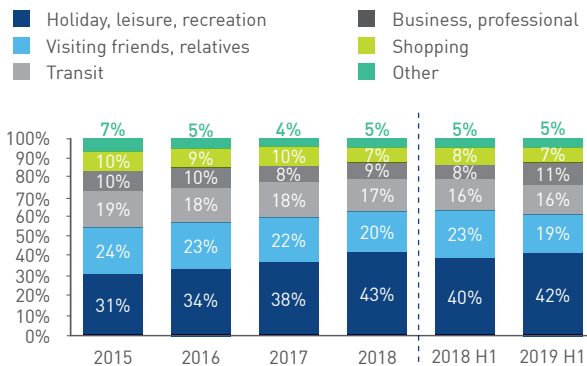


Source: GNTA Survey

**Increasing share of first-time trips underpins the growth.** While both first time and repeat trips have grown in absolute numbers, 27% of international visitor trips in 2018 were first-time visits, up from just 19% in 2015. The increase makes us believe that a snowball effect of tourism is still ahead, as first-time visitors would spread the word of mouth about the country. This belief is strengthened by GNTA survey showing that 89% of visitors indicated high level of satisfaction with their visit.

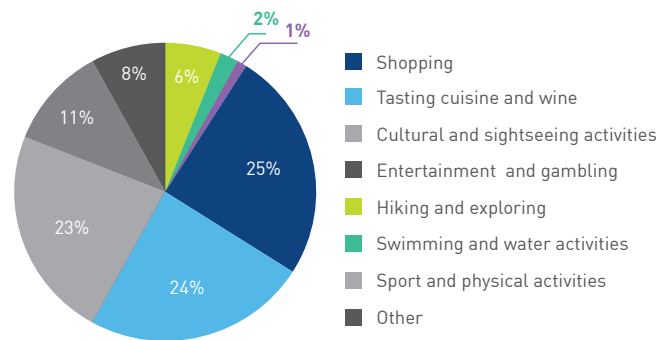
**Increasing share of trips for recreational purposes underpin the tourism-related industries.** The share of holiday visits within total international visits has been growing in recent years, totaling 43% in 2018, up from 31% in 2015. We expect this supportive trend for leisure industries in the country to continue. Although trips for visiting friends/relatives and professional activities have decreased in terms of share, on absolute numbers they are up by 18% and 16% since 2015, respectively.

**FIGURE 12: INTERNATIONAL VISITOR TRIPS BY PURPOSE**



Source: GNTA

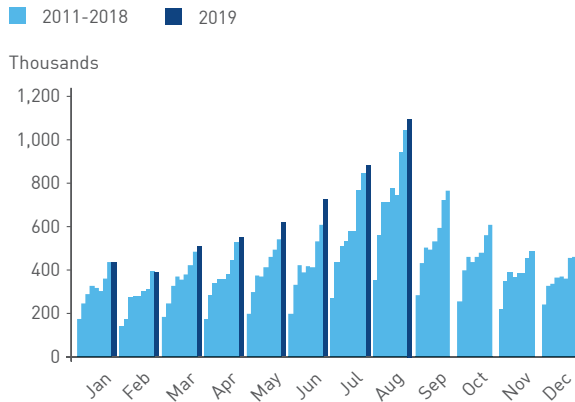
**FIGURE 13: INTERNATIONAL VISITOR ACTIVITIES**



Source: GNTA

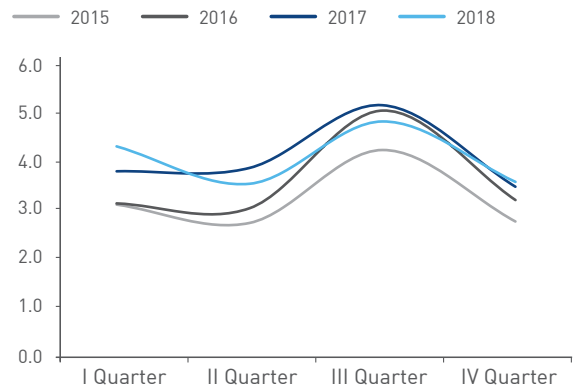
**More and longer stays in summer underpin the country's reputation as a summer destination.** On the other hand, this seasonality has its toll on the utilization rates of hotel infrastructure, with occupancy rates indicating that many Georgia's resorts are still single season destinations. Much upside can be achieved by developing the year-round tourism attractions for currently single-profile resorts.

**FIGURE 14: INTERNATIONAL VISITOR TRIPS**



Source: GNTA

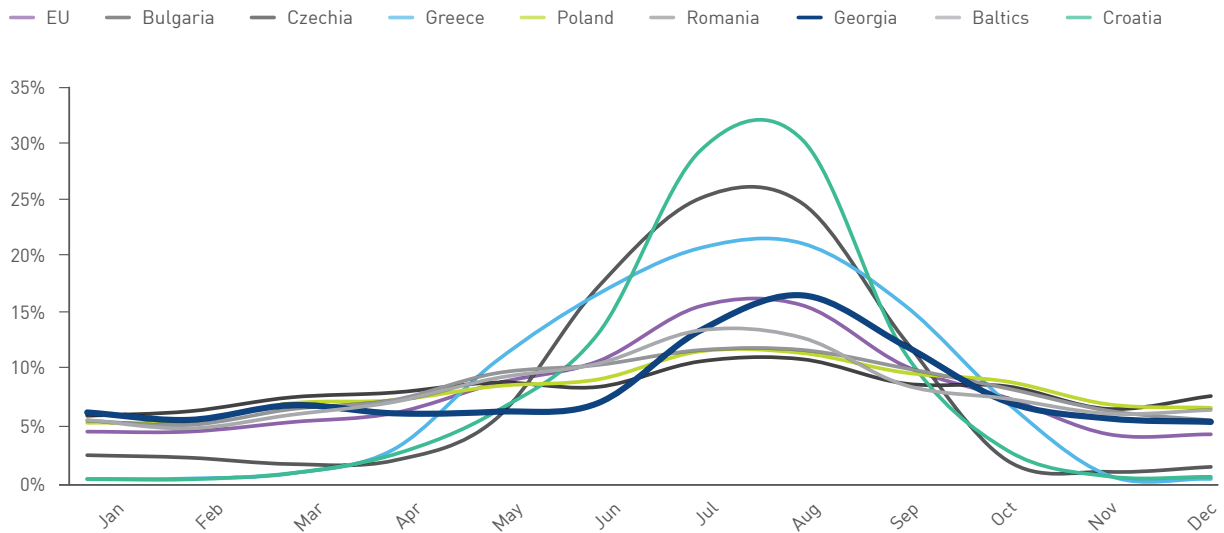
**FIGURE 15: AVERAGE LENGTH OF STAY (DAYS)**



Source: GNTA

**Tourism in Georgia is more than a classical "Sun and Sea" tourism.** Although trips peak in summer, along with the average length of stay, quite a few European countries have a stronger seasonal profile. Given that Georgia has several climate zones, this comes as no surprise. With its geographical diversity, Georgia has a potential to offer a variety of tourist attractions. Country's ski resorts provide the comparative balance between summer and winter seasons.

**FIGURE 16: DISTRIBUTION OF INTERNATIONAL TOURIST NIGHTS – COUNTRY COMPARISON (2018)**



Source: Eurostat, GNTA, TBC Capital

**Average length of stay in Georgia is increasing.** The length of stay per visitor has risen from 3.4 in 2015 to 4.2 in 2018. The immediate neighbors: Azerbaijan, Armenia and Turkey are the only markets, ranked below the country's average throughout the period. With more diversification, we expect the length of stay to further increase.

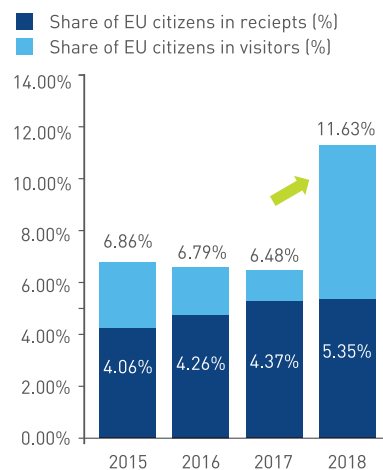
**The share of tourists from EU is increasing.** Majority of visitors are still from neighbor countries, with Russian trips showing the fastest growth before the flight band. After leveling off in 2018, trips from Iran shrank by 57.3% YoY in 8M 2019. The growth trend is noticeable in visitors from Ukraine and Israel. Whilst the majority of visitors still come from the traditional markets, the increase in the share of visitors from EU is a promising perspective. Poland and Germany have made it into the list of top ten visitor countries of origin. The share of EU visitors increased from 4.1% in 2015 to 5.3% in 2018 and 6.0% in 8M 2019. The share of EU citizens by tourist receipts is even higher, standing at 11.63% of total tourist inflows in 2018.

**FIGURE 17: TOP<sup>2</sup> INTERNATIONAL VISITORS BY CITIZENSHIP AS OF 8M 2019 (000')**

| #            | Country    | 2015         | 2016         | 2017         | 2018         | CAGR         | 2018 8M      | 2019 8M      | YoY %       |
|--------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| 1            | Azerbaijan | 1,156        | 1,076        | 1,302        | 1,425        | 7.2%         | 956          | 1,024        | 7.1%        |
| 2            | Turkey     | 1,074        | 988          | 1,007        | 1,099        | 0.8%         | 802          | 811          | 1.0%        |
| 3            | Armenia    | 1,192        | 1,152        | 1,287        | 1,269        | 2.1%         | 837          | 864          | 3.3%        |
| 4            | Russia     | 763          | 849          | 1,135        | 1,405        | 22.6%        | 924          | 1,059        | 14.6%       |
| 5            | Ukraine    | 127          | 152          | 170          | 177          | 11.6%        | 119          | 137          | 14.8%       |
| 6            | Iran       | 22           | 130          | 283          | 291          | 136.4%       | 215          | 92           | -57.3%      |
| 7            | Israel     | 55           | 85           | 115          | 157          | 41.5%        | 101          | 124          | 22.7%       |
| 8            | EU         | 214          | 229          | 283          | 385          | 21.7%        | 254          | 313          | 23.5%       |
| 9            | Others     | 653          | 731          | 901          | 996          | 15.1%        | 675          | 775          | 14.7%       |
| <b>Total</b> |            | <b>5,256</b> | <b>5,393</b> | <b>6,483</b> | <b>7,203</b> | <b>11.1%</b> | <b>4,884</b> | <b>5,199</b> | <b>6.4%</b> |
| Share of EU  |            | 4.1%         | 4.3%         | 4.4%         | 5.3%         |              | 5.2%         | 6.0%         |             |

Source: GNTA

**FIGURE 18: EU CITIZENS' SHARE IN VISITORS AND TOURIST RECIEPTS**

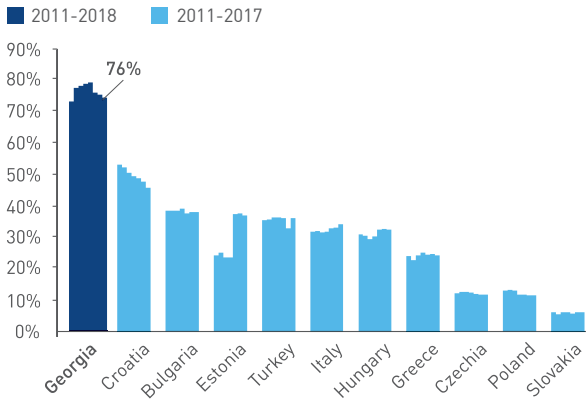


Source: GNTA survey, NBG

**Benchmarking still reveals a need for diversification.** In 2018, the top five countries accounted for 76% of all international visitor trips to Georgia, with their share averaging at 79% for 2011-2018. For the sample of select countries, this proportion is much lower, 39% for Bulgaria, 37% for turkey, 25% for Greece, 13% for Czechia. Another clear trend was the rising share of Russian visitors to Georgia, with the proportion of Russian citizens up to 20% in 2018, from only 8% in 2011. This pattern has somewhat changed after 2019's flight ban. In 2018, the share of Russian visitors stood at 12% in Turkey, 7% in Estonia, 5% in Bulgaria, and mere 1% in Poland. The diversification of visitor nationality will reduce the industry's exposure to political as well as macroeconomic risks in the region.

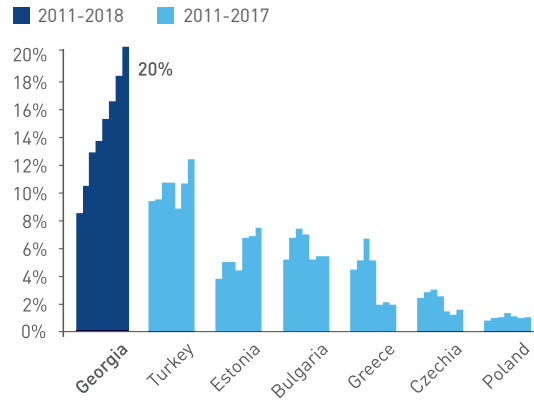
2. Based on total visits over 2015-2018. Non-resident Georgians are excluded from the list.

**FIGURE 19: SHARE OF TOP 5 VISITOR MARKETS IN SELECT COUNTRIES**



Source: OECD, GNTA

**FIGURE 20: SHARE OF RUSSIAN VISITORS IN SELECT COUNTRIES**

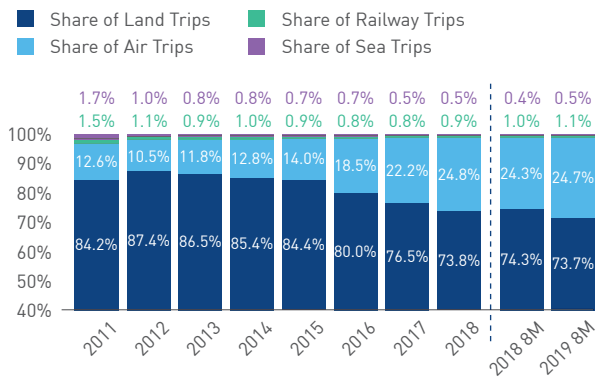


Source: OECD, GNTA

## MEANS OF ARRIVAL: INCREASING THE CONNECTIVITY

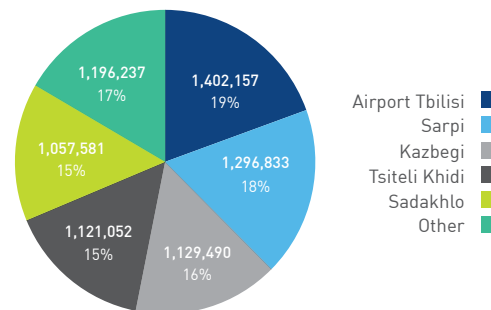
**The share of air arrivals is rising, promising increase in average spending.** Visitors who arrive by railway and by sea account for under 2% of all trips. In 2018, share of air arrivals totaled 24.8%, up significantly from 12.6% in 2011. Georgia's visa-free travel with over 100 countries, along with upgraded airport capacity and GNTA's active marketing campaign to promote Georgian tourism on a global scale, have contributed to the positive trend of tourist arrivals by air. As a result, connectivity to tourist markets has further expanded, with new carriers entering the airline market. More importantly, growth in the share of air travel among visitor arrivals provides a positive read-across for tourism related inflows, since visitors arriving by air tend to spend more. Russia's flight ban had its toll on air travel, as discussed later.

**FIGURE 21: VISITORS BY MEANS OF ARRIVAL (%)**



Source: GNTA

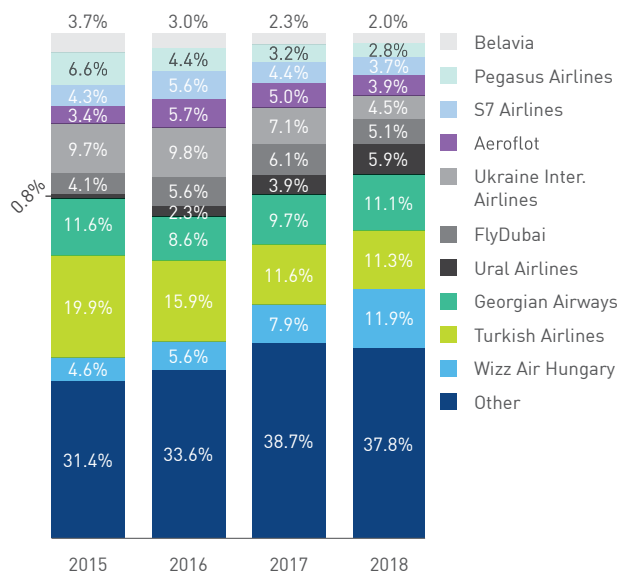
**FIGURE 22: TOP BORDERS BY ENTRY (2018)**



Source: GNTA

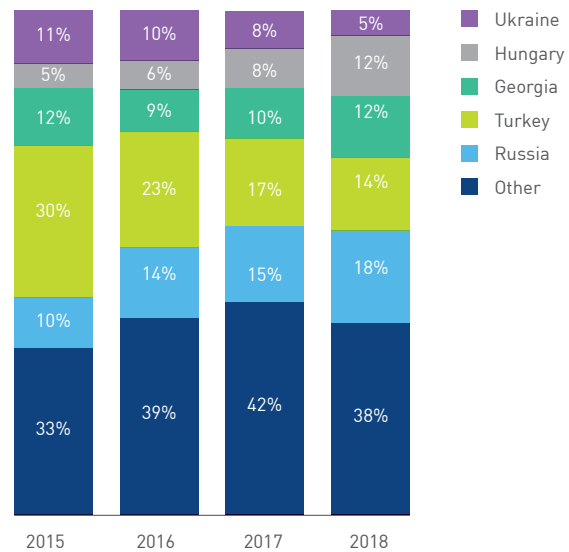
**Georgian air market is diversified,** with over 60 air carriers operating flights out of Georgia as of 2018 and only three of them having shares of over 10% of total air passengers served. In 2015, Turkish Airlines had the largest share of 19.9%, which rapidly declined as new carriers entered the market, and was down to 11.3% in 2018. Offering budget flights to European destinations, Wizz Air Hungary contributed the most, with its share increasing from 4.6% to 11.9% between 2015 and 2018. Russian air carriers have also contributed, their total share was growing at accelerated rate, up from 10% in 2015 to 18% in 2018.

