



Podravka Group business results for 1-9 2017 period



Key highlights of 1-9 2017

Changes of Supervisory and Management Bord members of Podravka Inc.

- SB members recall (Mato Crikvenac, Ivo Družić, Dinko Novoselec) and appointment (Marko Kolaković, Slavko Tešija, Luka Burilović, Damir Grbavac, Ivana Matovina),
- Appointment of Marin Pucar as the president of MB; appointment of Ljiljana Šapina, Hrvoje Kolarić, Davor Doko and Marko Đerek as MB members,
- MB term lasts until 23rd February 2022.



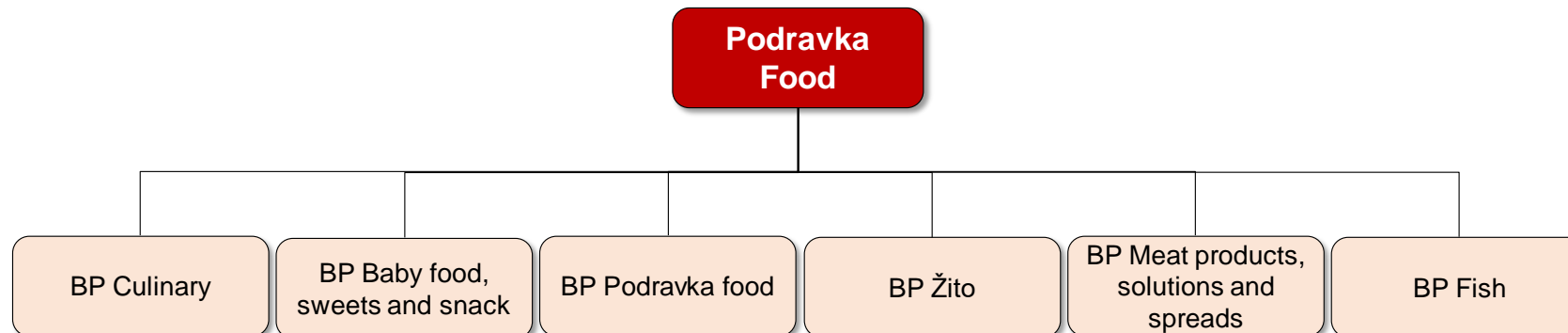
Commissioning of the new pharmaceuticals factory

- On 16th May 2017 two new production plants were opened for solid, semi-solid and liquid drugs, representing the extension of the existing factories of solid and semi-solid drugs,
- The value of the investment is HRK 530 mill.,
- 45% of the investment was financed by own funds and 55% by a loan from Croatian Bank for Reconstruction and Development (HBOR).



Business programmes – the basis of the Podravka’s new organisation

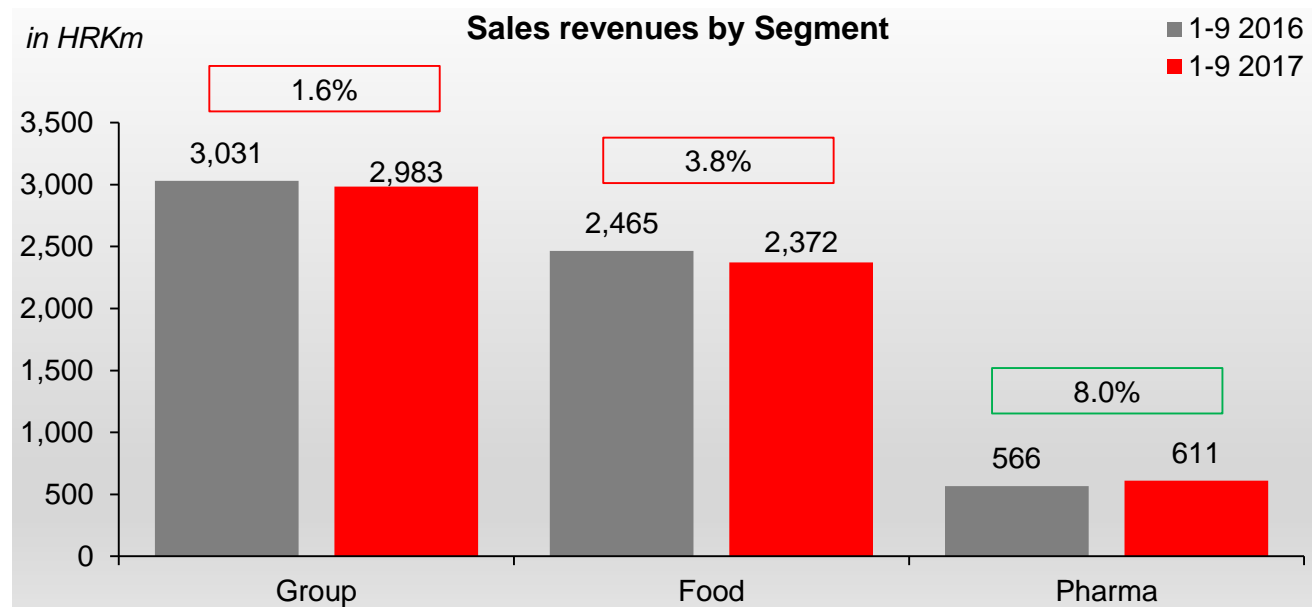
- At the beginning of July 2017 → Podravka Group finalised the process of internal reorganisation of the Food segment by introducing new organisation.



