

# "SOGLASIE-ARMENIA" LLC – Business plan

## Project Background

### Purpose of the Business Plan

- The business plan is compiled for the purpose of receiving a loan of 25.7 mln USD to finalize the reconstruction of "Armenia shopping mall".

### The "Project"

- As part of Ara-city multifunctional complex "Armenia shopping mall " is located in the heart of Yerevan surrounded by brand boutiques alongside the Northern Avenue. It is expected that the Project will be unprecedented in the Republic of Armenia as a multifunctional center composed of business incubators and clusters, business center, office and retail space as well as recreation and entertainment facilities. The vicinity of the premises owned by the Company is enclosed by hotels such as "Armenia-Marriott", "Aviatrans", "Golden Tulip Yerevan", international and local business offices, banks such as HSBC Bank Armenia, VTB Bank Armenia, etc.

### "Ara-City" complex

- Company's property ownership includes the extended former building of the Central Department Store - "Armenia shopping mall" with a total (external) space of 56,000 sq. m. and effective space, including parking of 29,300sq. m.
- Circa 4,000 sq.m of commercial spaces are already rented based on agreements with "Versace", "New Yorker", "OVS", "Rosie", "Ralph Lauren", "Z&A" LTD and other companies. Total monthly revenues generated from rental activities exceeds USD 200,000.
- At this point the Company is ready to commission part of the "Ara-City" complex – "Armenia shopping mall" (CDS).
- The duration of construction works is envisaged to be 18 months starting from the financing date.

### Vision and Mission

- The Company vision is to create a high-end multifunctional complex where people can enjoy their leisure time, have fun, find and discover anything they might want to buy and at the same time experience exceptional service.
- The Company mission is to combine diversified marketing strategy with exceptional high level quality service at competitive prices to provide the best experience for complex's customers and consumers.

# "SOGLASIE-ARMENIA" LLC – Business plan

## Required funds

	Amount mln USD	% Structure
Entire cost of the project, of which:	135.2	100%
"SOGLASIE - ARMENIA" LLC, including replenishment of 2.5 mln USD working capital	109.5	81%
Institutional investor	25.7	19%

The company will pay back interest of 3.47 mln USD based on 3% interest rate and 25.7 mln USD principal amount. Principal repayments are projected with 2 years grace period. Loan payback period will be within 6 years.

## Fast facts

**\$183.8 m**

Total estimated market value of Company's buildings and constructions (152.6 mln USD buildings and 31.2 mln USD land)

## Working capital requirement

Item description	Amount in USD
Operating expenses	928,810
Interest expenses	1,541,615
<b>Total working capital</b>	<b>2,470,425</b>

Further, 2.47 mln USD will be used during the 20 months before operations of the trade center as **working capital (WC) requirement**.

**\$107.2 m**

The estimated market value of "Armenia shopping mall" property and land

## Investment need assessment

Name of works to be done	U/m	Price per unit (\$)	Volume	Total cost (\$)
Finishing of global space of commercial space	sq.m.	200	28,219	5,643,800
Finishing of auxiliary space	sq.m.	140	13,170	1,843,800
Finishing of parking space (-1)	sq.m.	140	7,318	1,024,520
Water supply, sewerage, electricity, fire alarm system	sq.m.	130	49,904	6,487,520
Heating, air conditioning, ventilation, boiler	sq.m.	155	42,586	6,600,830
Electric station sourced by outdoor high voltage electricity	5 MGVT	1,400,000	1	1,400,000
Boiler (kwt)	8000	400,000	1	400,000
Elevators	unit	145,000	8	1,160,000
Elevators (from -1 to +2)	unit	37,500	4	150,000
Escalators	unit	160,000	6	960,000
<b>Total</b>				<b>25,670,470</b>

Overall assessment of funds required for trade center completion and exploitation is estimated to be 25.7 mln USD. The required amount is expected to be used as follows: about 8.5 mln USD will be used to finalize the global space of commercial area, together with auxiliary spaces and parking areas; to improve water supply, sewerage, electricity, fire alarm systems circa 6.5 mln USD is planned to be used; heating, air conditioning, ventilation system and boiler improving works require approximately 8.4 mln USD; and 2.3 mln USD on elevator and escalator installation.