**FIGURE 23: MARKET SHARES OF AIRLINES OPERATING IN GEORGIA (PASSENGERS SERVED)**



Source: GCAA

**FIGURE 24: MARKET SHARES BY ORIGINS OF AIRLINES OPERATING IN GEORGIA (PASSENGERS SERVED)**



Source: GCAA, TBC Capital Research

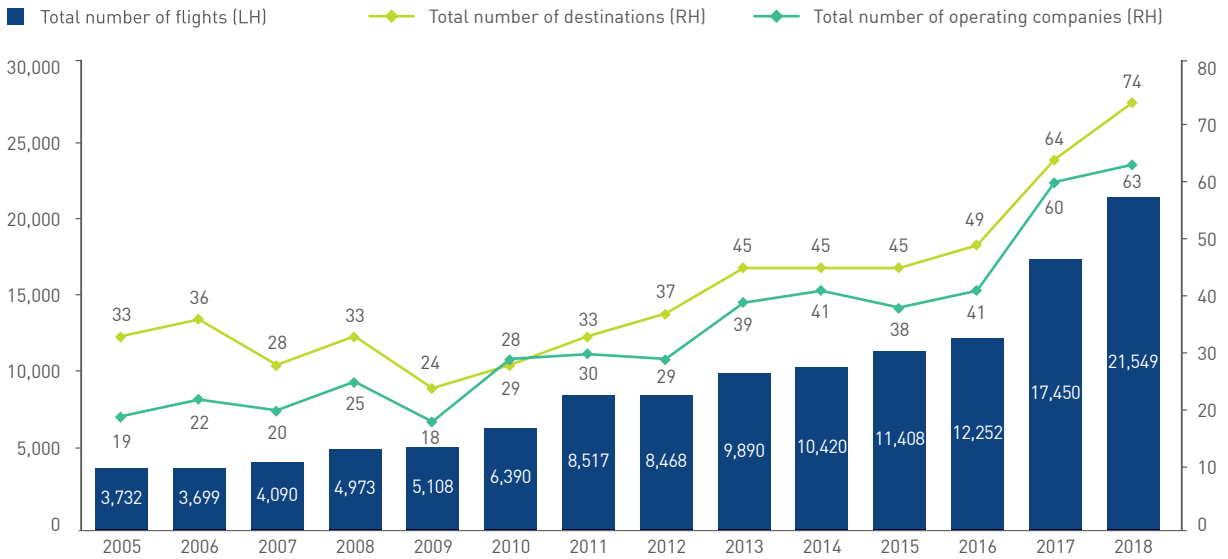
**Ryanair to boost tourism.** Ryanair, an Irish low-cost air carrier, will start to operate in the Georgian air market from November 2019, launching direct flights to France and Italy from Tbilisi and Kutaisi airports. Ten more destinations are expected to be added by 2020, increasing competition in the budget carriers.

**More intra-country flights would foster tourism.** Currently intra-country flights are available in four directions: Kutaisi-Mestia, twice per week, Natakhtari-Ambrolauri, twice per week, and Natakhtari-Mestia and Tbilisi-Batumi 5 days per week. More frequent and cheaper flights would foster the tourist flow to the Racha and Svaneti regions. Further, Telavi airport could be utilized for intra-country connectivity.

**The number of direct flights from top spending countries have been increasing.** For last five years, the number of direct flight flights to Germany increased by 125%, direct flight to Kazakhstan - by 90%, to UAE - 327%. In 2017, the direct flights started to UK. In 2018, direct flights to Saudi Arabia became available.



**FIGURE 25: NUMBER OF FLIGHTS, AIRLINES AND DESTINATIONS**

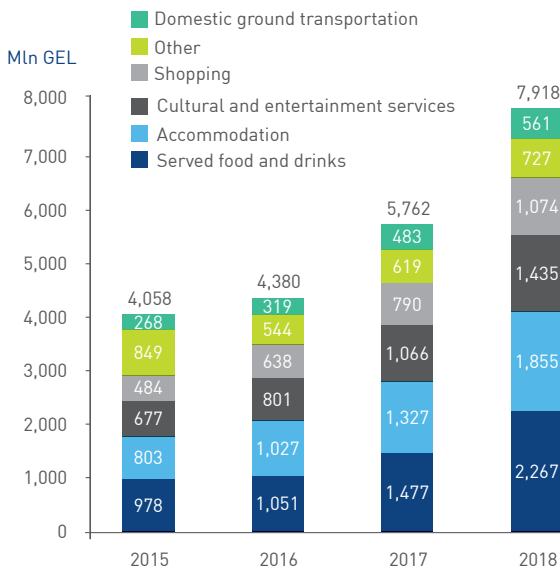


Source: GCAA, TBC Capital Research

## VISITOR EXPENDITURES: INCREASE IN SPENDING IS EXPECTED

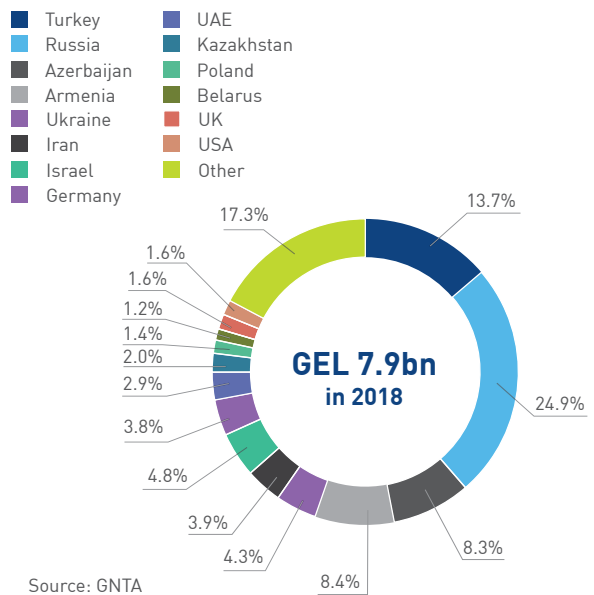
**Total visitor expenditure increased significantly in 2018, with growth visible in every spending category.** According to GNTA, visitors spent GEL 7.9bn last year (+37.4% YoY). Expenditure on served foods and drinks accounted for the largest share (28.6%), followed by accommodation (23.4%), cultural and entertainment services (18.1%), shopping (13.6%) and domestic ground transportation (7.1%). Other categories comprised only 9.2% of the total.

**FIGURE 26: VISITOR EXPENDITURE (MLN GEL)**



Source: GNTA

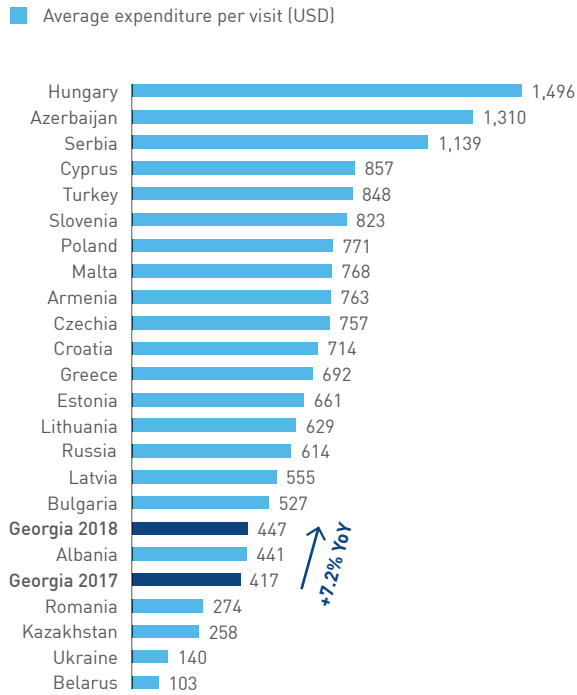
**FIGURE 27: VISITOR SPENDING BY COUNTRY (%)**



Source: GNTA

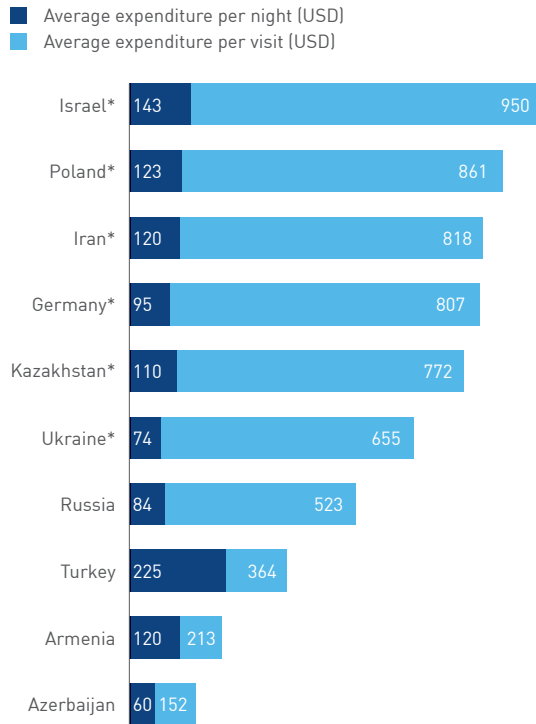
**Tourists from neighbor countries account for over half of all visitor inflows.** Observing the distribution of total visitor spending, countries from non-traditional tourist markets visibly contribute to the inflow, but their share is far less than that of the traditional market. Further diversification of income sources will reduce short-term regional risks and boost total inflows from international travelers.

**FIGURE 28: AVG. REVENUE PER VISITOR, FOR SELECTED COUNTRIES (USD) - 2017**



Source: WB, NBG, GNTA

**FIGURE 29: AVG. EXPENDITURE PER VISIT BY RESIDENTS OF TOP 10 COUNTRIES (USD) - 2018**



Source: WB, NBG, GNTA; \*Sample size < 1,000

**Average expenditure picked up**, totaling USD 447 per visit in 2018 (+7.2% YoY). Despite this notable YoY increase, Georgia is still a low-budget tourist destination. GNTA’s target for 2025 is to attract mid and high budget tourists, increasing this average to USD 600. According to the GNTA survey, citizens of neighboring countries spend considerably less per trip than other visitors, with Azerbaijanis, Armenians and Turkish people all spending an average of less than GEL 1,000 per trip.

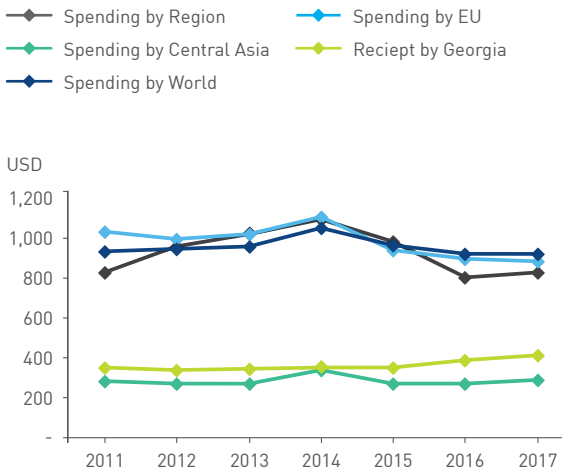
**Country comparison indicates an upside in average spending.** In 2017, visitors to Armenia and Turkey on average spent 2.2x and 2.4x more than visitors to Georgia. However, increasing recognition of Georgia as a tourist destination in well-developed markets, supported by expanded airport capacity, improved regional infrastructure, higher-quality accommodation, as well as niche areas of tourism, such as wine, gambling, skiing, wellness and MICE could strategically reposition the country for wealthier tourists.

**Young visitor age indicates upside in attracting older and wealthier visitors.** In Georgia, 26% of visitors are younger than 30. Visitors in older age groups tend to spend more per trip. Older visitors drive the expensive medical tourism worldwide. Attracting the older segment would increase the tourist receipts.



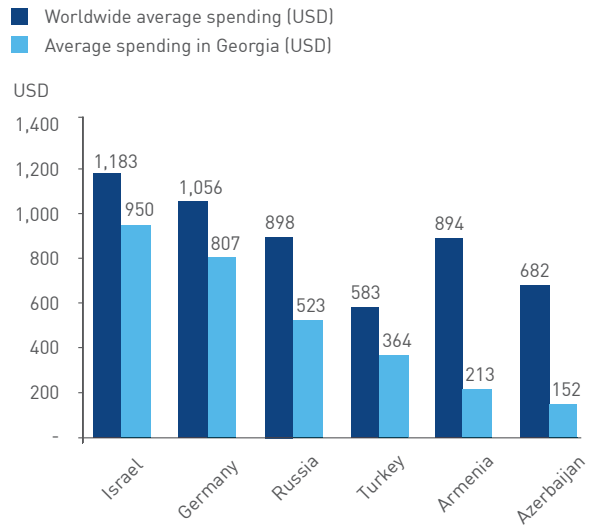
**Tourists from some of Georgia's key markets spend more on visits to other countries.** While this can be explained by Georgia being a “next door destination” for the neighboring countries, as well as the differentials in general price levels around the globe, it is also a fact that these markets have a capacity to spend more.

**FIGURE 30: OUTBOUND TOURISM EXPENDITURES PER TRIP VS RECEIPTS IN GEORGIA**



Source: WB, NBG

**FIGURE 31: OUTBOUND TOURISM EXPENDITURE PER TRIP: WORLDWIDE VS GEORGIA**

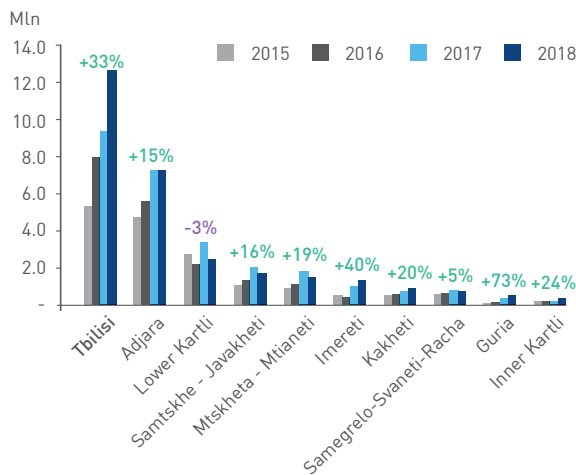


Source: WB, GNTA

## REGIONAL DYNAMICS: HIGH GROWTH IN MAJOR DESTINATIONS

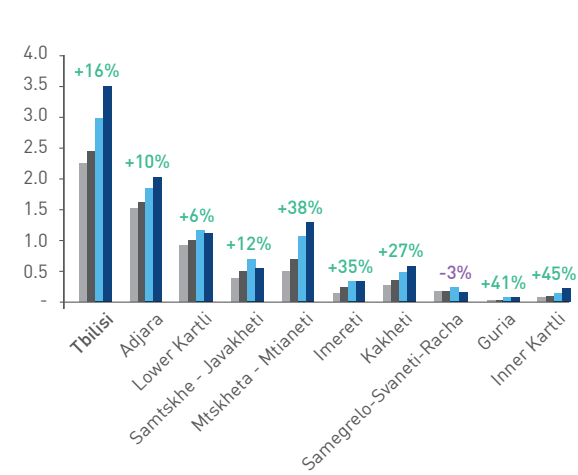
**Tbilisi and Adjara see the greatest number of total nights stayed among the regions.** A total of 30 million nights were spent by international tourists in Georgia. Of which, Tbilisi and Adjara accounted for roughly 21 million nights. With various dynamics, the trend is positive in almost every region of the country.

**FIGURE 32: NIGHTS PER REGION: NUMBER & GROWTH**



Source: GNTA, GeoStat, TBC Capital

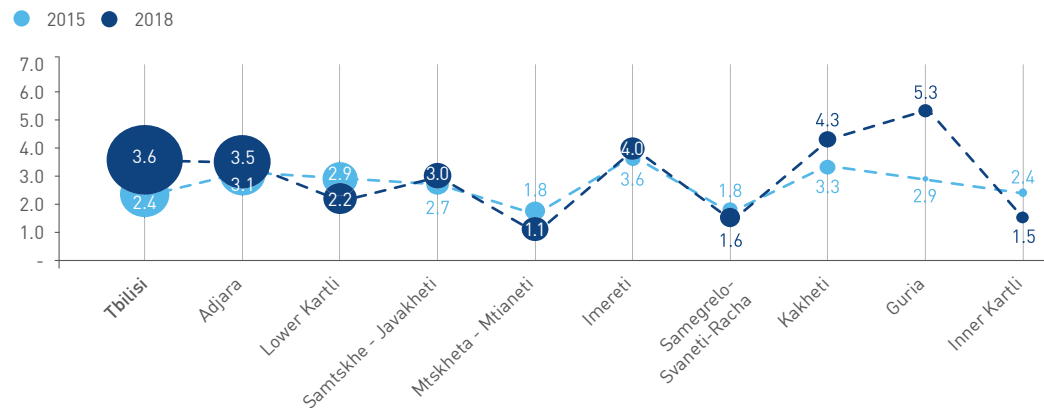
**FIGURE 33: VISITORS PER REGION: NUMBER & GROWTH**



Source: GNTA, GeoStat, TBC Capital

**Length of stay on rise in major tourist destinations.** Over the last three years, the average length of stay in Tbilisi grew from 2.4 nights to 3.6 nights (up 50%). The average length of stay in Adjara grew from 3.1 nights to 3.5 nights (up 13%). Lengthier stays were observed in Imereti, Samegrelo-Svaneti-Racha-Lechkhumi and Guria, but due to lower tourism here, the averages fluctuate. The average visitor spent 4.2 nights in Georgia in 2018, up from 3.4 in 2015. GNTA targets increasing this measure to by 1.5 more days by 2025.

