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**Deloitte CFO Survey
Georgia**

Tbilisi 2018

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Jonh Robinson
Managing Partner
Deloitte Georgia

Deloitte Georgia would like to thank all those who participated in the survey of the CFOs of the leading companies in Georgia that we conducted in February – March 2018 as part of our global research project entitled Deloitte CFO Survey. We appreciate your time and interest in our research.

It is no secret that the automation and implementation of new technologies both in production and management areas remain the most discussed topics. Our latest research on the financial climate in Georgia focuses on business transformation that has already occurred or is expected to take place as a result of innovative development.

The expert opinions collected in this survey allowed us to conduct an integrated analysis of the Georgian business environment, as well as to study the sentiments and expectations of market participants regarding their companies' development and the market overall.

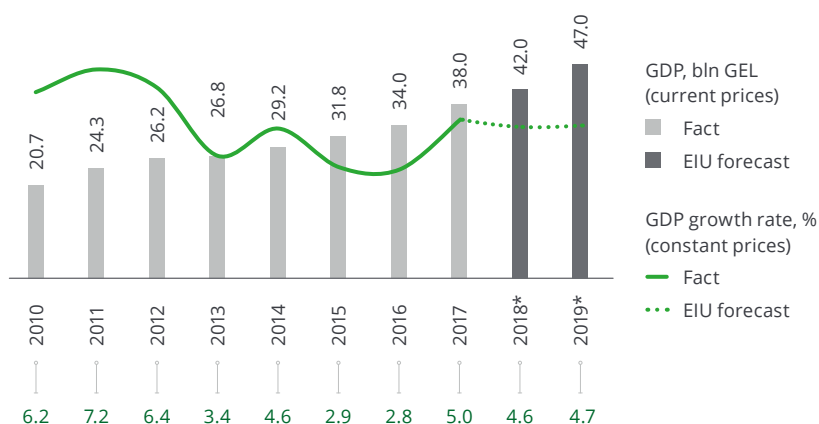
We are pleased to present you with the key findings of our research. We hope that you will find this report useful and informative, and we would be grateful if you would participate in our next survey.

If you have any questions or suggestions about this research, please do not hesitate to contact us at cisresearchteam@deloitte.ru.



Key macroeconomic indicators

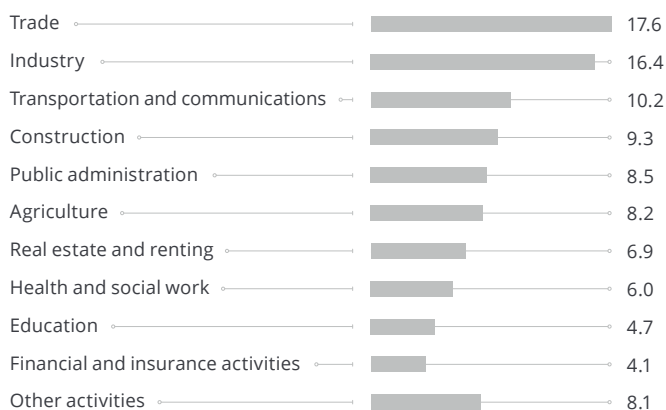
Gross domestic product (GDP)



Source: National Statistics Office of Georgia

*Forecast – Economist Intelligence Unit (EIU)

2017 GDP structure, %



Source: National Statistics Office of Georgia

Georgia's credit rating

Agency	Rating	Forecast	Date
Fitch	BB-	Positive	16 March 2018
Moody's	Ba2	Stable	11 September 2017
S&P	BB-	Stable	16 November 2016

On 16 March 2018, Fitch Ratings upgraded Georgia's credit rating forecast from "stable" to "positive".

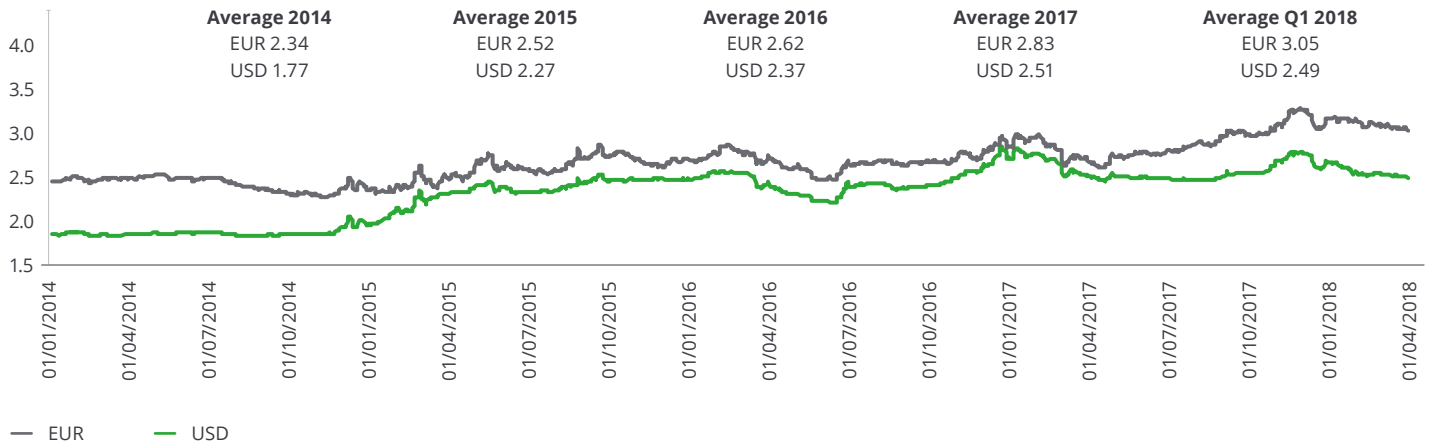
"Composition of growth is expected to be broad-based, supported by a favorable external environment supporting growth in exports and remittances, as well as higher domestic demand driven by an increasing government drive towards higher capital spending."