**\$135.2 m** Total project value

**\$25.7m** Institutional investor

**\$2.47 m** Working capital

# Legal information, ownership structure and organizational chart

## General Information

**Name:** "SOGLASIE-ARMENIA"

**Legal status:** Limited Liability Company

**Director:** S. Abrahamyan

“Soglasie-Armenia” Ltd is registered on 31.08.2001 at 32 Arami str. of Yerevan city. “Soglasie-Armenia” Ltd is a 100% subsidiary of CJSC "Soglasie" (Russia). The president of the company is Mr. Ara Abrahamian, who is at the same time the President of the All-Russian public organization "Union of Armenians of Russia", UNESCO Goodwill Ambassador, President of the World Armenian Congress.

The Company's **principal activities** include:

- Capital construction and repair works;
- Real estate operations;
- Creation of a business center with appropriate infrastructures;
- Creation of trade centers;
- Hotel services;
- Other.

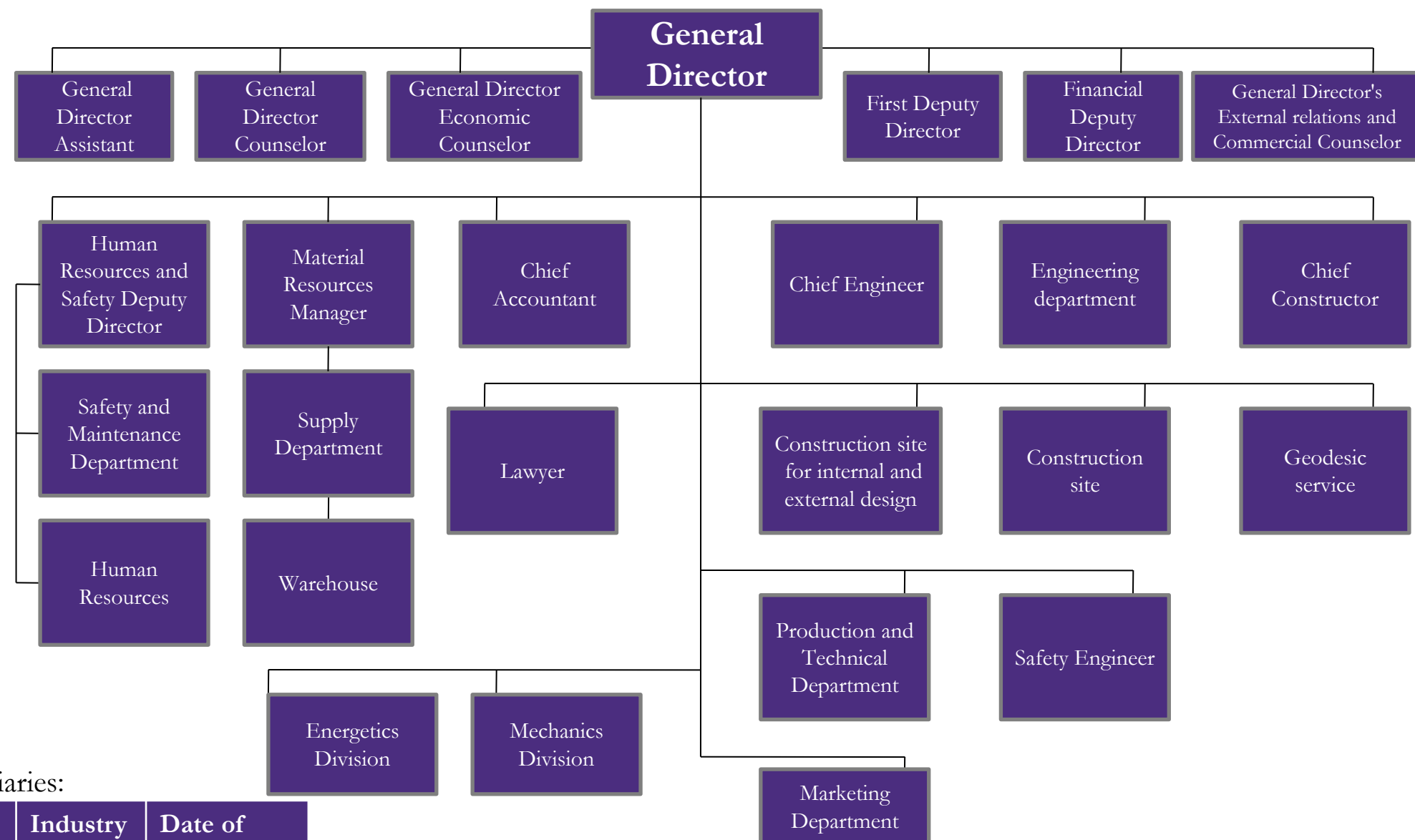
## Subsidiaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Soglasie-Alpha LLC	100	Republic of Armenia	May 20, 2002	Any	May 23, 2007