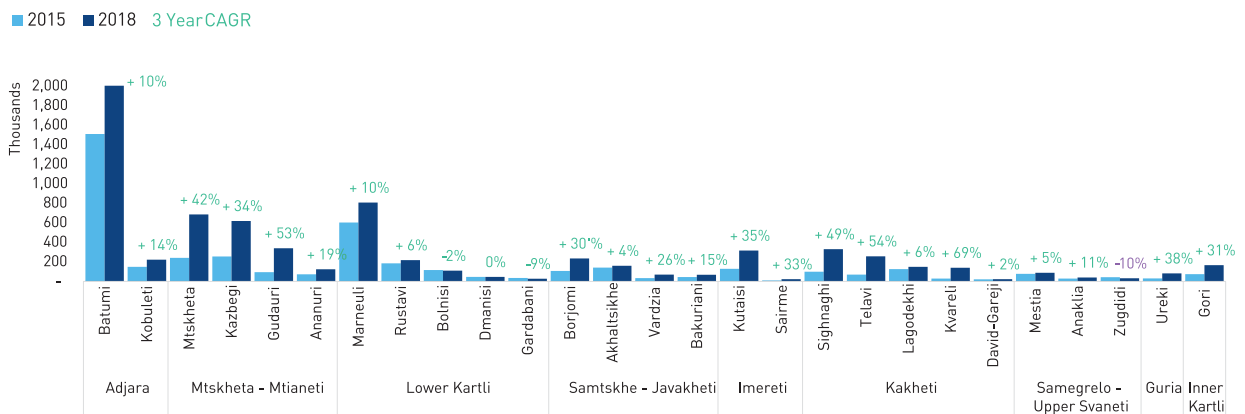
**FIGURE 34: LENGTH OF STAY ACCORDING TO REGIONS (NIGHTS): 2015 VS 2018**



Source: GNTA, GeoStat, TBC Capital

**Gudauri, Kazbegi, Mtskheta, Telavi, Kvareli, Signaghi showing highest growth.** Although in some of the destinations, the effect of the small base has to be considered. Adjara's tourism is concentrated on Batumi, with minor share in Kobuleti. Mtskheta-Mtianeti has a high growth in its mountain destinations and winter resorts. Even though the share of Lower Kartli is quite large in total visitors, growth here is not big. Visitors of this region is mostly the uniform segment of the neighboring country. Kakheti boasts high growth in its major resort destinations.

**FIGURE 35: MOST POPULAR DESTINATIONS OF INTERNATIONAL VISITORS**



Source: GNTA, TBC Capital

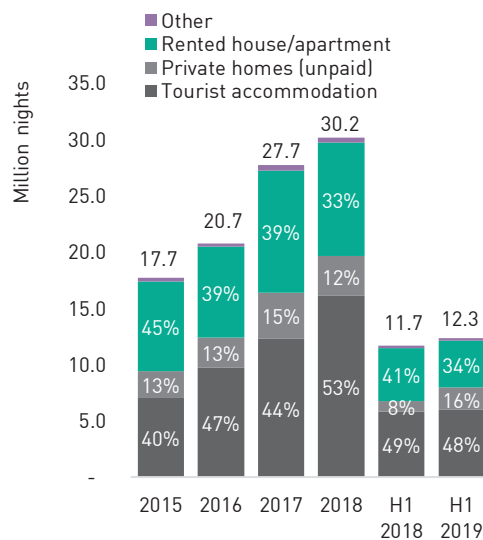
## THE ACCOMMODATION MARKET: POTENTIAL TO BECOME STRUCTURED

*Benchmarking with more developed economies*

**The share of stays at tourist accommodation has been increasing.** A sizable portion of overnight stays by international visitors in Georgia are in rented houses and personal homes of friends and relatives. However, the share of tourist accommodation within the total was up by 13% in the last three years, reaching 53% in 2018. In addition, over 25 million nights were spent away from home by domestic visitors, however only 9% of them stayed at tourist accommodation establishments. In H1 2019, the share of tourist accommodation has marginally declined by 1pp, whereas the share of rented apartments has significantly increased, which, among others, might be the sign of Airbnb activation. But especially after the Russian flight ban, we so far doubt a serious change in trend.

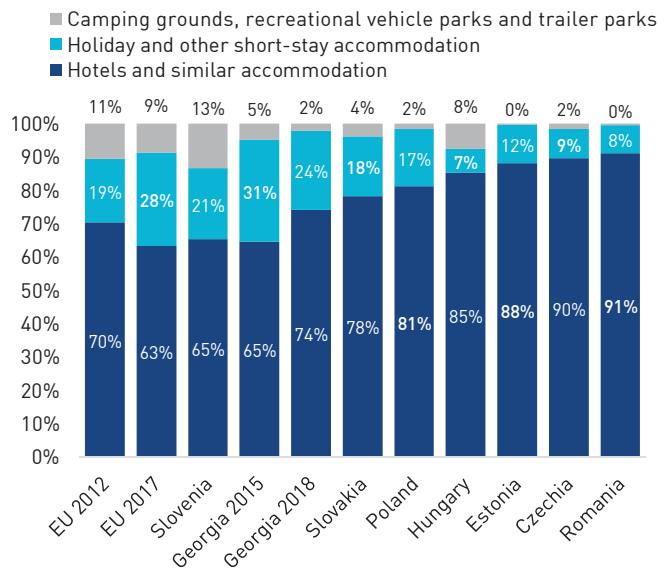
**The share of hotels and similar establishments is growing** among the tourist accommodation, in contrast to Europe, where holiday and other short-stay accommodation (youth hostels, visitor flats and bungalows etc.) has gained share. In contrast to EU average, very small proportion of tourists stay at camping grounds, and recreational vehicle parks. This kind of tourism is yet to develop in Georgia. At the same time, there are countries in EU with larger share of hotels in total tourist accommodation.

**FIGURE 36: TOURIST NIGHT BY ACCOMODATION**



Source: Eurostat, GNTA

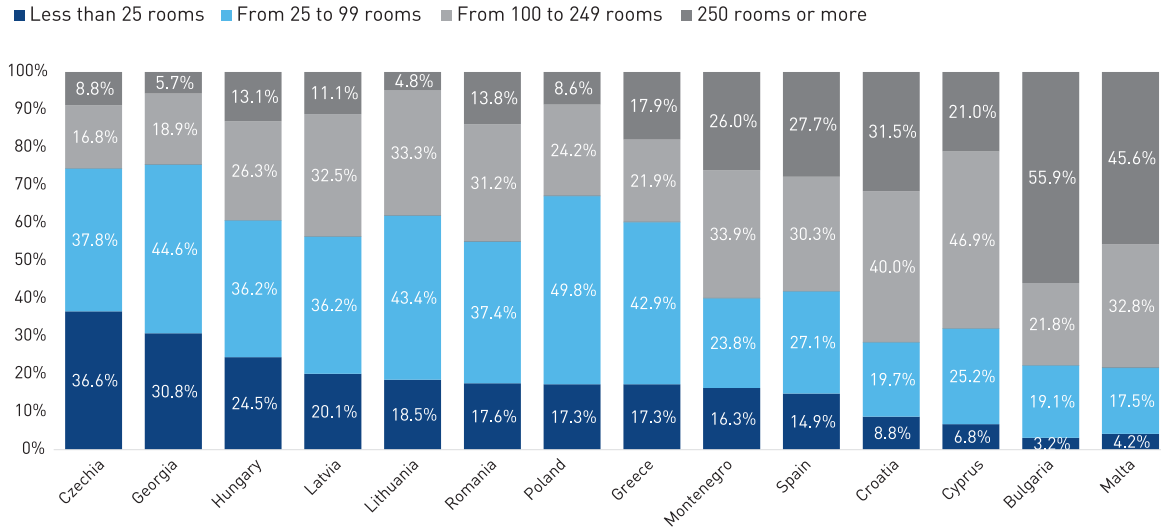
**FIGURE 37: TOURIST ACCOMODATION NIGHTS**



Source: Eurostat, GNTA

**The share of large hotels in Georgia is currently lower than in Europe.** Georgia's hotel industry mostly features small (<25 rooms) and medium size (25-99 rooms) establishments. Hotels with 250+ rooms account for under 6% of the stock. Comparing hotel sizes for different countries, we have found that small hotels account for a smaller share of the stock in European countries, with large (100-249 rooms) and very large (>250 rooms) establishments comprising the major part of the supply. The share of medium size hotels in Georgia is broadly in-line with the selected countries.

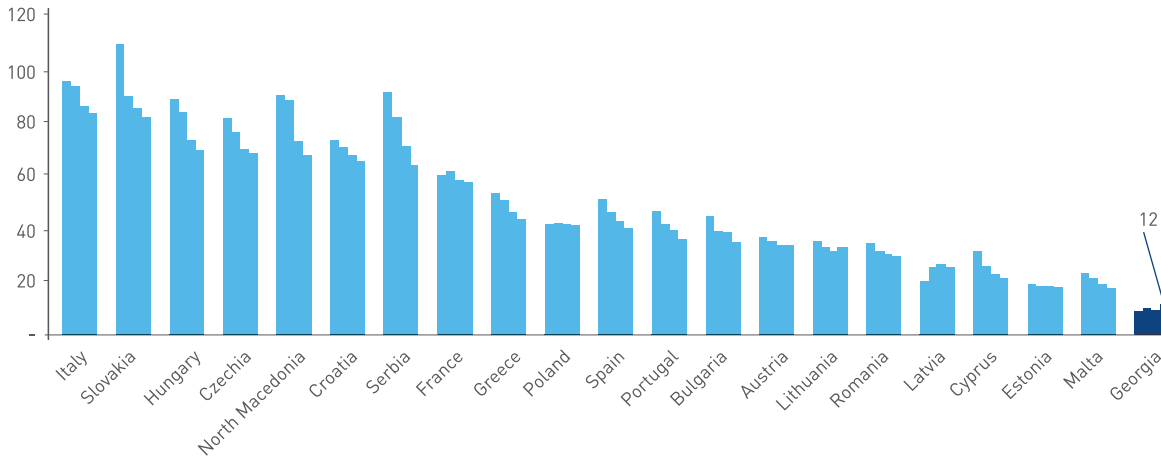
**FIGURE 38: HOTEL AND SIMILAR ACCOMMODATION ROOM STOCK BY SIZE<sup>3</sup>**



Source: Eurostat, GNTA

**Georgia’s low bed-per-visitor ratio indicates need in additional accommodation.** The bed-per-visitor ratio has lately been on the decrease in Europe, with the average ratio falling from 33 in 2012 to 24 in 2018 across the EU, accompanied by the increased occupancy rates. Georgia went against this trend, with the ratio increasing from 7.53 in 2013 to 12.05 in 2018.

**FIGURE 39: TOTAL TOURIST ACCOMMODATION<sup>4</sup> BED PER VISITOR FOR SELECT COUNTRIES, 2015-2018**

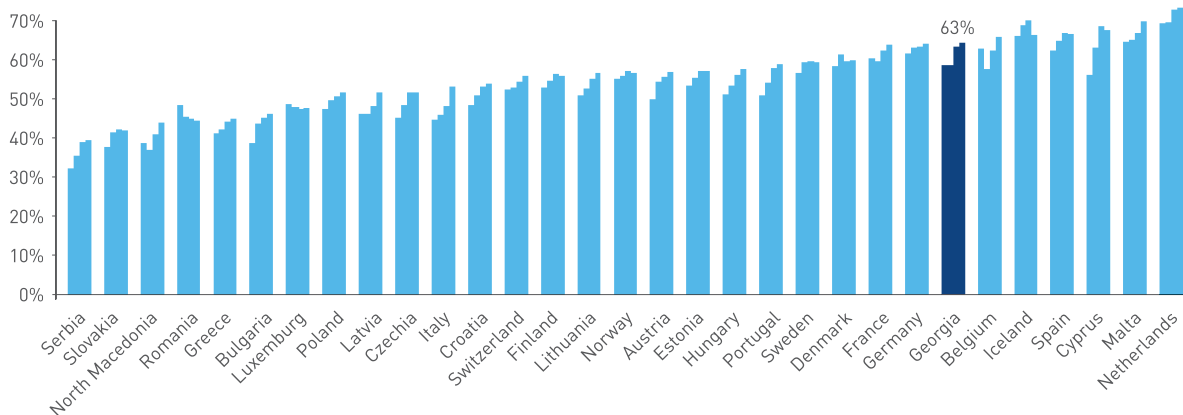


Source: Eurostat, WB, GNTA, TBC Capital

3. For Georgia, we include the establishments under “Hotel” definition by GNTA, excluding the “family hotels”. We include Radisson Tbilisi, Hilton Batumi & Hotels & preference Hauling Tbilisi, with >245 rooms into the largest category.  
 4. Includes Hotels, short-stay accommodation, camping grounds, recreational vehicle parks

**The occupancy rate in Georgia among the leaders in Europe and it keeps growing**, currently beaten only by several countries. Occupancy rates have lately been on the rise across Europe. The occupancy rate in Georgia rose from 57% in 2015 to 63%<sup>5</sup> in 2018. In contrast, the average occupancy grew from 38% in 2012 to 46% in 2018 across the EU. Furthermore, Georgia is the exceptional country, where both bed-per-visitor ratio and occupancy rates have been on the rise. This is explained by the increasing proportion of guests staying at hotels and lengthier average stays. We believe that even if the supply of tourist accommodation outgrows the tourist arrivals to the country for a certain period, the occupancy rates in Georgia will still remain among the highest in Europe.

**FIGURE 40: HOTELS & SIMILAR ACCOMMODATION OCCUPANCY RATES, 2015-2018**



Source: Eurostat, GNTA, TBC Capital

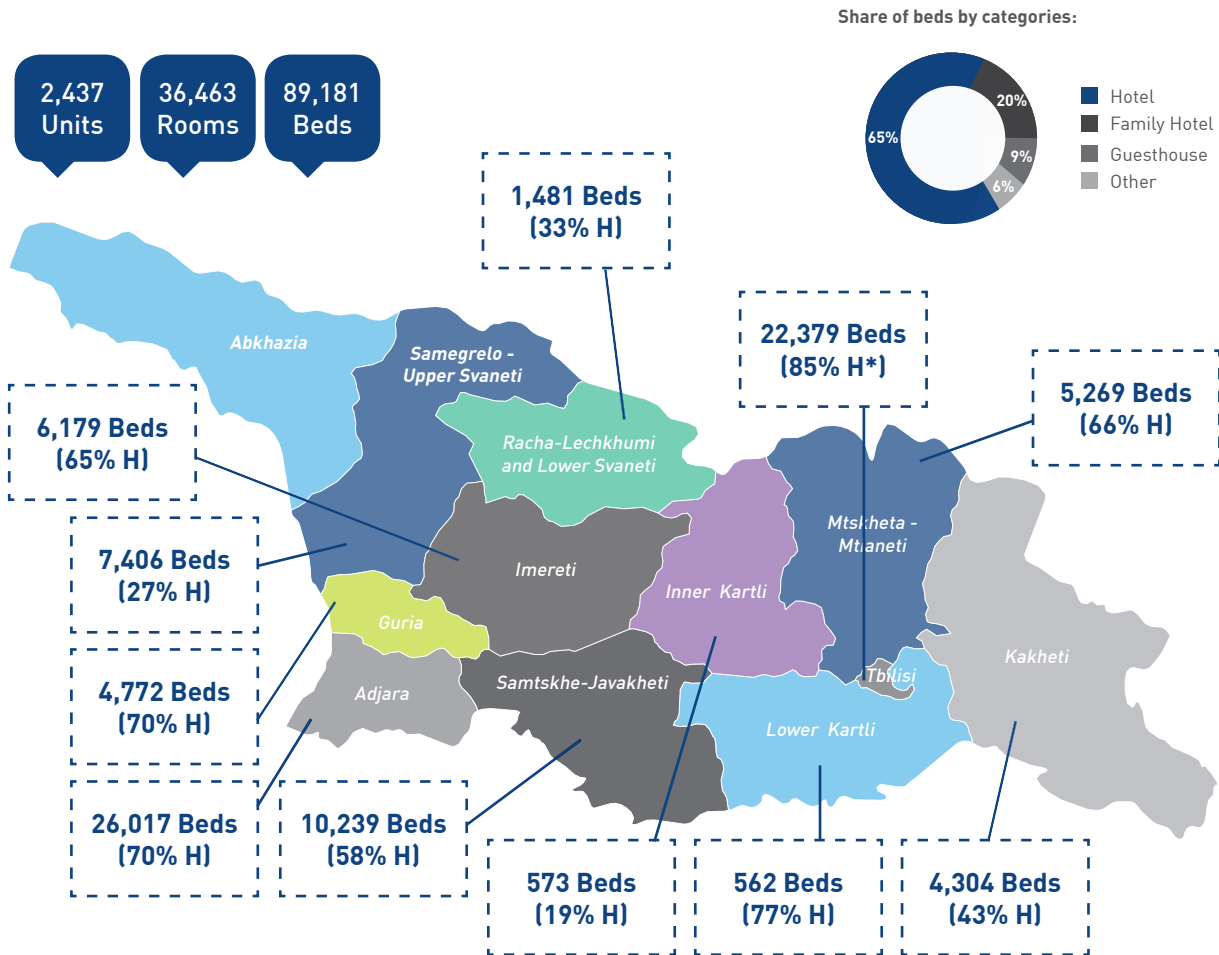
### *Distribution of the accommodation facilities*

**As of Q3 2019, Georgia’s accommodation stock of 2,473 units comprises 36,463 rooms and 89,181 beds.** Hotels account for 65% of all beds. The rest is split between family hotels (20%), guesthouses (9%) and other units (6%). The quarter of all beds is located in the capital, with the hotel share in accommodation standing high at 85%. Circa 10% of the stock is not officially registered as tourist accommodation.



