

# Podravka Group

*Always with a heart!*

ZSE&LJSE Investors Conference, 24 May 2016.





# **The Company**

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# Podravka Group at a glance



## **BUSINESS:**

- branded food – primary business,
- generic pharmaceuticals.



## **2015 FIGURES:**

- HRK 3,777.2 million of sales,
- HRK 4,945.8 million of total assets,
- 6,657 employees.

## **YEAR OF ESTABLISHMENT:** 1947

- 69 years in food production,
- 44 years in pharma production,
- culinary institution in SEE.



## **HEADQUARTERS:**

- Koprivnica, Croatia.



## **MAIN MARKETS:**

- South East Europe,
- Central Europe,
- Eastern Europe.



## **SHARE LISTING:**

- Zagreb Stock Exchange, Croatia,
- 7,120,003 ordinary shares,
- MCap of HRK 2,420.8 million\*.

\*MCap on 17 May 2016.



# Long tradition of food and pharmaceutical production



1934

Fruit processing and marmalade workshop by brothers Wolf established



1947

Wolf brothers workshop became publicly owned under Podravka name



1952

Condiments, dried and sterilized vegetables, etc. production established



1957

Famous Podravka soups production established



1958

Production of meat products established



1959

Vegeta, universal seasoning, production established



1970

Baby food production established



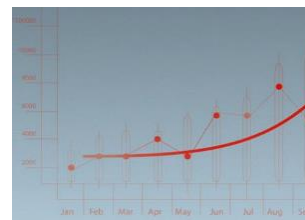
1970

Bottling facility for spring water enters Podravka, non-alcoholic beverages production established



1972

Belupo pharmaceutical company established, pharmaceutical production established



1993

Podravka became a joint-stock company, free share trading from 1994



2012

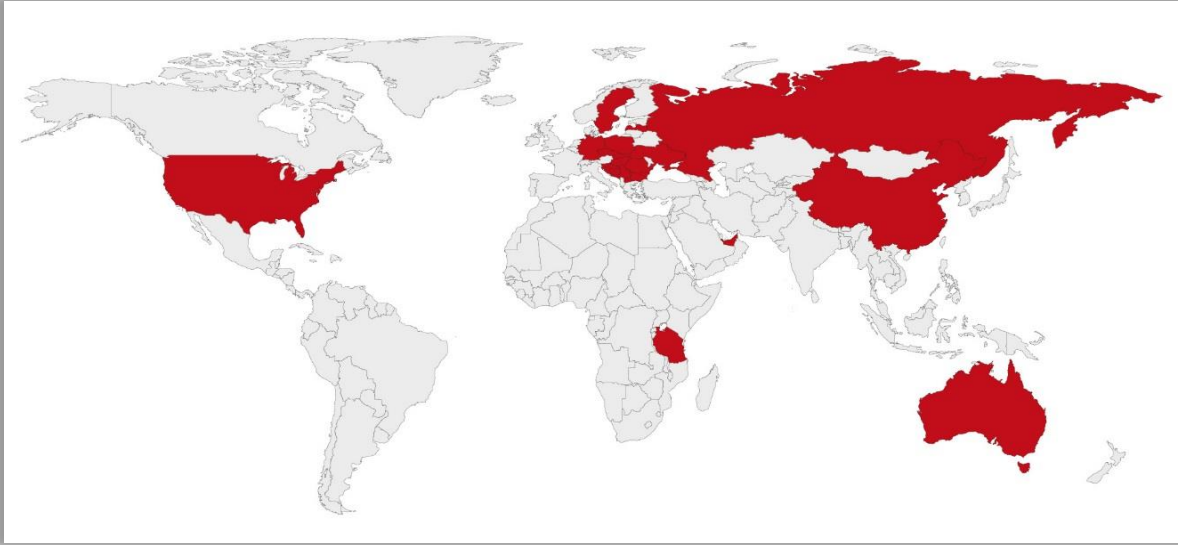
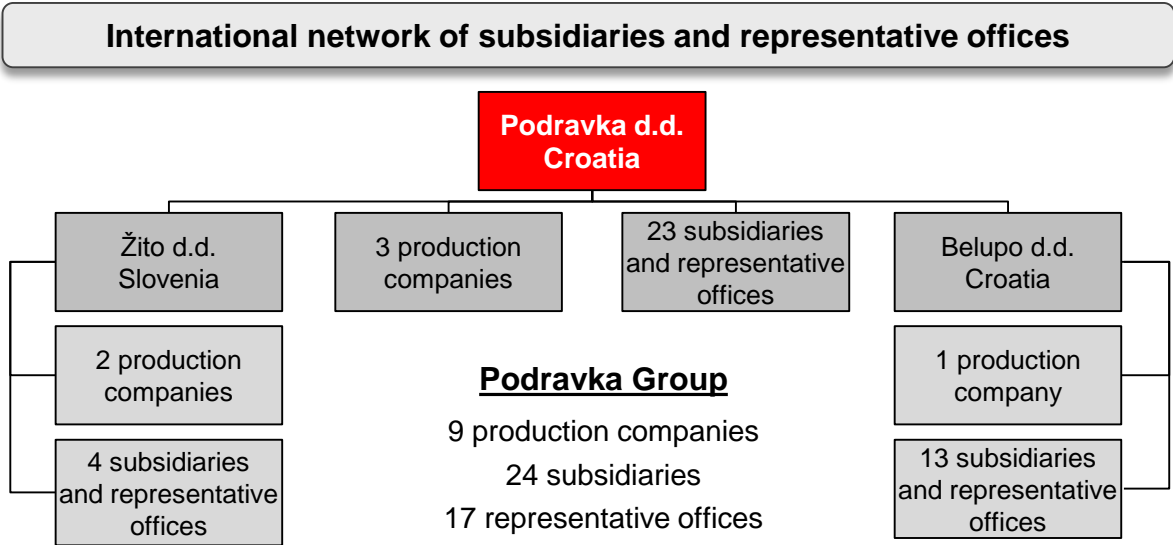
Commencement of full-scale restructuring process



2015

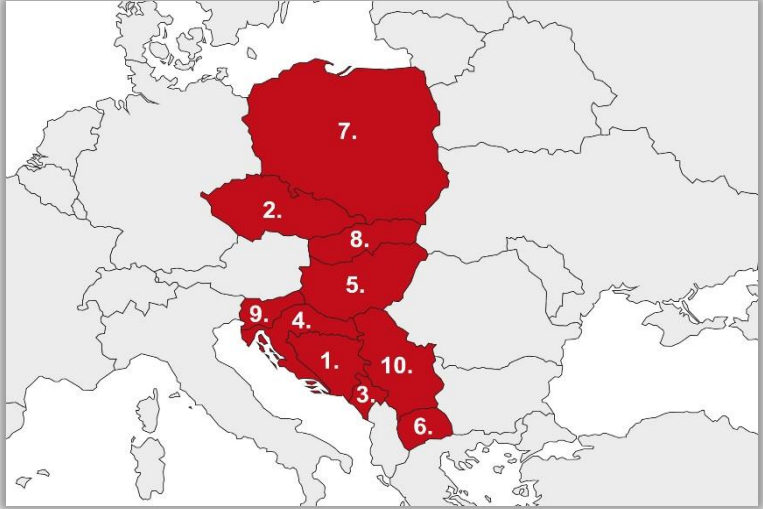
Žito, Slovenian food producer, acquisition

# Podravka Group is present in 24 countries with subsidiaries and representative offices

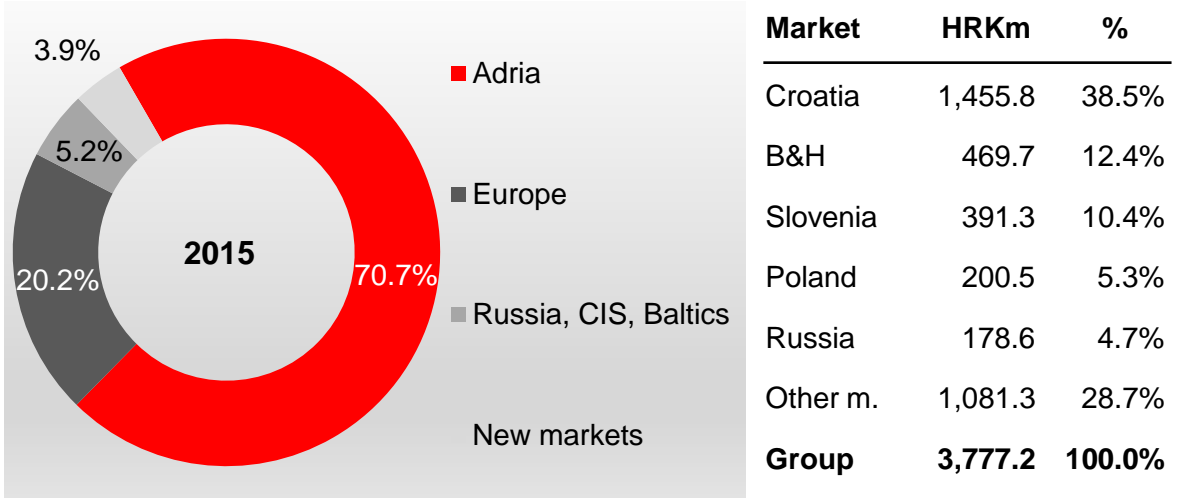


## Own distribution network from Adriatic to the Baltic sea

1. Bosnia and Herzegovina
2. Czech Republic
3. Montenegro
4. Croatia
5. Hungary
6. Macedonia
7. Poland
8. Slovakia
9. Slovenia
10. Serbia



## Podravka Group sales split by regions in 2015



# Highly developed corporate governance

## Management board



**Zvonimir Mršić**

### President of MB

- Group strategy,
- former 3 times mayor of Koprivnica,
- FBA,
- vice-president of Croatian Exporters Association.



**Olivija Jakupec**

### Member of MB

- sales & marketing,
- work experience on the Russian market,
- former director of Nexe B&H.



**Iva Brajević**

### Member of MB

- finance & IT,
- former finance manager of Unilever and DHL in Croatia.



**Hrvoje Kolarić**

### Member of MB

- pharmaceuticals,
- former director of Bristol Myers Squibb and PharmaSwiss,
- MBA.

