

6 ha Venlo Type Greenhouse Project in Georgia for Production of Tomatoes and Tulips

6th of January 2020

Background

Quick Sector introduction:

Although Agriculture has been an important part of Georgia's economy, greenhouse sector is fairly new to the market due to the lack of knowledge, experienced skills, access to high technology suppliers, international experienced O&M operators and/or available relevant investment resources and financial instruments.

Since 3.7 % (298M \$) of all Georgian imports is represented by vegetable products (according to OEC 2017), the Ministry of Environment Protection and Agriculture of Georgia is looking forward to supporting the import substitution and growth of the export potential of Georgia in the Agricultural Sector and strengthening the country's positions on different regional and international markets by:

- Supporting the use of modern, high and efficient technologies in agriculture;
- Enhancing competitiveness of the private sector;

The Project Initiators believe that the introduced 6ha Venlo Type, High Technology Greenhouse project for the production of tomatoes and tulips is in full compliance with the approved [STRATEGY FOR AGRICULTURAL DEVELOPMENT IN GEORGIA 2015-2020](#) by the Ministry of Environment Protection and Agriculture of Georgia.

Overview of the initiators:

The initiators of the project are two (2) companies (local and international) that have established a SPV in November 2019 the Joint Venture (JV) "GH & KSH Consortium" (I.C.205386697) in order to participate in the announced state contest (CNT190000124) for developing the full chain greenhouse cluster on more than 125ha land plot in Maghlaki Village, Tkaltubo Region and is existing under the laws of Georgia, having its registered office at 32 Razmadze Str., 0179, Tbilisi, Georgia. The JV is not only established to participate in afore mentioned tender, but also to promote and invest into an own 6 ha production unit themselves.

The Joint Venture (JV) "GH & KSH Consortium" (I.C.205386697) has been founded by:

K. Spiertz Holding B.V., a company established and existing under the laws of Netherlands, having its registered office at Vilgert 30, 5941CT, Velden, the Netherlands, registration number 12025569

and

LLC GeoHolding, a company established under the laws of Georgia, having its registration address at 17 Nutsbidze Str, 0179, Tbilisi, Georgia, registration number 405147247.

K. Spiertz Holding B.V. a company established by Mr. Karel Robert Christiaan Maria Spiertz (citizen of Netherlands) at 1-1-1989 in The Netherlands, develops new agriculture projects with the implementation of the modern but proven high standard of technology. Key factors are sustainability, yield and reduction on energy. Furthermore, selection and training of the management, staff and workers is provided. For thirty (30) years Karel Spiertz has been delivering agriculture projects ranging from constructing glass greenhouses with equipment, to complete turn-key agriculture projects in the Netherlands, Belgium, Germany, Balkan countries, Russia, Caucasus countries, Vietnam, Taiwan, Saudi Arabia, United Arab Emirates and Georgia.

LLC Geo Holding was founded in April 2016 by Mr. Giorgi Dadiani (citizen of Georgia) and Mr. Michael North (citizen of Germany) to develop investments in Georgia by pursuing profitable and socially responsible projects privately. As a financial consultancy company, LLC “GeoHolding”, helps to develop corporate activities in Georgia, Eastern Europe, Central Asia and the Near East in nearly all sectors such as infrastructure, telecommunications, energy, industry, agriculture and real estate.

Short Project description

The goal of the project is to produce agricultural products (mainly tomatoes as well as tulips as a complementary seasonal product) in the modern greenhouse that partially will substitute imported products and eventually create a possibility of exporting tomatoes throughout the Caucasian Region, Russia, Ukraine, Kazakhstan and even to some of EU countries, by using Dutch, Venlo-type greenhouse technology.

“Venlo” Type Greenhouse:

- The most successful type of greenhouse with its roots in the place of Venlo in Netherlands;
- Steel construction with the aluminum frames. All steel parts are galvanized, (aluminum and glass represent materials that last forever);
- The galvanized steel construction of Venlo-type has a post height of 5,70 meters up to the gutter;
- Glass sheets are installed in aluminum roof bars or aluminum sidebars;
- For perfect energy saving there are rubber strips installed in the roof bars and sidebars;
- Screening system with a double function - to block too strong sun radiation during summer (which will raise up the temperature) and to save energy during the night (savings up to 45% in this project);
- Irrigation system - drip irrigation system will be installed with recirculation of the water, leading to considerable savings on water and fertilizers
- UV filter to disinfect the drain water;
- Computer system – the whole growing process in the greenhouse is controlled by a climate control computer system;
- Heating system - heating system is designed as a warm water heating system using pipes according to the “Tichelmann” system;
- Produced CO2 will be returned into the greenhouse to increase the plant growth;
- Ventilation system - during a warmer period the greenhouse must be cooled down;
- Artificial light systems – to increase production on 1m2;
- All year around production capacity – ensures better sales and supply possibilities; will enable better returns due to off-season production = higher sales prices
- Energy efficiency – reduces the cost on 1kg;
- Guaranteed high production efficiency - more than 80kg per 1m2 per year in case of tomatoes;

Location Overview

Research has been conducted together with Dutch experts in different Georgian regions in order to identify the best suitable site for the project implementation. After studying several regions, concrete 60ha plot of land at Vartsikhe village, in Imereti region has been identified.