- BP responsibilities: sales, profitability, brand strategy, business development, marketing budget management, product portfolio, production materials/COGS;
- Sectors Corporate marketing and communication and R&D → become excellence centres for support and guidance to business programmes.

Note: The term 1-9 2017 relates to the period January 2017 - September 2017, while the term 1-9 2016 relates to the period January 2016 - September 2016.

Strong growth of Pharmaceutical segment cushioned lower sales in Food segment



Net foreign exchange (FX) impact on sales revenues:

HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(6.8)	(1.0)	(7.8)	EUR	(14.4)
Pharmaceuticals	12.3	(0.8)	11.5	RUB	22.0
Group	5.5	(1.9)	3.6	Other	(4.0)
				Total	3.6

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-9 2017 if FX rates had remained on the same levels as in 1-9 2016.

Food segment in 1-9 2017¹:

- Own brands** → 4.7% lower sales (-4.4% excl. FX), primarily as a result of divested Beverage segment and lower sales of BP Meat products, meat solutions and savoury spreads realised through participation in tenders,
- Other sales** → 8.9% higher sales (+9.5% excl. FX), primarily due to trade goods sales growth,
- Total Food** → 3.8% lower sales (-3.4 % excl. FX).

Pharmaceuticals segment in 1-9 2017¹:

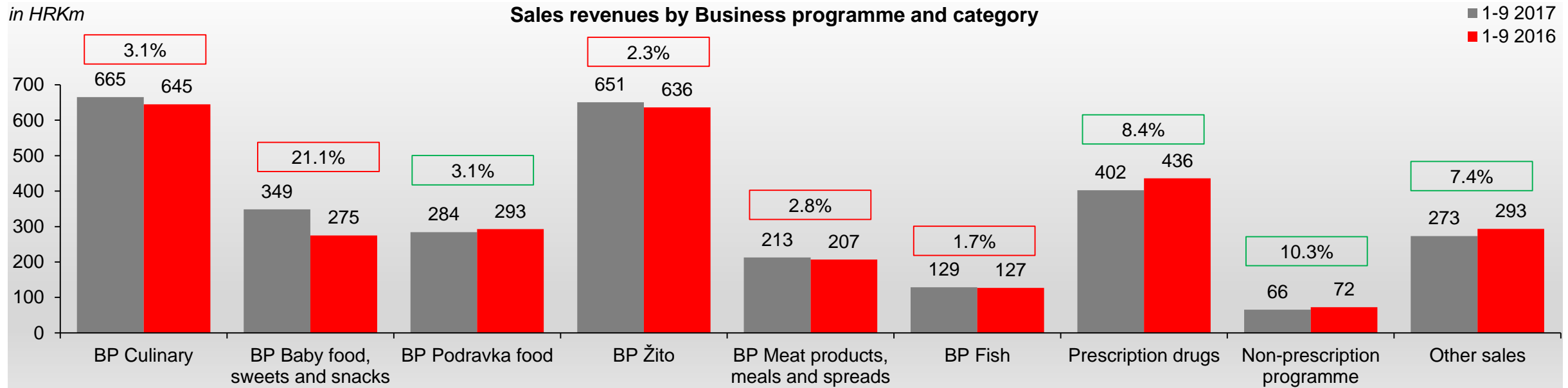
- Own brands** → 8.7% higher sales (+6.0% excl. FX) due to the extension of the product range and positive effect of foreign exchange differences in the market of Russia,
- Other sales** → 4.7% higher sales (+5.5% excl. FX) due to trade goods sales increase in Deltis Pharm pharmacies,
- Total Pharmaceuticals** → 8.0% higher sales (+5.9% excl. FX).