## Supervisory board

### President:

- Dubravko Štimac → president of MB of PBZ CO OPF

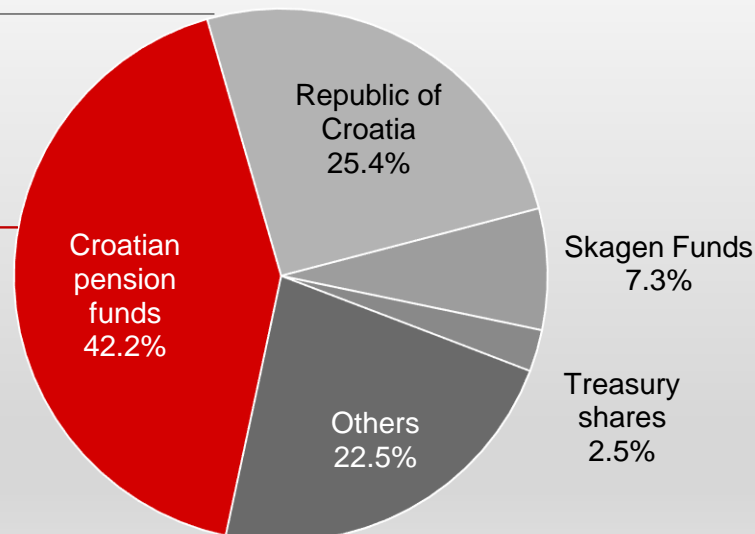
### Vice President:

- Mato Crkvenac → ex finance minister

### Members:

- Ivana Matovina → ex audit director at KPMG
- Ksenija Horvat → workers representative
- Ivo Družić → academy professor of economy
- Milan Stojanović → professional manager
- Petar Vlaić → president of MB of Erste Plavi OPF
- Dinko Novoselec → president of MB of Allianz ZB OPF
- Petar Miladin → academy professor of law

## Shareholder structure as at 31 March 2016



## Audit committee

### President:

- Dinko Novoselec

### Members:

- Petar Vlaić
- Ivana Matovina
- Mato Crkvenac

## Remuneration committee

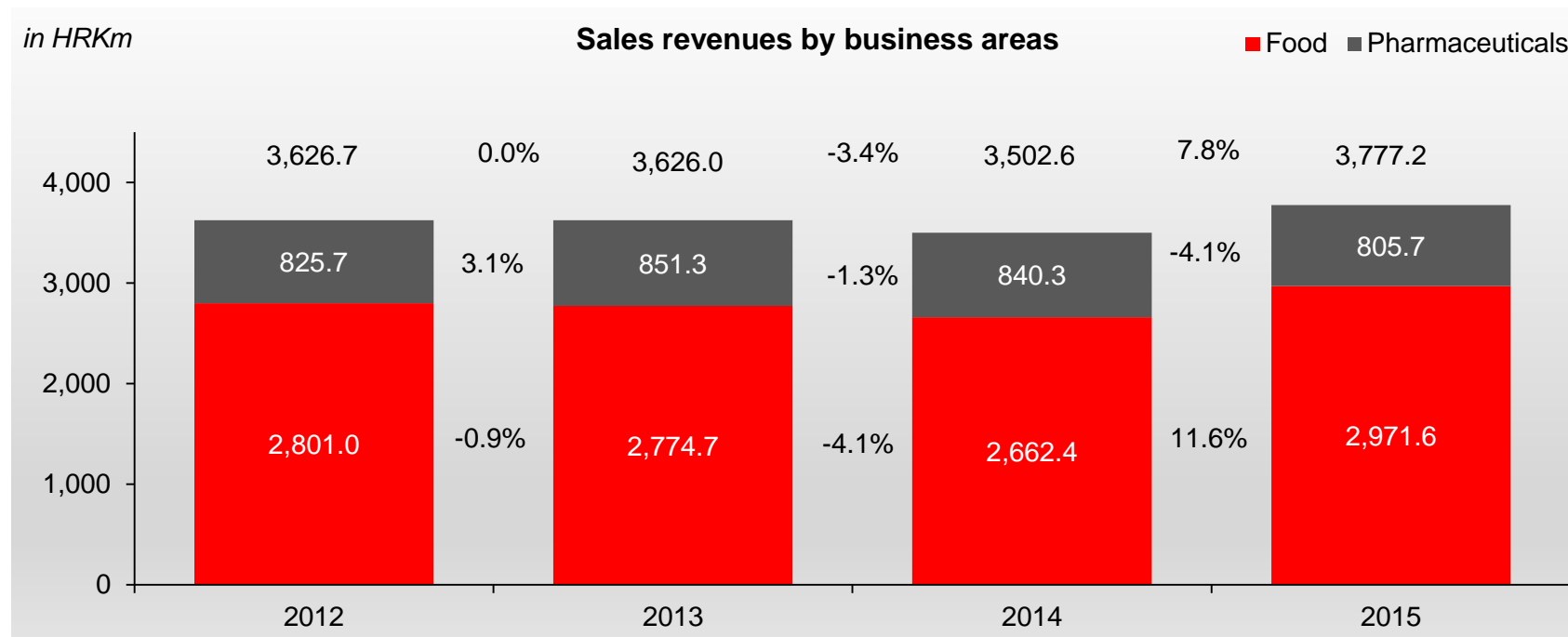
### President:

- Petar Vlaić

### Members:

- Dubravko Štimac
- Milan Stojanović

## Snapshot of key financial figures



2015 audited figures*	HRKm	EURm
Sales revenues	3,777.2	497.0
Adjusted EBITDA	352.5	46.4
Adjusted EBIT	169.5	22.3
Adjusted net profit	123.2	16.2
Total assets	4,945.8	650.8
Net debt	922.4	121.4
CFO	274.2	36.1
CAPEX	271.2	35.7

### Key highlights of sales revenues:

- **Food:**
  - restructuring process resulted in exiting from several non-profitable business segments in 2013 and 2014;
  - acquisition of Slovenian food company Žito in 2015, consolidation started from Q4 2015,
- **Pharmaceuticals:**
  - strong Russian ruble depreciation and constant price decrease from Croatian Health Insurance Fund pressures top-line.

### \*Note:

- Consolidation of acquired Žito Group started from Q4 2015;
- 2015 P&L items adjusted for HRK 115.7m gain on a bargain purchase from Žito acquisition and HRK 163.7m of deferred tax income from incentives for the construction of new pharmaceutical factories;
- EUR/HRK FX rate of 7.6.



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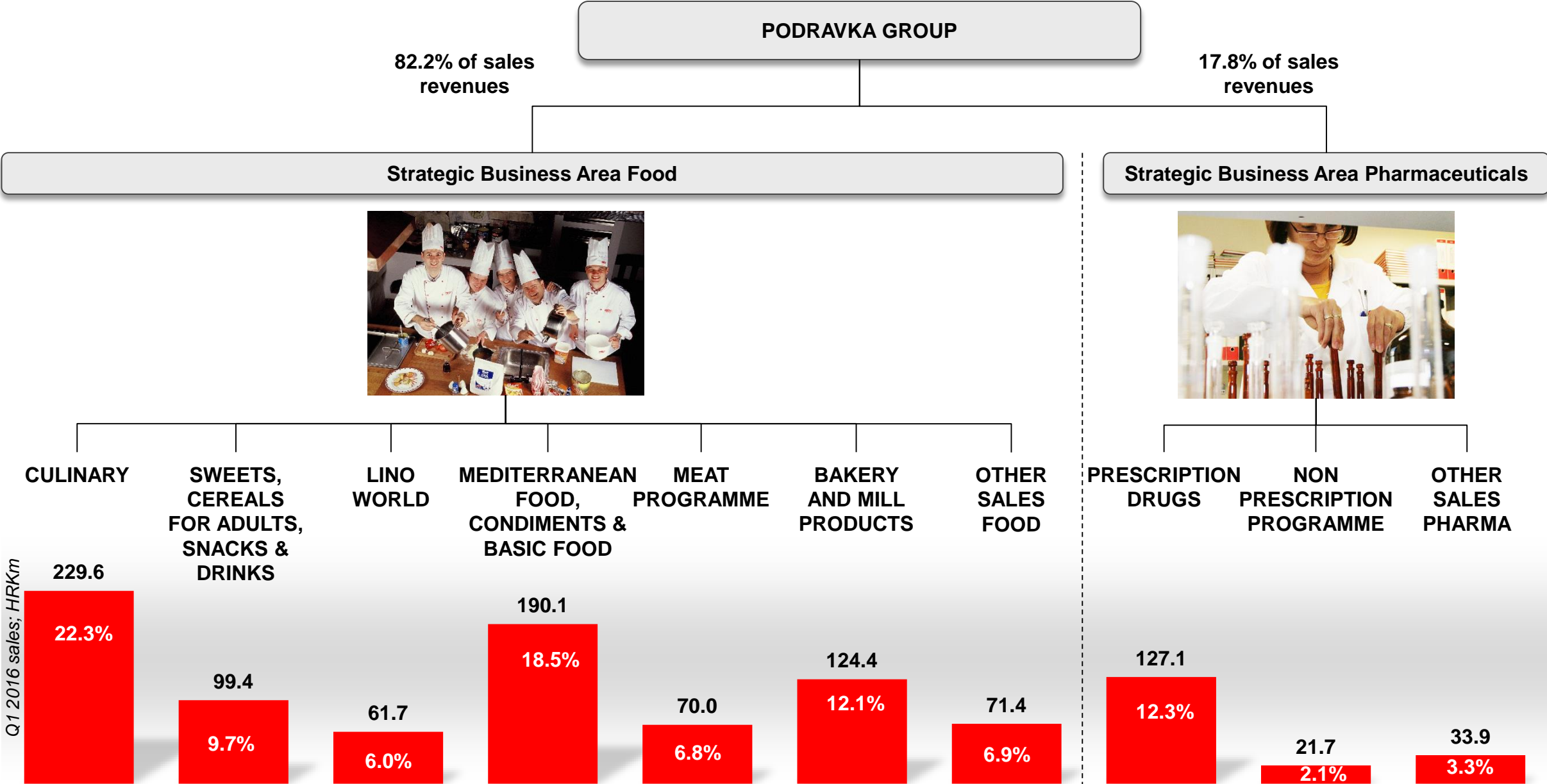
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# A well diversified product portfolio divided in two business areas