Fitch Ratings



Key monetary indicators

EUR vs. GEL, USD vs. GEL, January 2014 – March 2018



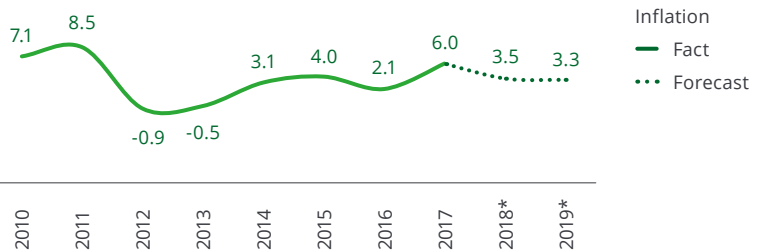
Source: National Bank of Georgia

Since 2014 the weighted average exchange rate of the USD vs. GEL has grown by **41 percent** and the EUR vs. GEL has grown by **31 percent**.

Currency rate – EIU forecast

	2018	2019	2020	2021	2022
EUR vs. GEL	2.94	2.86	2.97	2.95	2.98
USD vs. GEL	2.46	2.43	2.47	2.45	2.41

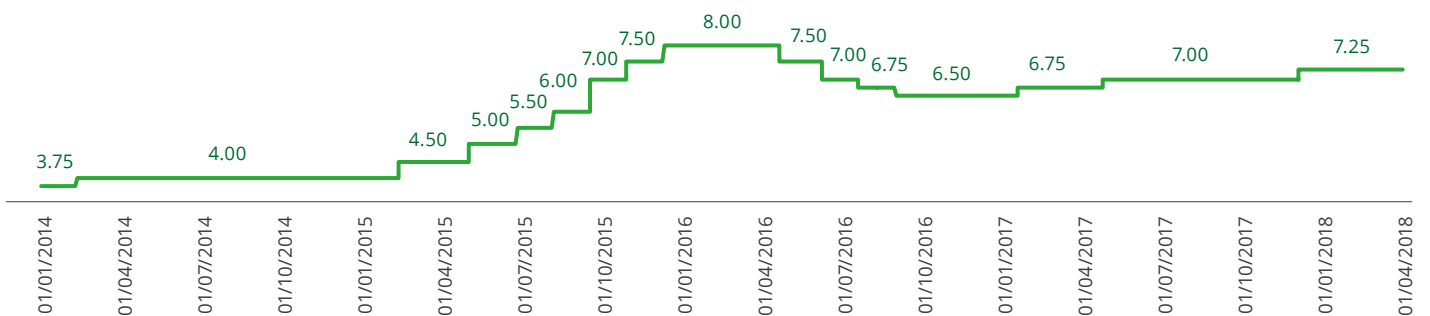
Average consumer price index, %



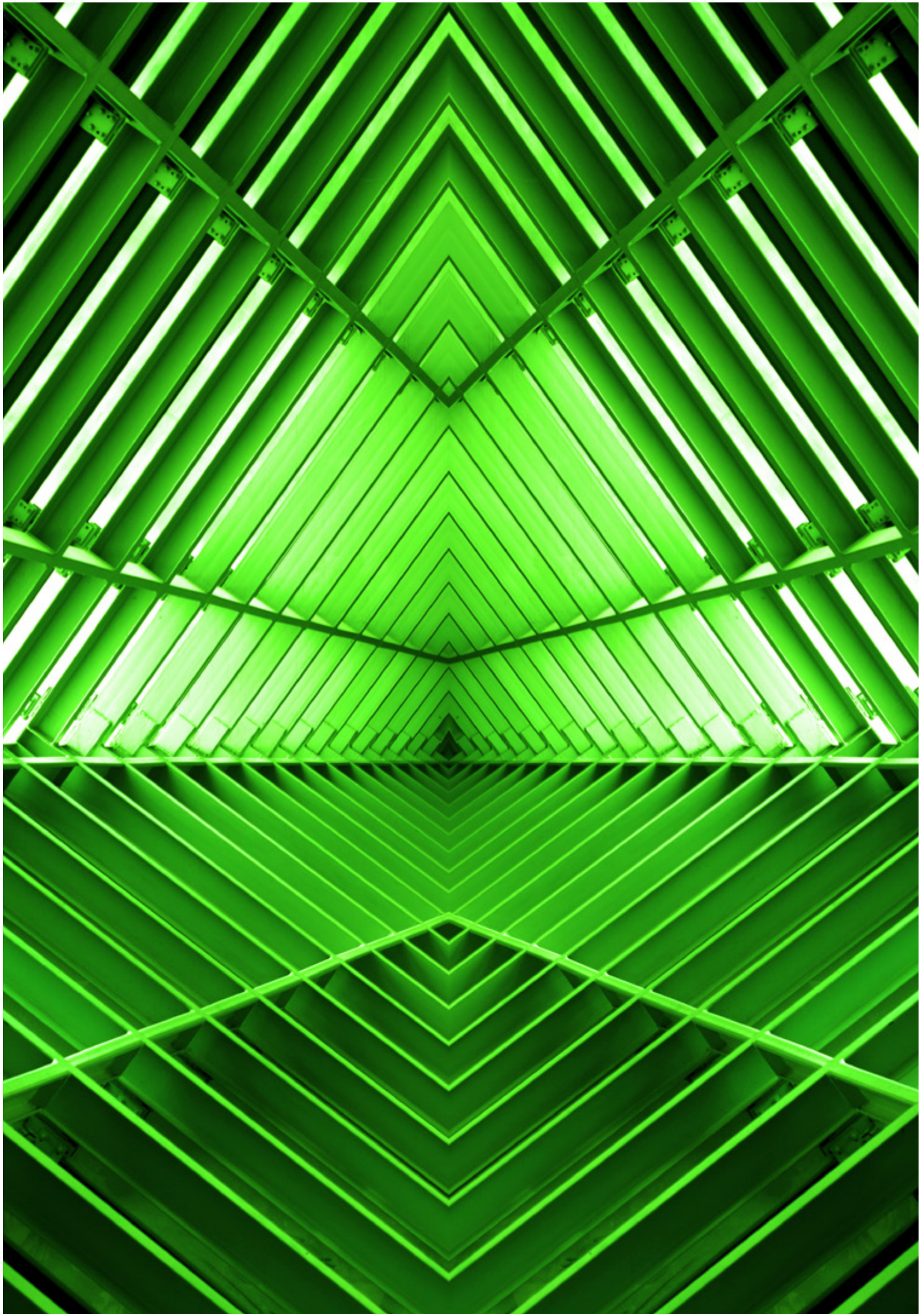
Source: National Statistics Office of Georgia

