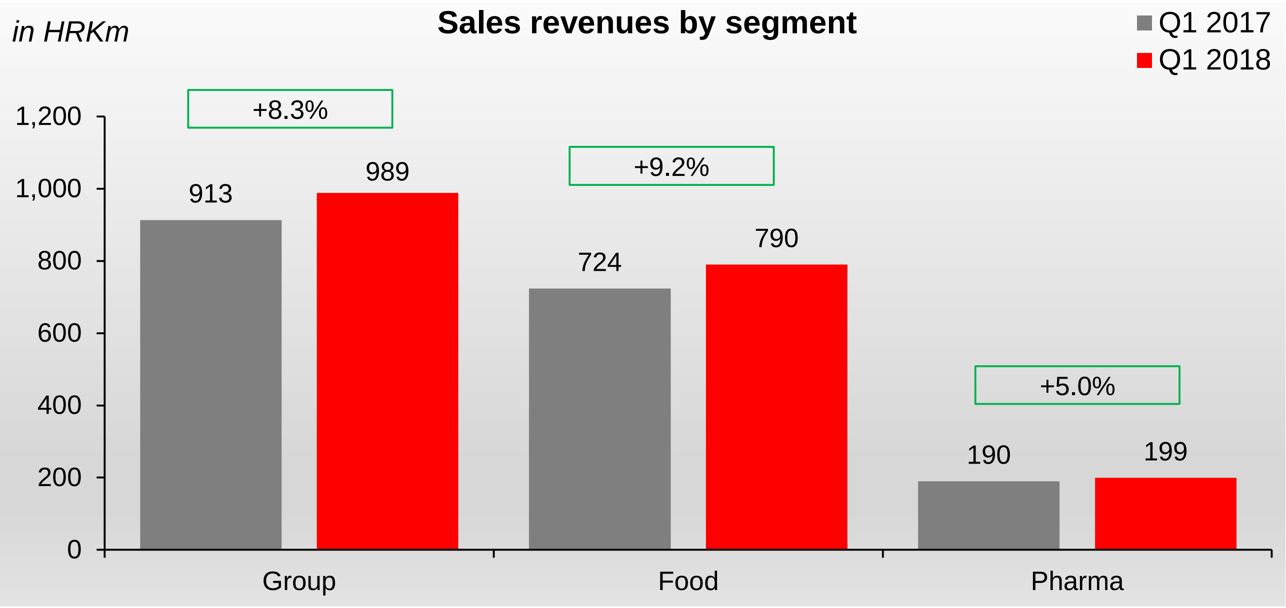
# Podravka Group business results for 1-3 2018 period

# Strong sales revenues growth of both segments




## Net foreign exchange (FX) impact on sales revenues:

| *HRKm* | Own brands | Other sales | Total |
|---|---|---|---|
| Food | (5.7) | 0.6 | (5.1) |
| Pharmaceuticals | (4.7) | (0.1) | (4.8) |
| Group | (10.4) | 0.5 | (9.9) |

| Currency | *HRKm* |
|---|---|
| EUR | (2.2) |
| RUB | (7.3) |
| Other | (0.5) |
| Total | (9.9) |

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-3 2018 if FX rates had remained on the same levels as in 1-3 2017.

## Food segment in Q1 2018[1]:

- **Own brands** → 10.3% higher sales (+11.1% excl. FX), primarily as a result of increased selling and marketing activities partly related to the pre-Easter period and expanded distribution of certain categories,
- **Other sales** → 5.4% lower sales (-6.5% excl. FX), primarily as a result of trade goods sales decrease,
- **Total Food** → 9.2% higher sales (+9.9% excl. FX).