Q1 2016 sales; HRKm

# Culinary category is a cornerstone of food business

Food segment products overview				Q1 2016 sales; % of total	
<b>CULINARY</b> <ul style="list-style-type: none"> <li>seasonings*, bouillons, soups*,</li> <li>semi-finished meals, mixes for meals, sauces.</li> </ul>				HRK 229.6m	22.3%
<b>SWEETS, CEREALS FOR ADULTS, SNACKS &amp; DRINKS</b> <ul style="list-style-type: none"> <li>powdered sweets*, cereals for adults and breakfast,</li> <li>confectionary, salted snack, non-alcoholic beverages.</li> </ul>				HRK 99.4m	9.7%
<b>LINO WORLD</b> <ul style="list-style-type: none"> <li>dehydrated baby food*, cereals for kids,</li> <li>spreads and other Lino assortment.</li> </ul>				HRK 61.7m	6.0%
<b>MEDITERRANEAN FOOD, CONDIMENTS &amp; BASIC FOOD</b> <ul style="list-style-type: none"> <li>canned fish products*, fruits, vegetables, condiments*,</li> <li>rice, pasta, cereals, seeds.</li> </ul>				HRK 190.1m	18.5%
<b>MEAT PROGRAMME</b> <ul style="list-style-type: none"> <li>ready to eat meals and meat sauces,</li> <li>sausages, pâtés, frozen meat.</li> </ul>				HRK 70.0m	6.8%
<b>BAKERY AND MILL PRODUCTS</b> <ul style="list-style-type: none"> <li>fresh bakery products, fresh pastry, toast, rusk,</li> <li>sandwiches, flour, additives, mixes for bakery.</li> </ul>				HRK 124.4m	12.1%
<b>OTHER SALES</b> <ul style="list-style-type: none"> <li>private labels, service production,</li> <li>trade goods, other.</li> </ul>				HRK 71.4m	6.9%

\*Strategic products with international potential.

# Prescription drugs category is a cornerstone of pharmaceutical business

## Pharmaceutical category products overview

Q1 2016 sales; % of total

### PRESCRIPTION DRUGS

- for skin disorders\*
- for heart and blood vessels,
- for central nervous system,
- for 8 more areas.



HRK 127.1m 12.3%

### NON-PRESCRIPTION PROGRAMME

- OTC medicine,
- dietary products,
- natural products.



HRK 21.7m 2.1%

### OTHER SALES

- trade goods,
- services.



HRK 33.9m 3.3%

\*Strategic products with international potential.

# High-quality brands with exceptional recognisability and strong international potential

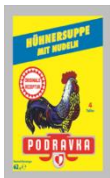


## VEGETA

- universal seasoning, category synonym in Adria region,
- for years No. 1 FMCG brand in CRO and in the top 3 in the region,
- number 1 brand in Europe in universal seasoning category,

- Superbrand award in more than 15 European countries,
- Laur consumenta award in Poland for 2004-2014 period.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	POL	CZE	RUS
Vegeta	1	1	1	2	3	4



## PODRAVKA SOUPS

- dehydrated instant soups,
- sold in 25 countries around the world,
- market leader or among top 3 in the Adria region,

- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	RUS
Soups	1	4	1	7



## LINO

- dehydrated baby food; umbrella brand,
- category synonym in Adria region,
- sold in more than 20 countries around the world,

- Trusted brand award and Best Buy award winner in Croatia,
- Superbrand awards winner in Croatia, Slovenia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H
Lino	1	1	1



## DOLCELA

- powdered product for preparation of sweets,
- No. 1 or strong No. 2 brand in Adria region,

- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H
Dolcela	1	2	1



## EVA (MEDITERRANEAN ASSORTMENT)

- one of the most recognisable brands in canned fish category in the Adria region,
- flagship of Mediterranean cuisine,

- Quadal (Quality Medal) award and Superior taste award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H
Eva	2	6	1



## BELUPO DERMATICS

- strong international position in niche dermatology segment.

Vol. MP <sup>2</sup>	CRO	RUS	CZE	SLO	B&H	SER	MAC	SLR
D07 <sup>3</sup>	1	5	2	2	1	2	1	1

<sup>1</sup>Source: Nielsen, last available data; <sup>2</sup>Source: IMS; <sup>3</sup>Corticosteroids for the treatment of skin disorder.



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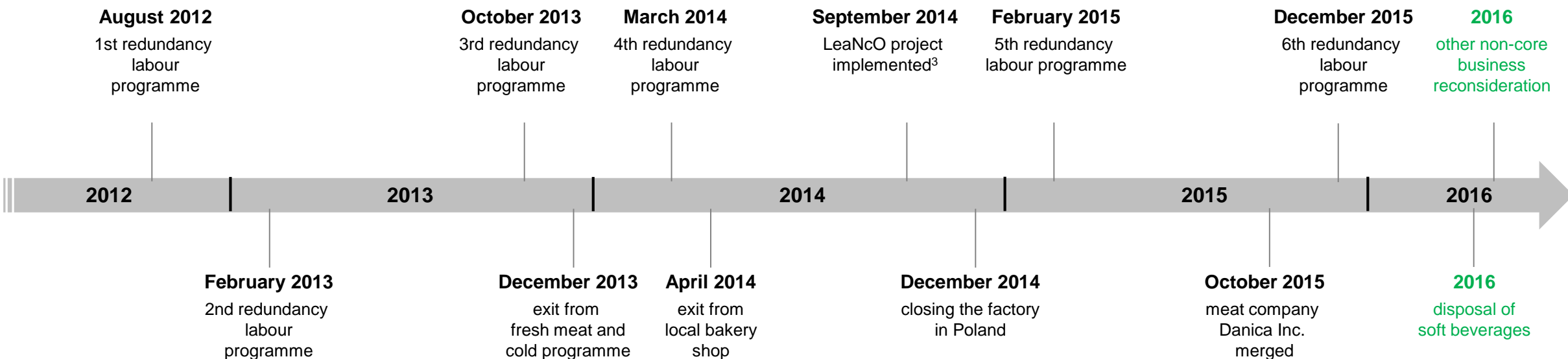
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# Successful implementation of restructuring and reorganization process



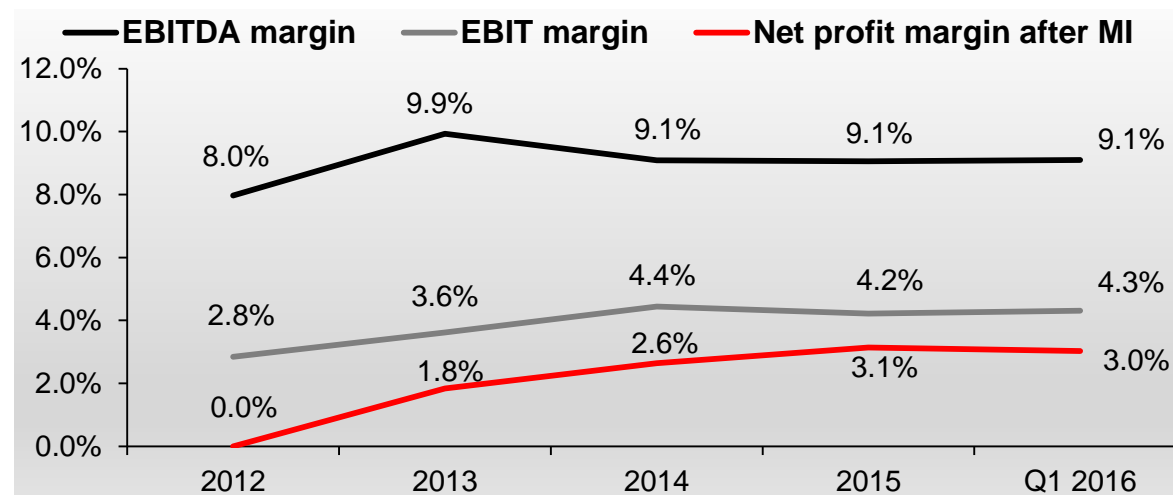
# Significantly improved financial position

## Restructuring related one-off items burdened past profitability

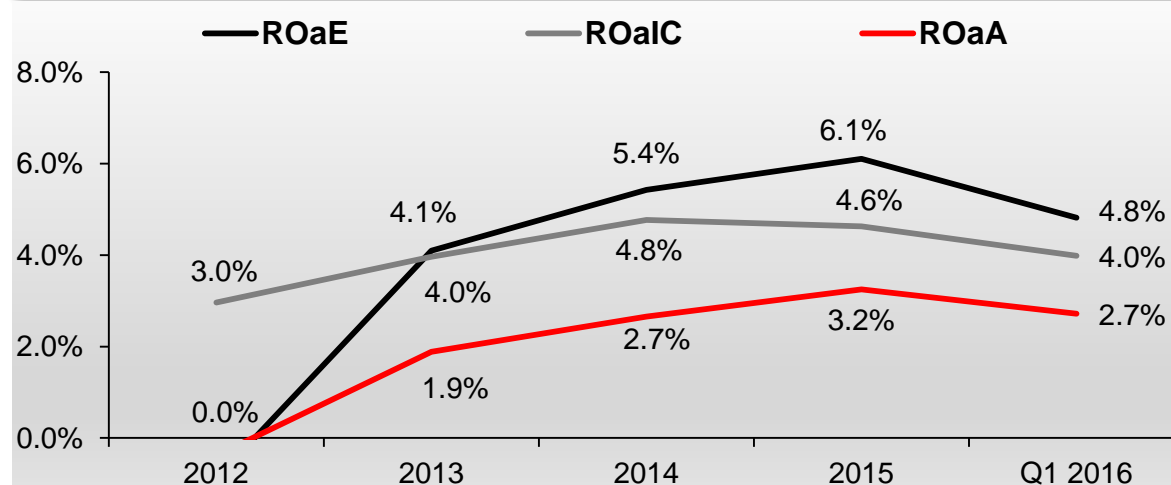
(in HRKm)	2012	2013	2014	2015	Q1 2016
Value adjustments	(32.3)	(80.8)	(27.8)	(34.6)	-
Severance payments	(49.9)	(57.2)	(72.1)	(41.1)	-
Other	(44.3)	4.6	9.8	298.4*	-
Total net one-off items	(126.5)	(133.4)	(90.1)	222.7	-

\*HRK 115.7m of gain on a bargain purchase from Žito acquisition (badwill), HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19.0m refers to other items.