*Forecast – EIU

Refinancing rate, %



Source: National Bank of Georgia



02 CFO Survey in Georgia

Financial outlook

The respondents were asked to assess the current financial outlook for their companies compared to six months ago



 60%

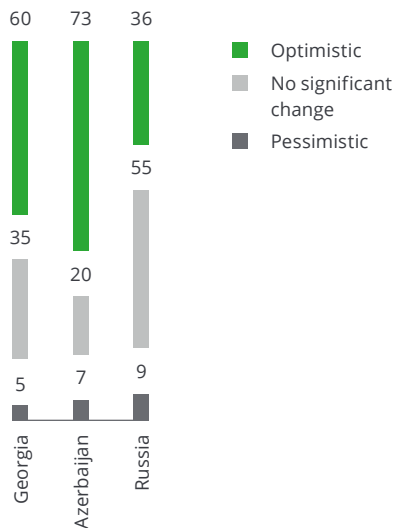
∨ 4 percentage points (compared to previous survey)

 35%  5%

∧ 3 percentage points (compared to previous survey)

- Optimistic
- No significant change
- Pessimistic

Comparison with other countries, %



- The general perception of the financial outlook in Georgia remains unchanged compared to the situation in November 2016.
- Georgia’s overall business environment is clearly perceived to be positive as **60 percent** of the respondents have a positive view of how their companies perform.
- One out of three companies (**35 percent**) stated that were no significant changes in their current financial outlook compared to six months ago.
- Only **5 percent** of CFOs expect the situation to deteriorate.

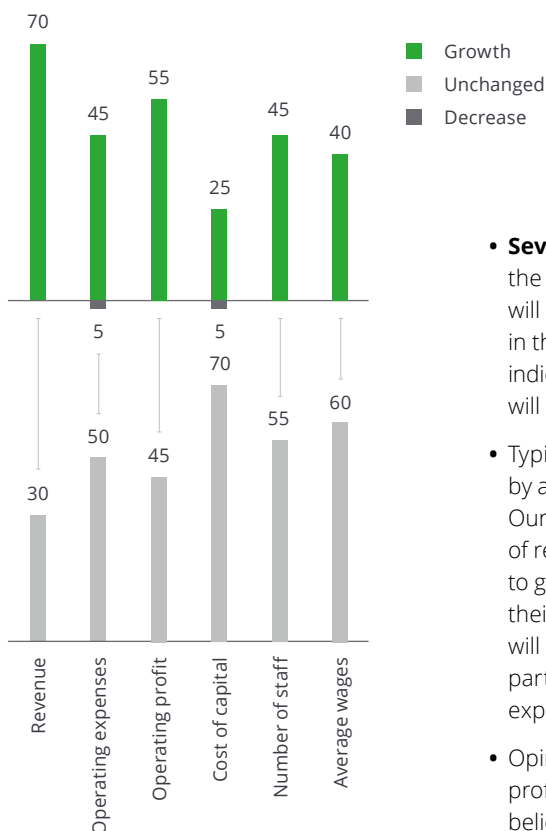
- The general perception of the financial outlook for companies in Georgia and Azerbaijan is resolutely optimistic. This is a sign of the stability of the overall business environment in those countries, which is clearly perceived as positive.
- The assessment of the financial outlook in Russia is the most conservative.
- However, no more than **9 percent** of Russian respondents relayed a pessimistic view.



Financial outlook

Economic expectations

The respondents were asked about expected changes in key financial metrics* over the next 12 months, %



*All indicators except headcount are nominated in GEL

- **Seventy percent** of CFOs believe the revenue of their companies will increase, while almost one in three companies (**30 percent**) indicated that the revenue will remain the same.
- Typically, revenue growth is accompanied by an increase in operating costs. Our survey has found that **45 percent** of respondents expect operating costs to grow. Only **5 percent** of CFOs believe their companies' operating expenses will decrease. **Half** of the survey participants stated that their operating expenses will not change.
- Opinions regarding changes in operating profit are divided: **55 percent** of CFOs believe that their companies' operating profit will increase, while **45 percent** of respondents predict that it will remain unchanged.
- The majority of companies (**70 percent**) expect that the cost of capital will remain at the same level. However, **25 percent** of CFOs forecast an increase in the cost of capital, and about **5 percent** think that it will decline slightly.
- More than half of the companies surveyed (**55 percent**) are not planning on any headcount adjustments, while **45 percent** of respondents predict an increase.
- Of the respondents surveyed, **40 percent** expect an increase in the average level of wages. A significant number of companies (**60 percent**) are not considering a wage adjustment. Given that the Economist Intelligent Unit predicts an inflation forecast of **3.5 percent** for 2018, this indicates a decrease in the real income of their employees.

Uncertainty and risks

Uncertainty in strategic decision making

The respondents were asked to assess the financial and economic environment from a standpoint of uncertainty around strategic decision making





 90%

^ 38 percentage points (compared to previous survey)

 10%

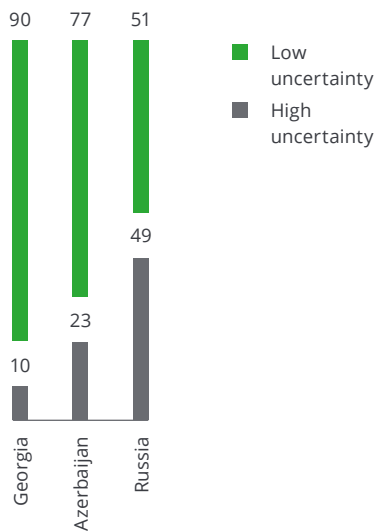
∨ 38 percentage points (compared to previous survey)

 Low uncertainty
 High uncertainty

- Attitudes to uncertainty are a major influence on strategic planning and decision-making. It is therefore important to understand how CFOs view the level of financial and economic uncertainty their companies are currently facing. The overall net level of uncertainty indicates that the percentage of CFOs who see the level of external uncertainty as low clearly outnumbers the percentage reporting high levels **(+80 percent)**.

- Compared to the situation observed in November 2016, the uncertainty level has decreased by **38 percentage points**.

Comparison with other countries, %



- The financial and economic environment in Georgia is the most positive among the countries surveyed: the country's net uncertainty level is lower by **13 percentage points** than in Azerbaijan and by **39 percentage points** than in Russia.



