



INVESTOR PROFILE

COMPANY NAME: Dr. Rödger Laundry Service

INDUSTRY/SECTOR: Industrial Services, Hospitality

LOCATION(S): Georgia

ENTREPRENEUR: Lado Chelidze

DESCRIPTION: Dr. Rödger is a leading supplier of cleaning products and laundry services, serving hotels in the country of Georgia.



INVESTOR PROFILE

FUND NAME Gazelle Fund I

INVESTMENT OFFICER Giorgi Jobava

FUND SIZE USD42m

Gazelle Finance is a fund manager that provides quasi-equity and mezzanine capital to high-growth SMEs, defined as less than USD15m in both annual revenues and assets and fewer than 300 employees, in the Eurasia region. The firm provides a range of self-liquidating instruments, including term loans with equity kickers and structured equity investments redeemed gradually through puts to the business owner. Gazelle has invested in over 30 companies with an average ticket size of USD1m and has achieved five exits.

INVESTMENT

DATE: May 2018

AMOUNT: USD400,000

INSTRUMENT: Five-year term loan with income participation royalty

EXIT

DATE: July 2019

OUTCOME: Exit through bank refinancing for 1.3x MOIC and 29% gross IRR in USD terms

OPPORTUNITY

Founded in 2003, Dr. Rödger had established itself as a leading supplier of cleaning and hygiene products to hotels and healthcare facilities in Georgia. Founder Lado Chelidze had secured local bank financing to help grow the company, and in 2016, he looked to expand into complementary business verticals. His hospitality sector clients had voiced dissatisfaction with laundry service subcontractors, so Lado set up a small laundry unit to test this potential business line. After a successful trial period, Lado looked to build a new facility and purchase additional machines in order to expand laundry operations. The business had a capacity of two tons of laundry per day, and profitability would be achieved at eight tons per day. Local banks offered Dr. Rödger a line of credit but required collateral equal to approximately 200% of the loan value, more than the company or founder could provide. Additionally, the bank loan terms would require repayments beginning the first month, before the new facility would be built.

Gazelle Finance had identified hospitality as a key sector focus in the Georgian market, growing at approximately 20% per annum, and sought exposure to companies serving the hotel industry. Gazelle investment officer Giorgi Jobava was referred to Lado through a business contact and identified an opportunity in Dr. Rödger's new laundry service. The company's successful track record in cleaning supplies served as evidence of Lado's capacity as an entrepreneur and a customer base that could be targeted for the laundry unit. However, Gazelle understood the considerable risks associated with developing an entirely new business line. The team therefore underwent a thorough evaluation process to determine the competitive landscape, market size, ESG considerations, and expansion and operational costs before entering negotiations with Lado.



In Georgia, traditional banks generally require loans to be secured by hard assets equal to at least 100% and typically 150% of the total loan value and are averse to backing new technologies or business lines. There are few private equity investors active, so most SMEs in the country have no access to equity financing.

There are few paths to exit for investors: Georgian companies have limited access to local or international stock exchanges and there is little M&A activity in the country.



SMEs in Latin America face similar challenges. Access to bank financing is scarce, and outside of the region's largest economies, the pool of private equity investors is small. Similarly, relatively shallow capital markets and narrow exit windows limit investors' opportunities to exit through a traditional liquidity event.

DEAL TERMS

DEAL STRUCTURE: TERM LOAN WITH INCOME PARTICIPATION ROYALTY

The investment was structured as a USD400,000 five-year term loan with a 13% annual interest rate on the unpaid disbursed principal.

Grace Period — The principal payments were subject to a two-year grace period to allow the laundry services unit time to build the new facility and establish a client base.

Disbursement Tranches — The investment was distributed in two tranches of USD200,000 each: the first would finance the construction of the new laundry

facility, and the second would be distributed upon completion of the facility to fund the purchase of new equipment.

Currency — The loan was distributed in USD, with both repayments and the income participation fee to be paid in USD.

Prepayment Fees — Gazelle anticipated that the company might be attractive for refinancing during the loan term, so the loan was subject to a prepayment fee

Gazelle structures all of its investments in USD terms in order to eliminate currency risk in its portfolio. Company revenue and repayment projections take local currency depreciation into account.

In the past, Gazelle has used cash sweep accounts and direct access to client bank accounts to ensure timely repayments. However, given Lado's bank financing and business track record, the Gazelle team chose a lighter-touch approach, monitoring company financials and implementing a late payment fee per calendar day.

equal to 1% on the unpaid loan principal, plus 1% of the budgeted floor revenue for the outstanding loan term.

