



Enabling Change and Growth

IT Sector in Georgia: A Promising Future Ahead

Analytical Brief | Prepared by GEC

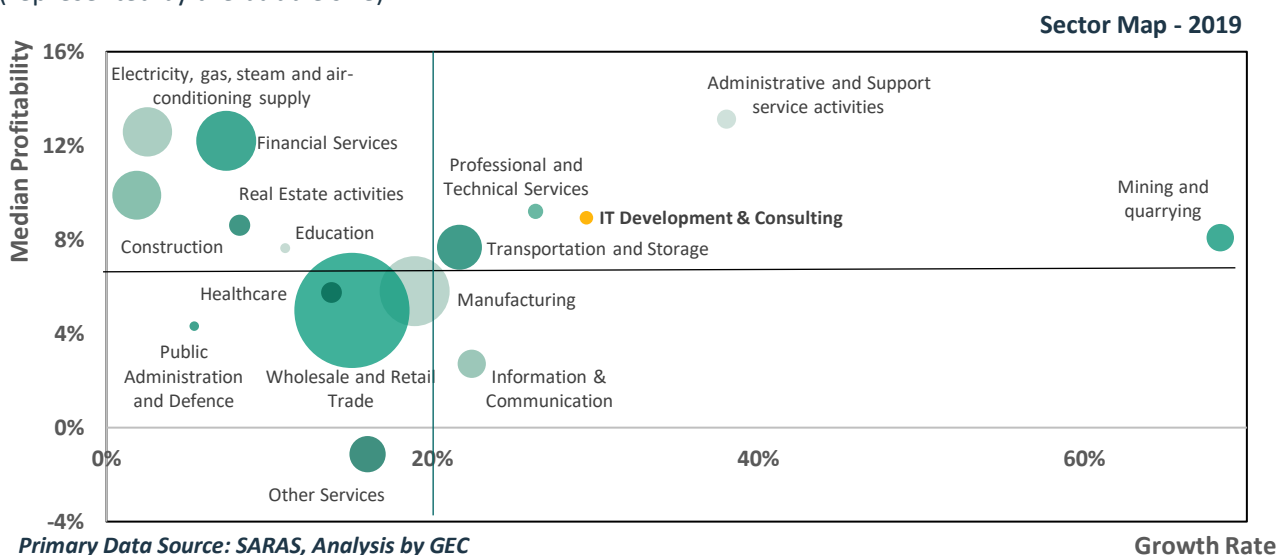
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A Holistic Picture

Important Notice: To capture the role of IT Development and Consulting Sector in the country's economy, GEC has analyzed the financial data of Georgian entities, provided by The Service for Accounting, Reporting and Auditing Supervision (SARAS). Although the above-referred data for the financial year 2020 is not available yet, upon GEC's analysis of Geostat's Turnover statistics by an upper-level NACE classification¹, an average annual rate of change in 2020 of shares of each sector in the total economy, is equivalent to 2%. However, sector growth rates and profitability measures have been distorted due to Covid19 Pandemic. Hence, GEC publishes this report assuming the accuracy of the results in a broad economic context and a necessity of post-pandemic analysis in the following year.

Sector Map – 2019

The bubble chart below maps multiple sectors of the Georgian economy in 2019, through positioning them according to 3 indicators: market size growth rate, median profitability, and share in total welfare (represented by the bubble size).



The graph is split into 4 sectors²:

Sector I - located in the upper right-hand corner of the plane, the sector accommodates industries with a relatively high growth rate and profitability margin.

Sector II - is located in the upper left-hand corner of the plane, displaying industries with relatively low growth rate, but high profitability margin.

Sector III - the bottom left corner, it covers sectors with low growth rates and profitability margin.

Sector IV - sectors yielding low median profitability, but high growth rate fall into the bottom right corner.

As the chart exhibits, although IT Development & Consulting sector accounts for a trivial share in total revenue generated by all industries, along with Administrative and Support service activities, Professional and Technical Services, and Transportation and Storage industries, it falls into fastest growing and highly profitable sectors with median profitability and growth rate of 9% and 29% respectively.