5. Occupancy rates on Eurostat are net of seasonal closures, Georgia’s occupancy is gross of seasonal closures.

**FIGURE 41: THE MAP OF CURRENT<sup>6</sup> ACCOMMODATION STOCK BY REGION, SHARE OF BEDS BY CATEGORY (%)**



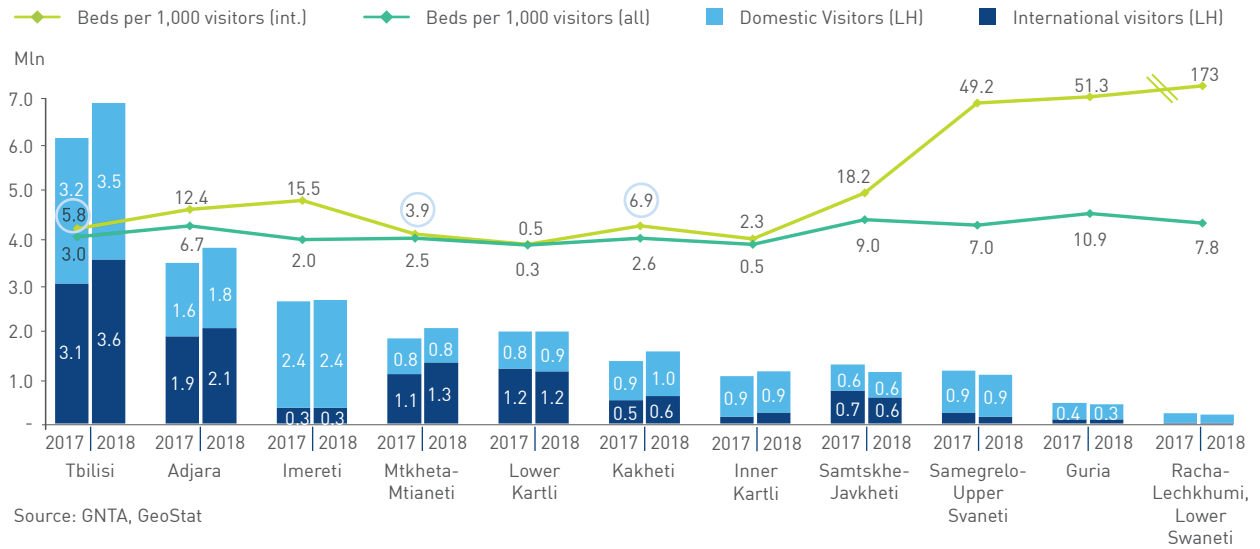
Source: GNTA, TBC Capital; \*H means hotel

**The current stock is concentrated on two regions.** Georgia’s two main tourist destinations, Tbilisi and Adjara, already account for nearly half of country’s hotel bed capacity, and over the next 4 years they will see an additional 10,000 accommodation rooms, as of current pipeline.

**Tbilisi, Mtskheta-Mtianeti, Kakheti: further potential for additional accommodation stock.** The countrywide bed-per-visitor (international) stands at 12 as of 2018. In Tbilisi, the most visited destination of the country, the ratio stands at 5.8 (3.8 if domestic visitors are included). Same ratio in Mtskheta-Mtianeti stands at 3.9 and 6.9 for Kakheti. In Lower Kartli, where the number of international visitors stood at 1.2 million in 2018, the ratio is at 0.5, due to structural nature of visitors. As for Imereti, the ratio is high for international visitors, but goes to 2.0 if domestic visitors are included. However, only 12% of domestic visitors stayed at a tourist accommodation as of 2018. Ratio is low for Inner Kartli, but international tourism there is small.

6. As of Sept. 2019; Excludes apartments from apartment hotels in Adjara

**FIGURE 42: BEDS PER 1,000 VISITORS (INTERNATIONAL & DOMESTIC), REGIONAL DISTRIBUTION**



**Resorts in regions differ by the availability of the accommodation stock per visitor.** The destination of Mtskheta-Mtianeti have a low bed-per visitor ratio. Comparatively higher ratio of Gudauri here is still low as compared to the country average. Even though the ratio is low in Lower Kartli, the structure of international visitors here is quite different, as most of them are the same-day visitors from the neighboring country. All resorts of Kakheti rank below the country's average. On the contrary, Samegrelo, Upper Svaneti and Guria are so far under toured.

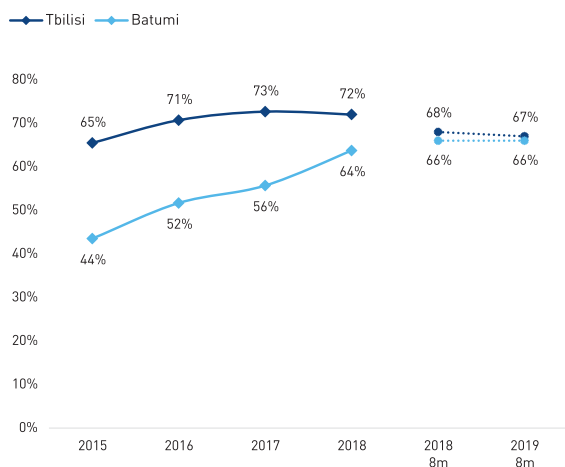


**Key metrics: Occupancy, ADR, RevPAR**

**Occupancy rates in branded hotels are the highest.** Tbilisi’s upscale and upper upscale hotels have averaged at 70% for past five years. The rates dropped by 1pp in 2018. The rates in Batumi have been on rise due to the increasing international tourist flow to the city. Occupancy rates during first 8 months of 2019 were roughly the same as in first 8 months of 2018, with 2019 July-August rates higher than a year before.

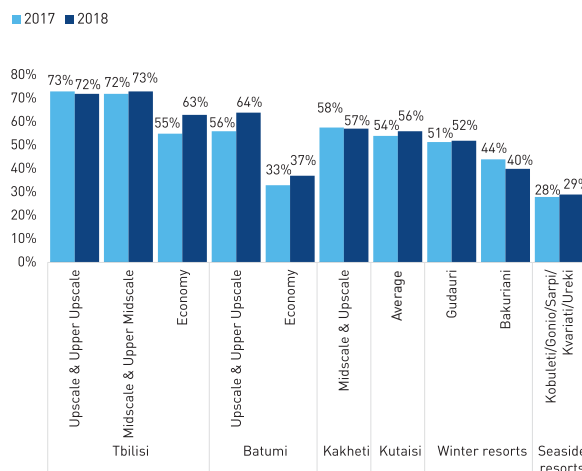
**Occupancy rates vary according to geography.** The rates in Economy class hotels in Tbilisi increased by 8%. In Batumi, the occupancy rate of smaller hotels has risen to 37% from 33% a year ago. In Kutaisi, yearly occupancy averages at 56%, in Bakuriani and Gudauri at 39% and 52% respectively. At smaller sea-side resorts the annual occupancy rate is considerably lower, with averages for different resorts ranging from 20 to 25%, as these are single season destinations.

**FIGURE 43: UPSCALE & UPPER UPSCALE HOTEL OCCUPANCY RATES**



Source: TBC Capital Research

**FIGURE 44: HOTEL OCCUPANCY RATES**

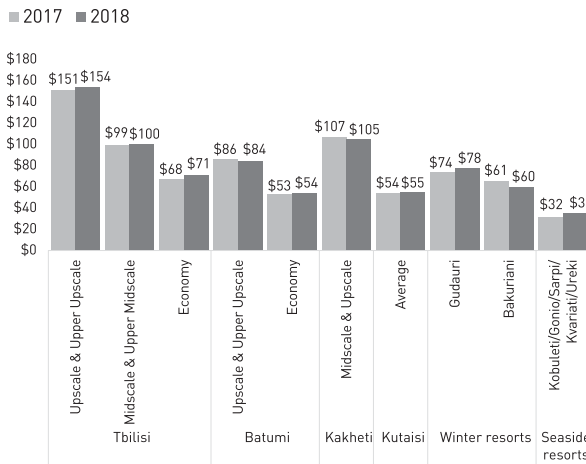


Source: TBC Capital Research

**Average daily rate (ADR) and Revenue per available room (RevPAR) up in Tbilisi, growing in many seasonal resort areas.** ADR in Tbilisi’s upscale & upper-upscale hotels stood at USD 154 in 2018, up from USD 151 a year previously. ADRs rose for Batumi’s branded hotels in 2018, following the increase in occupancy rates. The prices are on the rise in winter and summer resorts. RevPAR development is driven mostly by price changes. In 2018, RevPAR rose for hotels in Tbilisi, Batumi and Kutaisi, declined slightly in Kakheti and Bakuriani. RevPAR rose for the seaside resorts, as well as for Gudauri.

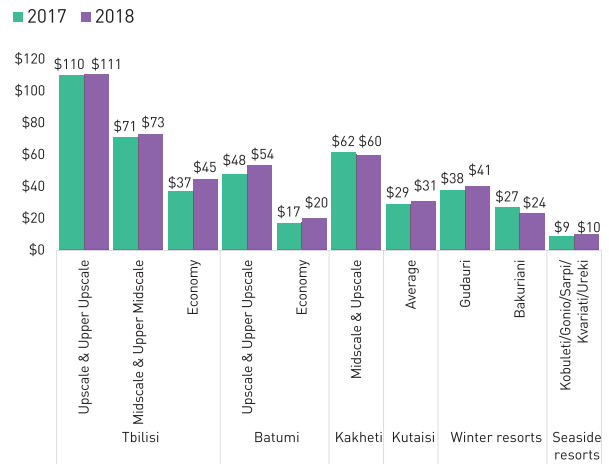


**FIGURE 45: HOTEL ADR**



Source: TBC Capital Research

**FIGURE 46: HOTEL REVPAR**



Source: TBC Capital Research

**Hotels with different parameters have various returns.** We modelled four types of hypothetical hotels with the key parameters for the comparative analysis. We display the parameters in their likely ranges for each type. Although these parameters may be different for individual projects. Midscale projects in Tbilisi seem the most profitable with highest levered IRR. Upscale projects in the capital rank the second. They are also the costliest ones. Midscale projects in regions rank the third by return, whereas upscale projects in regions rank the last due to capital intensiveness and low occupancy rates as compared to the peers from Tbilisi.

**FIGURE 47: COMPARISON OF HYPOTHETICAL HOTELS WITH DIFFERENT PARAMETERS**

|                       | 4-5 star        | 3 star         | 4-5 star        | 3 star         |
|-----------------------|-----------------|----------------|-----------------|----------------|
|                       | Tbilisi         | Tbilisi        | Region          | Region         |
| <b>ROOMS</b>          | 150-200         | 100-150        | 150-200         | 100-150        |
| <b>CAPEX</b>          | \$30mln-\$60mln | \$8mln-\$24mln | \$24mln-\$50mln | \$7mln-\$20mln |
| <b>Per room cost</b>  | \$200K-\$300K   | \$80K-\$160K   | \$160K-\$250K   | \$60K-\$130K   |
| <b>Debt Financing</b> | 50-60%          | 60-70%         | 40-50%          | 50-60%         |
| <b>ADR</b>            | \$150-\$220     | \$90-\$130     | \$100-\$150     | \$90-\$120     |
| <b>Occupancy*</b>     | 70-75%          | 65-75%         | 60-65%          | 45-55%         |
| <b>EBITDA*</b>        | 40-50%          | 40-50%         | 30-45%          | 30-45%         |
| <b>Equity IRR</b>     | 13.8%-16.8%     | 16.7%-21.2%    | 10.9%-13.1%     | 11.2%-14.1%    |

Source: TBC Capital Research; \*Occupancy & EBITDA after stabilization

*Tourism & accommodation pipeline: Forecasts & forward looking statements*

**We expect the hotel accommodation stock to grow at a CAGR of 11% in terms of both beds and rooms for 2018-2025.** We expect the total number of accommodation beds to cross 110,000 threshold by 2020, whereas afterwards the growth tempo would decelerate to 10% per annum.

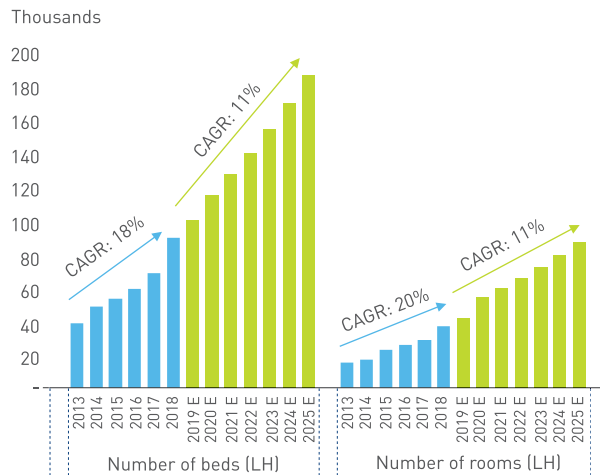
**Based on our models, we expect international tourism to grow at circa 8% CAGR in coming years.** Expectation for 2019 growth is 5%, 7% for 2020 and, 10% for 2021, with growth stabilizing at 8% in the long-term. We expect the number of visitors to reach the 12 million threshold in year 2025.

**FIGURE 48: TOURISM GROWTH FORECASTS**



Source: GNTA, TBC Capital Research

**FIGURE 49: ACCOMMODATION FORECASTS**

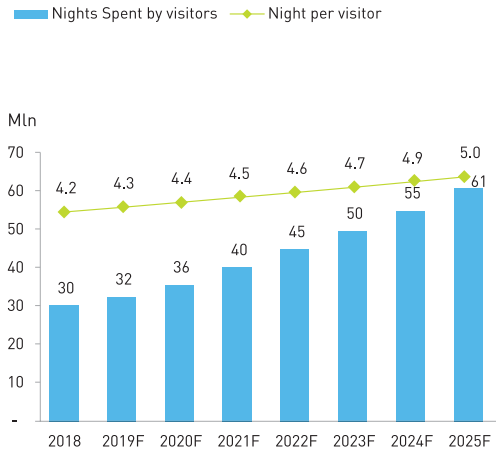


Source: GNTA, TBC Capital Research

**We expect the visitor’s average length of stay to grow to 5.0 till 2025.** This would be in-line with the GNTA strategy expectations. Overall nights, spent by tourists in Georgia would reach 62 million in 2025.

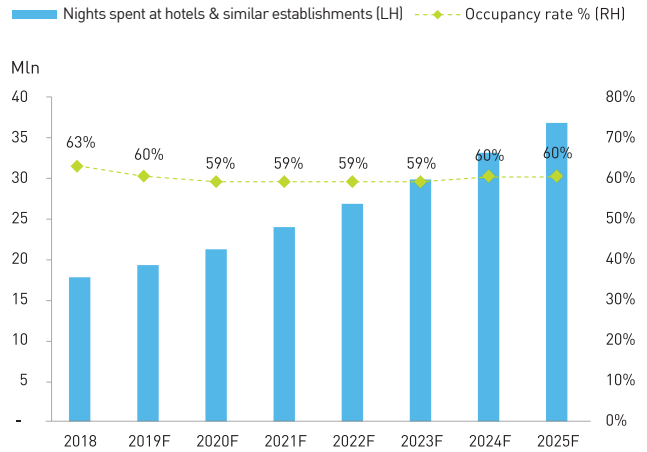
**The occupancy rates in Georgia would initially fall, eventually stabilizing due to mounting demand.** As growth forecasts for tourism are initially slower than for the beds and rooms in hotels, occupancy rates can be expected to decrease. However, as the number of tourists and percentage of international visitors staying at hotels or similar establishments is expected to continue its growth, occupancy rates are forecast to reach stabilize in near future and possibly grow slightly by 2025.

**FIGURE 50: FORECAST OF NIGHTS SPENT BY VISITORS**



Source: GNTA, TBC Capital Research

**FIGURE 51: FORECASTS OF HOTEL OCCUPANCY**



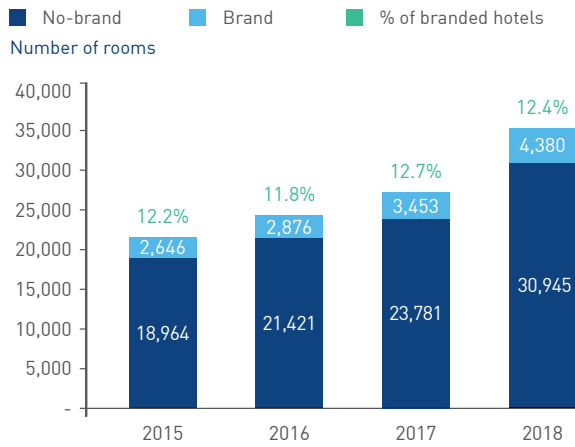
Source: GNTA, TBC Capital Research

***International vs local brands: Potential for unique concepts in Georgia***

**In 2018, six new branded hotels were added to the country’s accommodation stock**, increasing the total number of branded hotels to 34, of which 16 are located in Tbilisi, and 9 in Batumi. Three of the new branded hotels were opened in the regions: In Shekvetili, Paragraph Resorts & Spa Shekvetili, Autograph Collection was opened. Best Western introduced new hotels in Kutaisi, Batumi, and Tbilisi. More brand hotels are projected to open in different regional cities in 2019-2020, including: Batumi, Mtsvane Kontskhi, Goderdzi, Gudauri, Bakuriani, Tsinandali, Telavi and Kutaisi.

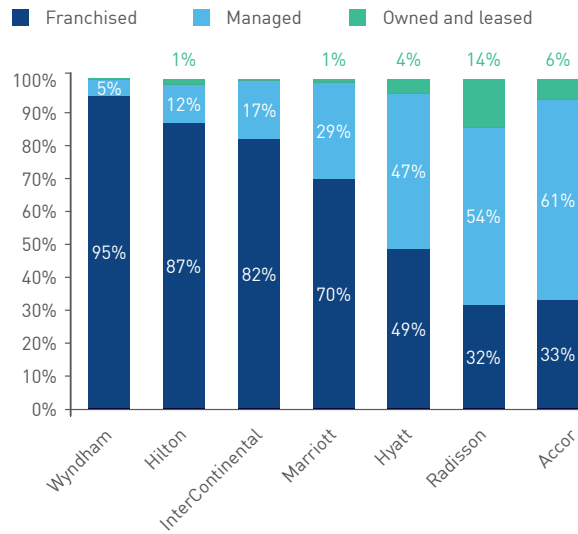
**Different options for different types of investors.** There are broadly three different options for the investor entering the hospitality market. The first two options involve bringing international brands to the table under different circumstances, with introducing the own brand as a third alternative.

**FIGURE 52: SHARE OF BRANDED HOTELS IN GEORGIA BY ROOM NUMBER**



Source: GNTA, TBC Capital Research

**FIGURE 53: PORTFOLIOS OF MAJOR HOSPITALITY COMPANIES**



Source: Audit reports, TBC Capital

**Branded hotels.** Operating under the international franchise increases sales, provides access to the brand-loyal international clientele and pros associated with standardization. These come at cost of trademark, sales and marketing fees as well as costs associated with compliance and quality control. Signing a management agreement with a hotel brand guarantees an experienced administration, at the expense of the management fees, calculated from the profit margin. These contracts are further burdened by binding non-disturbance agreements and complicated clauses for termination. Hotel management agreements are ideal for passive investors, with low experience in hotel management. Franchise agreements are ideal for active investors with low-to-mid level of hotel experience. Branded hotels are currently concentrated in central tourist destinations of the country, serving the brand clientele and meeting industry.