Podravka Group in 1-9 2017¹:

- Own brands** → 2.5% lower sales (-2.7% excl. FX),
- Other sales** → 7.4% higher sales (+8.1% excl. FX),
- Total Podravka Group** → 1.6% lower sales (-1.7% excl. FX).

¹Percentages in the text relate to performance in 1-9 2017 compared to 1-9 2016.

Business programmes facing internal and external challenges

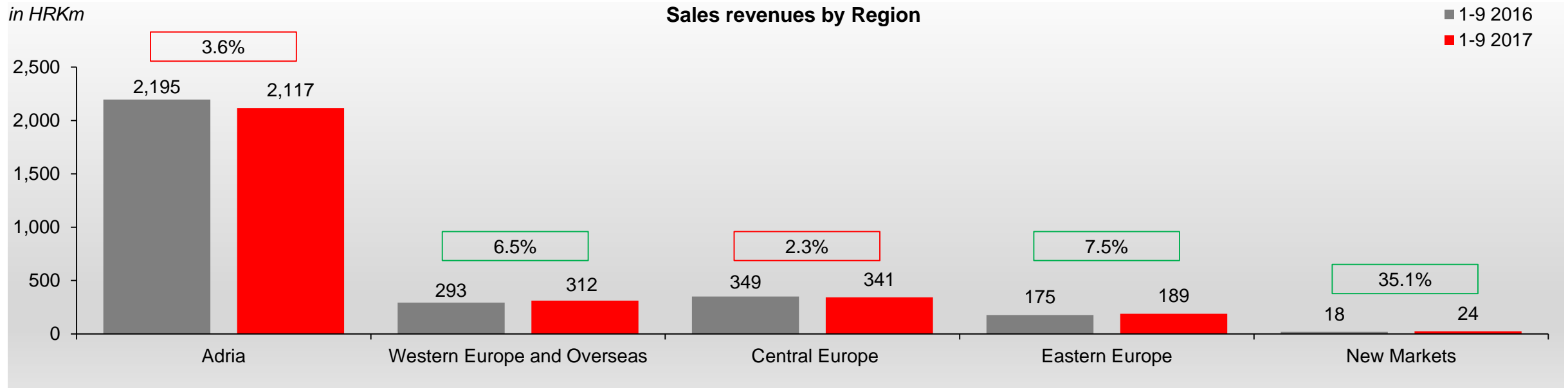


Business programme and category performance in 1-9 2017¹:

- **BP Culinary (-3.1%; -3.5% excl. FX)** → different dynamics of selling and marketing activities in CE, last-year's change of distributor in WE that is still in the process of taking over sales channels and the change of strategy of Podravka's distributor in IE;
- **BP Baby food, sweets and snacks (-21.1%; -20.6% excl. FX)** → impact of divested Beverages segment. Excl. Beverages, sales are 1.4% lower due to lower sales of snack,
- **BP Podravka food (+3.1%; +2.8% excl. FX)** → extended range of vegetables in the Croatian market,
- **BP Žito (-2.3%; -1.1% excl. FX)** → lower sales in Slovenia as a result of absence of sales of a portion of bakery range with the key buyer and aggressive price competition,
- **BP Meat products, meat solutions and savoury spreads (-2.8%; -2.6% excl. FX)** → lower sales realised through participation in tenders,
- **BP Fish (-1.7%; -1.0% excl. FX)** → portion of the range out of stock and absence of private labels orders from partners,
- **Prescription drugs (+8.4%; +5.7% excl. FX)** → revenue growth in the Russian market as a consequence of the product range extension and positive FX effect,
- **Non-prescription programme (+10.3%; +8.0% excl. FX)** → extension of the product range and positive effect of foreign exchange differences in the Russian market; implemented selling and marketing activities in the Croatian market,
- **Other sales (+7.4%; +8.1% excl. FX)** → trade goods and private label growth.