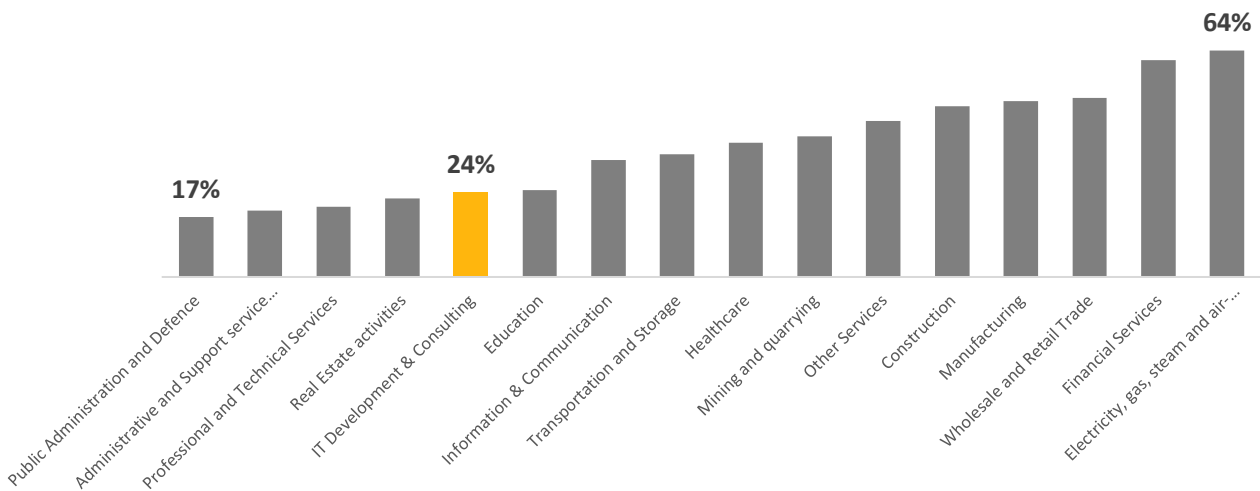
¹ Detailed information about the NACE classification system can be found at <https://bit.ly/3eZf0eN>

² As an alternative to common approach of splitting the chart area into four quadrants, the graph is divided into 4 uneven sectors to handle the effect of an outlier Mining and quarrying sector, atypical growth of which is mainly attributed to revenue growth of JSC Georgian Oil and Gas Corporation.

Median Debt to Assets Ratio

The chart below displays the median Debt to Assets ratio of the sectors to assess them in terms of financial leverage. The median percentage of assets that is financed with debt in the IT Development & Consulting sectors, equivalent to 24%, is the fifth-lowest degree of leverage out of Georgian sectors. Moreover, the IT Development & Consulting sector is characterized by an average 74% retention rate (the ratio measures proportion of earnings kept back in the business as retained earnings), indicating the tendency of entities to finance expansion by investing a significant share of earnings back into the company, rather than extending the loans.

