



Podravka Group business results for 1-12 2019 period



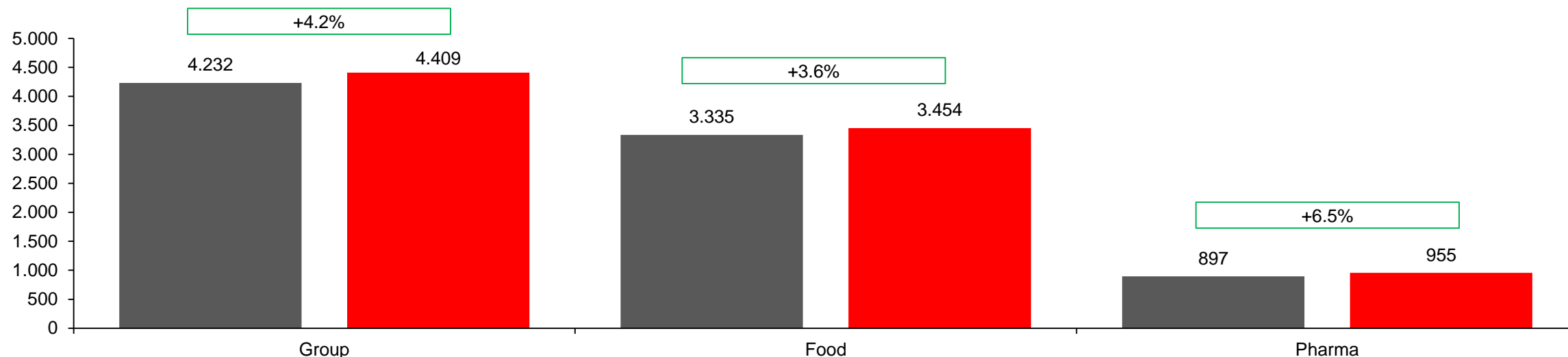
Strong sales revenues growth continues in 2019



in HRKm

Sales revenues by segment

■ 12M 2018
■ 12M 2019



Food segment in 1-12 2019¹:

- **Own brands** → 4.1% higher sales, due to the sales growth of all business units, as a result of stronger selling and marketing activities, demand for newly launched products and the expanded distribution of certain categories. BU Culinary, BU Baby food, sweets and snacks and BU Fish had the most significant impact on the revenue increase,
- **Other sales** → 3.5% lower revenues, as a lower sales of trade goods in the markets of Bosnia and Herzegovina and Serbia,

- **Total Food** → 3.6% higher sales.

Pharmaceuticals segment in 1-12 2019¹:

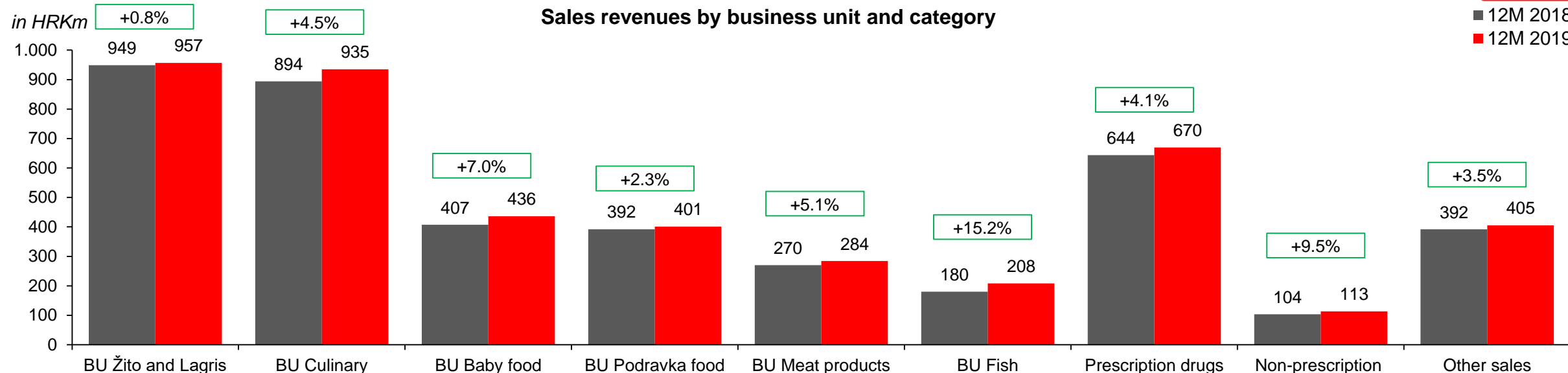
- **Own brands** → 4.9% higher sales, due to the increase in demand and sales in the markets of Russia, Croatia, Serbia and Slovakia,
- **Other sales** → 14.8% higher sales, as a result of higher sales of trade goods in the markets of Bosnia and Herzegovina and Croatia,
- **Total Pharma** → 6.5% higher sales