Uncertainty and risks

Risk appetite

Is now an appropriate time to make risky decisions that may affect the balance sheet?



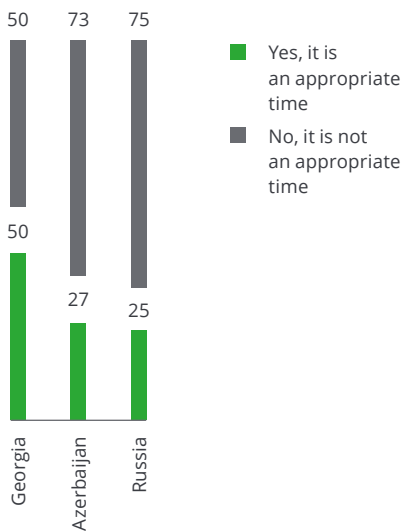
^ **14 percentage points**
(compared to previous survey)



✓ **14 percentage points**
(compared to previous survey)

- Yes, it is an appropriate time
- No, it is not an appropriate time

Comparison with other countries, %



- The opinions of the CFOs regarding their willingness to take on additional risks are divided: **50 percent** of the respondents are prepared to make risky decisions, while the other **50 percent** are not prepared to take risks.

- The risk appetite among our respondents increased by **14 percentage points** in a year and a half. An increase in risk appetite goes along with a decrease in uncertainty regarding the business outlook in Georgia in general.

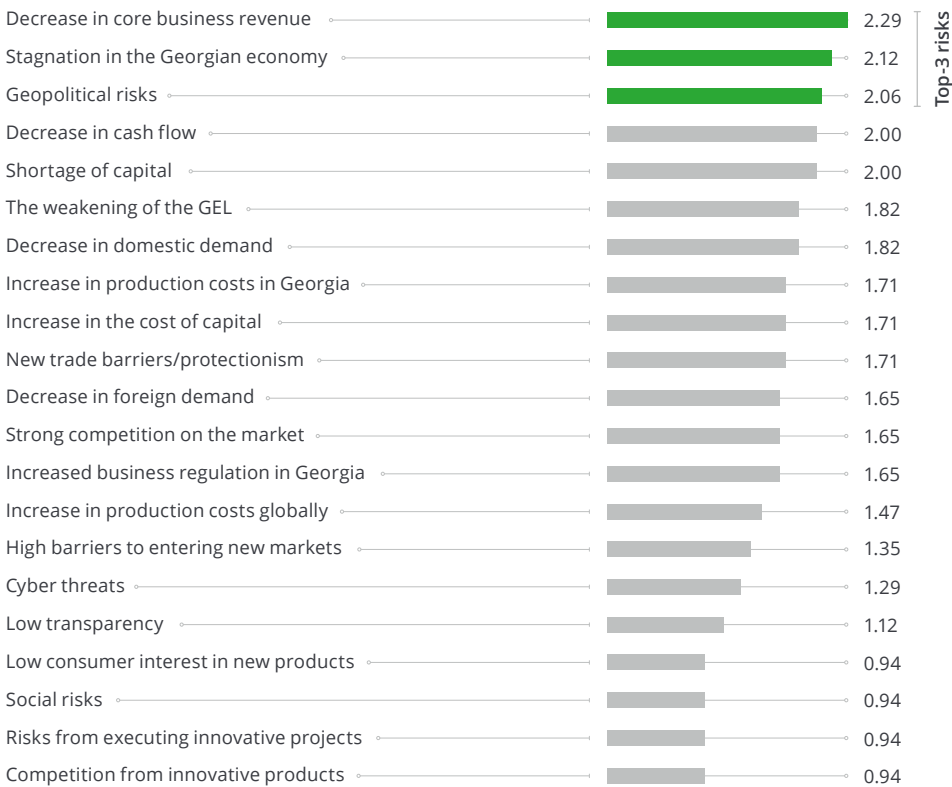
- The risk appetite in Georgia is higher than in neighboring countries: **50 percent** of respondents believe that the present time is appropriate for making risky decisions, while the majority (**73–75 percent**) of respondents in Azerbaijan and Russia were least risk prone.



Uncertainty and risks

Risk rating

The respondents were asked to evaluate the impact of the risks below [on a scale of 0 to 3]



Top-3 risks

- Our survey has shown that businesses in Georgia are concerned about the following risks: a decrease in core business revenue, stagnation in the national economy, and geopolitical risks.



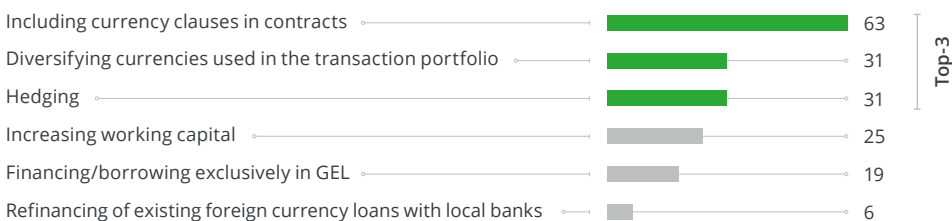
Specific patterns:

Respondents from companies with an annual revenue of more than GEL 50 million underlined the stronger impact of the following risks (the difference of the value of the indexes greater than 0.5):

- Decrease in domestic demand
- Increased business regulation in Georgia
- Geopolitical risks
- Low consumer interest in new products
- The weakening of the GEL
- Increase in production costs globally

Currency risk management

Risk management methods used by CFOs to manage currency risks*, %



Top-3

- The weakening of the GEL is still an important risk for companies in Georgia: more than half of the respondents (**63 percent**) pointed to the need to include an exchange rate clause in contracts.
- The following two categories are in second place: diversifying currencies used in the transaction portfolio and hedging (**by 31 percent**).
- **Twenty-five percent** of the CFOs focus on increasing working capital and **19 percent** borrow exclusively in GEL.