“Soglasie” CJSC maintains long-term partnerships with major companies in France, Italy, Switzerland, UK, Germany, Greece, Croatia.

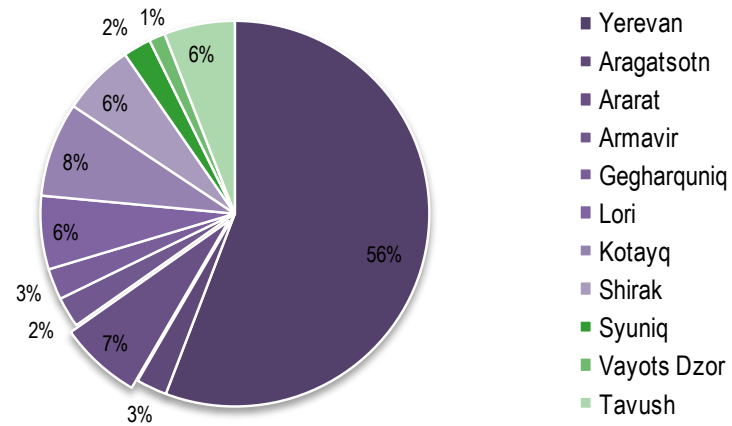
Company's organizational structure



# Marketing plan

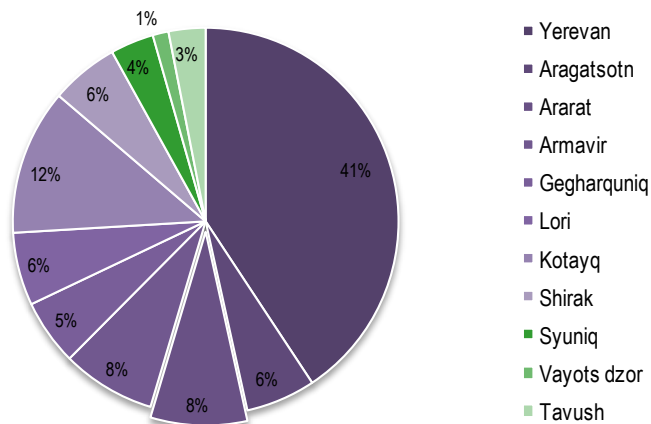
## Market Overview

### Retail Trade Units



84% of country's retail trade turnover was generated in Yerevan. The same pattern is observed in services industry: more than 80% of the total turnover in service industry was recorded in Yerevan.

### Number of Real Estate Transactions in Yerevan and Marzes



Considering the number of real estate transactions (purchase, donation and exchange) the substantial dominance of Yerevan city comparing to other regions of the country is obvious.

## Competitors

### Retail spaces

Currently many small retail shops operate in the down-town area of Yerevan. The branded apparel trade centers are concentrated, in particular locations. In retail sector the main competitors are

- Dalma Garden Mall,
- Yerevan mall,
- Abovyan and Mashtots streets, where high-end brand boutiques are situated.