Podravka Group in 1-12 2019¹:

- **Own brands** → 4.3% higher sales,
- **Other sales** → 3.5% higher sales,
- **Total Podravka Group** → 4.2% higher sales.

¹Percentages in the text relate to performance in 1-12 2019 compared to 1-12 2018.

Sales growth across all business segments



Business unit and category performance in 1-12 2019¹:

- **BU Žito and Lagris (+0.8%)** → result of a continuous growth of the Bakery and Mill products and Pasta categories, compensating the lower sales of the Confectionery and Pulses, Groats and Oil products categories,
- **BU Culinary (+4.5%)** → higher sales primarily in the categories Seasonings, Soups and Food mixes, due to the optimum mix of selling and marketing activities and the demand for new products,
- **BU Baby food, sweets and snacks (+7.0%)** → higher sales, driven by marketing activities in categories Creamy spreads, Baby food and Snacks and by excellently received new and innovated products of the Lino Lada and Kwiki brands,
- **BU Podravka food (+2.3%)** → higher sales of the Flour, Condiments and Tomato categories, which managed to compensate for lower revenues of the Frozen vegetables category that is connected to problems with procurement of raw materials from a supplier from Serbia,
- **BU Meat products, meat solutions and savoury spreads (+5.1%)** → the increase in sales of ready-to-eat meals and luncheon meats categories,
- **BU Fish (+15.2%)** → higher sales due to the increased demand and stronger selling and marketing activities in the Adria region,
- **Prescription drugs (+541%)** → higher sales in the markets of Russia, Serbia and Slovakia, which compensated for the decrease in sales in the markets of Turkey, Bosnia and Herzegovina and Kosovo, due to changes in local legislation. Sales increase is a result of continuous demand for Belupo products and significant selling activities in the second half of the year,
- **Non-prescription programme (+9.5%)** → growth in the OTC drugs and the natural products subcategory in Croatia, Slovenia and Russia due to increased demand and targeted marketing and selling activities,
- **Other sales (+3.5%)** → higher sales as a result of the increase in sales of trade goods of the Farmavita.

¹Percentages in the text relate to performance in 1-12 2019 compared to 1-12 2018.