Median Debt to Assets Ratio - 2019

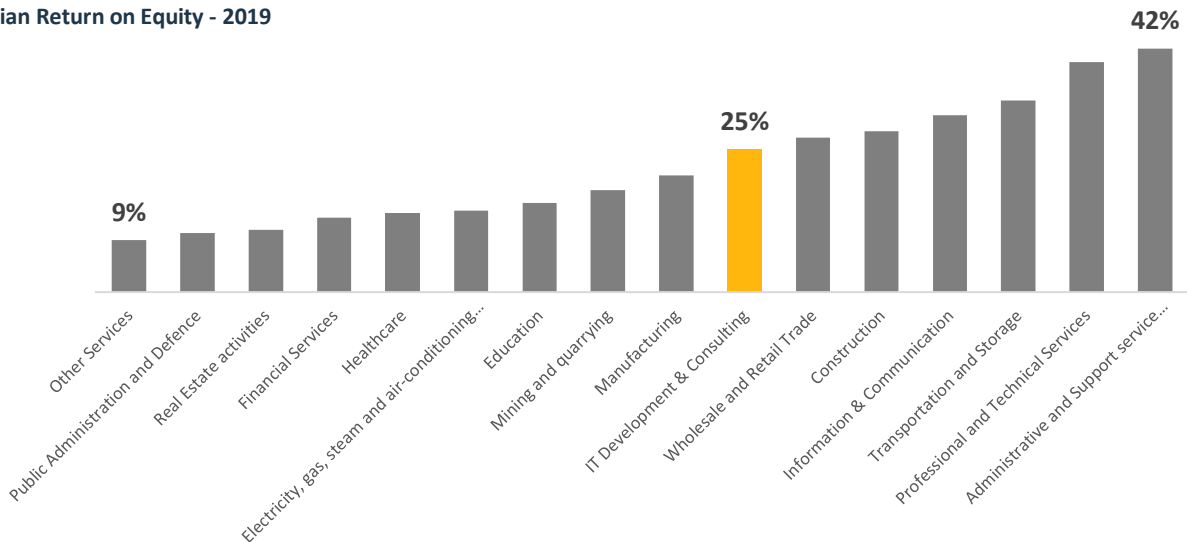


Primary Data Source: SARAS, Analysis by GEC

Median Return on Equity

The graph below represents median the Return on Equity - the measure of a company's annual return divided by the value of its total shareholders' equity - of Georgian sectors in 2019. Return on Equity in the IT Development & Consulting sector comes across in the middle of the two extremes with 25%, suggesting the sector can generate an attractive return on investment and increase shareholder value.

Median Return on Equity - 2019

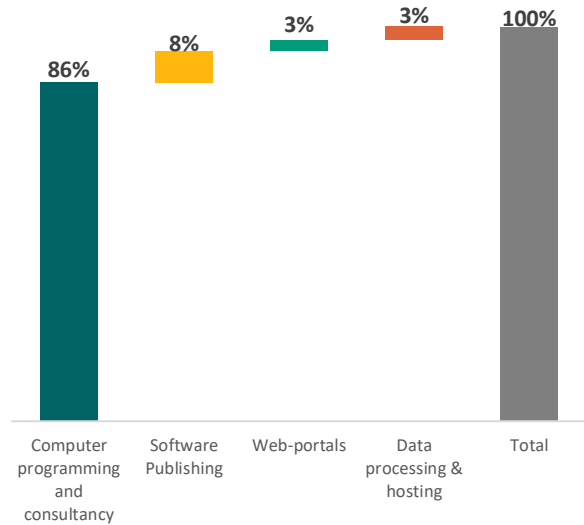


Primary Data Source: SARAS, Analysis by GEC

Sector Insights

Reaching an annual growth rate of 29%, the IT Development & Consulting sector size increased from GEL 224,952,000 in 2018 to GEL 291,230,000 in 2019. With the purpose of thorough analysis, we have broken down the sector into 4 major industries, represented on the graph to the right. As seen on the chart, the largest share of 86% of the sector is taken by Computer programming and consultancy industry, followed by 8% share of software publishing. Web-portals and Data processing & hosting services account for approximately 3% shares each. Further examination of each industry can be found below.

IT Development & Consulting sector breakdown - 2019

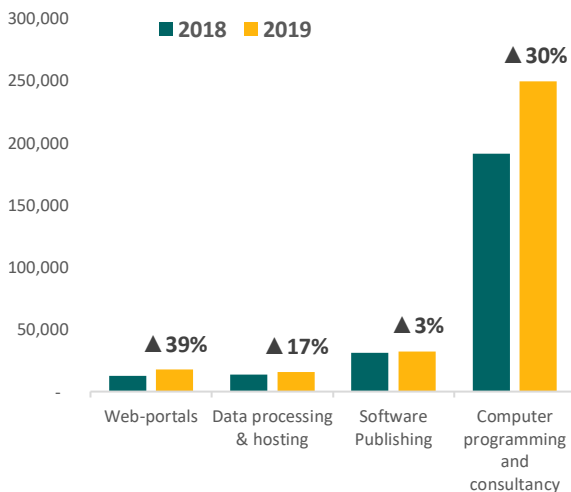


Primary Data Source: SARAS, Analysis by GEC

Industry Overviews

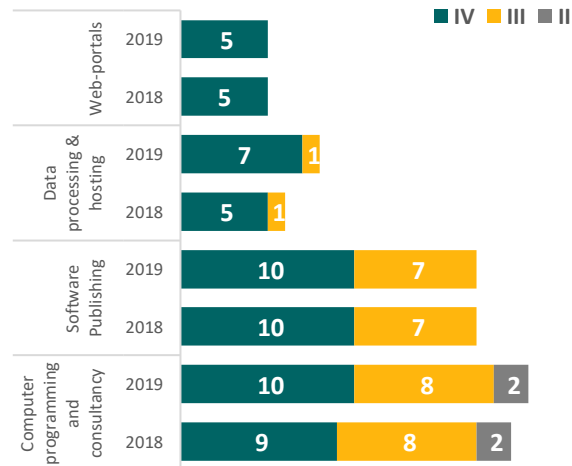
The graph below to the left-hand side represents the industries' market sizes in 2018 and 2019, along with respective growth rates, and the graph to the right side displays sector breakdown by the number of entities operating in each size category³.