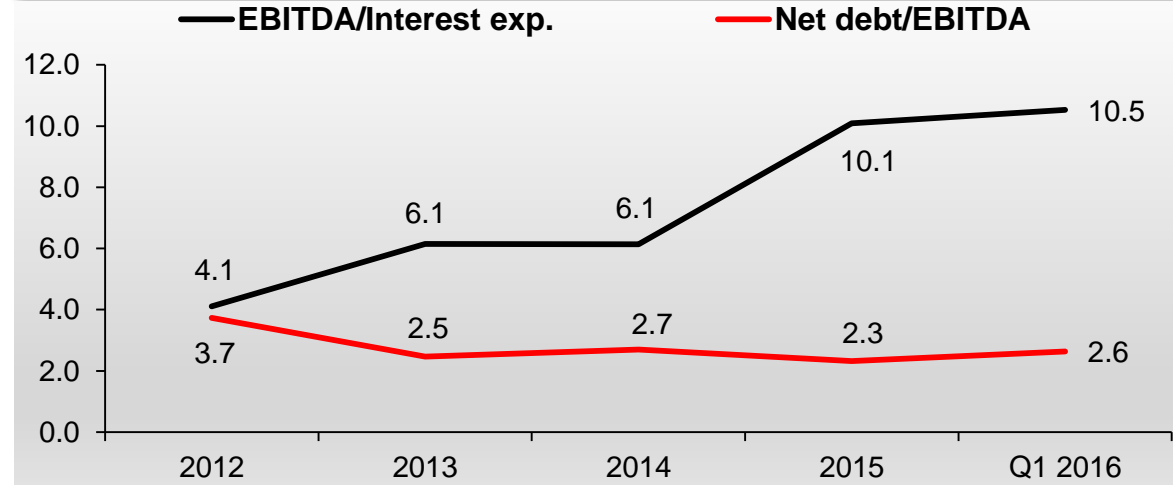
## Positive profitability margins movement<sup>1</sup>



## Žito acquisition reflected in return rates<sup>1</sup>



## Sustainable debt level<sup>1</sup>



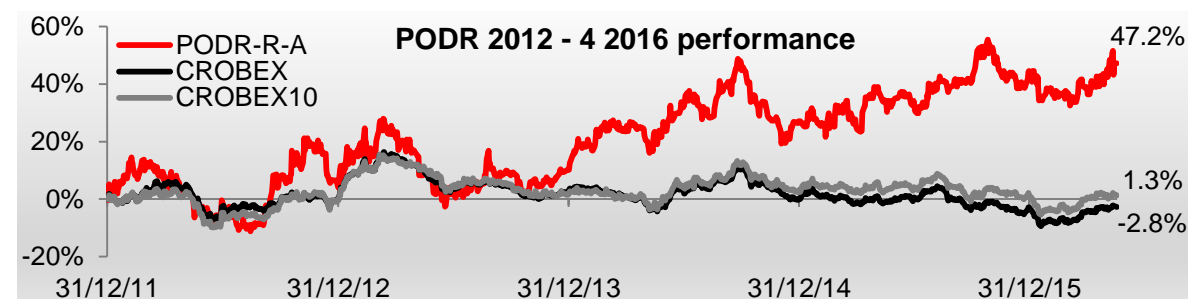
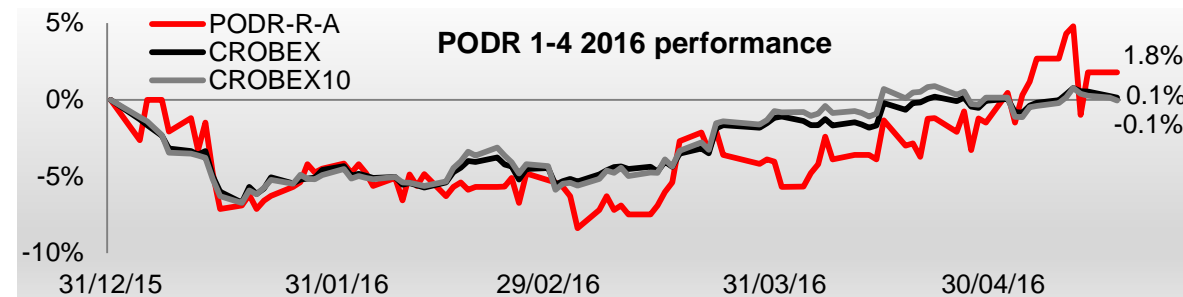
<sup>1</sup>2015 figures include Podravka and Žito Group full year figures, adjusted for Žito badwill and Belupo tax incentives impacts; Q1 2016 figures calculated on the trailing 12 months basis.

# Analyst expectations imply potential for Podravka's share price growth

(HRK; units)	Q1 2016	Q1 2016/ Q1 2015	2015 / 2014	2014 / 2013
Average daily price	318.8	7.6%	7.4%	16.3%
Average daily number of transactions	12	(19.5%)	(9.1%)	39.6%
Average daily volume	1,739	(5.8%)	11.3%	105.4%
Average daily turnover	554,258.8	(1.3%)	19.6%	134.2%
Reported earnings per share	62.0	(6.5%)	276.9%	38.8%
Adjusted earnings per share <sup>1</sup>	23.6	(6.4%)	31.6%	(8.8%)

<sup>1</sup>Calculated on the trailing 12 months level, where 2015 pro-forma figures for Podravka Group and Žito Group were taken, excluding gain on a Žito Bargain purchase and deferred tax assets.

Analysts	Recommendation	Target price	Potential <sup>2</sup>
 InterCapital	Buy	HRK 364.78	7.3%
 Raiffeisen BANK	Hold	HRK 353.00	3.8%
 ERSTE Group	Accumulate	HRK 355.00	8.8%
 UniCredit	Buy	HRK 398.96	17.3%
 WOOD & COMPANY	Hold	HRK 371.00	9.1%



Peer group multiples <sup>3</sup>	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.1	12.6	17.9	3.2	20.6
Normalized weight. av. peer group <sup>4</sup>	2.1	12.7	18.1	3.0	21.7
Podravka Group reported	0.9	7.2	11.9	0.8	6.1
Podravka Group normalized <sup>1</sup>	0.8	8.5	18.0	0.8	17.6

<sup>2</sup>Compared to the last price on 17 May 2016,

<sup>3</sup>Obtained from Bloomberg on 29 April 2016,

<sup>4</sup>Calculated excluding max. and min. values.

**Peer group food:** Atlantic Grupa d.d., Greencore Group plc, Nestle S.A., Orkla S.A., Otmuchow S.A., Unilever plc,

**Peer group pharma:** Krka Inc, Hikma Pharmaceuticals plc, Recordati S.p.A, Richter Gedeon Nyrt., Stada Arzneimittel AG.



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# Podravka Group has two long-term key strategic objectives

## TWO KEY STRATEGIC OBJECTIVES



**Consolidation and strengthening of our position in the domestic market/region**



**Further internationalization outside of Adria Region**



### Consolidation and strengthening of our domestic position

#### ▪ Reasoning for consolidation:

- Adria region is our core market that accounts for 70.4% of sales revenues,
- for several years domestic retailers and producers are consolidating,
- foreign discounters are putting pressure on domestic retailers and producers.

#### ▪ Strategy:

- participation in potential further regional consolidation,
- focus on core business and most profitable products,
- product innovations.



### Further internationalization

#### ▪ Reasoning for further internationalization:

- high market positions of Podravka's brands in the Adria region provide limited organic growth potential,
- macroeconomic trends provide little support for significant organic growth.

#### ▪ Strategy:

- opening of new markets → Tanzania, Dubai, China,
- distribution model change in Russia,
- M&A opportunities in Europe, including Russia,
- further shift from ethno channels to mainstream markets in Western Europe, Australia and USA.



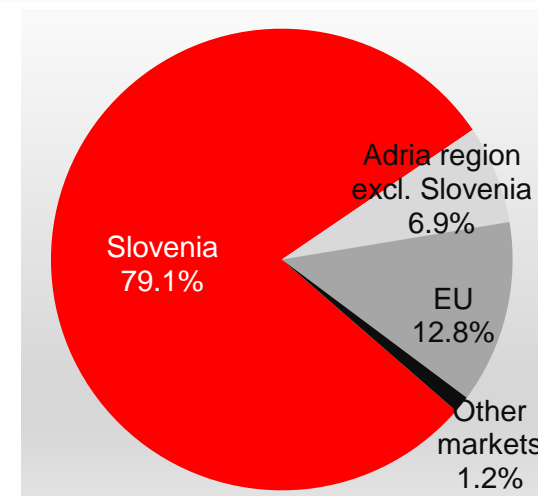
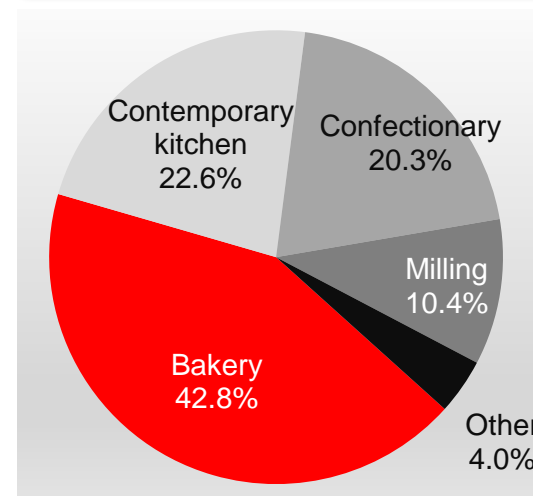
# Acquisition of Slovenian food producer Žito to strengthen market position in the Adria region

## Key highlights of Žito Group

- branded Slovenian food company with 35 retail bakery shops,
- portfolio of leading brands that hold top 2 market positions in Slovenia,
- 69 years of **experience** in food production,
- HRK 849.7 million of **sales revenues**,
- HRK 980.3 million of **total assets**,
- 1.147 **employees** as at 31 December 2015.