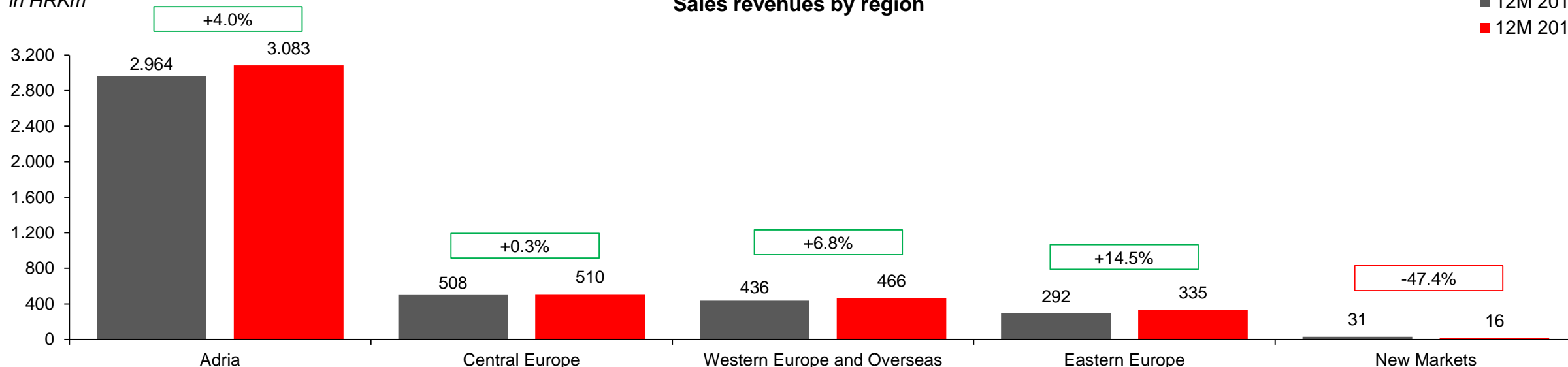
Growth acceleration in Eastern Europe



in HRK_m

Sales revenues by region

■ 12M 2018
■ 12M 2019



Region performance in 1-12 2019¹:

- **Adria (+4.0%)** → **Food** sales 3.9% higher, revenue growth is recorded by all business units, as a result of implemented selling and marketing activities, expanded distribution and launching of new and innovated products; **Pharmaceuticals** sales 4.1% higher primarily as a result of the increase in sales of trade goods and non-prescription programme,
- **Central Europe (+0.3%)** → **Food** sales 0.4% lower, where the significant increase in sales of the BU Culinary was not able to compensate for the decrease in sales of the BU Žito and Lagris in Rice, Pulses, Groats and Oil products categories and trade goods; **Pharmaceuticals** sales recorded 5.4% sales growth, primarily due to the sales growth in the market of the Czech Republic and Slovakia following increased selling activities in the second half of the year,
- **WE and Overseas region (+6.8%)** → **Food** sales 7.1% higher, revenue growth in all business units, led by the BU Culinary and BU Meat products, meat solutions and savory spreads; **Pharmaceuticals** segment recorded lower revenues (-52.4%) without a significant impact on the region's performance,
- **Eastern Europe (+14.5%)** → **Food** sales 0.2% higher, due to significant increase in revenues of the BU Culinary, BU Žito and Lagris, and BU Fish compensated for the decrease in sales of the BU Podravka Food following lower sales of the Frozen vegetables category, connected to the problems with procurement of raw materials from a supplier from Serbia and lower sales of trade goods; **Pharmaceuticals** sales rose 22.4% due to continuous growing demand for Belupo products and in the markets of Russia and Ukraine and significant selling activities in the second half of the year,
- **New markets (-47.4%)** → **Food** sales recorded a revenue down by 12.9%, due to lower sales of BU Baby food, sweets & snack; **Pharmaceuticals** segment, recorded the decrease in revenue is a consequence of changes in legislation in the market of Turkey.

¹Percentages in the text relate to performance in 1-12 2019 compared to 1-12 2018.

Food segment profitability backed by favorable sales mix

Food segment (in HRKm)	REPORTED				NORMALIZED ¹			
	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	3,335	3,454	119	3.6%	3,335	3,454	119	3.6%
Gross profit	1,111	1,159	48	4.3%	1,112	1,160	47	4.3%
EBITDA	323	326	4	1.1%	318	333	15	4.8%
EBIT	173	164	(9)	(5.2%)	181	180	(1)	(0.3%)
Net profit after MI	145	138	(7)	(4.9%)	150	140	(10)	(6.8%)
Gross margin	33.3%	33.5%		+24 bb	33.3%	33.6%		+23 bb
EBITDA margin	9.7%	9.5%		-23 bb	9.5%	9.6%		+11 bb
EBIT margin	5.2%	4.8%		-44 bb	5.4%	5.2%		-20 bb
Net profit margin after MI	4.3%	4.0%		-36 bb	4.5%	4.1%		-45 bb