**FIGURE 54: INTERNATIONAL BRANDS (FRANCHISE VS HOTEL MANAGEMENT AGREEMENT) VS LOCAL BRANDS**

| Category | Measure                       | International |           | Local  | Comment   |
|----------|-------------------------------|---------------|-----------|--------|---|
|          |                               | HMA           | Franchise |        |   |
| Costs    | Franchise/trademark fee       | Yes           | Yes       | No     | % of hotel turnover   |
|          | Service fee                   | Yes           | Yes       | No     | Marketing & sales fee, distribution, loyalty, IT, quality control, compliance |
|          | Incentive/management Fee      | Yes           | No        | No     | % of hotel profit   |
|          | Additional CapEx              | Yes           | Mostly    | No     | Additional CapEx required to meet standards                                   |
|          | Binding management agreements | Yes           | No        | No     | Non-disturbance agreements, performance tests, termination liabilities        |
| Benefits | Increased sales               | Yes           | Yes       | No     | Becoming a part of international network                                      |
|          | Increased awareness           | Yes           | Yes       | No     | Easy access to customers of brands  |
|          | Experienced management        | Yes           | No        | No     | Hotel management outsourced   |
|          | Standartisation               | Yes           | Yes       | No     | Customer knows what to expect   |
|          | Own concept                   | No            | No        | Yes    | Ability to develop & offer own hotel concept                                  |
| Best for | Investor type                 | Passive       | Active    | Active | Depends on how actively the owner will be involved                            |
|          | Owner experience level        | Low           | Low-Mid   | High   | Depends on how confident the owner is in his experience                       |

Source: TBC Capital Research

**Local Brands.** Setting up a local brand gives the freedom to implement the investor's own vision into reality. The local success stories like Rooms Hotel can serve as an example. Authenticity and exoticness of many of Georgia's regions has a lot to offer in terms of unique hospitality concepts.

**Branded hotel pipeline concentrated on Tbilisi and Batumi.** The detailed pipeline for the upscale and mid-market hotels for the next two years is heavily concentrated on the capital and the sea-side, with a sizable portion of branded hotels being built for winter destinations like Bakuriani and Gudauri.



**FIGURE 55: HOTEL PIPELINE<sup>7</sup>**

| NAME  | REGION             | CITY             | OPENING YEAR | NUMBER OF ROOMS | BED CAPACITY |
|---|--------------------|------------------|--------------|-----------------|--------------|
| ROOMS HOTEL   | Samtskhe-Javakheti | Bakuriani        | 2019         | 100             | 200          |
| LE MERIDIEN BATUMI                                    | Adjara             | Batumi           | 2019         | 110             | 230          |
| BABYLON TOWER   | Adjara             | Batumi           | 2020         | 168             | 336          |
| COURTYARD BY MARRIOTT                                 | Adjara             | Batumi           | 2020         | 100             | 300          |
| RAMADA RESORTS  | Adjara             | Goderdzi         | 2020         | 118             | 240          |
| RAMADA KUTAISI  | Imereti            | Kutaisi          | 2020         | 121             | 240          |
| PULLMAN HOTELS & RESORT                               | Tbilisi            | Tbilisi          | 2020         | 226             | 400          |
| MARRIOTT AUTOGRAPH COLLECTION-PANORAMA FREEDOM SQUARE | Tbilisi            | Tbilisi          | 2020         | 220             | 440          |
| HILTON TBILISI  | Tbilisi            | Tbilisi          | 2020         | 200             | 350          |
| RADISSON BLU TELEGRAPH                                | Tbilisi            | Tbilisi          | 2020         | 189             | 350          |
| TABORI RIDGE RECREATION & GOLF RESORT                 | Tbilisi            | Tbilisi          | 2020         | 183             | 366          |
| HILTON GARDEN INN                                     | Tbilisi            | Tbilisi          | 2020         | 165             | 330          |
| RAMADA TBILISI  | Tbilisi            | Tbilisi          | 2020         | 125             | 190          |
| HOLIDAY INN EXPRESS                                   | Tbilisi            | Tbilisi          | 2020         | 121             | 240          |
| SWISS-BELHOTEL  | Adjara             | Batumi           | 2021         | 186             | 360          |
| RADISSON BLU GUDAURI                                  | Mtskheta-mtianeti  | Gudauri          | 2021         | 157             | 300          |
| WELLNESS RESORT & SPA ON MTSVANE KONTSKH              | Adjara             | Mtsvane Kontskhi | 2021         | 120             | 240          |
| RADISSON PARK INN                                     | Tbilisi            | Tbilisi          | 2021         | 200             | 400          |
| NOVOTEL   | Tbilisi            | Tbilisi          | 2021         | 180             | 300          |
| HILTON GARDEN INN                                     | Tbilisi            | Tbilisi          | 2021         | 160             | 320          |
| MARRIOTT AUTOGRAPH COLLECTION-PANORAMA SOLOLAKI       | Tbilisi            | Tbilisi          | 2022         | 210             | 420          |

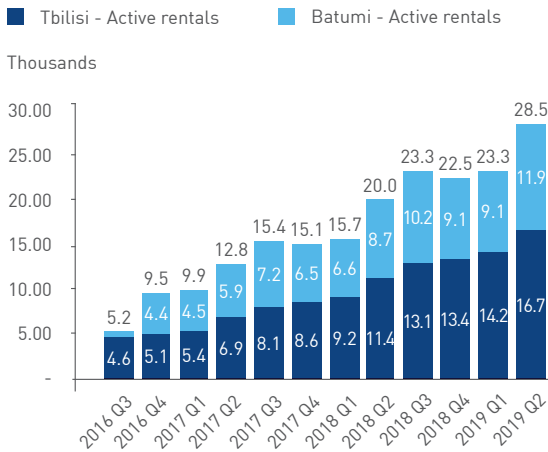
Source: GNTA

7. Presented pipeline includes only hotels with at least 100 rooms

## Rental accommodation: Georgian Airbnb market

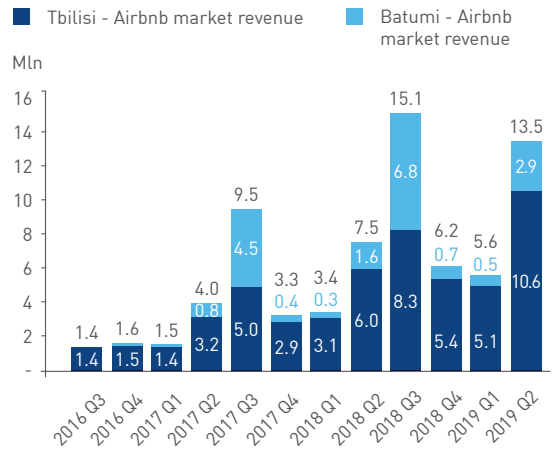
**Airbnb is gaining momentum in Georgia.** With an increasing number of tourist arrivals in the country, local homeowners have more opportunities to offer accommodation and gain revenue. As of Q2 2019, the Airbnb the market of country's two largest cities (Tbilisi and Batumi) featured over 28,500 active listings (+42% YoY). The growth rate of market revenues was significant – amounting to 75.8% YoY (+83.2% for Tbilisi, +60.1% for Batumi). As of 7M 2019, total revenue growth has slightly declined – displaying a 61.0% increase compared to 7M 2018 (+65.9% for Tbilisi, +47.2% for Batumi).

**FIGURE 56: ACTIVE MARKET RENTALS**



Source: AirDNA

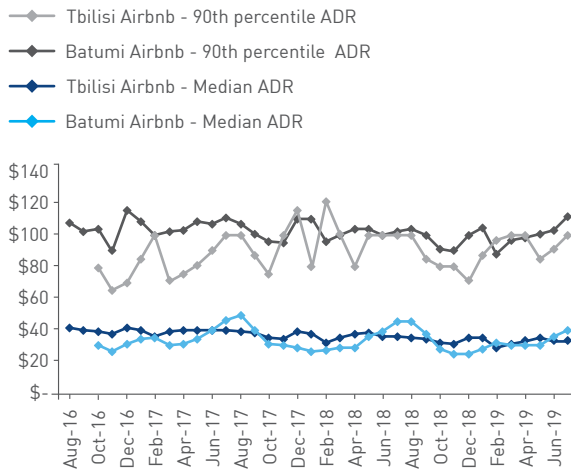
**FIGURE 57: MARKET REVENUE**



Source: AirDNA

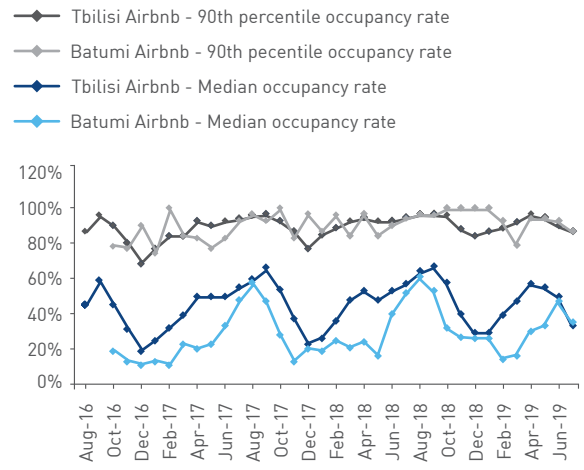
**The differences in 90th percentile and median ADR & occupancy is large.** Comparing the two cities, the ADRs display higher volatility in Batumi, with rates peaking in the summer season and rapidly declining afterward. In 2018, median ADR totaled USD 34.9 (-9.0% YoY) and USD 38.14 (-7.3% YoY) for Tbilisi and Batumi, respectively. As of 7M 2019, ADR was down 8.7% in Tbilisi and down 9.2% in Batumi YoY. Following the Russian flight prohibition, Airbnb median ADR sharply declined in July 2019 for both cities, totaling USD 33 (-8.3% YoY) in Tbilisi and USD 40 in Batumi (-11.1% YoY).

**FIGURE 58: AVERAGE DAILY RATE (ADR)**



Source: AirDNA

**FIGURE 59: OCCUPANCY RATE**

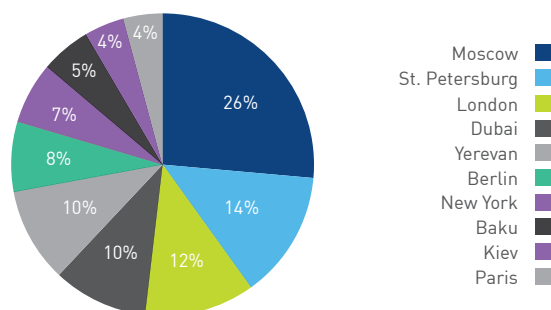


Source: AirDNA

**Properties exhibit higher annual occupancy rates in Tbilisi.** In 2018, median OR increased to 49.0% in Tbilisi (up from 45.9% in 2017) and 34.9% in Batumi (up from 34.9% in 2017). As of 7M 2019, OR was down to 44.4% in Tbilisi (from 46.8%) and kept the level in Batumi at 29.9% in both periods. In July 2019, Airbnb median OR shrank to 33% from 57% (July 2018) in Tbilisi and to 35% from 52% in Batumi.

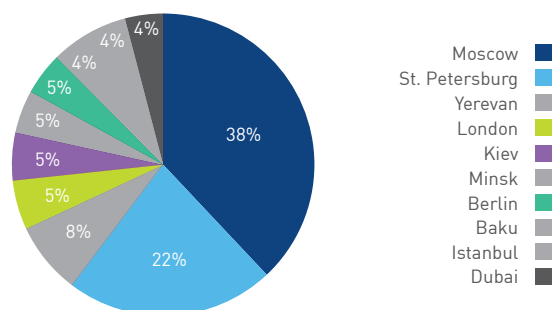
**Low market shares could indicate further demand growth potential.** Tbilisi and Batumi Airbnb market revenue totaled USD 32.2mln in 2018, contributing only 4.2% of total visitor expenditures on accommodation. As of 2018, rented houses and apartments made up 11.7% of international visitors accommodation in Georgia. Other than using international platforms - Airbnb and Booking.com, Georgian proprietors still commonly rent via local websites. With Georgia’s rental market being largely unregulated for individuals and rental platforms charging low or no transaction fees in return for high accessibility, apartments on Airbnb can be an attractive and affordable alternative to budget hotels for tourists.

**FIGURE 60: TBILISI CLIENTELE: TOP 10 CITIES**



Source: AirDNA

**FIGURE 61: BATUMI CLIENTELE: TOP 10 CITIES**



Source: AirDNA

## RUSSIAN SANCTIONS EXPLAINED: A SHORT-LIVED HIT

**Hit at the beginning of the third quarter:** As of July 8th 2019 Russia banned direct flights to Georgia, affecting some 25% of Russian tourists, arriving to Georgia by plane. According to the border crossing statistics<sup>8</sup>, the impact of sanctions was greater in the first weeks following the sanctions, while in August the decline of Russian travelers was moderate.

**Georgia remains attractive for Russian tourists:** As a result of the flight ban, number of Russian citizen visiting Georgia by plane has been declining by around 75-80% YoY in July and August. At the same time, as alternative routes activated<sup>9</sup>, Russian tourists arriving by land have been, up to extent, substituting the air passengers. These developments indicate that the general perception of Russian tourists of Georgia being an attractive and safe destination is still valid and the flight ban will not translate into significant long-lasting effect for the industry. In fact, in visitor numbers, a greater decline in July and August came from Iran. Overall, the airports received 50,000 visitors less in July and August of 2019, than year before, whereas +133,000 more visitors entered the country via other borders.

8. Ministry of Internal Affairs

9. Government started to subsidize flights from Russia to Georgia through Armenia and Belarus. At the same time, some Russian citizens started to fly to Russian cities near the border of Georgia and entering country by other means of transportation.



**FIGURE 62: DYNAMICS OF INTERNATIONAL ARRIVALS IN JULY & AUGUST**

| Country        | 2018: July | 2019: July | Diff     | % Diff | 2018: August | 2019: August | Diff     | % Diff |
|----------------|------------|------------|----------|--------|--------------|--------------|----------|--------|
| Azerbaijan     | 155,218    | 175,499    | 20,281   | 13.1%  | 200,454      | 226,133      | 25,679   | 12.8%  |
| Russia         | 169,857    | 159,063    | (10,794) | -6.4%  | 227,114      | 207,899      | (19,215) | -8.5%  |
| Armenia        | 137,278    | 141,663    | 4,385    | 3.2%   | 183,500      | 191,817      | 8,317    | 4.5%   |
| Turkey         | 142,452    | 156,136    | 13,684   | 9.6%   | 144,917      | 154,834      | 9,917    | 6.8%   |
| Ukraine        | 21,337     | 25,221     | 3,884    | 18.2%  | 24,560       | 28,562       | 4,002    | 16.3%  |
| Israel         | 19,648     | 22,687     | 3,039    | 15.5%  | 21,447       | 24,344       | 2,897    | 13.5%  |
| Saudi Arabia   | 16,025     | 22,775     | 6,750    | 42.1%  | 16,406       | 21,570       | 5,164    | 31.5%  |
| Iran           | 34,290     | 13,437     | (20,853) | -60.8% | 35,571       | 17,075       | (18,496) | -52.0% |
| EU             | 48,637     | 55,480     | 6,843    | 14.1%  | 59,457       | 73,380       | 13,923   | 23.4%  |
| Other          | 100,846    | 110,370    | 9,524    | 9.4%   | 127,118      | 140,982      | 13,864   | 10.9%  |
| Total visitors | 845,588    | 882,331    | 36,743   | 4.3%   | 1,040,544    | 1,086,596    | 46,052   | 4.4%   |

Source: GNTA

**Given the sanctions, we expect a 5% YoY growth in number of tourists and a low-single digit decline in tourism inflows YoY, unless GEL strengthens.** As described, the visitors arriving by plane have the higher per visit spending which affected the tourist inflows. According to the initial estimates, the total tourism inflows went down by 13.0% YoY in July and by 10.6% YoY in August, in USD terms, totaling USD 100mln decline of tourism inflows in the two-month period YoY. These months of summer are the most seasonally active months for the tourism industry and the losses related to sanction should not be as material going forward.

**The sanctions might be cancelled.** By the end of September the Foreign Minister of Russia talked about his support for resuming the flights to Georgia.

## WINTER TOURISM: MORE TO BE DEVELOPED

**A country of many mountains, Georgia is an attractive winter tourism destination.** Although the summer tourism, remains the main driver of the industry, the country's five ski resorts keep a comparative balance between the seasons.

**FIGURE 63: GEORGIAN WINTER RESORT KEY PARAMETERS**

| Resort    | Top station (heigh m) | Bottom station (heigh m) | Avg. Skiable elevation m | Ski track Lengths km | Seasons     | Km from Tbilisi | Ski Lifts | Ski Tracks | Artificial snow | Advanced & Expert tracks (%) | Avg. daily price (EUR) | Visitors (000) |
|-----------|-----------------------|--------------------------|--------------------------|----------------------|-------------|-----------------|-----------|------------|-----------------|------------------------------|------------------------|----------------|
| Gudauri   | 3,276                 | 1,973                    | 2,200                    | 70.0                 | Winter      | 120             | 18        | 20         | YES             | 31.7%                        | 13                     | 370            |
| Bakuriani | 2,702                 | 1,641                    | 1,700                    | 29.1                 | All seasons | 184             | 8         | 23         | YES             | 50.6%                        | 11                     | 180            |
| Goderdzi  | 2,364                 | 1,700                    | 2,000                    | 8.0                  | Winter      | 252             | 4         | 4          | No              | 31.7%                        | 8                      | 10             |
| Tetnuldi  | 3,160                 | 2,265                    | 3,165                    | 30.0                 | All seasons | 475             | 5         | 9          | No              | 53.3%                        | 12                     | 20             |
| Hatsvali  | 2,348                 | 1,428                    | 2,348                    | 7.0                  | All seasons | 470             | 4         | 5          | No              | 80.8%                        | 12                     | 16             |

Source: MRG, TBC Capital Research

**Gudauri** resort, in Mtskheta-Mtianeti region is a 2 hour drive from the capital. Established more than three decades ago, the resort has been growing in popularity in the past years, and offers skiing, snowboarding, paragliding, and heli-skiing activities.