¹Percentages in the text relate to performance in 1-9 2017 compared to 1-9 2016.

Developments in the Adria region drive overall company revenues



Region performance in 1-9 2017¹:

- Adria (-3.6%; -2.8% excl. FX)** → food sales 5.2% lower due to: i) the absence of divested Beverage sales, ii) lower sales in Slovenia as a result of absence of sales of a portion of bakery range with the key buyer and aggressive price competition, iii) lower sales in BP Meat products realised through participation in tenders; **pharmaceuticals** sales 3.1% higher with all categories recording sales growth,
- Western Europe and Overseas (+6.5%; +6.6% excl. FX)** → food sales 6.1% higher due to the extension of the product range and distribution of the BP Žito and from trade goods sales growth; **pharmaceuticals** sales records a mild revenue growth in the market of Germany,
- Central Europe (-2.3%, -2.2% excl. FX)** → food sales 3.7% lower due to different dynamics of selling and marketing activities; **pharmaceuticals** sales 9.1% higher due to growth in markets of Poland and Czech Republic,
- Eastern Europe (+7.5%, -5.1% excl. FX)** → food sales 12.6% lower due to change of the strategy of Podravka's distributor resulting in temporary delisting of portion of culinary product range from retail chains; **pharmaceuticals** sales rose 29.8% due to extension of product range and positive foreign exchange differences,
- New markets (+35.1%; +36.2% excl. FX)** → food sales 35.6% higher due to sales growth in Culinary category and in trade goods of the company Lagris; **pharmaceuticals** sales 34.1% higher due to Prescription drugs category growth in the market of Turkey.

¹Percentages in the text relate to performance in 1-9 2017 compared to 1-9 2016.

Food sales revenues dynamics impacted Food segment and overall Group profitability

1-9 2017 (in HRK ^m) ¹	Food	Pharmaceuticals	Podravka Group
Sales revenues	2,372.4 (3.8%)	610.8 8.0%	2,983.1 (1.6%)
Gross profit	755.2 (6.8%)	304.2 3.6%	1,059.4 (4.0%)
EBITDA	170.0 (28.6%)	84.3 (15.1%)	254.4 (24.6%)
EBIT	60.1 (54.8%)	50.4 (26.0%)	110.5 (45.1%)
Net profit after MI	20.8 (79.0%)	33.3 (22.7%)	54.1 (62.0%)

1-9 2017 (% of sales revenues) ²	Food	Pharmaceuticals	Podravka Group
Gross margin	31.8% -104 bp	49.8% -212 bp	35.5% -91 bp
EBITDA margin	7.2% -249bp	13.8% -375 bp	8.5% -260 bp
EBIT margin	2.5% -286 bp	8.3% -379 bp	3.7% -293 bp
Net margin after MI	0.9% -314 bp	5.5% -217 bp	1.8% -288 bp

Key highlights in 1-9 2017:

Food:







- Lower gross profit is primarily a result of lower sales and the changed sales mix structure that weren't completely compensated by lower COGS,
- Other profitability levels were additionally impacted by higher expenses of exercised share options, higher costs of termination benefits and the absence of income from leaseback,
- Increase in net finance cost as a result of foreign exchange losses on borrowings.

Pharmaceuticals:

- Gross profit growth, but lower gross margin due to COGS growth related to the additional fixed costs of new factory,
- Other profitability levels were additionally impacted by higher costs of termination benefits and FX losses on trade receivables and trade payables. Positive impact came from FX gains on borrowings and lower tax liability.