Food segment profitability in 1-12 2019:

- **Gross profit** → reported gross profit higher 4.3% as a result of higher sales revenues and the positive impact of the sales structure itself. In addition, the estimated effect of movements in prices of raw materials and supplies amounts to negative HRK 26m ²,
- **EBIT** → reported EBIT is 5.2% lower, while normalized operating profit is slightly below 2018 level. In line with its strategy, the company increased marketing investments by HRK 20m (+11.5%), that contributed to the increase in sales which successfully compensated for higher staff costs of HRK 42m (+5.5%) and costs related to the sales growth. Higher staff costs are a result of the planned improvement in material rights of employees,
- **Net profit after MI** → reported net profit is 7m lower, while normalized net profit after minority interests is HRK 10m lower than in the comparative period. On top of impacts above the EBIT level, it is necessary to point out less favorable movements in foreign exchange differences on borrowings (HRK -0.3m in 1-12 2019; HRK +5.5m in 1-12 2018).

¹Normalized for one-off impacts.

²Obtained as used volumes of raw materials and supplies in 2019*prices in 2019 – used volumes of raw materials and supplies in 2019*prices in 2018.

Profitability improvement in Pharmaceuticals segment continues

Pharma segment (in HRK _m)	REPORTED				NORMALIZED ¹			
	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	897	955	559	6.5%	897	955	59	6.5%
Gross profit	448	473	25	5.6%	452	473	21	4.6%
EBITDA	141	183	42	29.7%	147	183	36	24.2%
EBIT	85	119	34	40.1%	91	119	28	30.6%
Net profit after MI	61	84	23	37.9%	66	84	17	26.2%
Gross margin	49.9%	49.5%		-41 bb	50.4%	49.5%		-92 bb
EBITDA margin	15.7%	19.1%		+341 bb	16.4%	19.1%		+272 bb
EBIT margin	9.5%	12.5%		+299 bb	10.2%	12.5%		+230 bb
Net profit margin after MI	6.8%	8.8%		+199 bb	7.4%	8.8%		+136 bb

Pharmaceuticals segment profitability in 1-12 2019:

- **Gross profit** → higher 5.6% as a result of higher sales revenue and the positive impact of the sales structure itself,
- **EBIT** → higher HRK 34m higher (40.1%), while normalized operating profit increased by 30.6% as a result of the significant increase in sales and favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +14m in 1-12 2019; HRK -13m in 1-12 2018). This compensated for higher staff costs of HRK 20m (+8.7%), which is in line with the planned improvement in the material rights of employees,
- **Net profit after MI** → higher HRK 23m which, while normalized net profit after minority interests is HRK 17m higher. This is primarily a result of impacts above the EBIT level, which compensated less favourable movements in foreign exchange differences on borrowings (HRK -2m in 1-12 2019; HRK +6m in 1-12 2018).

¹Normalized for one-off impacts.

Group profitability influenced by both business segments

Pharma segment (in HRK ^m)	REPORTED				NORMALIZED ¹			
	2018	2019	Δ	%	2018	2019	Δ	%
Sales revenue	4,232	4,409	177	4.2%	4,232	4,409	177	4.2%
Gross profit	1,558	1,632	73	4.7%	1,565	1,633	68	4.4%
EBITDA	464	509	45	9.8%	465	516	51	10.9%
EBIT	258	284	25	9.7%	272	300	28	10.1%
Net profit after MI	206	222	16	7.7%	216	224	7	3.3%
Gross margin	36.8%	37.0%		+18 bb	37.0%	37.0%		+6 bb
EBITDA margin	11.0%	11.5%		+59 bb	11.0%	11.7%		+71 bb
EBIT margin	6.1%	6.4%		+32 bb	6.4%	6.8%		+36 bb
Net profit margin after MI	4.9%	5.0%		+16 bb	5.1%	5.1%		-4 bb

Profitability of the Podravka Group in 1-12 2019:

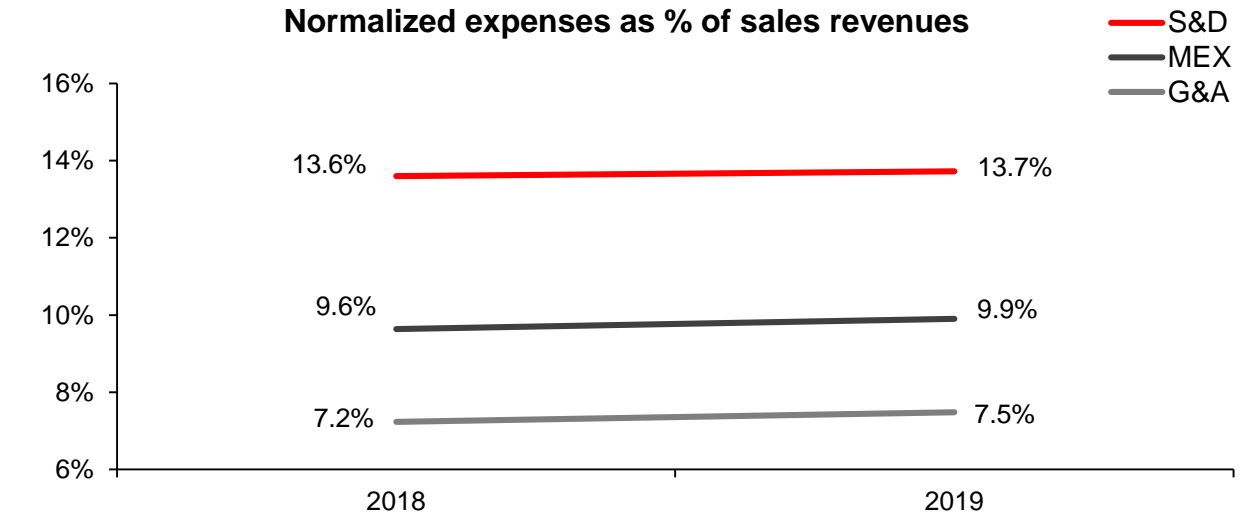
- **Gross profit** → higher 4.7%, where the strong impact comes from both business segments as a result of a favorable sales structure. Cost of goods sold increased by 3.9%, which resulted in the gross margin of 37.0%. In addition, the estimated effect of movements in prices of raw materials and supplies of the Food segment amounts to negative HRK 26m²,
- **EBIT** → higher HRK 13m higher, while normalized operating profit is by HRK 27m higher. This is a result of the increase in sales in both segments and favorable movements in foreign exchange differences on trade receivables and trade payables (HRK +13m in 1-9 2019; HRK -13m in 1-9 2018), which allowed stronger marketing investment of HRK 18m (+13.4%) and compensated higher staff costs of HRK 55m (+7.6%) and costs related to the sales growth. Higher staff costs are a result of the planned improvement in material rights of employees,
- **Net profit after MI** → higher 8m, while normalized net profit after minority interests is HRK 7m higher. On top of impacts above the EBIT level, it is necessary to point out less favorable movements in foreign exchange differences on borrowings than in the comparative period (HRK -2m in 1-12 2019; HRK +12m in 1-12 2018).

¹Normalized for one-off impacts.

²Obtained as used volumes of raw materials and supplies in 2019*prices in 2019 – used volumes of raw materials and supplies in 2019*prices in 2018.