## Sales revenues of Žito Group by categories and markets in 2015



- Žito acquisition provides scale and positive synergy/consolidation effects



(in HRKm)	FY 2017	FY 2018	FY 2019
Expected EBITDA impact	+18.9	+18.8	+36.8

Disclaimer*	Podravka Group		Žito Group		Podravka & Žito Group without synergy / consolidation effects		Podravka & Žito Group with 100% synergy / consolidation effects	
(in HRKm)	2015	% of sales	2015	% of sales	2015	% of sales	% of sales	
EBITDA	326.4	9.2%	70.5	8.4%	396.9	9.1%	433.7	9.9%
EBIT	154.3	4.4%	30.5	3.6%	184.8	4.2%	221.6	5.1%
Net profit after MI	110.0	3.1%	27.4	3.3%	137.4	3.1%	174.2	4.0%

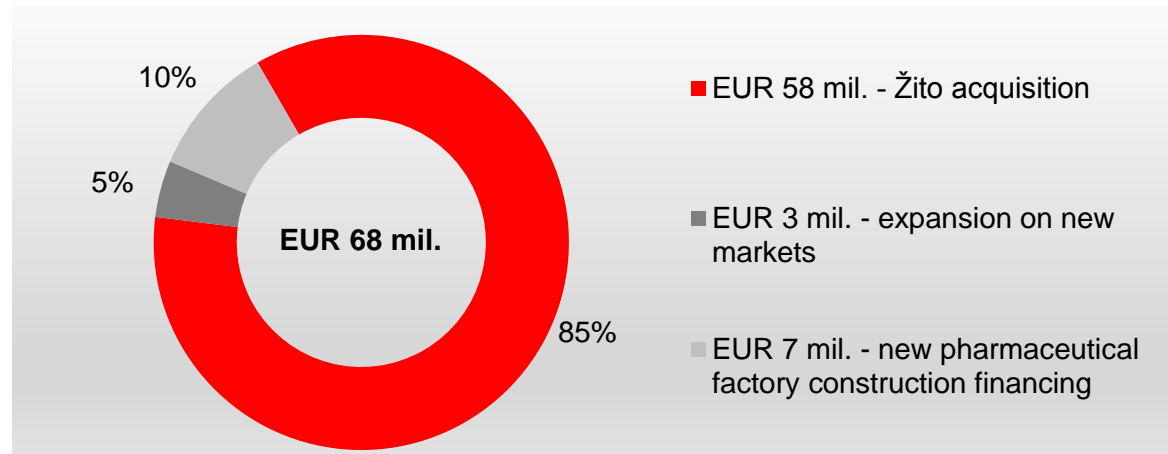
\*Stated overview **does not represent future guidance**, it only shows 2015 profitability and expected synergy effects; Podravka Group **figures are adjusted** for HRK 115.7m of gain on a bargain purchase from Žito acquisition and HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories.

# Žito Group acquisition was financed via capital increase

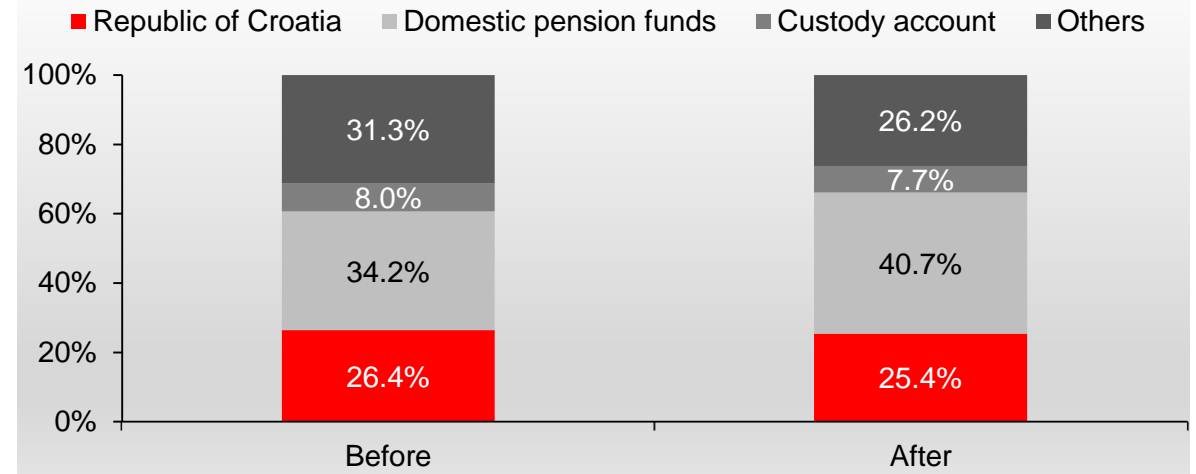
## Capital increase details

- **capital increase process:** started on 07 July 2015 and finished on 20 July 2015,
- **new shares issued:** 1.7 million,
- **price of issue:** HRK 300.00 per share (3.9% discount<sup>1</sup>),
- **amount raised:** HRK 510 million (EUR 68 million),
- **investors interest:** 33% higher than the available number of shares,
- **subscription of issue:** 60.7% domestic pension funds, 22.2% Republic of Croatia, 5.2% employees, 11.9% others,
- **capital increase adoption:** on 24 July 2015 by commercial court.

## Utilization of funds from capital increase



## Shareholder structure following the capital increase



## Purchase price for Žito

- signed SPA price for Žito was EUR 180.1 per share,
- stated price was 5.9% higher than market price, as a result of competitive process,
- additional shares were also purchased for EUR 180.1 per share,
- acquisition price for 90% of Žito shares was EUR 57.7m; Žito had 10% treasury shares.

<i><b>Multiples</b></i>	<b>Žito<sup>2</sup></b>	<b>Podravka rep.</b>	<b>Podravka norm.</b>	<b>Peer Group</b>
EV/Sales	0.6	0.7	0.7	2.1
EV/EBITDA	7.9	7.9	6.6	11.8

<sup>1</sup>Calculated as price of issue compared to the last market price on 02 June 2015, day prior to the General Assembly on which capital increase decision has been voted for; <sup>2</sup>Acquisition multiples.

# Further internationalization to be achieved via entering new markets

## Dubai – HUB for MENA region



### ▪ MENA region key macro data:

- population<sup>1</sup> → 436 million,
- BDP per capita<sup>1</sup> → USD 2,927 - 132,038,
- real BDP yoy growth<sup>1</sup> → 1.9% - 11.6%,

### ▪ business model:

- subsidiary, outsourced distribution & own sales force,

### ▪ planned product range:

- culinary,
- sweets, snacks and beverages,
- baby, breakfast and other food,

### ▪ manager Nermin Salman:

- former Gorenje Regional director for MENA region,
- former Supervisory Board president of Konzum Sarajevo and director of Droga Sarajevo.

## Tanzania – HUB for SE Africa region



### ▪ Southeast Africa region key macro data:

- population<sup>1</sup> → 342 million,
- BDP per capita<sup>1</sup> → USD 816 - 7,502,
- real GDP yoy growth<sup>1</sup> → 2.3% - 8.2%,

### ▪ business model:

- subsidiary, local production, outsourced distribution,

### ▪ planned product range:

- culinary,

### ▪ manager Davor Švarc:

- 11 years of working experience in Tanzania,
- director of Central Europe in Podravka Group,
- director of Western Europe and Overseas Countries and New Markets in Podravka Group.

## China



### ▪ China region key macro data:

- population<sup>1</sup> → 1.38 billion,
- BDP per capita<sup>1</sup> → USD 15,184,
- real GDP yoy growth<sup>1</sup> → 6.3%,

### ▪ business model:

- representative office, outsourced distribution,

### ▪ planned product range:

- culinary,
- sweets, snacks and beverages,
- baby, breakfast and other food,

### ▪ manager Goran Kapičić:

- Managing director for Actavis China,
- Head of China Operations for TEVA, Barr Laboratories and Pliva.

<sup>1</sup>Source: IMF, estimation for 2016, World Economic Outlook Database, October 2015; range refers to the lowest amount/growth and highest amount/growth for countries in a group of countries.

# Expansion of pharmaceutical capacities to satisfy international demand

Construction of new pharmaceutical facilities started in 2015

## Project:

- production facility for solid oral forms,
- production facility for semi solid and liquid forms,
- end of project → April 2017.

## Project reasoning:

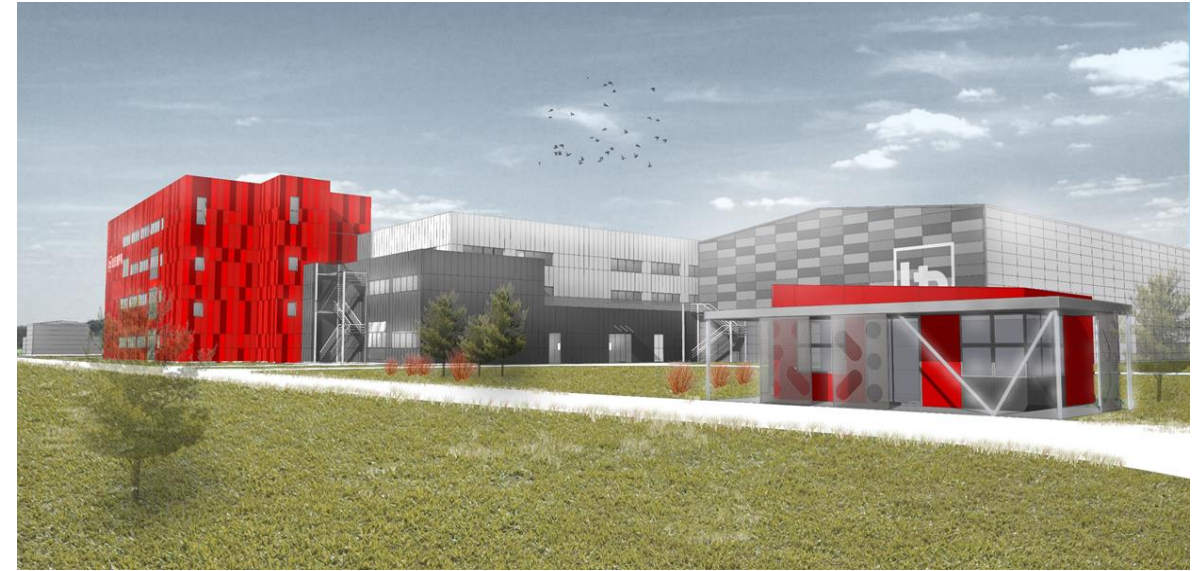
- insufficient production capacities due to perennial volume growth,
- acquiring of new technologies for product differentiation.