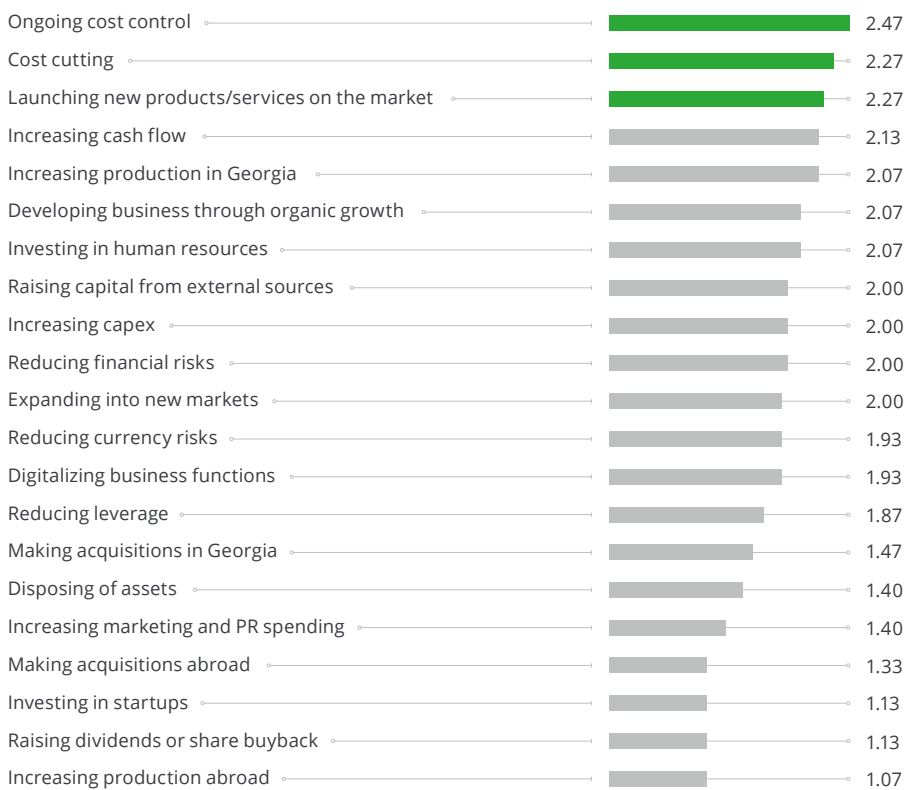
*Respondents were asked to select all relevant answers.



Business development strategies

Strategies rating

The respondents were asked to evaluate the priority of the strategies below [on a scale of 1 to 3]



Top-3

- Our survey has shown that improving operational performance is a high priority for companies in Georgia: cost control and optimization as well as launching new products or services are rated highly.



Specific patterns:

Respondents from companies with an annual revenue of more than GEL 50 million underlined the higher priority of the following strategies (the difference of the value of the indexes greater than 0.5):

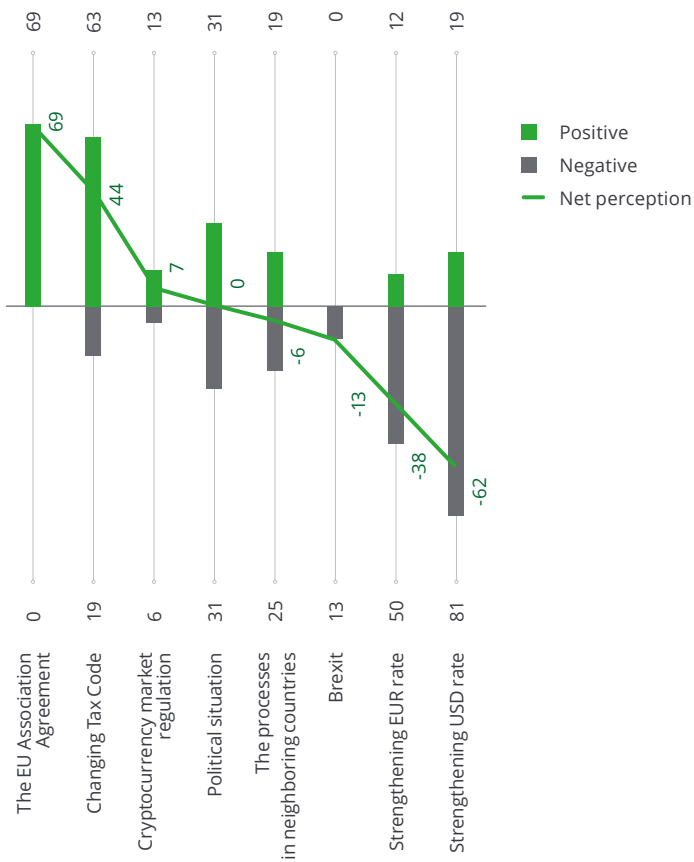
- Making acquisitions in Georgia
- Reducing financial risks
- Disposing of assets
- Digitalizing business functions



Business development strategies

Perception of developments

The respondents were asked to assess the impact of the developments listed below, %



- Attitudes of businesses in Georgia to the EU Association Agreement and changes the Tax Code are resolutely positive while the assessment of the devaluation of the GEL is sharply negative.
- The CFOs have a divided view on the political situation and the processes in neighboring countries: the share of respondents who categorize these developments as positive is similar to the share of those who have the opposite view.
- The majority of respondents stated that cryptocurrency market regulation and Brexit have no impact on their companies' business.