## Pharmaceuticals segment in Q1 2018[1]:

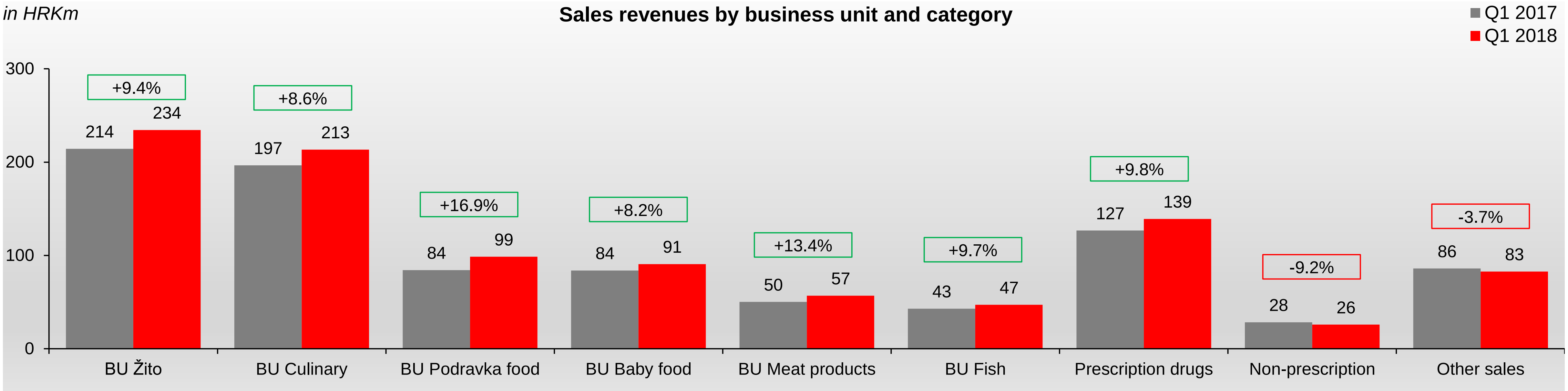
- **Own brands** → 6.3% higher sales (+9.4% excl. FX) due to the expanded distribution in the Central European markets and increased demand in the market of Russia,
- **Other sales** → 1.3% lower sales (-1.0% excl. FX) due to the strategic focus on more profitable trade goods range, resulting in lower revenues, but higher profitability,
- **Total Pharmaceuticals** → 5.0% higher sales (+7.5% excl. FX).

## Podravka Group in Q1 2018[1]:

- **Own brands** → 9.5% higher sales (+10.8% excl. FX),
- **Other sales** → 3.7% lower sales (-4.3% excl. FX),
- **Total Podravka Group** → 8.3% higher sales (+9.4% excl. FX).

[1]Percentages in the text relate to performance in 1-3 2018 compared to 1-3 2017.