¹Performance in 1-9 2017; % of change when compared to 1-9 2016; ²% of sales revenues in 1-9 2017; basis points change when compared to 1-9 2016.

Lower total operating expenses under the influence of lower COGS

Operating expenses	1-9 2017 / 1-9 2016
Cost of goods sold (COGS)	(0.2%) 
General and administrative expenses (G&A)	14.8% 
Sales and distribution costs (S&D)	1.6% 
Marketing expenses (MEX)	(6.8%) 
Other expenses / revenues, net	(125.3%) 
Total	1.5% 

Key highlights in 1-9 2017:

Cost of goods sold (COGS):

- Lower 0.2% primarily as a result of lower sales in the Food segment,

General and administrative expenses (G&A):

- Higher 14.8% than in the comparative period primarily due to the costs of a larger number of exercised share options (Δ HRK +7.9 mil.) and higher costs of termination benefits (Δ HRK +22.4 mil.) than in the comparative period. Excl. costs of exercised share options and termination benefits, G&A grew 2.0%,

Sales and distribution expenses (S&D):

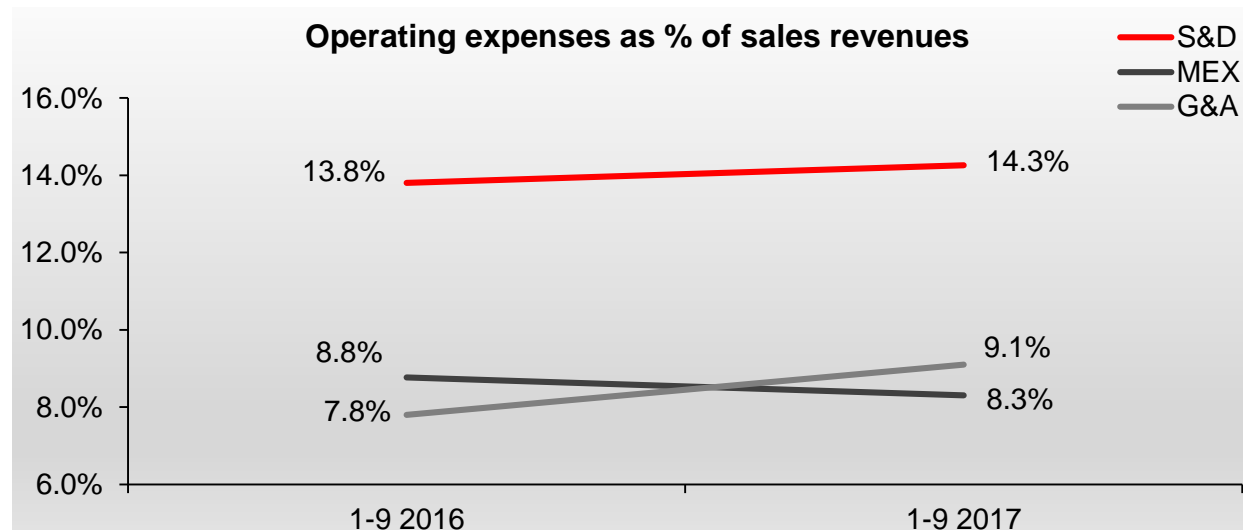
- Higher 1.6% due to, among other, higher costs related to previous periods,

Marketing expenses (MEX):

- Lower 6.8% as a result of lower marketing expenses in the Food segment (fewer activities and time shift of activities), while the Pharma segment recorded an increase in marketing expenses, primarily in the market of Russia,

Other expenses / revenues, net:

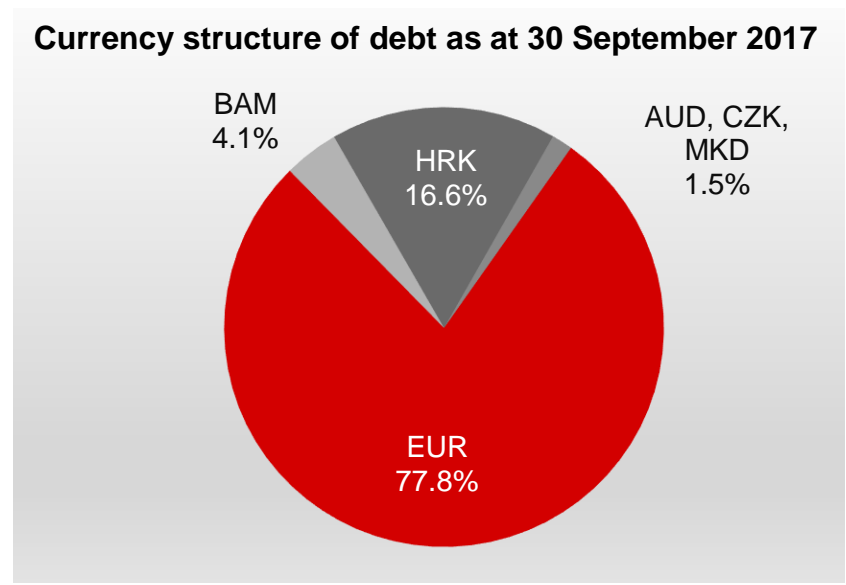
- Item includes FX differences from trade receivables and trade payables that were negative in 1-9 2017, while in 1-9 2016 they were positive. In 1-9 2017, other income and expenses amounted to negative HRK 4.5 mil., while in the comparative period they amounted to positive HRK 17.8 mil.



Lower interest expenses and weighted average cost of debt reflects successful debt management

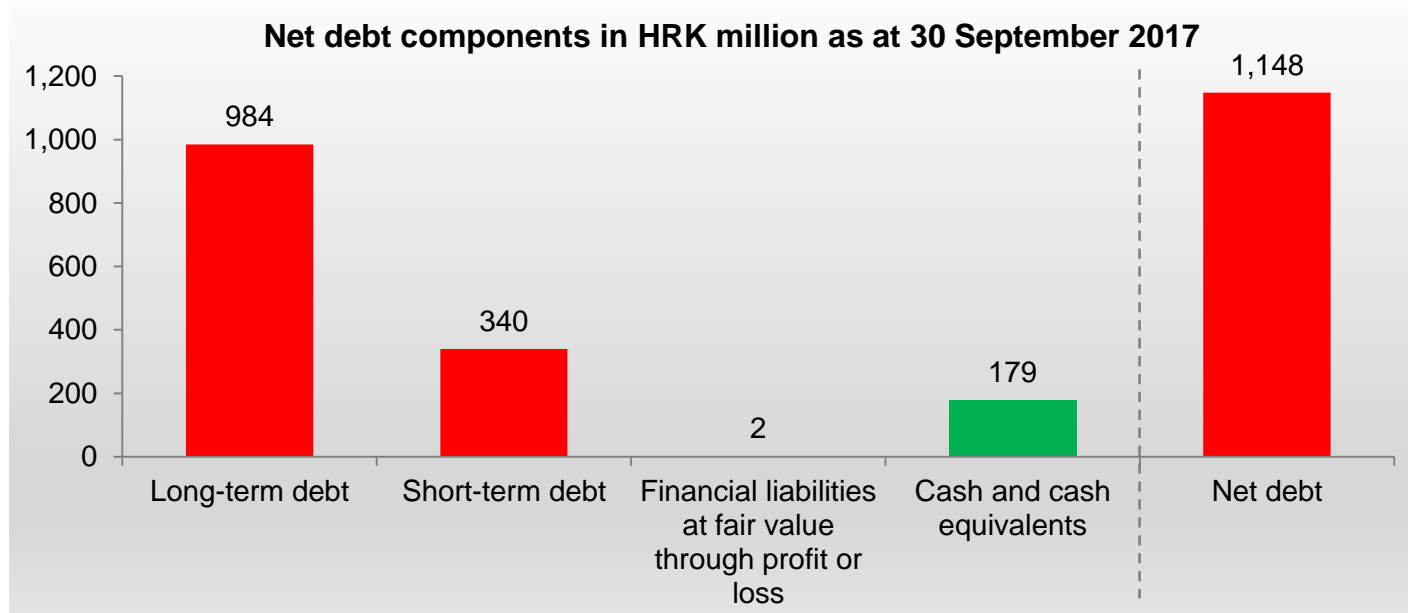
(in HRK 000) ¹	1-9 2017	2016	% change
Net debt	1,147,771	1,041,740	10.2%
Interest expense	26,766	31,477	(15.0%)
Net debt / EBITDA	3.0	2.2	33.8%
EBITDA / Interest expense	14.4	14.9	(3.2%)
Equity to total assets ratio	57.7%	55.4%	+232 bp