Business development strategies

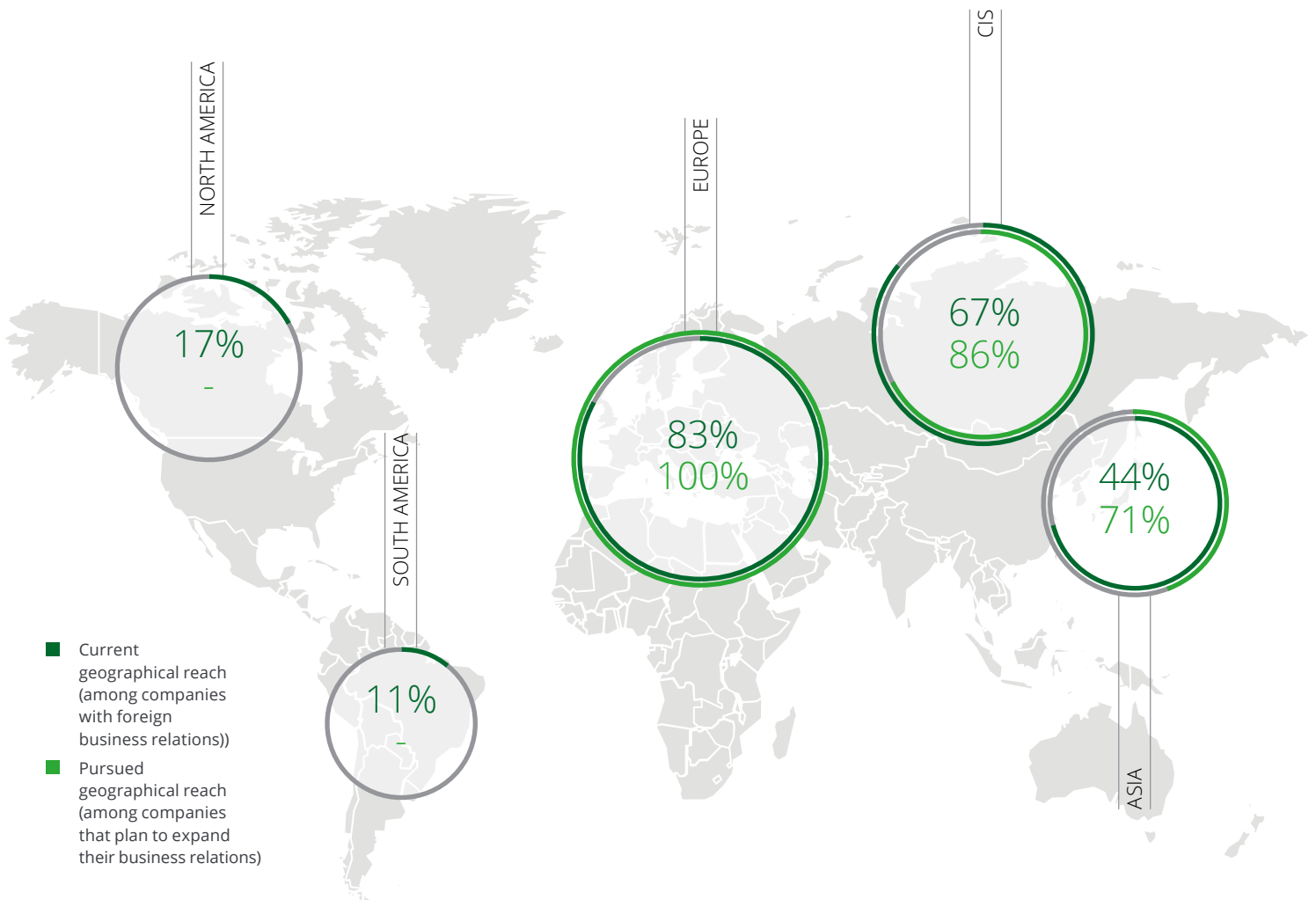
Business development potential abroad: geography of current and planned cooperation

90% of the companies surveyed have foreign partners

10% do not have foreign partners

35% plan to expand their business relations into other geographies

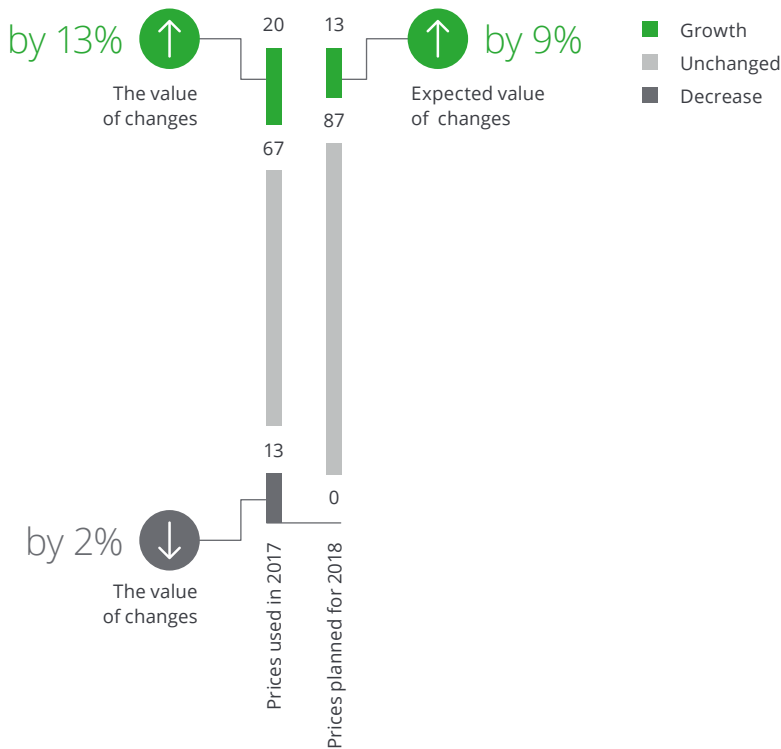
65% do not plan to expand their business relations into other geographies





Business development strategies

The respondents were asked about the average price change for their end products or services, %



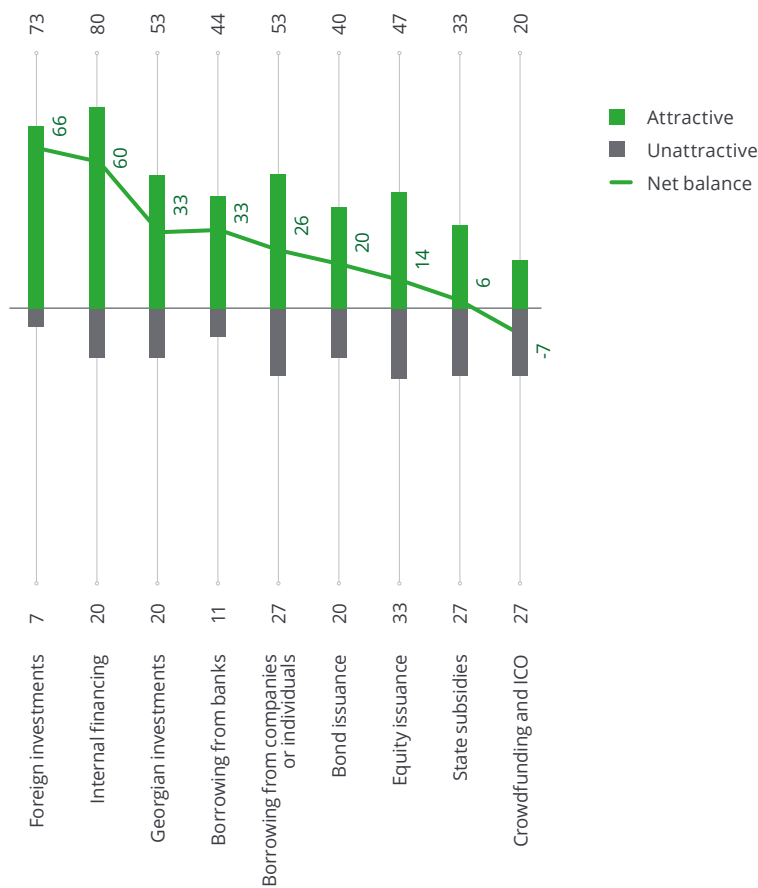
- Two out of three CFOs (**67 percent**) said that their prices did not change in 2017. **Twenty percent** stated that their companies raised prices in 2017 (by **13 percent**), while another **13 percent** of the survey participants lowered their prices (by **2 percent**).
- In regard to their plans for 2018, the majority of CFOs (**87 percent**) expect their prices to remain at the current levels, and **13 percent** of the companies plan to increase prices by **9 percent** on average.