# All business units recorded sales revenues growth

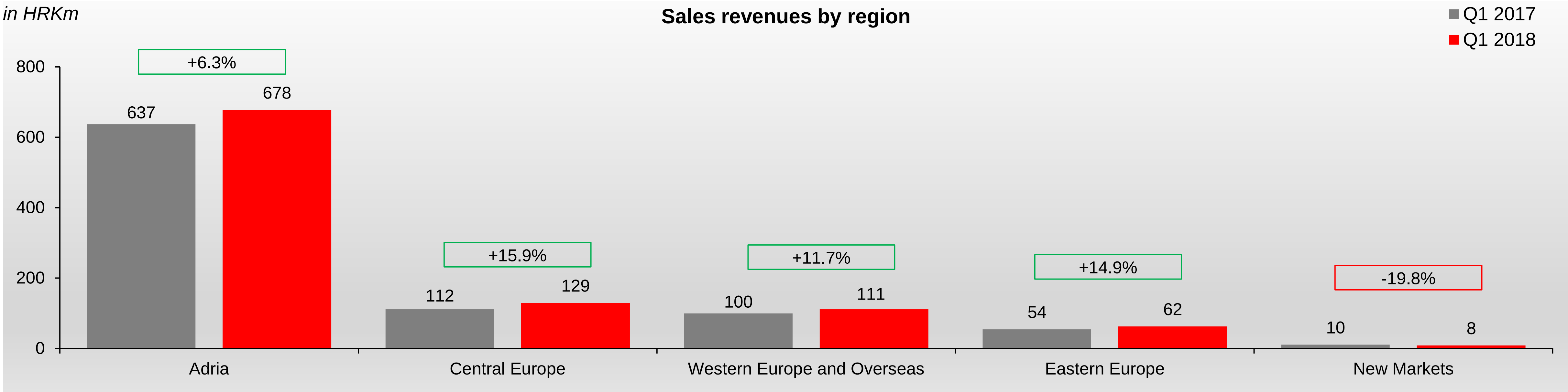



**Business unit and category performance in Q1 2018[1]:**

- **BU Žito (+9.4%; +9.6% excl. FX)** → increased sales in the Bakery and mill products category due to, among other, stabilised sales to the key buyer in the Slovenian market. The sales increase is also supported by the continuous growth of the Bakery and mill products category in the Western Europe region markets and the expanded distribution in the Central Europe region markets,
- **BU Culinary (+8.6%; +10.1% excl. FX)** → sales growth primarily in the categories Seasonings and Soups, where the sales growth was recorded in most regions;
- **BU Podravka food (+16.9%; +18.5% excl. FX)** → stronger selling and marketing activities in the categories Flour, Fruit and Condiments in the market of Croatia and the expansion of frozen vegetables distribution in the Russian market,
- **BU Baby food, sweets and snacks (+8.2%; +8.6% excl. FX)** → stronger selling and marketing activities in categories Baby food and Sweets in the market of Croatia,
- **BU Meat products, meat solutions and savoury spreads (+13.4%; +14.5% excl. FX)** → higher sales as a result of stronger selling and marketing activities,
- **BU Fish (+9.7%; +9.3% excl. FX)** → higher sales primarily due to selling activities in the Adria region markets,
- **Prescription drugs (+9.8%; +13.3% excl. FX)** → the most significant sales growth in the market of Russia due to higher demand, and in the Central Europe region markets due to expanded distribution,
- **Non-prescription programme (-9.2%; -7.8% excl. FX)** → sales growth in the markets of the Adria region and the Central Europe region did not fully compensate for the decrease in sales in the Russian market due to different sales dynamics compared to the comparative period,
- **Other sales (-3.7%; -4.3% excl. FX)** → lower trade goods sales revenues.

[1]Percentages in the text relate to performance in 1-3 2018 compared to 1-3 2017.

# Majority of regions recorded sales growth in 1-3 2018




**Region performance in Q1 2018[1]:**

- **Adria (+6.3%; +6.6% excl. FX) → Food** sales 7.9% higher where all business units record sales growth, primarily as the result of selling and marketing activities and the stabilization of sales to the key buyer in the market of Slovenia; **Pharmaceuticals** sales 0.8% higher where own brands sales growth compensated for lower sales of trade goods,
- **Central Europe (+15.9%, +13.5% excl. FX) → Food** sales 12.1% higher with the most significant impact on the Food segment came from the Žito business unit due to expanded distribution of own brands and private labels and from the Culinary business unit following stronger selling and marketing activities; **Pharmaceuticals** sales rose 48.3% due to expanded distribution on the markets of Poland, the Czech Republic and Slovakia,
- **Western Europe and Overseas (+11.7%; +14.9% excl. FX) → Food** sales 11.7% higher where sales growth was recorded by all business units of the Food segment, and it should be noted that in the first quarter of 2018, the continuous extension of the Žito business unit range and distribution in the markets of Italy, Germany and Spain continues; **Pharmaceuticals** recorded sales at the same level as in the comparative period,
- **Eastern Europe (+14.9%, +28.3% excl. FX) → Food** sales 23.0% higher with sales growth of the Culinary and Podravka Food business units due to expanded distribution; **Pharmaceuticals** sales rose 8.9% where the increased demand for the Prescription drugs category compensated for the lower sales of the Non-prescription programme category,
- **New markets (-19.8%; -19.1% excl. FX) → Food** sales 25.9% lower where the most significant impact on the sales decrease came from lower sales of the Lagris company trade goods; **Pharmaceuticals** sales 7.6% lower.