### Office spaces

The main competitors in office rental sphere are:

- Yerevan Plaza Business Center
- Elite Plaza Business Center
- Piazza Grande Business Center
- Erebuni Plaza Business Center

### Potential Clients

Center's clients can be divided into following segments:

- International/Global brand stores and businesses
- Local/Locally established retail stores and businesses
- Apparel markets of non-branded goods of Chinese or Turkish origin

## Marketing strategy

### Cost Reduction

- Gaining advantage over the competitors by offering services at lower prices and increasing profits in the long-run;

### Service Differentiation

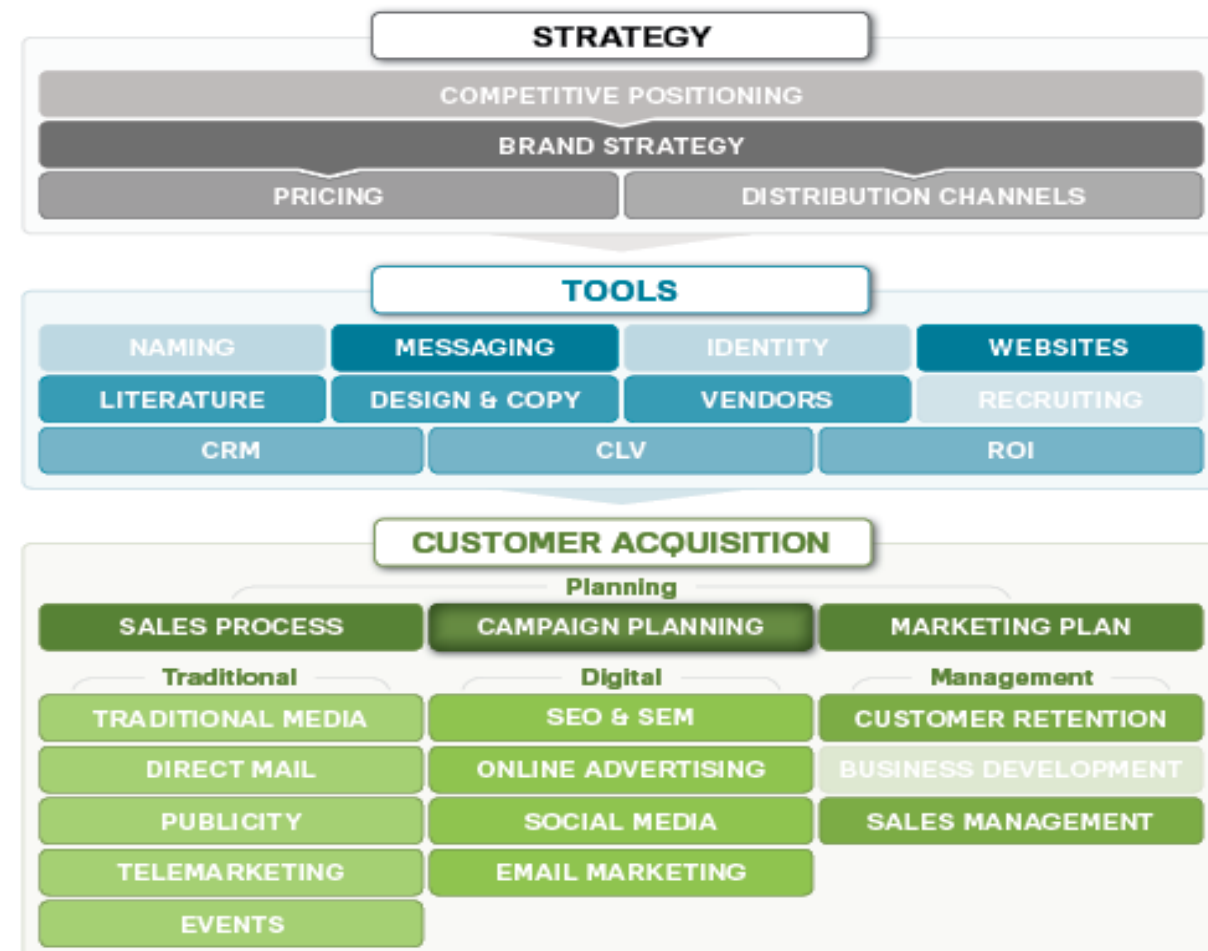
- Offering services with competitive and flexible parameters, such as service types, quality, prices, rent fee discounts, etc;