Business development strategies

Sources of financing

The respondents were asked to rate the attractiveness of the sources of financing below, %



- Foreign investments and internal funding were recognized as the most attractive sources of financing for companies in Georgia (a net balance of **+66 percent** and **+60 percent**, respectively).
- Borrowing from banks and other companies, Georgian investments and the emission of securities have a lower rating, but remain in the attractive zone.
- The opinions of CFOs regarding the attractiveness of state subsidies as well as crowdfunding and ICO are divided, thus resulting in a net balance of around zero.

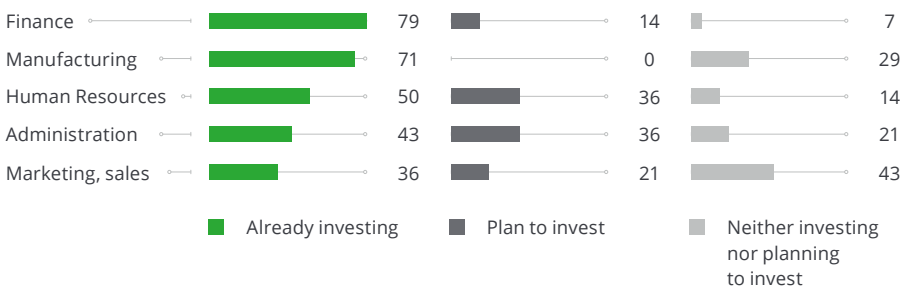


Innovations and digitalization

93% of CFOs see a need for increasing the economic efficiency of their business functions through the automation of key processes.

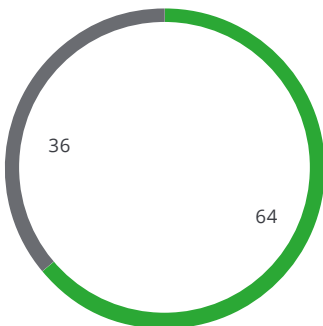
71% of CFOs engage in the evaluation of new technology solutions and the launch of innovative projects in their companies.

Investment in automation, %



- Currently, the largest investments are channeled into the automation of the finance function and manufacturing (in **79 percent** and **71 percent** of companies, respectively).
- However, the automation of the HR and administrative functions is the most cited response with regard to future investment agenda (**36 percent** of respondents, per each category).

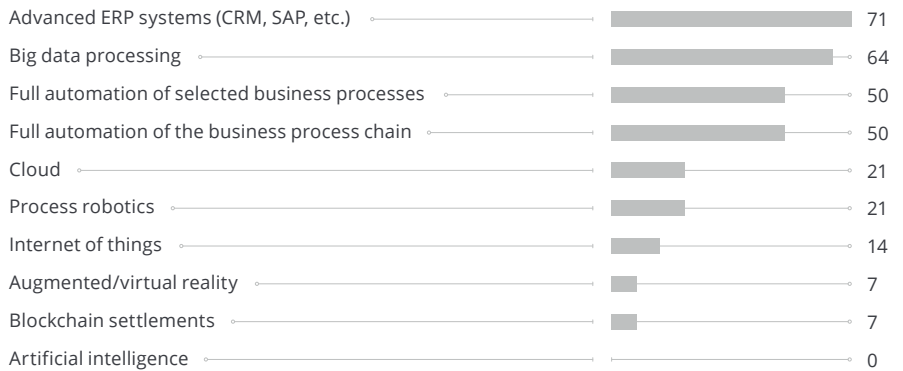
Company value, %



- Company value increased
- Company value did not change

• **Sixty-four percent** of the survey participants noted that the introduction of innovations has increased their company's value.

Use of advanced technologies, %



• The use of advanced ERP systems is the most wide-spread technological solution cited by **71 percent** of the companies surveyed.

• Other popular technologies are big data processing and the full automation of business processes.



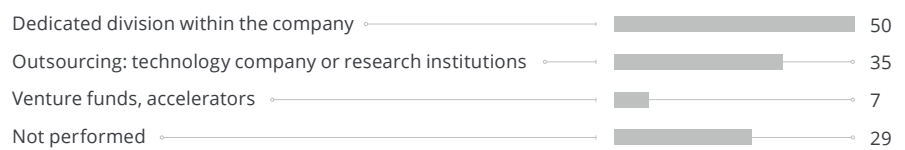
Innovations and digitalization

Research and development (R&D)

R&D expenses in 2017 and 2018

- The average share of R&D expenses from 2017 was **3 percent** of the revenue.
- Companies planning to invest in technology in 2018 plan to use on average **2 percent** of their company's annual revenue.