[1]Percentages in the text relate to performance in 1-3 2018 compared to 1-3 2017.

# Strong growth of food profitability in Q1 2018

| Food segment | REPORTED | | | | NORMALIZED[1] | | | |
|---|---|---|---|---|---|---|---|---|
| ***(in HRKm)*** | **Q1 2017** | **Q1 2018** | **Δ** | **%** | **Q1 2017** | **Q1 2018** | **Δ** | **%** |
| Sales revenue | 723.6 | 789.8 | 66.3 | 9.2% | 723.6 | 789.8 | 66.3 | 9.2% |
| Gross profit | 230.1 | 269.4 | 39.3 | 17.1% | 230.1 | 269.4 | 39.3 | 17.1% |
| EBITDA | 46.1 | 102.5 | 56.4 | 122.2% | 47.4 | 102.7 | 55.3 | 116.7% |
| EBIT | 8.7 | 68.8 | 60.1 | 689.1% | 10.0 | 69.1 | 59.1 | 590.1% |
| Net profit after MI | 0.3 | 53.8 | 53.6 | 21,335.0% | 1.5 | 54.1 | 52.5 | 3,419.1% |
| | | | | | | | | |
| Gross margin | 31.8% | 34.1% | | +231 bp | 31.8% | 34.1% | | +231 bp |
| EBITDA margin | 6.4% | 13.0% | | +660 bp | 6.6% | 13.0% | | +645 bp |
| EBIT margin | 1.2% | 8.7% | | +751 bp | 1.4% | 8.7% | | +736 bp |
| Net profit margin after MI | 0.0% | 6.8% | | +678 bp | 0.2% | 6.8% | | +663 bp |

## Food segment profitability in Q1 2018:

- **Normalized gross profit** → impacted by higher sales revenues and favourable sales structure,
- **Normalized EBIT** → an additional positive impact came from: i) the absence of share option expenses (HRK 8.3m in Q1 2017), ii) lower MEX due to different marketing activities dynamics, and iii) lower selling expenses as a result, among other, of lower amortisation. This cushioned unfavourable FX movements on trade receivables and trade payables (HRK 4.4m FX losses in Q1 2018; HRK 2.1m FX gains in Q1 2017),
- **Normalized net profit after MI** → an additional positive effect came from lower interest expense following the refinancing of borrowings under more favourable commercial terms, which partly compensated higher tax expense, and unfavourable movements of FX differences on borrowings (HRK 0.1m FX losses in Q1 2018; HRK 3.0m FX gains in Q1 2017).

| One-off impacts in HRKm | Q1 2017 | Q1 2018 |
|---|---|---|
| Severance payments | (1) | (0) |

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process.

# Pharma profitability positively impacted by favourable sales structure

| Pharmaceuticals segment | REPORTED | | | | NORMALIZED[1] | | | |
|---|---|---|---|---|---|---|---|---|
| ***(in HRKm)*** | **Q1 2017** | **Q1 2018** | **Δ** | **%** | **Q1 2017** | **Q1 2018** | **Δ** | **%** |
| Sales revenue | 189.6 | 199.0 | 9.4 | 5.0% | 189.6 | 199.0 | 9.4 | 5.0% |
| Gross profit | 95.2 | 102.7 | 7.6 | 7.9% | 96.4 | 102.7 | 6.4 | 6.6% |
| EBITDA | 29.7 | 33.1 | 3.4 | 11.6% | 31.1 | 33.1 | 2.1 | 6.7% |
| EBIT | 19.5 | 18.8 | (0.7) | (3.4%) | 20.9 | 18.8 | (2.0) | (9.7%) |
| Net profit after MI | 17.8 | 16.0 | (1.8) | (10.1%) | 19.1 | 16.0 | (3.2) | (16.5%) |
| | | | | | | | | |
| Gross margin | 50.2% | 51.6% | | +143 bp | 50.8% | 51.6% | | +81 bp |
| EBITDA margin | 15.7% | 16.6% | | +99 bp | 16.4% | 16.6% | | +27 bp |
| EBIT margin | 10.3% | 9.5% | | -81 bp | 11.0% | 9.5% | | -153 bp |
| Net profit margin after MI | 9.4% | 8.0% | | -134 bp | 10.1% | 8.0% | | -206 bp |