6ha Venlo Type Greenhouse Teaser

www.llcgeoholding.eu

www.Kspiertz.com

I.C.205386697

Project Site Advantages

- A. Temperate climate - ensures energy efficiency by reducing energy consumption while heating or cooling the greenhouse;
- B. Availability of natural gas & high voltage electricity source close to the site - would provide lower tariffs on gas & electricity consumption then considered in BP;
- C. Available flat plot - reduces costs on land levelling works;
- D. Water availability for irrigation and other needs - water available in 4-5 meters underground; water is of acceptable quality for horticultural purpose and will not need further costly treatment
- E. Location of the site – close and easily accessible by track and rail; reducing costs of transport
- F. Irradiation - Since Soviet times, Imereti and precisely Tskhaltubo and Baghdadi regions are considered as the best areas for construction of the greenhouse production facilities, due to high light intensities and hence high production potential

The existing financial offer

The project initiators have been offered different structuring models from the locally available financial sources starting from 30% to 50% loan provision possibilities available at the local banks with relatively high interest rate and coming to the equity provision possibilities available at the state owned Partnership Fund or even GCF, but the initiators have decided to conduct different researches in order to finally come up with more suitable and/or attractive offer by trying to realize the opportunities offered by different IFIs.

As for today the project initiators are considering the opportunity to discuss the following project financing model with different International Financial Institutions (IFIs):

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|----------------------------------|--|
| Financing: | Equity in Cash (from 15% to max 25%) and Loan (of minimum 75%); |
| Equity Provision: | Equity – coming in cash from the Project Initiators and/or by attracting international or local investment equity partner (very much dependent on the IFI loan further requirements on the loan provision conditions and the finally agreed equity and loan proportion); |
| Loan Provision: | From one of the IFIs; |
| Price/Financing: | maximum EU 15,25 million including financial intermediation cost and pre project development cost; |
| Target Financing Period: | Seven (7) years; |
| EPC Contractors: | To be selected from the well-established international EPC contractors according to the transparent internal tender procedure; |
| O&M Contractor: | Karel Spiertz Holding B.V. http://www.kspiertz.com/ ; |
| Greenhouse | |
| Production Facility: | High Technology, Glass, Venlo Type Greenhouse with Hydroponic Irrigation, Artificial Light System and supply of Co ₂ ; |
| Annual Production: | Tomatoes up to 4.5 million kg plus Tulips up to 1.5 million stems; |
| Estimated Annual Revenues: | Tomatoes up to EU 4.3 million plus Tulips up to EU 347 thousand; |
| Estimated Total Annual Revenues: | EU 4.65 million |
| Estimated Project IRR | |
| Before Taxes: | 37,4% |
| Estimated Project IRR | |
| After Taxes: | 33,8% |
| Corporate Governance: | A Board of Directors will be set up to ensure a balanced representation of all stakeholders including the IFI representative; |

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Documentation: To be agreed

Arguments for investment: 1. Unique project

The proposed private greenhouse project is of overall national and economic importance and will further entice local growth, import substitution and development of export oriented high technology agriculture production in Georgia.

2. Tested model

The proposed transaction and related project represent a tested model in Georgia (e.x. Tbilisi, Orkhevi 1ha Venlo type greenhouse for pot flowers, Imereti Greenery for herbs and Gardabani Greenhouses for tomatoes) and other countries such as Holland, Germany, Russian Federation, Kazakhstan and USA.

3. Stable revenues

The implied development dynamics ensure stable and continuously growing revenues strong enough to service financial commitments, maintenance cost and operational cost.

4. Government protection

The project enjoys high level of protection, as the state strongly supports the agricultural development, import substitution and the tourism development in general and especially the greenhouse development projects in the Imereti region, Georgia. For that reason, the state has even announced the contest on provision of the consultancy services to develop the greenhouse cluster project and create necessary infrastructure and environment to support the private sector in initiating their projects in Imereti region, Georgia.

Risks:

1. Country risk

The country currently holds a BB rating by Moody's. The country has been enjoying relative stability for the past five years and has signed the EU-Association Agreement in 2017. It is training with NATO forces and is member of the military alliance intervening in Afghanistan under the command of the US. The country's unique geopolitical position continues to carry significant risk.

2. Currency risk

The local currency markets have been highly volatile in line with developments in the oil and gas markets. The Georgian Lari has been suffering strongly from current account and trade account imbalances and has depreciated strongly. Strong tourism growth has recently improved the currency position. The outlook will further depend amongst others on the successful realization of big infrastructure works.

3. Interest rates

While the refinancing rates for the government and government entities still remain low at levels [5-6 %] in the Euro markets, local business do have to pay much higher interest rates, making local projects overly expensive even through

the larger privately held banking structures also still maintain competitive levels. The risk of a general rise in global interest rates will put enormous pressure on the local debt market.

4. Equity risk

There are no trading local equity markets. Private equity is closely held and not transparent. However, in larger transactions local business and international lawyers are well equipped to close on transactions successfully. Georgian Private Banks and Georgian Healthcare Group have successfully been listed at the London Stock Exchange. International exits by IPO's may represent a mitigating possibility for international investors.

5. Liquidity risk

The economy is very small and the local capital formation relative to it. Local exits can therefore represent a problem and thus represent risk. However, a big number of large FDI investments are currently taking place with investment horizons of more than 20 years. International exits are possible, as a small number of international IPO's have successfully taken place.

6. Technology risk

Technology risks are imbedded in further industrial research and development and thus further radical improvement of machinery. However, as the technology for the modern greenhouse facilities are already well established, no significant risks can be recognized at the moment.

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