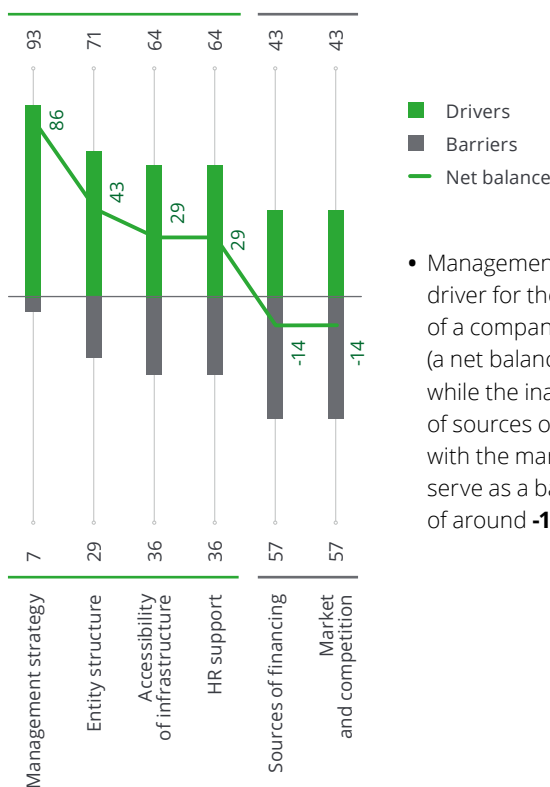
Map of R&D sources, %



- Dedicated divisions perform R&D activities in half of the companies surveyed.
- One out of three CFOs (**35 percent**) specified that R&D for their company is carried out externally either by a technology company or an educational/research institution.
- Venture funds and accelerators have low appeal: only **7 percent** of CFOs use them.
- Almost one in every three companies (**29 percent**) does not perform R&D activities.

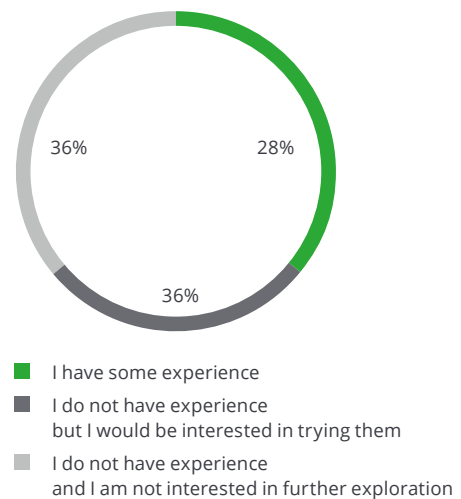
Drivers and barriers for digital strategies, %

Domination of drivers vs. Domination of barriers



- Management strategy is the key driver for the development of a company's digital strategies (a net balance of **+86 percent**), while the inaccessibility of sources of financing along with the market and competition serve as a barriers (a net balance of around **-14 percent**).

CFOs' personal experience with cryptocurrencies, %



- Twenty-eight percent** of CFOs have bought cryptocurrencies (for example, bitcoin) and another **36 percent** would be interested to try.



Anticipated market dynamics

Expected financial metrics rate and price performance of resources/commodities, %

USD to GEL



EUR to GEL



- Increase
- No change
- Decrease

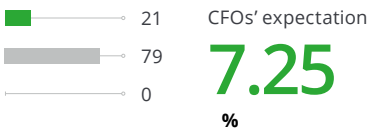
Oil price



Gold price



Refinancing rate



Inflation



Bitcoin to USD





Methodology

Survey goals and objectives

This survey is part of our global research efforts and has been carried out in Georgia for the second time. The opinions gathered have allowed us to identify current issues, key factors and tendencies in Georgia’s economic development, and to carry out a comparative analysis of the existing trends.

The survey was conducted in February – March 2018.

The report was prepared by Deloitte Research Centre, Moscow.

Survey goal

A comprehensive analysis of trends in the Georgian business environment

Survey objectives

- Determine the outlook for business in Georgia for 2017–2018
- Identify the expectations for key financial metrics in 2017–2018
- Evaluate the level of uncertainty and identify the key risks of doing business in Georgia
- Assess the impact of recent international events on the Georgian business environment
- Identify key business strategies and areas for change
- Identify the drivers and barriers for business in Georgia

Target audience

CFOs of leading companies in Georgia from key sectors of the economy.

Research methodology

Data was collected through an online questionnaire and personal interviews. Our comprehensive analysis was based on the following approaches:

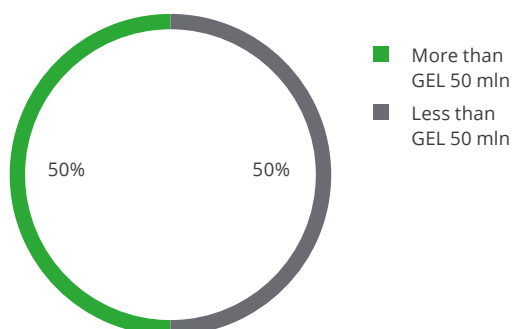
- Identification and examination of general market trends
- Comparative analysis of data with other countries
- Multivariate data analysis (an in-depth analysis of the results to identify hidden differences and integrate the findings)

Sampling

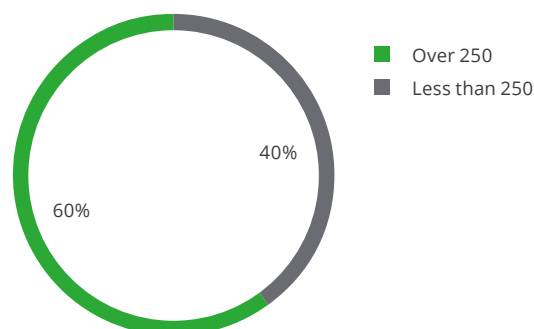
The survey was based on a random sample of respondents from a closed, highly specialised population.

About respondents

Companies’ annual gross revenue in 2017



Total number of permanent employees



Contacts



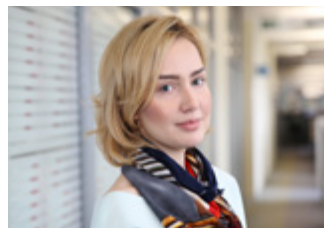
Jonh Robinson
Managing Partner
Deloitte Georgia



Joe Pacelli
Partner
Head of Business Development
Deloitte CIS



Alena Edisherova
Senior Manager,
Financial Advisory
Deloitte Georgia



Lora Zemlyanskaya
Research Centre Leader
Deloitte CIS
lzemlyanskaya@deloitte.ru



Tamar Kuridze
Consultant
Deloitte Georgia
tkuridze@deloitte.ge



Mikhail Gordeev
Senior Research Specialist
Deloitte CIS
mgordeev@deloitte.ru



Victoria Pigalkina
Intern
Deloitte CIS
vpigalkina@deloitte.ru

deloitte.ge

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