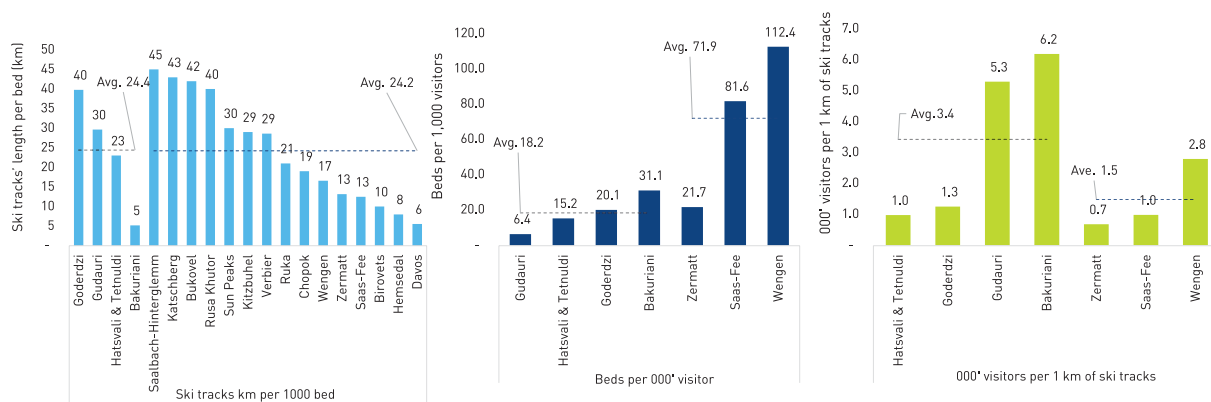
**Bakuriani**, a city-resort in Samtskhe-Javakheti region is at 3 hour drive from the capital. A popular skiing destination for international visitors, it has been family winter tourism destination for several decades. The city is also a summer destination due to its location in the unique Borjomi-Kharagauli National Park.

**Goderdzi** resort in Adjara, is a 4 hour drive from Tbilisi and a 3 hour drive from Batumi. The construction of the resort was completed in 2015 and it currently has six chalets, each of which can accommodate 12 people and a single hotel with the capacity of 35 guests.

**Tetnuldi** resort in Svaneti region is a ski resort on mount Tetnuldi, the 10th highest peak on Greater Caucasus mountain range. The resort is at 8.5 hour drive from the capital, but is within 1 hour drive from Mestia, which is reachable from Tbilisi via a 1-hour intra-country flight. Opened first for the 2015-2016 winter season, the resort offers Skiing, heli-skiing, paragliding services as well as mountain tours.

**Hatsvali** resort in the Svaneti, within 30 minute of Mestia by road, is another new resort, boasting the night skiing lights and the hardest ski tracks for professional skiers.

**FIGURE 64: COMPARATIVE METRICS OF GEORGIAN WINTER RESORTS<sup>10</sup>**

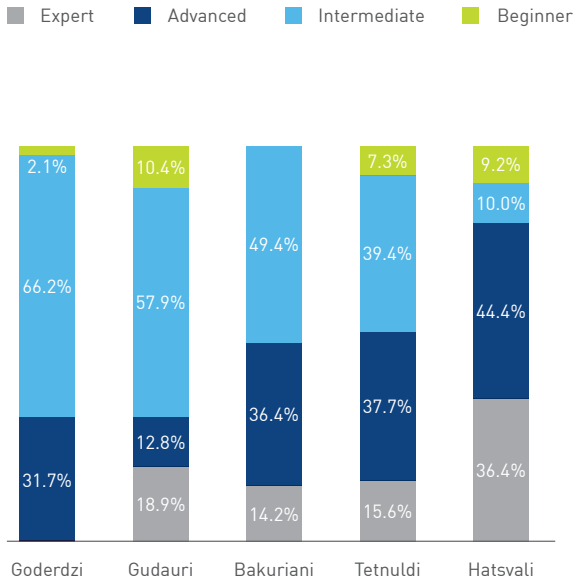


Source: MRG, EY, TBC Capital Research

**Bakuriani needs more skiing infrastructure, Gudauri needs both more accommodation and infrastructure, and remaining resorts have the infrastructure capacity for more visitors.** We compared the ratios of ski track kilometers per bed, beds per visitor and visitors per kilometer of ski tracks for skiing resorts. Bakuriani seems to be lacking in the size of skiing infrastructure for its bed capacity, most comparable with Davos from the developed resorts. Gudauri seems to be lacking beds as compared to its visitor arrivals as compared to other Georgian resorts, however it is a generally foreign skiing resorts have far more tourist accommodation per visitor. Expanding the housing to Kobi to utilize newly built cableway to Gudauri will help a geographic bottleneck. It is also worth mentioning that the accommodation of Hatsvali and Tetnuldi is that of Mestia, a destination for many tourists apart from ski enthusiasts. Goderdzi, Hatsvali and Tetnuldi have the infrastructure capacity to serve higher number of ski-lovers than they currently do, both compared to Georgian and foreign resorts. Gudauri and Bakuriani tracks seem overcrowded.

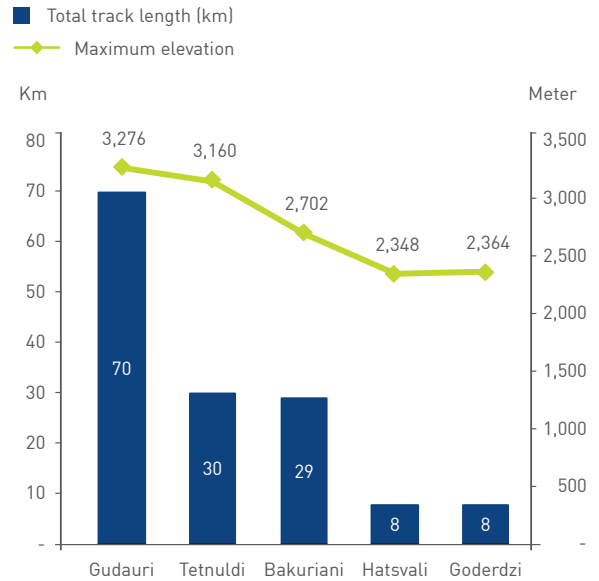
10. For Hatsvali and Tetnuldi, beds from Mestia are taken into calculation; when calculating beds per visitor, for Hatsvali and Tetnuldi, all visitors to Mestia are taken into consideration.

**FIGURE 65: SKI PISTES BY EXPERTIZE LEVEL**



Source: MRG

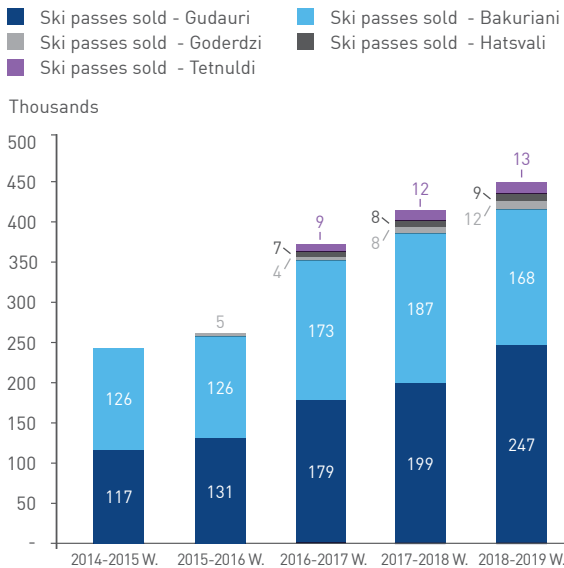
**FIGURE 66: RESORT ELEVATION AND TRACK LENGTH**



Source: MRG, TBC Capital Research

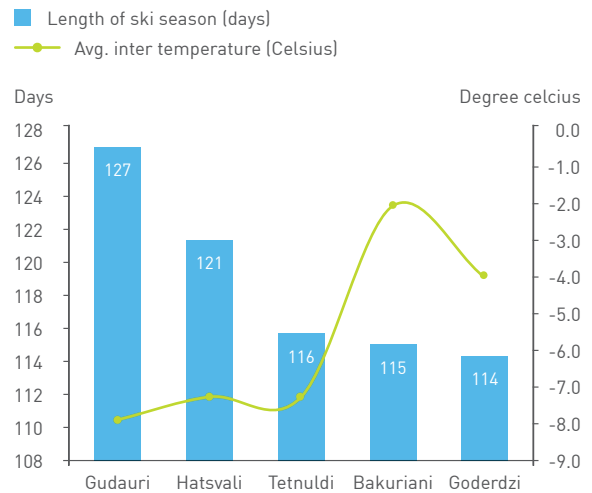
**>4 month skiing season is the longest in the region.** The skiing season in Georgia lasts from late November to early April in Georgia, with season ending slightly earlier in Bakuriani. The length of season broadly correlates with the average temperature of each resort.

**FIGURE 67: SKI PASSES SOLD IN WINTER RESORTS**



Source: MRG, TBC Capital Research

**FIGURE 68: AVG. SEASON LENGTH AND TEMPERATURE**



Source: MRG, Meteoblue, TBC Capital Research

**The 2023 Freestyle Ski and Snowboard world championships will be held in Georgia.** Bakuriani and Gudauri will host this world famous competition, held by International Ski Federation (FIS) with more than 25 medal events planned during the championship. The event will attract more visitors, and will further highlight Georgia as a winter destination of ski travelers worldwide.

## NICHE TOURISM: A UNIQUE CHARM

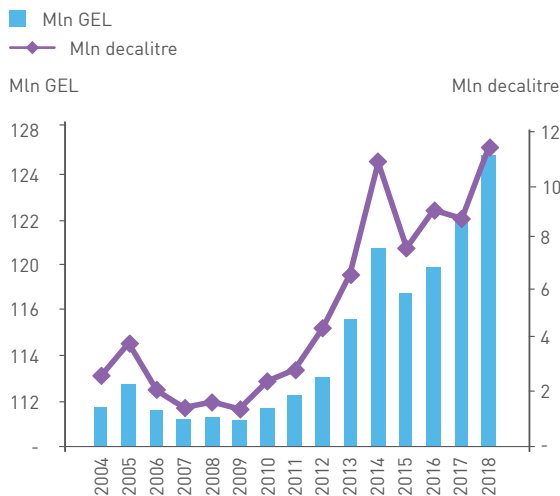
**Georgia boasts the potential for several directions of niche tourism:** Wine, wellness and spa, gambling and eco-tourism have a potential to gain the momentum in the country.

### *Wine Tourism: Gaining worldwide acclaim as the birthplace of wine*

**Georgia counts over 8,000 years of winemaking tradition.** Of over 2,000 grape species existing worldwide, up to 500 varieties are found exclusively in Georgia. In 2013, Qvevri method of winemaking was recognized by UNESCO in its list of Intangible Cultural Heritage of Humanity. With wine traditions deeply rooted in the culture, Georgia has a huge potential of elevating wine tourism to the world class level.

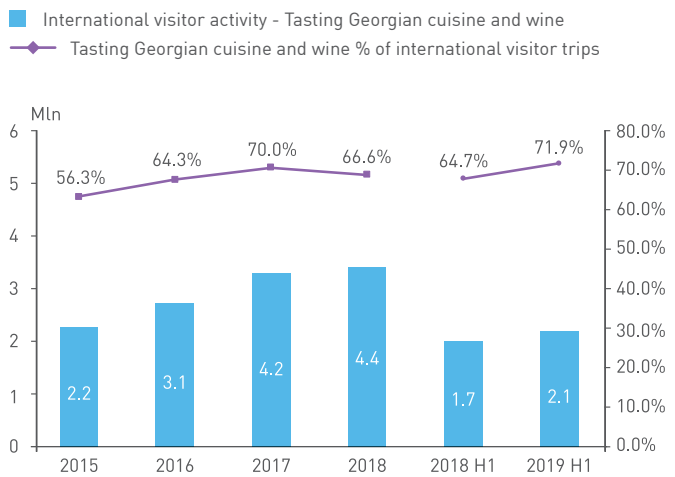
**Georgia has just started to gain recognition as a wine destination choice for travelers.** In 2015, The New York Times wrote an article about the country, acknowledging Georgia’s longest running unbroken wine tradition. According to GNTA survey 2018, 67% of international visitors named tasting Georgian cuisine and wine among the conducted activity, making 4.4 international visitor trips, 2x more than that of 2015. The proportion increased to 72% in 2019 H1, from 65% in 2018 H1.

**FIGURE 69: WINE PRODUCTION IN GEORGIA**



Source: GeoStat

**FIGURE 70: TASTING GEORGIAN CUISINE & WINE**



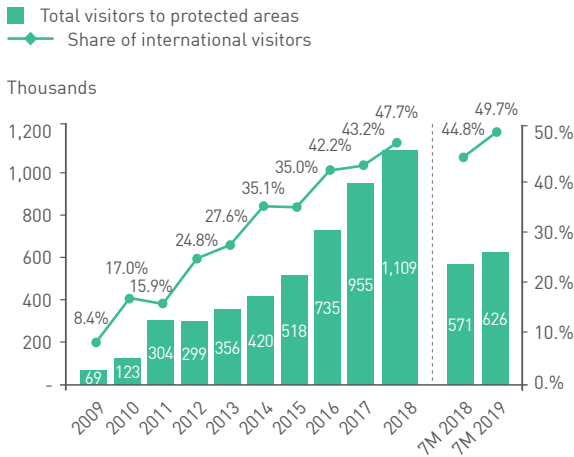
Source: GNTA

**In 2011 the Wine Route Project was launched,** by the Georgian Government and USAID, implementing the basic fundamental chain for wine tourism and installing wine cellars throughout the regions of Kakheti, Imereti and Kartli. GNTA later relaunched the project, guiding major marketing campaigns and starting to document Georgian wine facilities. For now, 164 establishments are registered through the GNTA portal, 163 of which offer wine, over 90% offer chacha, 18% offer sparkling wine, and only 4% offer brandy. The facilities feature souvenir shops, accommodation, guide service, georgian folk music, wine press, georgian cuisine, wine tours, wine purchasing and tasting.

### Eco Tourism & Protected Areas: potential to attract the nature explorers

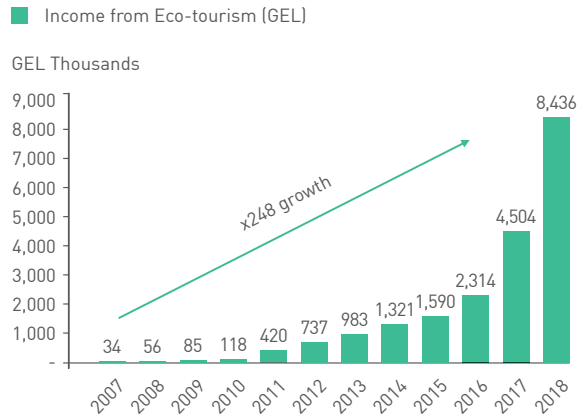
Eco-tourism is becoming a popular form of tourism. Practically non-existent over a decade ago, eco-tourism has grown into multi-million GEL market throughout the past ten years, with Georgia's protected areas receiving more than 1.1 million visitors in 2018. The percentage of international visitors to these areas has also been on the rise, with international visitors accounting for 47.7% of visits in 2018.

**FIGURE 71: VISITORS TO PROTECTED AREAS**



Source: APA

**FIGURE 72: ECO-TOURISM TURNOVER IN GEORGIA**



Source: APA

**The most popular destinations are Martvili Canyon, Prometheus Cave, Kazbegi National Park, and Tbilisi National Park.** These locations accounted for 61% of total visits to protected areas in 2018. Forests make up to one third of Georgia's territory, with protected areas accounting for 600,000 hectares in total. The Colchic Rainforests and Wetlands have been nominated for inscription on UNESCO World Heritage list.

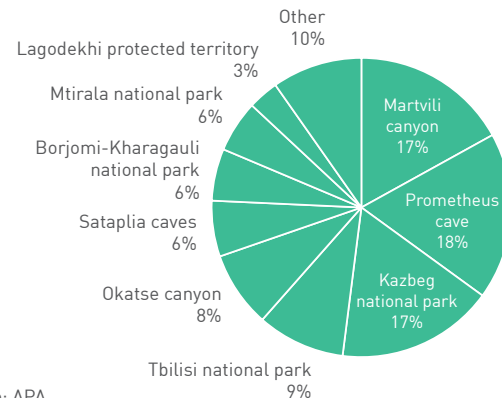


**FIGURE 73: PROTECTED AREAS OF GEORGIA**

| TYPE                   | NUMBER    | AREA (HECTARE) |
|------------------------|-----------|----------------|
| STRICT NATURE RESERVES | 14        | 139            |
| NATIONAL PARKS         | 11        | 347            |
| MANAGED                | 19        | 71,530         |
| NATURAL                | 42        | 2,941          |
| PROTECTED              | 2         | 34,708         |
| <b>TOTAL</b>           | <b>88</b> | <b>596,155</b> |

Source: MOE

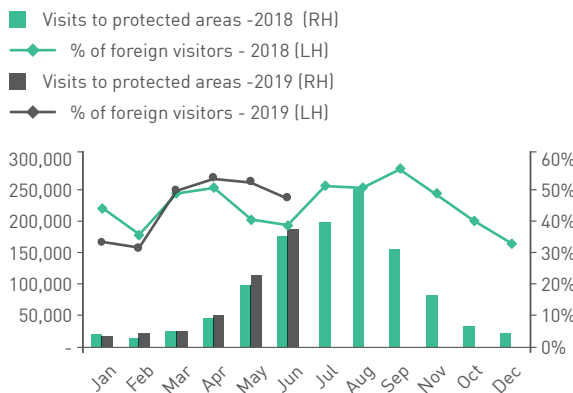
**FIGURE 74: MOST VISITED PROTECTED AREAS, 2018**



Source: APA

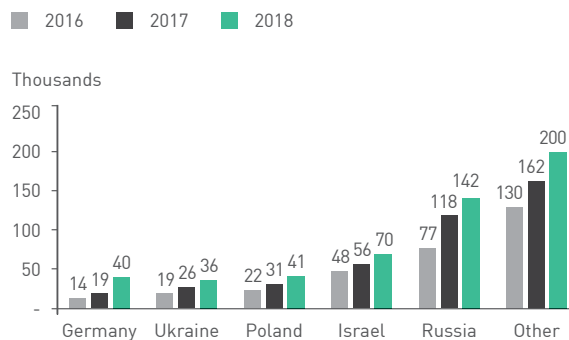
**Eco-tourism is a summer activity in Georgia.** With most visitors in June to September, eco-tourism contributes to the summer tourist season. The origin of visitors to protected areas broadly mirrors the origin of visitors to Georgia as a whole, with top five being Russia, Israel, Poland, Ukraine and Germany.