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






Key highlights:

- Net debt growth → lower level of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA growth due to net debt growth and lower TTM EBITDA,
- **Weighted average cost of debt:**
 - As at 30 September 2017 → 2.0%,
 - As at 31 December 2013 → 4.3%.

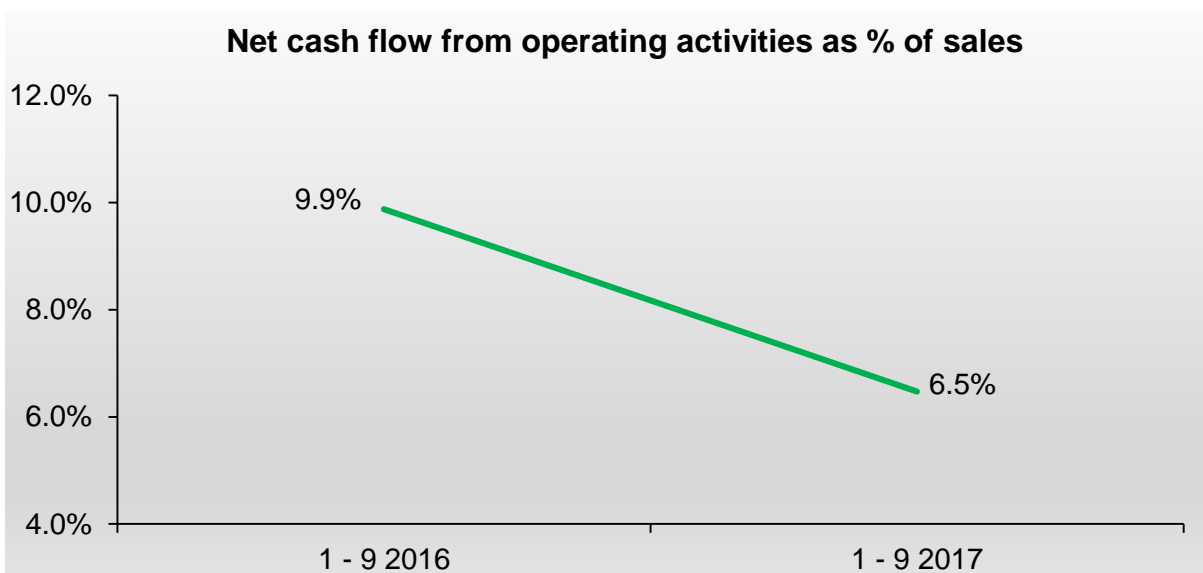


Dynamics of operating activities impacted the level of cash from operating activities

Working capital movement in BS	30 September 2017 / 30 September 2016		Impact
Inventories		0.5%	<ul style="list-style-type: none"> Slightly, by HRK 4.5 million, higher compared to 30 September 2016.
Trade and other receivables		(5.3%)	<ul style="list-style-type: none"> Better collection in the Pharmaceuticals segment in the domestic and foreign markets.
Trade and other payables		(6.0%)	<ul style="list-style-type: none"> In the comparative period a liability for recourse right on bills of exchange was added, which was in the meantime purchased by Podravka Inc. Without this liability, payables are 3.0% lower partly due to settlement of a portion of trade payables for the construction of the new pharmaceuticals factory.