## Project financing:

- total value of investment EUR 51.3 million,
- EUR 40.0 million loan, EUR 11.3 million own funds,
- EUR 20.0 million government incentive through income tax benefits.

## Business reasons for choosing Croatia as facilities location:

- high speed in obtaining all permits,
- tax incentives for strategic investments,
- availability of highly-educated workforce at acceptable cost level,
- incentives for hiring young workforce,
- proximity to other Belupo locations.





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# Key highlights of Q1 2016

## New organization of food segment categories:

### Old categories:

- Culinary,
- Sweets, snacks and beverages,
- Baby, breakfast and other food,
- Meat products,
- Žito\*.

\*Žito assortment allocation: spices<sup>1</sup>; breakfast cereals, confectionary, teas<sup>2</sup>; pasta, rice, frozen and cooled food, cereals<sup>3</sup>.

### New categories:

- Culinary<sup>1</sup>,
- Sweets, cereals for adults, snacks and drinks<sup>2</sup>,
- Lino world,
- Mediterranean food, condiments and core food<sup>3</sup>,
- Meat programme,
- Bakery and mill products.

## Dividend distribution proposal:

- 10 years from the last dividend payment,
- Successfully implemented restructuring processes + achieved positive business results = prerequisites for dividend payment have been met,
- Proposal on dividend payment in the amount of HRK 7.00 per share,
- The final decision on the dividend distribution will be adopted by the Podravka Inc. shareholders at the company's General Assembly meeting,
- Management goal → to enable sustainable dividend policy execution.

## Žito Group integration into Podravka Group:

- Integration plan with 75 projects adopted,
- End of 2018 → expected integration completion,
- Expected synergy and integration impacts:
  - 2017 → HRK +18.9m on the EBITDA level,
  - 2018 → HRK +18,8m on the EBITDA level,
  - 2019 → HRK +36,8m on the EBITDA level,
- 1 April 2016 → Žito Inc. acquired 100% of Podravka LLC Ljubljana,
- Sale of Žito's products in majority of regional markets through Podravka's companies.

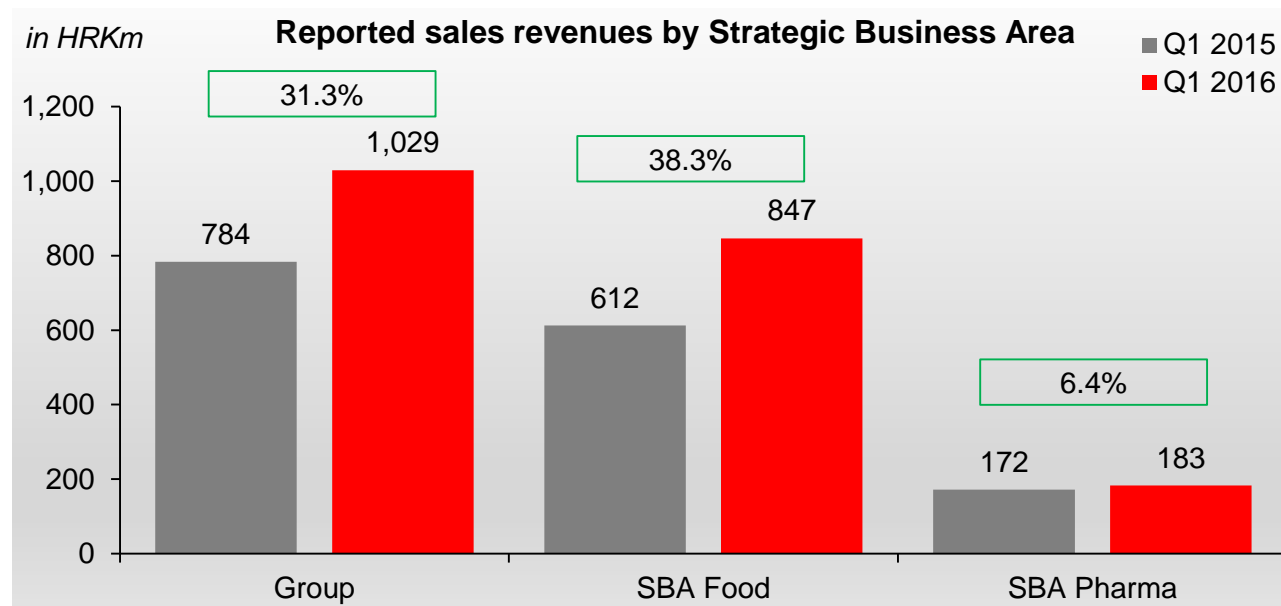


## Changes in the MB of Podravka:

- 15 February 2016 → Agreement on termination of the mandate for MB member in charge of finance and IT, Miroslav Klepač, approved; mandate ended on 31 March 2016,
- 1 April 2016 → beginning of mandate for new MB member in charge of finance and IT, Iva Brajević,
- Mandate of the new member lasts until the expiry of mandate of the MB as a whole.



# Own brands excluding beverages and Žito assortment recorded 6.4% of sales growth in Q1 2016



## Net impact of FX on sales revenues:

HRK <sub>m</sub>	Own brands	Other sales	Total	Currency	HRK <sub>m</sub>
Food	(8.6)	(0.3)	(9.0)	RUB	(7.4)
Pharmaceuticals	(4.6)	(0.2)	(4.7)	EUR	(2.1)
Group	(13.2)	(0.5)	(13.7)	Other	(4.2)
				Total	(13.7)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in Q1 2016 if FX rates had remained on the same levels as in Q1 2015.

## SBA Food excl. beverages and Žito assortment<sup>1</sup>:

- Own brands** → 5.5% higher sales mostly due to sales growth of Culinary category and Meat programme category,
- Other sales** → 11.5% lower sales mostly due to lower sales of trade goods,
- Total SBA Food** → 3.6% higher sales.

## SBA Pharmaceuticals<sup>1</sup>:

- Own brands** → 10.3% higher sales mostly due to the expansion of the business cooperation in the Russian market,
- Other sales** → 7.9% lower sales due to stronger focus on own brands,
- Total SBA Pharmaceuticals** → 6.4% higher sales.

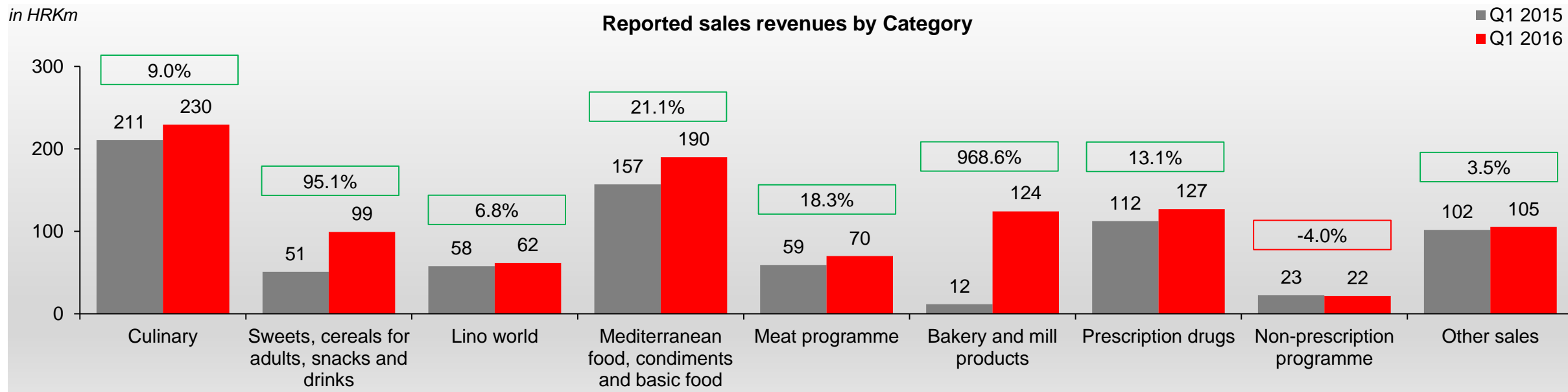
## Podravka Group excl. beverages and Žito assortment<sup>1</sup>:

- Own brands** → 6.4% higher sales,
- Other sales** → 10.2% lower sales,
- Total Podravka Group** → 4.2% higher sales.

<sup>1</sup>Percentages in the text relate to performance in Q1 2016 compared to Q1 2015.