**FIGURE 75: DISTRIBUTION OF VISITS TO PROTECTED AREAS ACROSS THE YEAR**



Source: APA

**FIGURE 76: VISITORS TO PROTECTED AREAS BY ORIGIN**



Source: APA

**Wellness, spa & medical tourism: Potential to attract the high-spenders**

**The global wellness economy is a USD 4.2 trillion market.** The industry, which covers a wide range of sectors including thermal/mineral springs, spas, personal care and beauty, grew at a 12.8% CAGR from 2015–2017, nearly twice the global economic growth rate. Currently, wellness expenditure is equivalent to more than half of total global health expenditure (totaling USD 7.3 trillion). According to the Global Wellness Institute, the wellness tourism market amounted USD 639bn in 2017, with a 6.5% CAGR between 2015 and 2017. Wellness travelers are high spenders worldwide, with expenditures totaling USD 1,528 per trip in 2017, considerably higher than that of the average tourist.

**Georgia has a potential to become prominent wellness and spa destination.** The Tskaltubo Spa Resort in west-central Georgia, 20 minutes from the Kutaisi Airport, had been attracting up to 125,000 visitors per year in the Soviet period. Resorts Sairme an Abastumani have a potential for further development. Racha-Lechkhumi and Svaneti abound with curative waters, and in the east, Akhtala mud-cure resort is located.

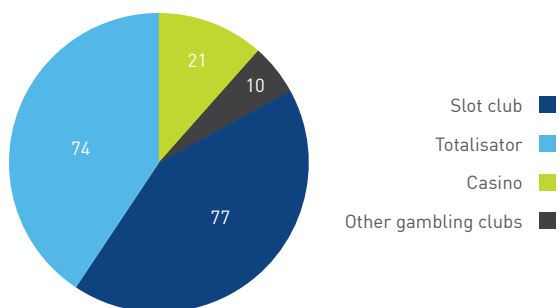
**FIGURE 77: GEORGIA'S SPA & WELLNESS RESORTS**

| RESORT                                  | RESOURCE   | TREATMENT   | CURRENT ISSUES  | POTENTIAL  |
|---|--|---|---|--|
| <b>TBILISI BALNEOLOGICAL SPA RESORT</b> | Mineral waters, sulfur waters, Peloidotherapy, mud, faraffin | "Treatment of spine diseases<br>Treatment of gynecological, neurologic, endocrinological, dermatological, urological diseases<br>Balneological, mud, hydrocolonotherapeutic procedures, spa and wellness" | "One of 4 capitals known as balneological resort<br>Tourist-heavy location<br>Lack of promotion as medical, balneo, spa & wellness destination" | "Advertise the location as spa-wellness, rehabilitation, medical destination<br>Attract high spender segment<br>4 star 130 room Hotel in 2020" |
| <b>TSKALTUBO</b>                        | Eutherapeutic water  | Anti age & beauty procedures<br>Weight loss procedures<br>Treatment of diabetes   | License till 2037 held by investor who operates 2 baths<br>Underdeveloped infrastructure<br>Lack of necessary promotion                         | Privatize state owned large accommodation stock<br>Operate 9 baths<br>Attract high-spender segment   |
| <b>SAIRME</b>                           | Eutherapeutic water  | Treatment of Urethral, Galbladder, Gastro-intestinal diseases<br>Thermal spa & wellness procedures<br>Treatment of metabolic disorders  | Long distance and difficult road<br>2 midscale hotels<br>Lack of necessary promotion  | Internal helicopter flights<br>Creating further accommodation stock<br>Attract high spender segment  |
| <b>RACHA &amp; SVANETI</b>              | Balneological & eutherapeutic waters in up to 10 locations   | Treatment of diabetes<br>Anthological, gastroenterological, gynecological, neurological diseases<br>Wellness & Spa procedures   | No existing research<br>No thematical resorts<br>Lack of necessary promotion  | A tourist destination, but not a wellness destination<br>Development of therapeutic, spa & wellness resorts<br>Attract high spender segment    |
| <b>ABASTUMANI</b>                       | Hyperthermal, hermal, balneological waters                   | Treatment of various lung diseases<br>Treatment of rheumatism, gynecological, dermal, neural diseases<br>Treatment of metabolic disorders, ulcers   | Underdeveloped infrastructure<br>Small stock of accommodation<br>Lack of necessary promotion  | Creating further accommodation stock<br>Developing tourist infrastructure<br>Attract high spender segment                                      |
| <b>AKHTALA</b>                          | Medical mud-waters   | Treatment of bone diseases<br>Treatment of neurological, gynecological, dermal, urological diseases<br>Treatment of post-burn traumas   | Small stock of accommodation<br>Underdeveloped infrastructure<br>Lack of necessary promotion  | Creating further accommodation stock<br>Developing tourist infrastructure<br>Attract high spender segment                                      |
| <b>BIOLI</b>                            | Wellness & aesthetics treatment                              | Wellness & detox procedues<br>Aesthetic procedures<br>Physical activity programmes  | Resort opened in 2016<br>30 hectares developed<br>A scientific team working with patients   | Already developing official speciality of wellness therapists<br>Creating further accommodation stock<br>Attract high spender segment          |
| <b>BORJOMI</b>                          | Mineral & balneological waters                               | Treatment of digestive diseases<br>Treatment of metabolic diseases<br>Climatotherapy  | A well-known balneo-climatic health resort<br>>2,100 bed stock available<br>Hotel range from upscale to economy                                 | Creating further accommodation stock<br>Further develop cultural tourism<br>Attract high spender segment                                       |
| <b>NUNISI</b>                           | Balneological and therapeutic waters                         | Treatment of skin diseases<br>Wellness procedures<br>Climatotherapy   | Small stock: 7 hotel rooms, 5 cottages with 16 rooms<br>Nearest train station in 6 Km<br>Lack of international promotion                        | Creating further accommodation stock<br>Improving connectivity<br>Attract high spender segment   |
| <b>UREKI, GRIGOLETI</b>                 | Magnetic sands   | Treatment of cardiovascular system diseases<br>Treatment of locomotive and nervous systems disorders<br>Thalassotherapeutic procedures  | Shallow waters suitable for children<br>Low share in sea-side tourism<br>Lack of necessary promotion  | Advertise the resort as medical destination<br>Addition of upscale hotel stock<br>Attract high spender segment                                 |

## Gambling: A regional advantage

**Georgia possesses a regional competitive advantage in gambling**, as gambling is restricted in nearly all of its immediate neighbors. The only competition in the region is the city of Sochi, Russian Federation, with newly opened casinos “Sochi” and “Boomerang”. Casinos and gaming facilities can be included in a single complex with hotels to provide a one-stop destination for gambling tourists. 21 casino licenses are outstanding in Georgia, out of which 3 are defunct. Up to 10 new casinos are expected to be opened in Tbilisi and Adjara till 2022. 21 casino licenses are outstanding in Georgia, out of which 3 are defunct. Up to 10 new casinos are expected to be opened in Tbilisi and Adjara till 2022.

**FIGURE 78: GAMBLING INSTITUTIONS BY TYPES**



Source: Revenue Service



**FIGURE 79: CASINO LICENSES IN GEORGIA<sup>11</sup>**

| N  | Casino                      | Location       |
|----|-----------------------------|----------------|
| 1  | Casino Aviator              | Stephantsminda |
| 2  | Leogrand Casino             | Batumi         |
| 3  | Casino International Batumi | Batumi         |
| 4  | Pegasus Casino              | Batumi         |
| 5  | Princess Casino             | Batumi         |
| 6  | Shangri La                  | Tbilisi        |
| 7  | Casino Adjara               | Tbilisi        |
| 8  | Ambassadori Casino          | Tbilisi        |
| 9  | Iveria Casino               | Tbilisi        |
| 10 | Peace Casino                | Batumi         |
| 11 | Iveria Batumi Casino        | Batumi         |
| 12 | Jewel Casino                | Tbilisi        |
| 13 | Gudauri Casino              | Gudauri        |
| 14 | Eclipse Casino              | Batumi         |
| 15 | Pasha Medea Casino          | Batumi         |
| 16 | Golden Palace Casino        | Batumi         |
| 17 | Intourist Casino            | Batumi         |
| 18 | Europe International        | Tbilisi        |

Source: Revenue Service, TBC Capital Research;

**Importance of gambling is recognized**, with many of Georgia’s tourist destinations exempt from the annual gambling license fee. Newly built hotels with >100 rooms in certain resorts (or >80 in others) are exempt from paying the fee for 10 years.

11. Excluding outstanding but defunct licenses



**FIGURE 80: FEES FOR OPENING, OWNING AND OPERATING A CASINO**

| Location   | Annual fee (GEL) | Quarterly fee pe table (GEL) |
|--|------------------|------------------------------|
| Kazbegi, Bakuriani, Gudauri, Tkshaltubo, Signaghi, Tsinandali            | -                | 20,000-40,000                |
| Batumi, Kobuleti, Khelvachauri: Casinos in new hotels with >100 beds     | -                | 20,000-40,000                |
| Anaklia, Ganmukhuri, Grigoleti, Poti: Casinos in newhotels with >80 beds | -                | 20,000-40,000                |
| Akhaltsikhe  | 100,000          | 20,000-40,000                |
| Batumi, Dusheti, Kobuleti, Borjomi, Poti, Katchreti, Grigoleti           | 250,000          | 20,000-40,000                |
| Other  | 5,000,000        | 20,000-40,000                |

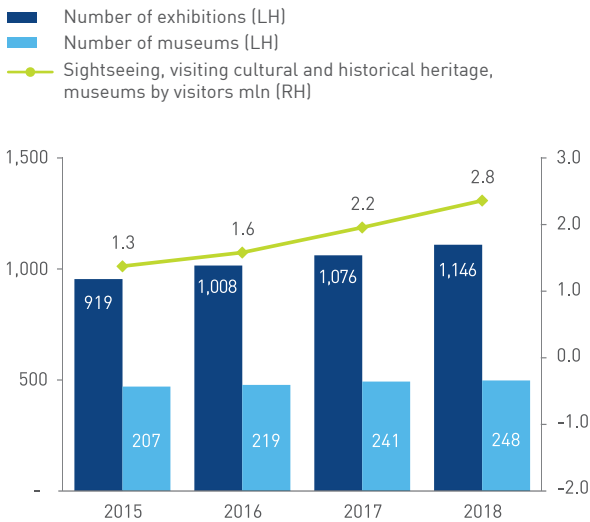
Source: Revenue Service

**Culture & Entertainment: Offering both traditional and modern entertainment**

In 2018, international visitors spent more on culture & entertainment services in Georgia than locals did.

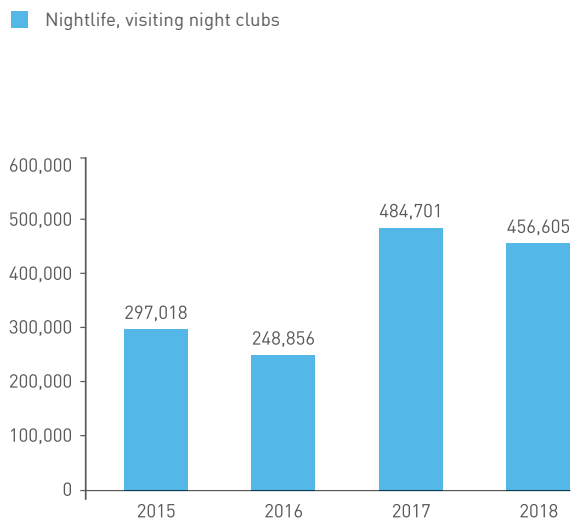
**The growth in number of museums and exhibitions provides additional attractions for tourists.** With growing interest in Georgian culture and traditions, the total number of museums in the country has increased from 118 in 2010 to 248 in 2018. The number of visitors to museums crossed the 2mln threshold in 2018. Average annual attendance per one museum has also been on the rise, amounting to 8,500 people in 2018, up from 3,700 in 2005. The recent initiative “Night in the Museum”, with Georgian museums operating at night for no charge, has helped to boost the interest. Recently added multilingual audio guides is also an important milestone reached.

**FIGURE 81: NUMBER AND ATTANDANCE OF MUSEUMS**



Source: GeoStat

**FIGURE 82: TOURIST VISITS TO NIGHT CLUB**



Source: GeoStat

**Georgian club scene gaining momentum.** The rapid growth of the Georgian night club industry started in 2014, when country's largest techno club, Bassiani was founded. Following the evolution of the Tbilisi night scene, other Georgian cities have also started to gain momentum. Together with electronic music festivals, Georgian clubs have been successfully attracting hundreds of thousands of tourists, some of whom arrive for the sole aim of visiting these destinations. We are already seeing artists from the world's techno-clubs performing at Georgian scenes on a weekly basis.

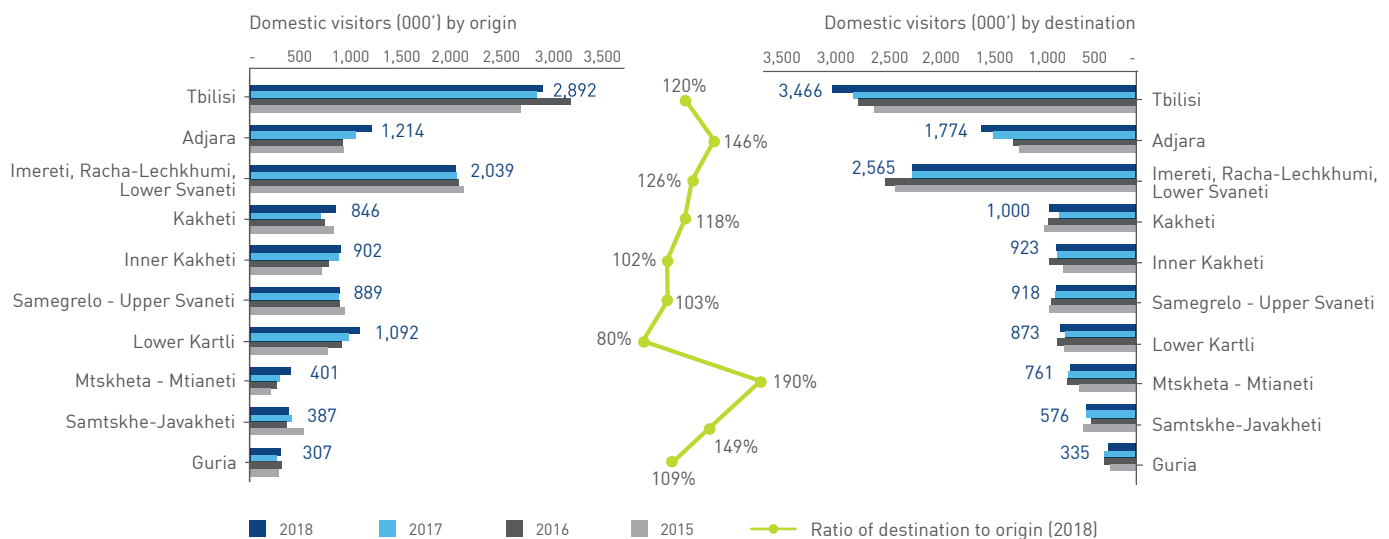
**Theatres are adapting to international viewers.** Despite being mainly oriented towards the Georgian-speaking population, theatres are increasingly offering shows in English, providing insights into Georgia's acting, dancing and singing heritage. The number of visitors who visited a theatre, cinema, or a concert in Georgia nearly doubled since 2015, reaching 290,000 people in 2018.

## DOMESTIC TOURISM: A SMALLER SHARE OF HOTEL CLIENTELE

**Domestic tourism is on the rise, in line with the increase of the economic well-being of the country.** In 2018, 13.2mln trips (up +4.1% YoY) were undertaken by 11.0mln domestic visitors (up by 6.0% YoY). In Q1 2019, 3.3mln visits were undertaken (up +12.1% YoY). We believe the growth trend in domestic tourism will follow the development of the general economic wellbeing of the country.

**The origin and destination of the tourists is largely balanced between the populous regions of the country.** Tbilisi and Imereti receive and produce largely the same quantity of domestic tourists. Adjara is receiving 46% more tourists, than it produces. For Mtskheta-Mtianeti, the domestic tourist surplus is 90%, for Samtskhe-Javakheti, the surplus is 49%. Lower Kartli is a feeder rather than receiving region.