Favorable sales mix compensated the increase in certain operating expenses

Operating expenses 19 vs. 18 % change	REPORTED	
Cost of goods sold (COGS)	3.9%	↗
General and administrative expenses (G&A)	7.3%	↗
Sales and distribution costs (S&D)	6.4%	↗
Marketing expenses (MEX)	7.1%	↗
Other expenses / revenues, net	n/a	↘
Total	3.8%	↗



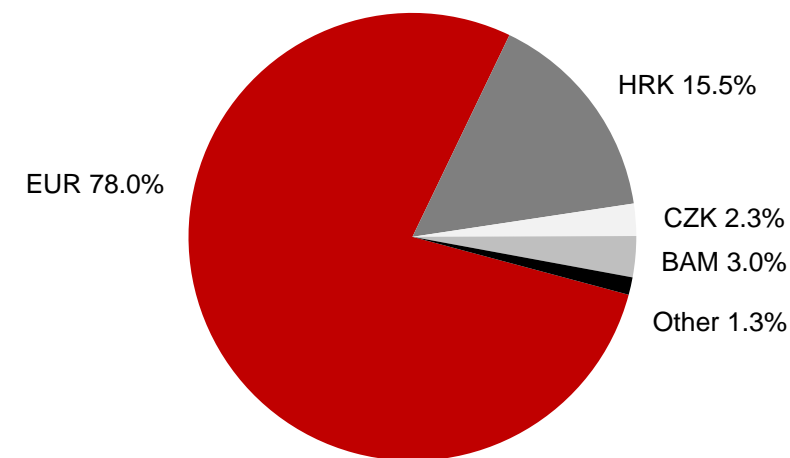
Key highlights of operating expenses in 1-12 2019:

- **Cost of goods sold (COGS):**
 - Higher 3.9%, as a result of higher sales realized, sales structure itself, increase in prices of raw materials and supplies and higher staff costs,
- **General and administrative expenses (G&A):**
 - 7.3% up, due to higher staff costs and different dynamics of movements in provisions,
- **Sales and distribution costs (S&D):**
 - Higher 6.4%, due to the increase in sales and increase in staff costs. Decrease in provision for receivables related to relationship with Fortenova Group (ex Agrokor), made in 2019, is recorded within other income and expenses, net, while the decrease in provision for receivables made in 2018 was included in selling and distribution costs,
- **Marketing expenses (MEX):**
 - Higher 7.1%, out of which costs of marketing investments are up by 8.1%, while the remaining portion relates to marketing department expenses. This is a result of stronger investments in newly launched products promotion and further development of own brands through effective and diverse marketing activities,
- **Other expenses / revenues, net:**
 - HRK +29m in 2019; HRK +5m in 2018. Value adjustments and foreign exchange differences on trade receivables and trade payables (HRK +18.6m in 1-12 2019; HRK - 19.5m in 1-12 2018) are included. Decrease in provision for receivables related to Fortenova Group, (ex Agrokor), made in 2019, is recorded within other income and expenses, net, while the decrease in provision for receivables made in 2018 is included in selling and distribution costs.

The increase in reported net debt is the result of the adoption of the new IFRS 16

(in HRKm) ¹	2018	2019	% change
Net debt	755	822	8.9%
Interest expense	18	15	(17.0%)
Net debt / normalized EBITDA	1.6	1.6	(1.8%)
Normalized EBIT / interest expense	15.2	20.1	32.7%
Equity to total assets ratio	62.9%	65.9%	+303 bp