Industry sizes in IT Development & Consulting sector - 2019



Primary Data Source: SARAS, Analysis by GEC

Industries in IT Development & Consulting by number and size of firms



Primary Data Source: SARAS, Analysis by GEC

³ The Size category of an entity is defined by the Law of Georgia on "Accounting, Reporting and Auditing". According to the law, there are 4 size categories: I, II, III & IV. The size category of an entity shall be determined according to three criteria – the total value of assets, the revenue, and the average number of persons employed. The larger the category, the larger the firm size. Detailed information regarding the determination of size category can be found at https://www.saras.gov.ge/Content/files/Guideline_for_the_Determination_of_the_Size_Category_of_an_Entity_2019_02.05.pdf

Computer programming and consultancy services⁴ - is the only industry in the sector, that is represented by the largest - II category firms, with the rest majority of the firms almost equally distributed between III and IV categories. The revenue generated by the industry in 2019 was 6 times higher compared to revenue of the other 3 industries combined and it accounted for 87% of growth in total sector. The absolute increase of GEL 57,984,000, equivalent to a 30% growth rate, in 2019 compared to the previous year, was mainly attributed to turnover increase due to demand expansion on the local market for IT infrastructure, security, electricity and building management systems.

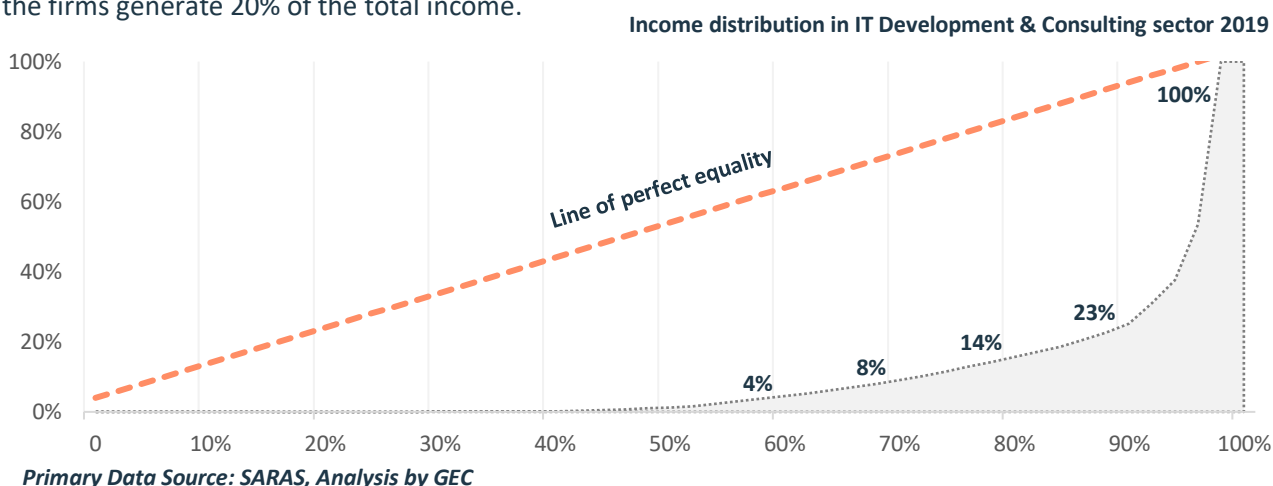
Software Publishing⁵ - The industry accounts for 8% of total sector turnover and has shown 17% annual growth in 2019. This is the second-largest industry in the industry by the number of firms, concentrated into III and IV size categories.

Web-portals⁶ - The industry is represented by the smallest number of firms, all belonging to the smallest IV size category. Although the industry accounts for only 3% of the total sector, it was characterized with the highest 39% annual growth rate in 2019.