**<u>Pharmaceuticals segment profitability in Q1 2018:</u>**

- **Normalized gross profit** → impacted by higher sales revenues and favourable sales structure,
- **Normalized EBIT** → additionally impacted by, among other things, unfavourable FX movements on trade receivables and trade payables (HRK 2.3m FX losses in Q1 2018; HRK 1.9m FX gains in Q1 2017) and higher staff costs and costs of services,
- **Normalized net profit after MI** → additionally impacted by lower foreign exchange gains on borrowings (HRK 4.9m FX gains in Q1 2018; HRK 6.8m FX gains in Q1 2017).

| One-off impacts in HRKm | Q1 2017 | Q1 2018 |
|---|---|---|
| New pharmaceuticals factory expenses | (1) | - |
| Severance payments | (0) | - |

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process.

# Group profitability movement under the strong influence of Food segment profitability

| Podravka Group | REPORTED | | | | NORMALIZED[1] | | | |
|---|---|---|---|---|---|---|---|---|
| *(in HRKm)* | Q1 2017 | Q1 2018 | Δ | % | Q1 2017 | Q1 2018 | Δ | % |
| Sales revenue | 913.2 | 988.9 | 75.6 | 8.3% | 913.2 | 988.9 | 75.6 | 8.3% |
| Gross profit | 325.3 | 372.2 | 46.9 | 14.4% | 326.5 | 372.2 | 45.7 | 14.0% |
| EBITDA | 75.8 | 135.6 | 59.8 | 78.9% | 78.5 | 135.8 | 57.4 | 73.2% |
| EBIT | 28.2 | 87.7 | 59.5 | 210.7% | 30.9 | 87.9 | 57.0 | 184.8% |
| Net profit after MI | 18.0 | 69.8 | 51.8 | 287.3% | 20.7 | 70.0 | 49.4 | 238.8% |
| | | | | | | | | |
| Gross margin | 35.6% | 37.6% | | +201 bp | 35.8% | 37.6% | | +188 bp |
| EBITDA margin | 8.3% | 13.7% | | +541 bp | 8.6% | 13.7% | | +515 bp |
| EBIT margin | 3.1% | 8.9% | | +578 bp | 3.4% | 8.9% | | +551 bp |
| Net profit margin after MI | 2.0% | 7.1% | | +509 bp | 2.3% | 7.1% | | +482 bp |