### Thorough competitor research

- Pitching comparable center 's strengths against the competitors' weaknesses;

### Implementing Strong Promotional Campaign

- Implementing large promotional campaign by collaborating with established advertising agencies to attract and maintain customers and clients.



# Project's financials

## Comprehensive income statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
<b>Total revenue</b>	-	1,293	5,890	7,694	8,997	8,997	9,021	9,021
<b>COGS</b>	248	257	340	394	434	434	434	434
Employee benefit	150	150	166	166	166	166	166	166
Electricity and gas expenses	59	65	105	137	162	162	162	162
Maintenance	39	43	70	91	107	107	107	107
<b>Gross Profit</b>	<b>(248)</b>	<b>1,035</b>	<b>5,550</b>	<b>7,300</b>	<b>8,563</b>	<b>8,563</b>	<b>8,587</b>	<b>8,587</b>
Admin.expenses	50	65	105	138	162	162	162	162
Audit and consulting expenses	15	15	20	20	24	24	24	24
Security	30	30	49	64	75	75	75	75
Insurance expenses	16	16	25	33	39	39	39	39
Marketing expenses	70	57	45	32	28	26	23	21
Property and land tax	18	24	24	24	24	24	24	24
Other expenses	9	9	12	14	16	16	16	16
<b>EBITDA</b>	<b>(456)</b>	<b>820</b>	<b>5,268</b>	<b>6,975</b>	<b>8,194</b>	<b>8,197</b>	<b>8,223</b>	<b>8,226</b>
Depreciation	83	747	2,228	2,183	2,139	2,097	2,055	2,014
<b>EBIT</b>	<b>(539)</b>	<b>72</b>	<b>3,041</b>	<b>4,792</b>	<b>6,055</b>	<b>6,101</b>	<b>6,169</b>	<b>6,212</b>
Interest	779	779	649	519	390	260	130	-
EBT	(1,318)	(707)	2,392	4,273	5,665	5,841	6,039	6,212
Income tax	264	(141)	478	855	1,133	1,168	1,208	1,242
<b>Net profit</b>	<b>(1,582)</b>	<b>(565)</b>	<b>1,913</b>	<b>3,418</b>	<b>4,532</b>	<b>4,673</b>	<b>4,831</b>	<b>4,970</b>

Net Profit Margin shows increasing pattern, which is explained with the fact that sales are increasing while expenses (mostly interest expense) are decreasing year over year. The average net profit margin is 34% , which is higher than industry benchmark ratio of 13%.

# Ratio and Sensitivity analysis

## Ratio analysis

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Average
Return on assets	-1.0%	-0.6%	1.5%	2.7%	3.6%	3.7%	3.8%	3.9%	2.7%
Return on equity	-1.3%	-0.7%	1.8%	3.2%	4.1%	4.0%	4.0%	3.9%	2.9%
Return on investment	-5.1%	-2.7%	7.4%	13.2%	17.5%	18.0%	18.6%	19.1%	13.0%
Debt service coverage ratio	(0.59)	1.05	1.06	1.44	1.74	1.79	1.84	1.90	1.55
Net profit margin	NA	-54.7%	32.5%	44.4%	50.4%	51.9%	53.6%	55.1%	33.3%
EBIT margin	NA	5.6%	51.6%	62.3%	67.3%	67.8%	68.4%	68.9%	56.0%
Current ratio	28.69	15.24	8.27	11.63	16.43	19.49	21.76	23.56	16.63
Quick ratio	28.52	15.07	8.08	11.42	16.21	19.26	21.53	23.33	16.41
<b>NPV</b>	<b>\$4,259</b>								
<b>IRR</b>	<b>10.61%</b>								
<b>PB period (years)</b>	<b>7.1</b>								
<b>Profitability index</b>	<b>1.16</b>								