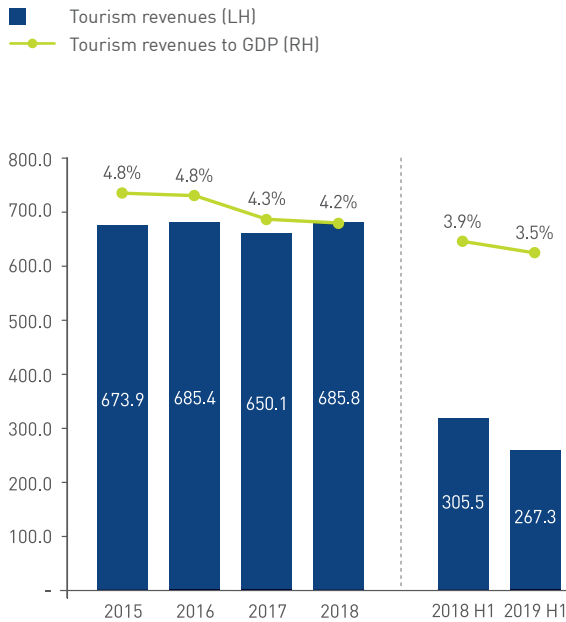
**FIGURE 83: ORIGIN OF DOMESTIC VISITORS VS DESTINATIONS OF DOMESTIC VISITORS\***



Source: GeoStat, GNTA (\*destinations exclude Abkhazia)

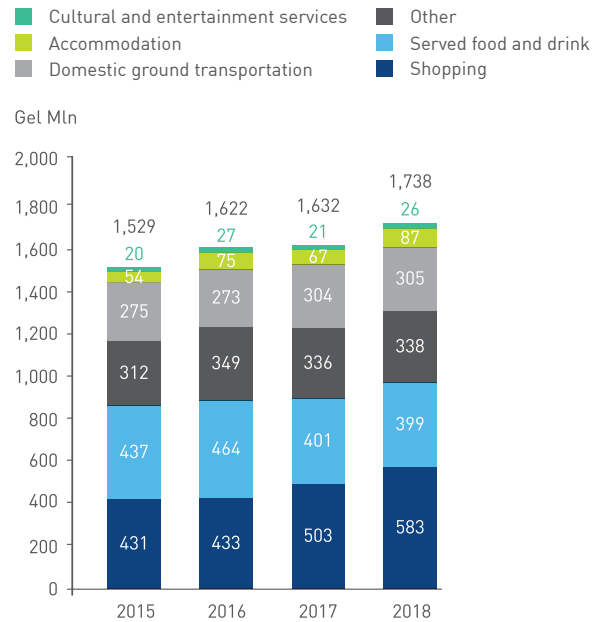
**Revenues from domestic tourism equaled USD 0.7bn in 2018, 4.2% of Georgia's GDP, down from 4.8% in 2015.** According to GNTA, shopping contributed the largest share of revenues (33.5%), followed by served food and drinks (23.0%), and domestic ground transportation services (17.6%). Accommodation accounted for just 5% of domestic tourist spending, and share of culture and entertainment stood at 1.5%. Other categories comprised only 19.4% of the total.

**FIGURE 84: DOMESTIC TOURISM REVENUES (MLN USD); AS % OF GDP**



Source: GNTA, NBG

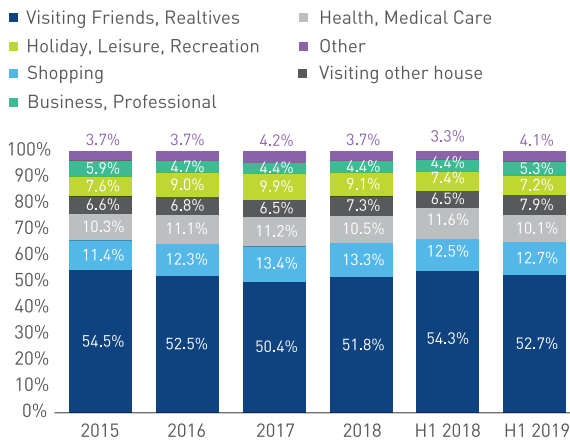
**FIGURE 85: DOMESTIC TOURISM SPENDING BREAKDOWN (%)**



Source: GNTA

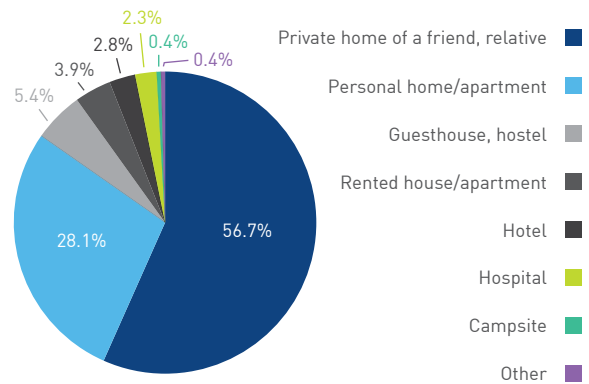
**Domestic tourists are mostly travelling to friends and relatives and stay at their homes.** In contrast to the international tourism, recreational activities was the purpose of only 9.1% of domestic visits in 2018, up from 7.6% in 2015. Only 2.8% of domestic visitors stayed in hotels, and 5.4% stayed in guesthouses and hostels, while 3.9% rented a house. The vast majority of domestic visitors either stayed at the apartment they owned or an apartment of the friend or relative they were visiting.

**FIGURE 86: DOMESTIC VISITS BY PURPOSES**



Source: GNTA

**FIGURE 87: DOMESTIC VISITOR ACCOMMODATION**



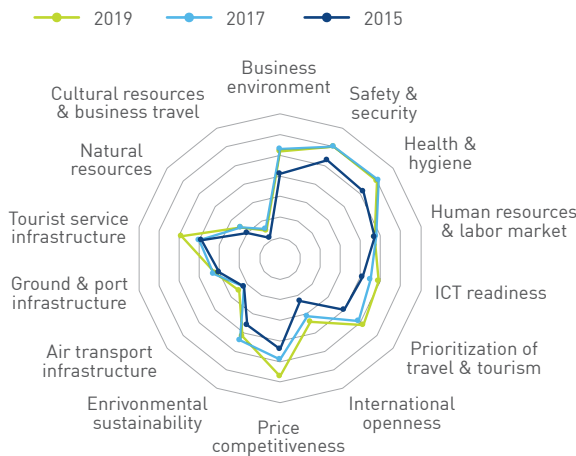
Source: GNTA

## INTERNATIONAL RANKINGS: IMPROVEMENTS IN 2019

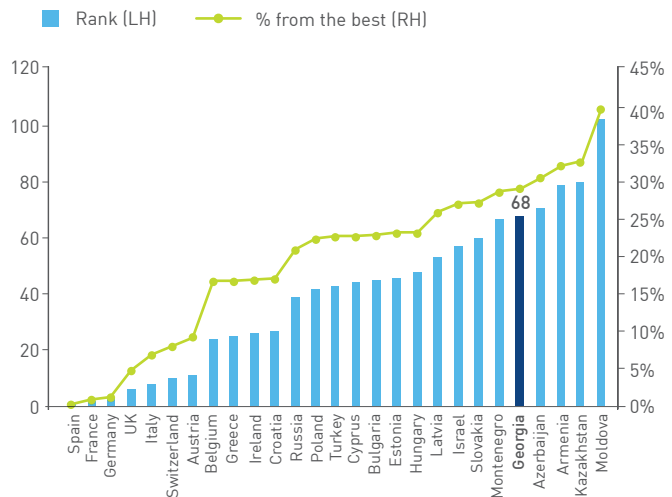
The 2019 edition of the Travel & Tourism Competitiveness Index by the WEF ranks Georgia 68th out of 140 countries. Georgia held 70th place out of 136 countries in 2017 and 71th place out of 141 countries in 2015. The country's current score is 3.9 out of a maximum possible 7, up from 3.7 in 2017.

**FIGURE 88: TRAVEL AND TOURISM COMPETITIVENESS INDEX SCORES, 2015-2019**

**FIGURE 89: TRAVEL AND TOURISM COMPETITIVENESS INDEX RANKINGS 2019**



Source: World Economic Forum



Source: World Economic Forum

**Georgia ranks high on several key pillars of framework's sub-indexes.** Georgia ranks high on the safety and security and health and hygiene sub-pillars, ranking among the top countries in physician density in the country. The scores have significantly improved for business environment and price competitiveness, reflecting the efficiency of "low tax environment and swift business framework" in the country. There has been a notable improvement in the score for the tourist service infrastructure sub-pillar, mostly due to the entrance of major car rental companies to market.

**Georgia ranks low on several key sub-pillars.** Scores for international openness and natural resources and remain low, for the latter's rank low on the indicators of total known species in the country, total protected areas as a percentage of total territorial area and number of World Heritage natural sites. The scores are also low for ground and port infrastructure and air transport infrastructure, with the lowest rank for the indicators of available seat kilometers, and aircraft departures. Additional investments in connectivity to tourist markets could potentially improve the rankings.

## GOVERNMENT POLICY: PRIORITIZING TOURISM

**The state is prioritizing tourism:** Development of tourism, which is one of the major industries of the Georgian economy, is among the top priorities of the government. In the T&T Competitiveness Index, WEF assigned Georgia 5.2 score (out of 7) in the Prioritization of Travel and Tourism criteria.

**With support of the WB and international organizations, GNTA implemented the Tourism Development Strategy, setting benchmarks to achieve by 2025.** The strategy incorporated running a worldwide marketing campaign, improvement of tourist infrastructure, collection and utilization of the industry data. So far, the strategy had been successful, as after the initiation, we have observed the increased CAGR in visitor arrivals and inflows, a relative improvement in visitor diversification, as well as enhancement of other key industry indicators.

**FIGURE 90: GNTA STRATEGY INDICATOR TARGETS AND CURRENT STATE**

|   | 2015      | Annual change (%) needed | 2018      | Annual change (%) needed | 2025       |
|---|-----------|--------------------------|-----------|--------------------------|------------|
| International traveler trips  | 6,305,635 | 5.7%                     | 8,679,544 | 3.4%                     | 11,000,000 |
| Tourism receipts (USD bn)   | 1.9       | 13.3%                    | 3.2       | 10.9%                    | 6.6        |
| Tourism-related services share (%) in GDP                                   | 6.7%      | + 0.12pp                 | 7.6%      | + 0.04pp                 | 7.9%       |
| Average receipt per traveler (USD)  | 300       | 7.3%                     | 371       | 7.1%                     | 600        |
| Average length of stay (nights) (GeoStat accounting)                        | 3.4       | 3.9%                     | 4.2       | 2.5%                     | 5          |
| Turkey, Ukraine, Turkmenistan and CIS share in international traveler trips | 91%       | - 2.1pp                  | 82%       | - 1.7pp                  | 70%        |
| Turkey, Ukraine, Turkmenistan and CIS share in international visitors       | 83%       | na                       | 77%       | na                       | na         |

Source: GNTA, NBG; \*Targets are subject to adjustments

**The government of Georgia is engaged in co-financing of loan interest rates for entrepreneurs involved in the hotel industry,** subsidizing 10% interest rates for loans in GEL and 8% for loans in USD/EUR for the first two years of loan agreement, with collateral guarantee for 50% of total loan. Through the initiative, Enterprise Georgia has supported 111 business entities as of August 2019, with the total investment volume of GEL 289.6mln, which add up to more than 2,890 jobs and 3,380 new rooms for the hotel market. Loans to hotels and tourist industry make up 8.7% of country's total corporate and SME portfolio as of July 2019, more than doubling in proportion since 2012. With the average maturity of 8.5 years, up from 7.5 years a year ago, the financing within the industry mostly remains long-term.

**2019 marked a major success of "Film in Georgia",** a program which offers 20-25% cash rebate on qualified expenses incurred in the country, as well as assistance in all production services: from location scouting to coordination and communication with various stakeholders. As of August 2019, the incentive has attracted 31 productions, which accumulated total spending of GEL 113.2mln, creating more than 17,400 local jobs. Remarkably, within the scope of this program, the parts of the first Hollywood project "Fast & Furious 9" were shot, which will certainly highlight Georgia on the global travel map.

**The Prime Minister of Georgia presented 2019-2020 Government Program,** underlining development of the tourism industry as one of the primary objectives, setting the following focus:

- Development of small-scale tourism infrastructure and accessibility
- Targeting new tourist markets (including high-spenders) as well as domestic market
- Development of eco-tourism
- Development of MICE travel
- Improvement of service
- Increased level of cooperation with the private sector, through new communication platform

# ANNEX

## FIGURE 91: HOTEL BRAND PORTFOLIOS OF TOP<sup>12</sup> INTERNATIONAL HOSPITALITY COMPANIES

|                        | Luxury  | Upper Upscale  | Upscale   | Upper Midscale  | Midscale   | Economy   |
|------------------------|---|--|---|---|--|---|
| Marriott International | Bulgari Hotels & Resorts<br>Edition (1)<br>JW Marriott (2)<br>Stregis Hotels & Resorts<br>The Luxury Collectio (3)<br>The Ritz-Carlon (1)<br>W Hotels (1) | Autograph Collection Hotels<br>Delta Hotels<br>Gaylord Hotels<br>Le Meridien<br>Marriott Executive Apartments (4)<br>Marriott Hotels<br>Renaissance Hotels (1)<br>Sheraton<br>Tribute Portfolio<br>Westin Hotels & Resorts (6) | AC Hotels (1)<br>Aloft Hotels (5)<br>Courtyard<br>Element<br>Four Poits (1)<br>Residence Inn (7)<br>Springhill Suites | Fairfield<br>Moxy<br>Protea Hotels<br>TownePlace Suites                                     |  |   |
| Hilton                 | Conrad Hotels & Resorts (1)<br>LXR Hotels & Resorts<br>Waldorf Astoria Hotels & Resorts   | Curio Collection (1)<br>Hilton Hotels & Resorts<br>Canopy  | Hilton Garden Inn<br>DoubleTree (3)<br>Tapestry Collection<br>Homewood Suites<br>Embassy Suites                       | Home2 Suites  | Hampton<br>Tru<br>Motto  |   |
| Best Western           |   |  | Best Western Premier<br>Vib (1)<br>BW Premier<br>Collection (8)<br>Sadie  | Best Western Plus<br>Executive Residency<br>Aiden<br>BW Signature<br>Collection<br>Glo      | Best Western   | SureStay<br>SureStay Plus<br>Surestay Collection                    |
| Wyndham                |   | Wyndham Grand  | Dolce Hotels & Resorts<br>Wyndham Hotels & Resorts<br>Hawthorn Suites (1)   | TRYP (1)<br>Esplendor Boutique<br>Hotels<br>Dazzler Hotels<br>Trademark Hotel<br>Collection | La Quinta<br>Wingate<br>Wyndham Garden<br>AmericInn<br>Ramada<br>Baymont | Microtel<br>Days Inn (2)<br>Howard Johnson<br>Travelodge<br>Super 8 |
| Hyatt                  | Grand Hyatt (1)<br>Park Hyatt (1)<br>Andaz<br>Alila<br>Hyatt Hotels<br>Thompson Hotels<br>The Unbound<br>Collectio (1)                                    | Hyatt Regency<br>Hyatt Centric (1)<br>Destination Hotels<br>Miraval  | Hyatt House (1)<br>Hyatt Place (3)<br>Joie De Vivre<br>Hyatt Residence Club<br>Hyatt Zilara<br>Hyatt Ziva             |   |  |   |
| Accor Hotels           | Fairmont Hotels & Resorts (2)<br>Raffles (1)<br>Banyan Tree<br>Sofitel Legend<br>S0/<br>Sofitel Hotels & Resorts<br>The Sebel                             | Pullman Hotels<br>MGallery Hotel<br>Collection (1)<br>Rixos Hotels<br>Swissotel<br>Mantis Hotels & Resorts<br>Angsana  | Art Series<br>Grand Mercure<br>Movenpick (1)<br>Mantra<br>25hours Hotel<br>OneFineStay<br>Peppers<br>Adagio Premium   | Mama Shelter<br>Mercure Hotels<br>TRIBE<br>Adagio<br>BreakFree                              | Novotel<br>ibis<br>(3)<br>ibis styles                                    | ibis budget<br>HotelF1<br>JO&JOE<br>greet Hotel<br>Adagio Access    |
| InterContinental       | InterContinental<br>Hotels & Resorts (1)<br>Regent Hotels & Resorts<br>Six Senses (1)   | Hotel Indigo<br>Kimpton Hotels &<br>Restaurants  | Crowne Plaza<br>voco Hotels<br>HUALUXE Hotels<br>and Resorts<br>EVEN Hotels<br>Staybridge Suites (3)                  | Holiday Inn<br>Holiday Inn Club<br>Vacations<br>Holiday Inn Resort<br>Atwell Suites         | Holiday Inn Express<br>avid Hotels<br>Candlewood Suites                  |   |
| Radisson Hotel Group   | Radisson Collection   | Radisson Blu<br>Park Plaza   | Radisson<br>Radisson RED  | Park Inn<br>Country Inn & Suites  |  |   |
| Choice Hotels          |   |  | Cambria Hotels  | Comfort Inn<br>Comfort Suites (1)<br>Clarion (1)  | Quality Inn<br>Sleep Inn<br>MainStay Suites                              | Econo Lodge<br>Suburban Inn<br>Rodeway Inn                          |

■ Georgia (Stock and Pipeline)

■ Available in peer countries

(1) Turkey

(2) Azerbaijan

(3) Armenia

(4) Kazakhstan

(5) Ukraine

(6) Poland

(7) Bosnia-Herzegovina

(8) Romania

Source: TBC Capital Research;

12. Selection criteria for international hospitality companies: operating worldwide, with over 150,000 existing rooms

**Potential for further brand entrance.** To reveal the further upside potential for international hotel brand entrance in Georgia, we examined the portfolios of international hospitality companies, presented in the matrix above. The table displays brands, that are already part of Georgia's accommodation stock or pipeline (in green), and brands that are available in the region or in peer countries (in purple), with corresponding numbers indicating the closest location. We see an untapped potential for bringing new brands to Georgia from all segment categories, ranging from economy to luxury hotels.

**FIGURE 92: AIR CONNECTION (INTERNATIONAL)**

*Tbilisi*



## Kutaisi



## Batumi





## ACRONYMS AND ABBREVIATIONS

|          |  |
|----------|--|
| ADR      | Average Daily Rate                                     |
| APA      | Agency of Protected Areas                              |
| BOP      | Balance of Payments                                    |
| CAGR     | Compound Annual Growth Rate                            |
| Eurostat | Statistical Office of the European Union               |
| FDI      | Foreign Direct Investment                              |
| GCAA     | Georgian Civil Aviation Agency                         |
| GDP      | Gross Domestic Product                                 |
| GeoStat  | National Statistics Office of Georgia                  |
| GNTA     | Georgian National Tourism Administration               |
| HORECA   | Hotel/Restaurant/Café industry                         |
| LLP      | Loan Loss Provision                                    |
| MOE      | Ministry of Environment Protection and Agriculture     |
| MRG      | Mountain Resorts of Georgia                            |
| NBG      | National Bank of Georgia                               |
| NPL      | Non-performing Loan                                    |
| OECD     | Organization for Economic Co-operation and Development |
| OR       | Occupancy Rate   |
| RevPar   | Revenue Per Available Room                             |
| VA       | Value Added  |
| WB       | World Bank   |
| WEF      | World Economic Forum                                   |
| YoY      | Year over Year   |

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