# Several food categories benefited from successful implementation of new business model in Russia

in HRKm

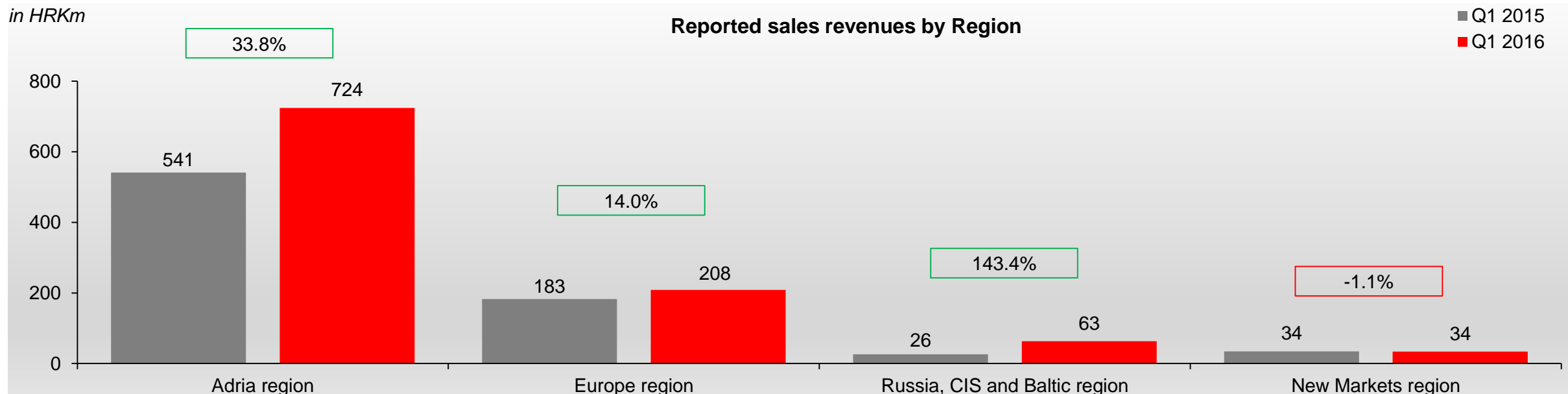


## Category performance in Q1 2016 excluding Žito assortment<sup>1</sup>:

- **Culinary (+6.5%)** → activities related to the Vegeta brand in Poland and Croatia as well as successful implementation of new business model in Russia,
- **Sweets, cereals for adults, snacks and drinks (-2.0%)** → market decline of powdered sweets in Croatia, rationalization of powdered drinks product range,
- **Lino world (+6.8%)** → activities on the Lino Lada brand in Croatia, introduction of baby purees product range,
- **Mediterranean food, condiments and core food (+3.0%)** → frozen vegetables growth in Russia, increased distribution of condiments in Germany,
- **Meat programme (+18.3%)** → among other things, extension of the pâté range distribution in Russia,
- **Bakery and mill products (-13.8%)** → aggressive competition pricing activities in Croatia,
- **Prescription drugs (+13.1%)** → expansion of the business cooperation in Russia, expansion of heart and blood vessels assortment in Bosnia and Herzegovina,
- **Non-prescription programme (-4.0%)** → high comparative period in Croatia,
- **Other sales (-10.2%)** → lower trade goods sales in food and pharmaceuticals.

<sup>1</sup>Percentages in the text relate to performance in Q1 2016 compared to Q1 2015.

# Majority of regions recorded organic sales growth of own brands in food segment



## Region performance in Q1 2016 excluding Žito assortment<sup>1</sup>:

- **Adria region (0.0%)** → 1.1% sales growth of food segment primarily due to a positive impact of meat programme and Lino world categories; negative impact of pharmaceuticals segment in non-prescription programme category and in trade goods,
- **Europe region (-1.2%)** → 5.7% sales growth of own brands in food segment; negative impact of other sales in food segment and negative impact of pharmaceuticals segment,
- **Russia, CIS and Baltics region (+141.1%)** → positive impact of successful implementation of the new business model in food segment in the market of Russia, expansion of business cooperation in pharmaceutical segment in the market of Russia,
- **New Markets region (-4.4%)** → negative impact of other sales, sales of own brands on the comparative period level.




























## Net impact of FX on sales revenues:

Region	HRKm
Adria	(3.6)
Europe	(1.9)
Russia, CIS, Baltic	(7.4)
New Markets	(0.8)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in Q1 2016 if FX rates had remained on the same levels as in Q1 2015.

<sup>1</sup>Percentages in the text relate to performance in Q1 2016 compared to Q1 2015.

## Food segment profitability under the influence of one-off items in the comparable period

Q1 2016 (in HRKm) <sup>1</sup>	Food excl. Žito		Q1 2016 impact and performance of Žito Group		Food reported	
Sales revenues	642.2*	 4.9%	211.0*	 3.2%	846.7*	 38.3%
Gross profit	240.7	 1.8%	60.3	 19.6%	301.0	 27.3%
EBITDA	65.4	 (28.5%)	27.4	 86.9%	92.7	 1.4%
EBIT	40.9	 (37.0%)	16.5	 251.0%	57.4	 (11.7%)
Net profit after MI	30.5	 (47.5%)	13.5	 261.3%	44.0	 (24.2%)
Q1 2016 (% of sales revenues) <sup>2</sup>	Food excl. Žito		Q1 2016 impact and performance of Žito Group		Food reported	
Gross margin	37.5%	 -115 bp	28.6%	 +392 bp	35.5%	 -309 bp
EBITDA margin	10.2%	 -475 bp	13.0%	 +581 bp	11.0%	 -398 bp
EBIT margin	6.4%	 -424 bp	7.8%	 +551 bp	6.8%	 -383 bp
Net margin after MI	4.7%	 -474 bp	6.4%	 +458 bp	5.2%	 -428 bp

### Key highlights in Q1 2016:

#### ▪ Food excluding Žito:

- Lower **gross margin** as a result of targeted sale and marketing activities and FX differences,
- **Operating profit** in Q1 2015 was impacted by HRK 24.8m of positive effect from Mirna consolidation. Total operating expenses grew only 0.9% (excluding Mirna they are 0.3% lower) → result of restructuring and focus on cost optimisation,
- **Net profit after MI** in Q1 2015 was impacted by, apart from impacts above EBIT, utilisation of tax benefits. Effective tax rate in Q1 2016 was 23.5%, while in Q1 2015 it was 1.4%.
















#### ▪ Performance and impact of Žito Group:













- \*Part of Žito Group assortment (HRK 6.5 mil.) was sold through Podravka's companies and eliminated in the consolidation,
- Lower prices of certain raw materials, 3.8% lower total operating expenses, lower net finance costs, effective tax rate was 15.0%.

<sup>1</sup>Performance in Q1 2016; % of change compared to Q1 2015; <sup>2</sup>% of sales revenues in Q1 2016; basis points change when compared to Q1 2015.



# Sales growth and absence of negative FX differences positively influenced pharmaceuticals profitability

Q1 2016 (in HRKm) <sup>1</sup>	Food reported			Pharmaceuticals			Group reported		
Sales revenues	846.7		38.3%	182.7		6.4%	1,029.4		31.3%
Gross profit	301.0		27.3%	93.7		6.6%	394.6		21.7%
EBITDA	92.7		1.4%	34.2		119.5%	126.9		18.6%
EBIT	57.4		(11.7%)	23.7		329.9%	81.1		15.0%
Net profit after MI	44.0		(24.2%)	16.1		794.0%	60.1		0.4%

Q1 2016 (% of sales revenues) <sup>2</sup>	Food reported		Pharmaceuticals		Group reported				
Gross margin	35.5%		-309 bp	51.3%		+12 bp	38.3%		-304 bp
EBITDA margin	11.0%		-398 bp	18.7%		+964 bp	12.3%		-132 bp
EBIT margin	6.8%		-383 bp	13.0%		+976 bp	7.9%		-111 bp
Net margin after MI	5.2%		-428 bp	8.8%		+775 bp	5.8%		-180 bp

## Key highlights in Q1 2016:

### Pharmaceuticals:













- Lower COGS growth than sales growth positively impacted **gross margin**,
- Total operating expenses 13.5% lower due to the absence of negative FX on trade receivables and payables; excluding FX on trade receivables and payables, total operating expenses were 2.0% lower → result of cost optimization,
- Lower net finance costs, effective tax rate at the level of statutory rate.

### Podravka Group:

- Key impacts on lower profitability margins are: (i) gain on a bargain purchase and tax benefits in the comparable period, (ii) targeted sale and marketing activities in Q1 2016 and (ii) consolidation of Žito Group whose assortment has, on average, lower margins than Podravka's food segment. Significant positive synergy and integration effects on profitability margins are expected from 2017.

<sup>1</sup>Performance in Q1 2016; % of change compared to Q1 2015; <sup>2</sup>% of sales revenues in Q1 2016; basis points change when compared to Q1 2015.

# Positive impact of restructuring and focus on cost optimisation

Operating expenses	Q1 2016 / Q1 2015 excluding Žito	Q1 2016 / Q1 2015 reported
Costs of goods sold (COGS)	6.7% 	38.1% 
General and administrative expenses (G&A)	(11.2%) 	3.2% 
Selling and distribution costs (S&D)	0.6% 	26.3% 
Marketing expenses (MEX)	6.6% 	15.2% 
Other expenses	(79.9%) 	(79.9%) 
Total	3.0% 	28.5% 

## Key highlights in Q1 2016 excluding Žito Group impact:

### Costs of goods sold (COGS):

- 6.7% higher COGS due to organic volume growth in both segments,

### General and administrative expenses (G&A):

- 11.2% lower due to, among other things, lower costs of services and other expenses. Excluding Mirna expenses, G&A would be 15.0% lower,

### Selling and distribution costs (S&D):

- Mild 0.6% growth while organic sales growth of own brands excluding Žito was 4.4%. Positive impact came from, among other things, optimisation of rental expenses,

### Marketing expenses (MEX):

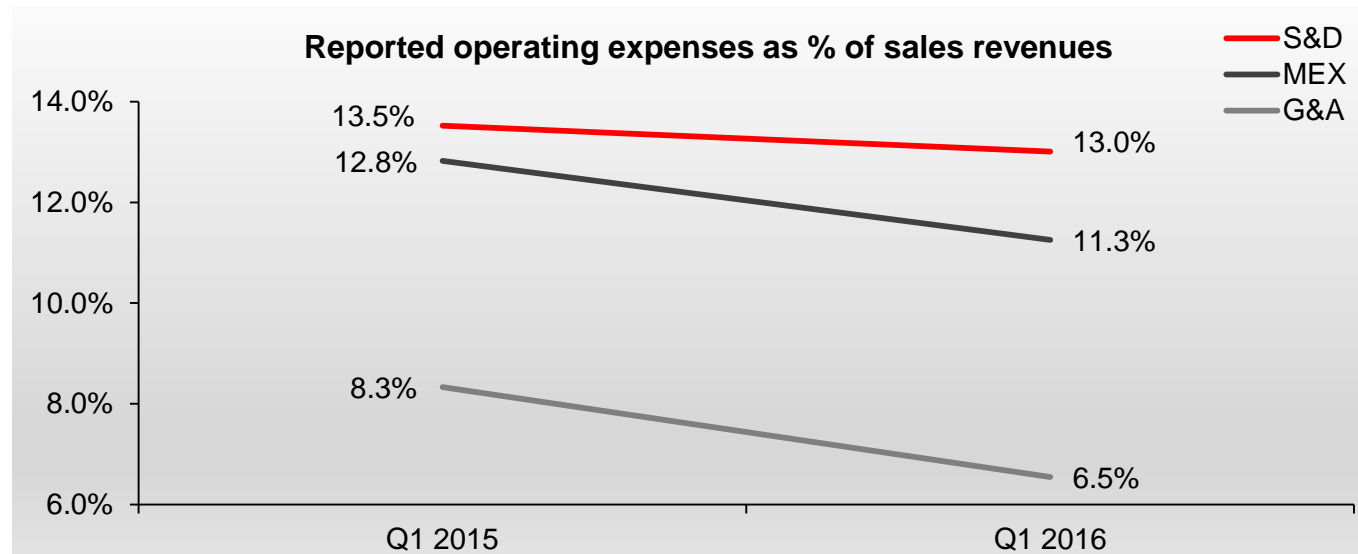
- Stronger marketing activities related to the culinary category,

### Other expenses:

- Net FX differences on trade receivables and payables were HRK -2.0 million in Q1 2016, while in Q1 2015 they were HRK -8.1 million,

### Total operating expenses (excluding COGS):

- Total operating expenses were 3.1% lower compared to Q1 2015 → result of restructuring and focus on cost optimisation.