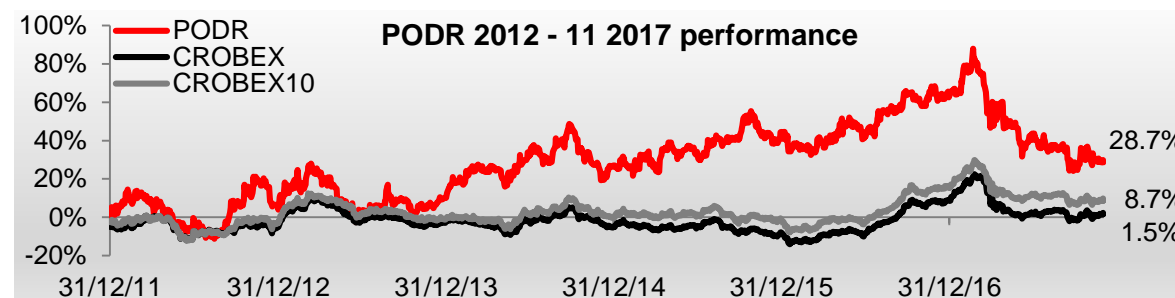
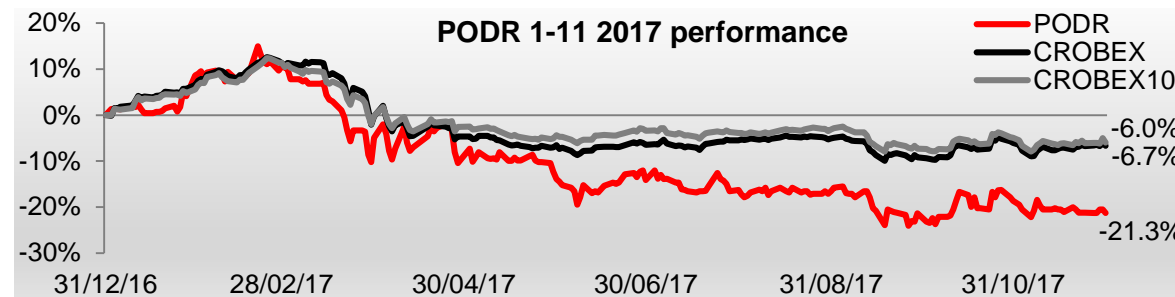
<i>(in HRK thousands)</i>	1-9 2017	1-9 2016	Δ
Net cash from operating activities	193.1	299.3	(106.2)
Net cash from investing activities	(170.6)	(387.8)	217.2
Net cash from financing activities	(181.5)	16.0	(197.5)
Net change of cash and cash equivalents	(159.0)	(72.4)	(86.5)

- **CAPEX** in 2017 is expected to be at the level of HRK 250 - 250m, in 2018 at the level of HRK 250 - 300m, and in 2019 and 2020 at the level of HRK 200 - 250m.



Podravka's share price movement in 1-9 2017 under the influence of key customer situation

(HRK; units)	1-9 2017	1-9 2017/ 1-9 2016	2016 / 2015	2015 / 2014
Average daily price	362.4	6.1%	9.4%	7.4%
Average daily number of transactions	18	77.7%	(8.9%)	(9.1%)
Average daily volume	1,249	5.3%	(36.0%)	11.3%
Average daily turnover	452,527.8	11.7%	(30.0%)	19.6%
Reported earnings per share	13.6	(48.4%)	(11.2%)	276.9%
Adjusted earnings per share	21.8	(18.9%)	8.2%	31.6%



Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 380.00	22.9%
ERSTE Group	Buy	HRK 370.00	24.5%
UniCredit	Buy	HRK 398.96	34.2%
WOOD & COMPANY	Hold	HRK 376.00	26.5%

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.1	12.5	18.2	2.6	22.0
Normalized weight. av. peer group ³	1.7	11.5	17.2	2.1	20.2
Podravka Group reported	0.8	8.4	18.2	0.7	21.9
Podravka Group normalized ⁴	0.8	7.5	13.8	0.7	13.7

¹Compared to the last price on 1st December 2017, **Peer group food:** Atlantic Grupa, Ebro, Hochdorf, La Doria, McCormick, Orkla,
²Obtained from Bloomberg on 4th December 2017,
³Calculated excluding max. and min. values, **Peer group pharma:** Alkaloid, Richter Gedeon, Hikma Pharmaceuticals, Krka, Recordati, Stada Arzneimittel.
⁴Normalized for items stated in the publication of 2016 and 1-9 2017 results.

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