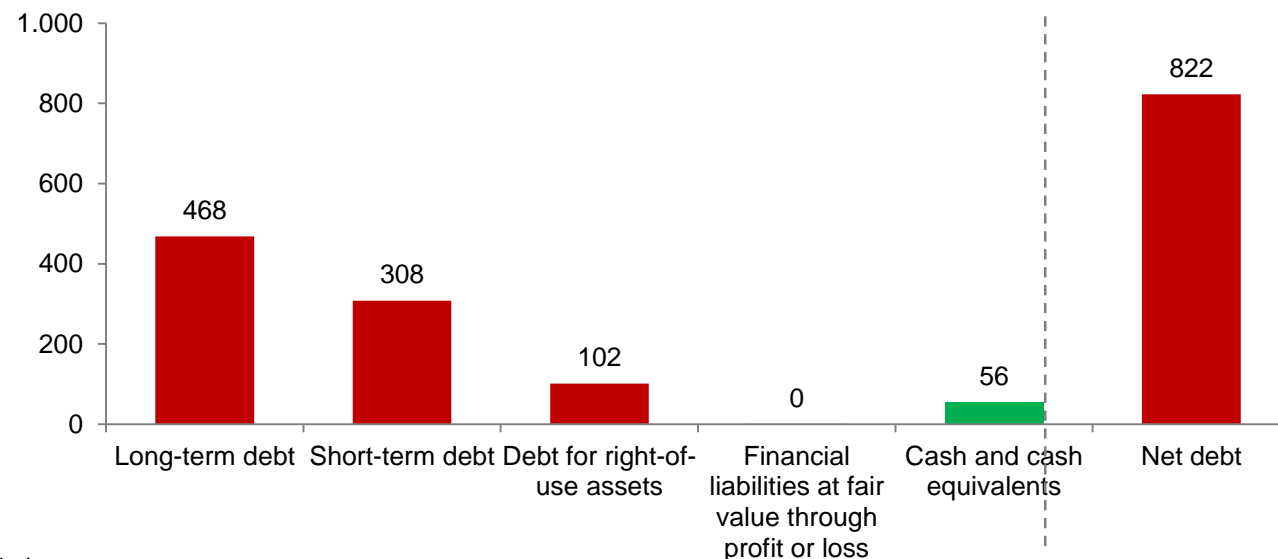
Currency structure of debt as at 31 December 2019



Key highlights:




- Net debt increase → due to inclusion of right-of-use assets (leases) in debt according to new accounting standard IFRS 16 as well as lower amount of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Increase in Net debt/normalized EBITDA due to higher Net debt. Without inclusion of right-of-use assets (leases) in debt according to new accounting standard IFRS 16, the net debt to normalized EBITDA ratio would amount to estimated 1.5,
- **Weighted average cost of debt excluding liabilities for right-of-use assets:**
 - As at 31 December 2019 → 1.2%,
 - As at 31 December 2013 → 4.3%.

Net debt components in HRKm as at 31 December 2019



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

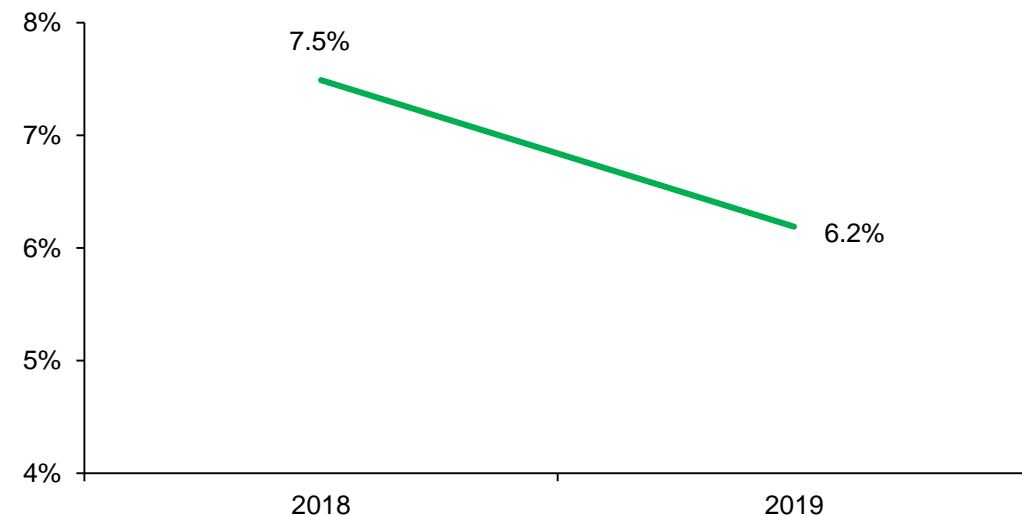
Higher level of net cash from operating activities as a result of operating business growth

Working capital movement in BS	30 Dec 2019 / 30 Dec 2018	Impact
Inventories	 11.8%	<ul style="list-style-type: none"> The increase in inventories is result of the strategic increase in inventories of the fish range due to increased demand and production and the increase in inventories of raw materials and supplies, which is in line with the planned production dynamics
Trade and other receivables	 1.1%	<ul style="list-style-type: none"> This movement is in line with normal operations.
Trade and other payables	 7.9%	<ul style="list-style-type: none"> This movement is in line with regular operations.