Collateral — Gazelle secured the deal through a first-tier pledge on the new facility and newly purchased laundry equipment, as well as a second-tier pledge on the company's existing equipment, subordinate to the company's existing bank lender. Other guarantees included a share pledge equal to 100% of the equity shares of Dr. Rödger.

Income Participation Royalty — To compensate for the additional risk associated with backing a new business line, Gazelle received an income participation (IP) fee of 1% of the laundry service's monthly revenues, locked in with a floor price.

EXECUTION

THE NEW FACILITY

Gazelle helped Dr. Rödger set up a separate legal entity for their laundry business line called Dr. Rödger Laundry Service. Gazelle met monthly with the founder to help manage the construction of the new laundry facility and the installation of new laundry machines and wastewater treatment equipment.

CUSTOMER ACQUISITION

The firm also assisted the company in acquiring customers for its new business line. Many of the target customers, such as Holiday Inn and Marriot, were Dr. Rödger's existing cleaning supply clients; however, some hotel chains were already in existing contracts with competing laundry service companies. Gazelle conducted formal trainings on approaching potential clients with the management team and encouraged the company to join the local chapter of the American Chamber of Commerce (AmCham). The company was able to build new customer relationships through Gazelle's network of clients in the hospitality sector and AmCham Georgia.

FINANCIAL ADVISORY

Throughout the investment period, Gazelle provided financial advisory services both directly and through the U.S. DFC (formerly OPIC), one of the fund's limited partners, to assist the company in the development of financial management, controls, and reporting.

ENVIRONMENTAL UPGRADES

Dr. Rödger already used a biodegradable and phosphate-free detergent in its small laundry unit; however, as a condition of investment, Gazelle required the company to implement a new wastewater treatment process to mitigate the environmental risk of the expanded facility. Gazelle helped the company adopt the water treatment system, which includes both water sedimentation and an aeration process that accelerates chemical decomposition. The firm also assisted the company in reducing overall primary water consumption in the laundry process.

EXIT PROCESS

Although local banks had declined to provide the initial risk capital for Dr. Rödger's laundry services unit, approximately 15 months after Gazelle invested, a local bank approached the company. The bank had been monitoring Dr. Rödger's revenue growth and was interested in providing financing for the laundry business

line that was now fully operational. The bank was able to provide local currency financing at a lower interest rate relative to Gazelle's product. Gazelle exited through the bank refinancing, which allowed Dr. Rödger to pay the outstanding loan principal and prepayment fees.

OUTCOME

FINANCIAL — Gazelle exited through the bank refinancing with a 1.3x MOIC and a 29% gross IRR in USD terms.

ENVIRONMENTAL — The company implemented a wastewater treatment process to filter all gray water

prior to it entering the local sewage system. Georgia's Environmental Protection Division used the company's system as an example for laundry companies and other businesses with high water consumption.

Key Takeaways

CURRENCY

Due to exchange rate volatility, companies operating in local currency will prefer financing in the same currency to ensure depreciation does not reduce their ability to make repayments. While fund managers may invest in a tradable currency such as USD to avoid currency risk, their investments can provide companies with a bridge to local currency loans.

TRANCHED DISBURSEMENT SCHEDULES

Tranched disbursements linked to project implementation milestones help mitigate investment risk for the fund. These gradual disbursements, combined with principal

grace periods linked to the achievement of construction and the initial commercialization phases of a new venture, also reduce the loan servicing burdens on the company's cash flows.

PREPAYMENT FEES

While banks are averse to lending to new business ventures, they may become interested in the company after the business line begins generating revenue. Prepayment fees, including the full term of the contracted income participation fees, ensure the fund manager is adequately compensated for the risk taken in providing the investment.

STATUS UPDATE

The Georgian hospitality sector has been severely impacted by COVID-19 and subsequent lockdowns, challenging the main customer base of Dr. Rödger Laundry Service. However, there is still strong demand for laundry services: while some hotels have temporarily shut down, many remain open and serve as quarantine zones. The government of Georgia has implemented more stringent disinfection standards for hotels, and Dr. Rödger has adjusted its protocols to meet the shift in demand from these clients. In addition, as Dr. Rödger's new procedures meet hospital sanitation standards, the company has been able to take on new clients in the healthcare sector. The pandemic also offers opportunities for consolidation, as the company looks to acquire other distressed market players domestically and in neighboring Azerbaijan.