Data processing & hosting⁷ - Estimated by 17% y-o-y growth in 2019, the industry accounts for 3% of the total sector and is mainly represented by IV size category companies, along with one firm of III category.

Income Distribution in IT Development & Consulting Sector in 2019

The chart below is a graphical representation of income equality, plotting the percentage of the number of firms operating in the sector on the horizontal axis against cumulative income percentage generated by those firms on the vertical axis, so that an x-value of 50 and a y-value of 20 would mean that the bottom 50% of the firms generate 20% of the total income.



⁴ The industry includes activities of providing expertise in the field of information technologies: software development, planning and designing computer systems that integrate computer hardware, on-site management of clients' computer systems and/or data processing facilities and other professional and technical computer-related activities.

⁵ The industry includes: publishing of games, operating systems and business applications (including ERP systems)

⁶ This industry includes the operation of websites that use a search engine to generate and maintain extensive databases of Internet addresses and content in an easily searchable format and operation of other websites that act as portals to the Internet, such as media sites providing periodically updated content

⁷ The industry includes the provision of infrastructure for hosting, data processing services and related activities, Web hosting, streaming services, application hosting, application service provisioning and data processing activities.

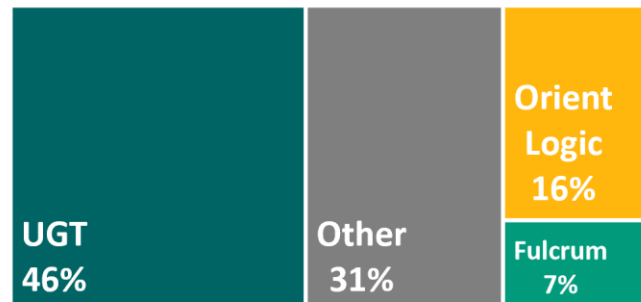
The Graph shows an extremely uneven distribution of income between IT development and Consulting companies: bottom 90% of firms generate 23% of total income, while the rest 10% of the firms account for 67% out of total value generated by the sector.

Top Companies by Turnover in IT Development & Consulting Sector

The chart to the right displays the Top 3 companies by income for IT Development & Consulting sector in 2019.

Almost half of the market share, 46% of the total sector revenue was generated by UGT, followed by Orient Logic and Fulcrum, occupying 16% and 7% shares respectively.

The Top 3 Companies by Turnover in IT Development & Consulting Sector - 2019



Primary Data Source: SARAS, Analysis by GEC

Applied Methodology

Data Collection

The analysis prepared by GEC is based on the information received from the Service of Accounting, Reporting and Auditing Supervision (SARAS) through financial and managerial reports, which are submitted by the companies for the purpose of annual reporting. The public data enclosed in companies' reports, obtained through SARAS, contains information concerning economic activities of each company (according to the national statistical classification of economic activities). Companies engaged in more than one business activity are included in an analysis of all the industries to which the listed activities belong, regardless of whether the activity is the company's primary business line.

Data Cleansing

The provided public information was considered to be reliable and the work carried out did not include qualitative assessment or verification of the information on a large scale. Although the accuracy and reliability of the primary information is ensured by the activities carried out by the Service of Accounting, Reporting and Auditing Supervision (SARAS), GEC has applied the following data cleansing procedures to ensure data quality and consistency:

- ✦ Adjustments to the Income Statement of the companies falling in 3rd Category, which have submitted "Simplified Forms for 3rd Category companies" to the Service of Accounting, Reporting and Auditing Supervision (SARAS). In particular: a negative sign on the records of corporate income data, was replaced by a positive sign, while a positive sign on the records of companies' expenditures, was replaced with a negative sign.
- ✦ In case a company has submitted a statement of financial position for two years, but an income statement and cash flow statements are required to be filed for one year only, the company does not participate in the calculation of ratios due to the lack of relevant data in our database
- ✦ Entity disclosures of number units (GEL vs GEL Thousand) of the provided data was revised according to entity's subcategory indications.

Measure of Central Tendency

The data obtained by us contained large outliers and for the purpose of safeguard of data representation **Median** was chosen as a measure of central tendency of specific ratios, as the measure is not affected by extreme values, while mean is generally skewed due to outliers. Although median does not provide information regarding the individual values in the dataset, it delivers a comprehensive summary of the whole data.

Disclaimer

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