(in HRK m)	1-12 2018	1-12 2019	Δ
Net cash from operating activities	317	273	(44)
Net cash from investing activities	(126)	(144)	(18)
Net cash from financing activities	(342)	(284)	58
Net change of cash and cash equivalents	(151)	(156)	(5)

- **CAPEX** in 2020 is expected to be at the level of HRK 298m, in 202-2023 period at the level of HRK 200 m.

Net cash flow from operating activities as % of sales



Podravka's share price movement in 1-12 2019



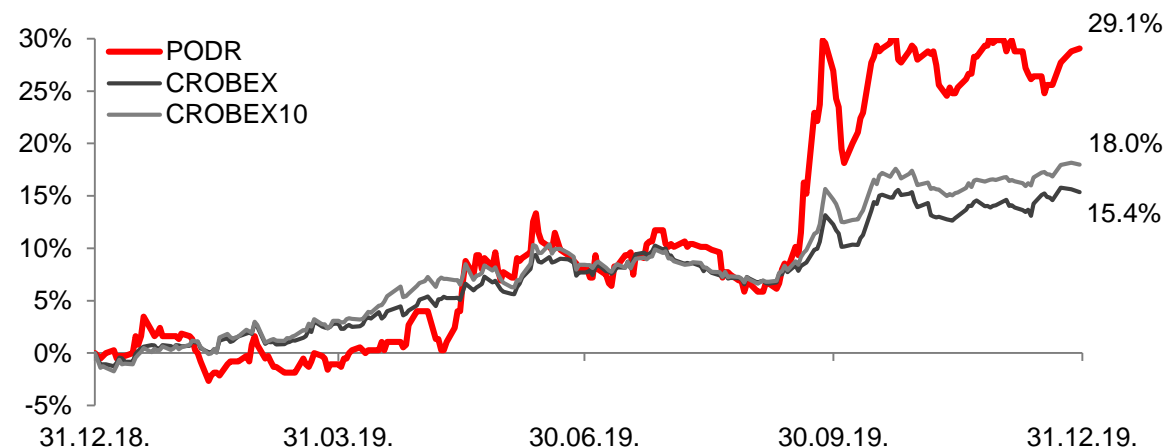
Market activity with PODR share

(HRK; units)	2018	2019	% change
Average daily price	317	429	35.6%
Average daily number of transactions	12	12	4.0%
Average daily volume	1,450	1,110	(23.4%)
Average daily turnover	458,851	476,424	3.8%
Reported earnings per share	30	32	7.4%
Normalized earnings per share	31	32	3.0%

Analyst coverage

Analysts	Recommendation	Target price	Potential ¹
InterCapital	Buy	431 HRK	(11.0%)
Raiffeisen BANK	Under review	-	-
ERSTE Group	Accumulate	480 HRK	(0.8%)
WOOD COMPANY	Hold	443 HRK	(8.5%)

PODR share price movement in 2019



Peer group

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.0	11.7	16.2	2.6	18.2
Normalized weight. av. peer group ³	1.6	11.2	15.9	2.1	17.7
Podravka Group reported	1.0	8.3	15.0	1.1	15.3
Podravka Group normalized ⁴	1.0	8.2	14.2	1.1	15.1

Peer group food: Atlantic Grupa, Ebro, Hochdorf, La Doria, McCormick, Orkla;

Peer group pharma: Alkaloid, Richter Gedeon, Hikma Pharmaceuticals, Krka, Recordati, Stada Arzneimittel.

¹Compared to the last trading price on 30th Dec 2019; ²Obtained from Bloomberg on 27th Feb 2020; ³Calculated excluding max. and min. Values; ⁴Normalized for items stated in the publication of 1-12 2019 and 2018 results.

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Podravka Group business results for 1-12 2019 period