## Sensitivity analysis

	NPV	IRR	ROA	ROE	NPM
Base case	\$4,259	10.6%	2.7%	2.9%	33.3%
<b>Occupancy rate</b>					
optimistic +5%	\$6,028	11.8%	2.8%	3.0%	35.4%
pessimistic -5%	\$3,042	9.8%	2.5%	2.6%	31.4%
<b>Sales price</b>					
optimistic +5%	\$6,240	12.0%	2.8%	3.1%	35.9%
pessimistic -5%	\$2,830	9.6%	2.4%	2.6%	30.9%
<b>COGS</b>					
optimistic -5%	\$4,640	10.9%	2.6%	2.9%	33.8%
pessimistic +5%	\$4,430	10.8%	2.6%	2.8%	33.2%

According to the sensitivity analysis Project financial indicators are most sensitive to price fluctuations and occupancy rates.

- Return on investment, indicating the efficiency of an investment, is projected to be increasing for the first five years of operations. It is averaging to 13.2% which is significantly higher than industry average of 3.5%.
- Debt service coverage ratio, that is the amount of cash flow available to meet annual interest and principal payments is equal to 1.56, which is higher than 1, that means the project will generate enough money to cover the whole amount of annual debt payments.
- **The Project financial performance indicators are quite robust. Based on forecasts for 7 years of operations of the trade center the NPV is equal to 4.3 mln USD with IRR of 11% which is higher than industry average cost of capital of 7.57%.**

# Success factors and SWOT analysis

## Key success factors

### Quality

- Best engineering solutions amid existing centers
- Highly motivated, well-trained and customer focused sales force
- Marketing support
- Personalized service
- Responsive to customer needs

### Location

- The “Ara-City” is located in the very heart of the historic centre of Yerevan, at the juncture of all shopping and touristic routes. It is between two main squares of Yerevan, which are now linked with each other by a newly built North Avenue inaugurated at the end of 2007.
- “Ara-City” lays directly on the Abovyan street which is a central in the city center, with best hotels, restaurants, leading retail brands and business centers. On the other side, the North Avenue with flows of people through its pedestrian zone is an additional advantage in terms of number of consumers.
- It should be noted that “Ara-City” can be easily accessible by all means of transport:
  - By underground, via the Republican Square station which is in a walking distance.
  - By car via parking in a large underground parking under the North Avenue, connected to the lower levels of the “Ara-City”.

### Safety and security

- The Complex will use the most contemporary safety policies, measures and devices to ensure all the maximum security of its guests. 24/7 video surveillance systems are planned to be installed. Each rental space features a safety alarm and a direct-dial telephone.

### Comfort

- The Centre will create a comfortable and accommodating environment to make the shopping process more enjoyable and less tiresome. It will focus on providing comfortable and peaceful atmosphere.

## SWOT analysis

### Strengths

- The newest equipment with well equipped modern facilities;
- Clear vision of Centre's goals and differentiated strategy;
- Competitive price policy in local market;
- Qualified management and staff;
- Excellent location in Yerevan and high foot traffic;
- Comfortable and accommodating environment

### Weaknesses

- New relationships with suppliers.
- Lack of experience in the field
- Permanent need for cost control and operations efficiency

- A successful experience of comparable centers in Yerevan;
- Lack of centers suggesting same level of services
- Competitive market of suppliers
- Increased economic activity due to new regional integration policy with EEU effective as of January 1, 2015

- Possibility of other same level centers entering to local market with similar services
- Geopolitical situation, border blockade by two neighboring countries: Azerbaijan and Turkey.

### Opportunities

### Threats

## Important note

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