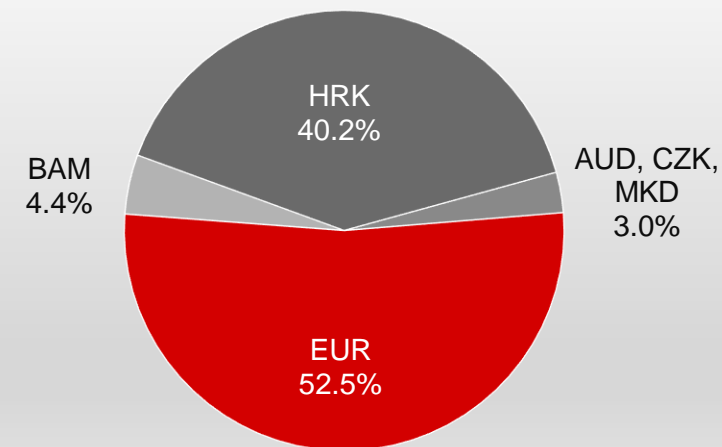


# Sustainable level of indebtedness following Žito Group acquisition

(in HRK 000) <sup>1</sup>	Q1 2016	2015	% change
Net debt	1,060,113	922,376	14.9%
Interest expense	36,759	36,918	(0.4%)
Net debt / EBITDA	2.2	2.0	10.2%
EBITDA / Interest expense	13.3	12.7	4.7%
Equity to total assets ratio	58.2%	57.0%	+118 bp

<sup>1</sup>All P&L figures calculated on the trailing 12 months level, while BS figures are taken at the end of period.

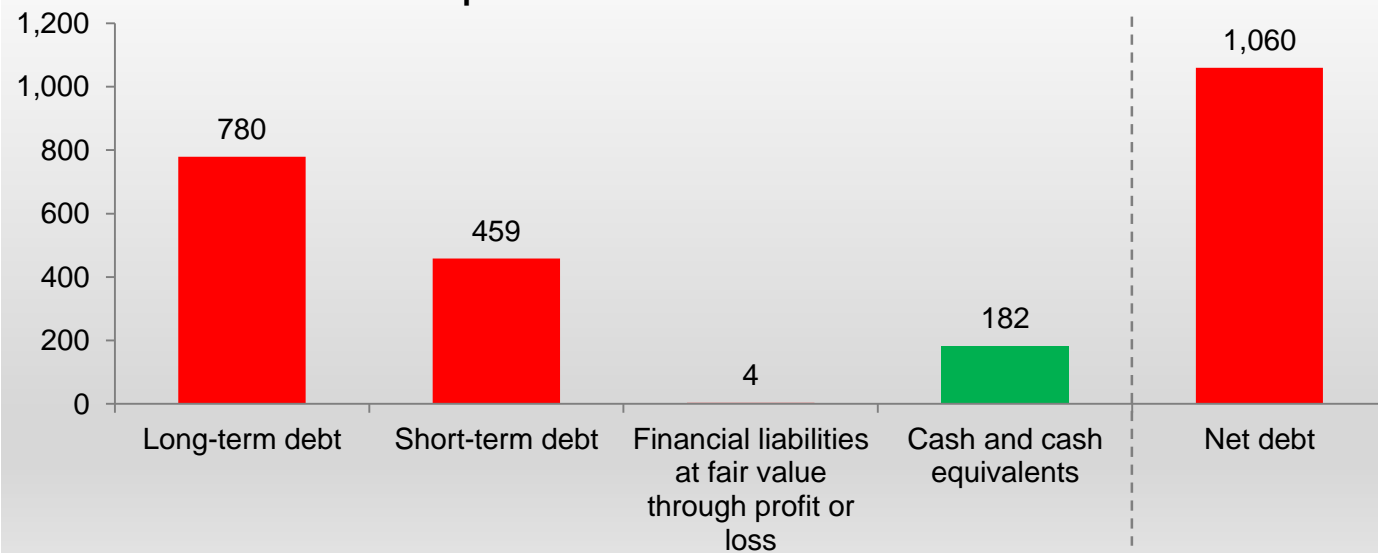
Currency structure of debt as at 31 March 2016






## Key highlights:

- Net debt growth → use of long-term borrowings for the purpose of the new pharmaceutical factory construction, lower level of cash,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA calculated with the 2015 pro-forma EBITDA Podravka Group and Žito Group level and excluding gain from Žito bargain purchase is 2.6; simultaneously interest coverage ratio is 10.5,
- **Weighted average cost of debt:**
  - As at 31 March 2016 → 2.9%,
  - As at 31 December 2013 → 4.3%.

Net debt components in HRK million as at 31 March 2016

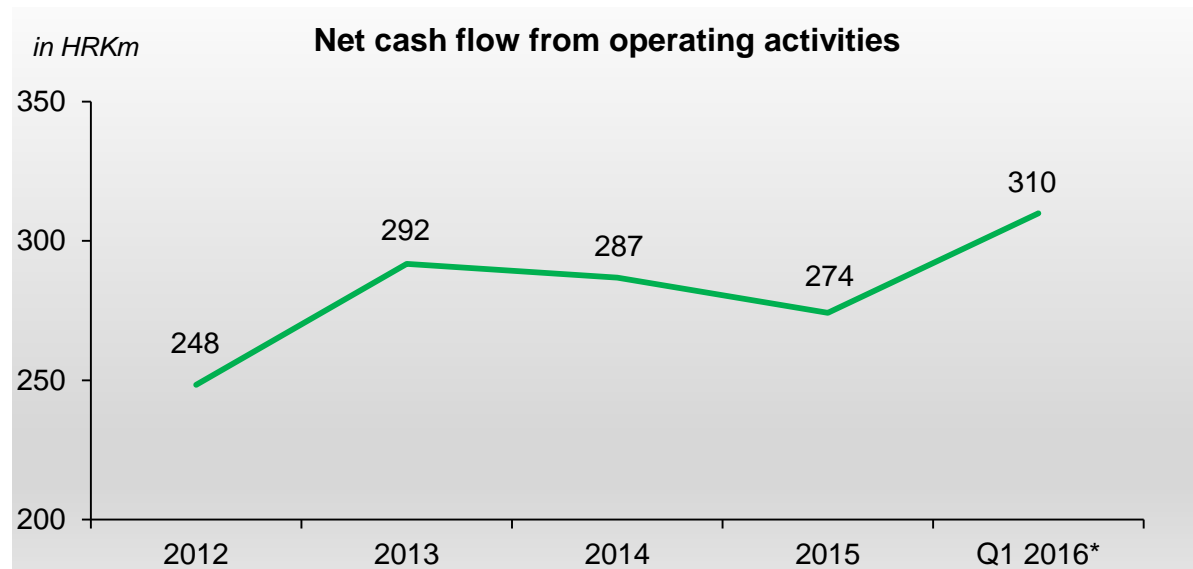


## Stable level of net cash flow from operating activities

Working capital movement	31 March 2016 / 31 December 2015	Impact
Inventories	 HRK -1.2 million	<ul style="list-style-type: none"> <li>Positive impact of lower prices of some raw materials that Žito Group has in inventory.</li> </ul>
Trade receivables	 HRK +8.6 million	<ul style="list-style-type: none"> <li>Trade receivables growth lower than sales growth → positive impact of shorter legal payment days due to change in legislation in the Slovenian market.</li> </ul>
Trade payables	 HRK -127.5 million	<ul style="list-style-type: none"> <li>Seasonal impact in food segment → part of liabilities from 2015 settled in Q1 2016,</li> <li>Settlement of Belupo liabilities for completed stages of the new factory construction,</li> <li>Change in legislation in the Slovenian market → shorter legal payment days.</li> </ul>

### Key highlights:

- Net cash flow from operating activities → HRK -5.0m, mostly due to settlement of trade payables,
- Net cash flow from investing activities → HRK -133.3m, mostly due to HRK 121.1m of capital expenditures,
- Net cash flow from financing activities → HRK 29.1m,
- CAPEX in 2016 is expected to be at the level of HRK 440-540m, in 2017 at the level of HRK 390-490m, and after that at the level of HRK 120-220m.



\*Calculated on the trailing 12 months level.

## Contact

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Podravka d.d.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

[www.podravka.hr](http://www.podravka.hr)

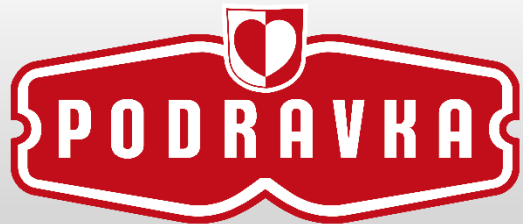
Investor relations

[ir@podravka.hr](mailto:ir@podravka.hr)

tel: +385 48 65 16 65

mob: +385 99 43 85 007





# Podravka Group

*Always with a heart!*

ZSE&LJSE Investors Conference, 24 May 2016.