## Group profitability in Q1 2018:

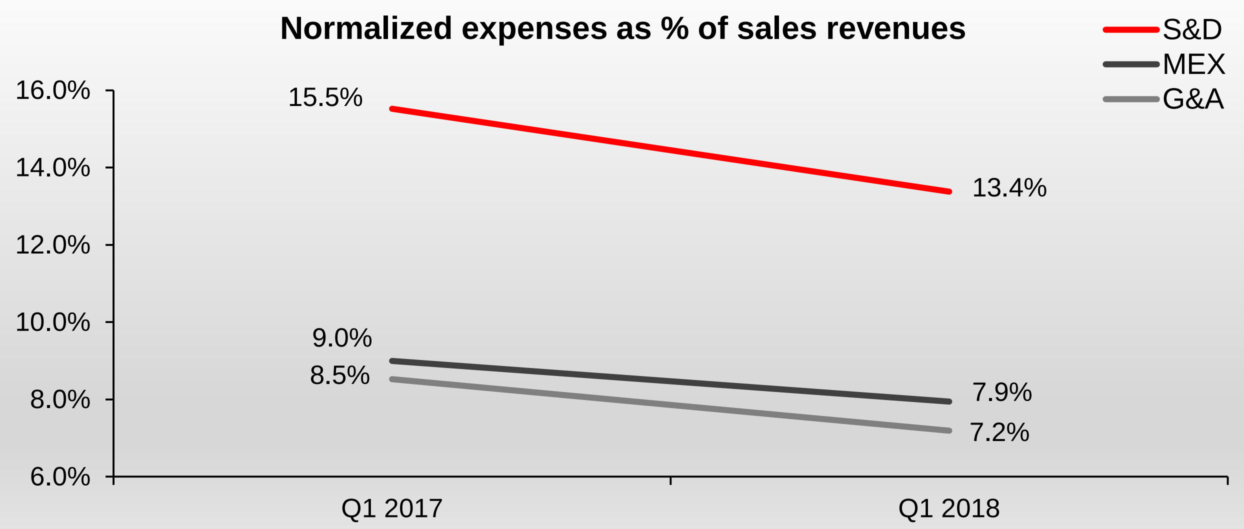
- **Normalized gross profit** → the increase in gross profit came from both business segments,
- **Normalized EBIT** → EBIT growth is the result solely of the Food segment operating profit growth. All operating expenses levels (other than cost of goods sold) decreased, while the negative effect came from unfavourable FX movements on trade receivables and trade payables (HRK 6.7m FX losses in Q1 2018; HRK 4.0m FX gains in Q1 2017),
- **Normalized net profit after MI** → an additional negative effect came from the increase in net finance costs and higher tax expense. The increase in net finance costs arises primarily from the decrease in foreign exchange gains on borrowings (HRK 4.9m FX gains in Q1 2018; HRK 9.8m FX gains in Q1 2017), which was not fully compensated by lower interest expense.

| One-off impacts in HRKm | Q1 2017 | Q1 2018 |
|---|---|---|
| Severance payments | (1) | (0) |
| New pharmaceuticals factory expenses | (1) | - |

[1]Normalized for one-off impacts, normalization of results doesn't include potential tax impacts that would arise from the normalization process.

# Lower operating expenses as % of sales revenues

| Operating expenses 18 vs. 17 % change | REPORTED | NORMALIZED[1] |
|---|---|---|
| Cost of goods sold (COGS) | 4.9% | 5.1% |
| General and administrative expenses (G&A) | (10.1%) | (8.7%) |
| Sales and distribution costs (S&D) | (6.7%) | (6.7%) |
| Marketing expenses (MEX) | (4.4%) | (4.4%) |
| Other expenses / revenues, net | n/a | n/a |
| Total | 1.8% | 2.1% |




[1]Normalized for one-off impacts.

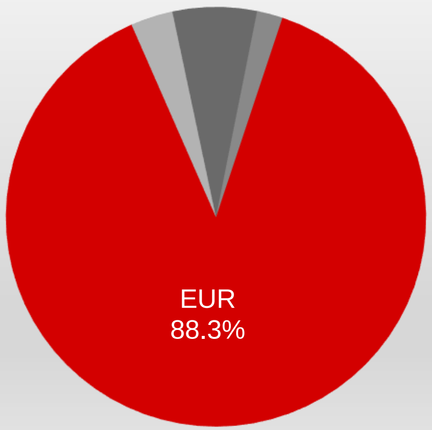
## Key highlights of normalized operating expenses in Q1 2018:

- **Cost of goods sold (COGS):**
  - Higher 5.1% as a consequence of higher sales in both business segments,
- **General and administrative expenses (G&A):**
  - Lower 8.7% primarily as a result of the absence of share option expenses that amounted to HRK 9.0m in Q1 2017,
- **Sales and distribution expenses (S&D):**
  - Lower 6.7% due to, among other, lower amortisation costs. In Q1 2017, selling costs included HRK 2.5m of distribution rights amortisation, that is absent in Q1 2018,
- **Marketing expenses (MEX):**
  - Lower 4.4% mainly as a result of fewer marketing activities in the Food segment,
- **Other expenses / revenues, net:**
  - In Q1 2018, other income and expenses amounted to negative HRK 2.2m, while in the comparative period they amounted to positive HRK 6.2m. In Q1 2018, foreign exchange differences from trade receivables and trade payables amounted to negative HRK 6.7m, while in the comparative period they amounted to positive HRK 4.0m.

# Further improvement of debt indicators

| *(in HRKm)*[1] | 2017 | Q1 2018 | % change |
|---|---|---|---|
| Net debt | 909 | 965 | 6.2% |
| Interest expense | 27 | 25 | (6.9%) |
| Net debt / normalized EBITDA | 2.1 | 2.0 | (6.2%) |
| Normalized EBIT / interest expense | 9.3 | 12.3 | 31.7% |
| Equity to total assets ratio | 57.2% | 60.4% | +314 bp |

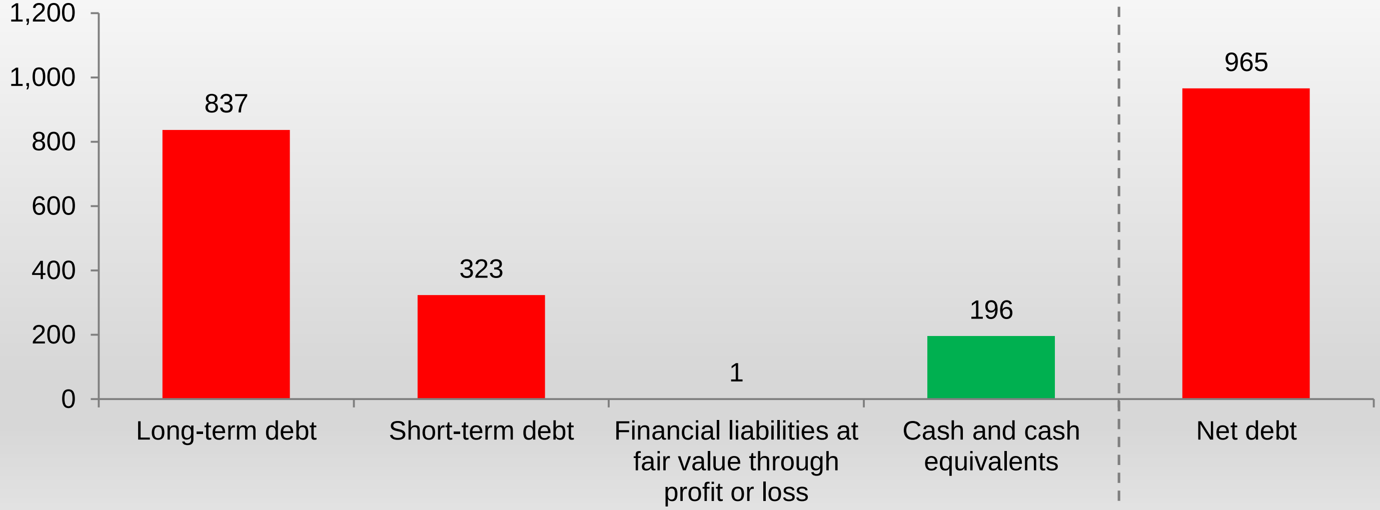
**Currency structure of debt as at 31 March 2018**




## Key highlights:

- Net debt increase → lower level of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/normalized EBITDA drop due to higher normalized EBITDA,
- **Weighted average cost of debt:**
  - As at 31 March 2018 → 1.7%,
  - As at 31 December 2013 → 4.3%.

**Net debt components in HRKm as at 31 March 2018**




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

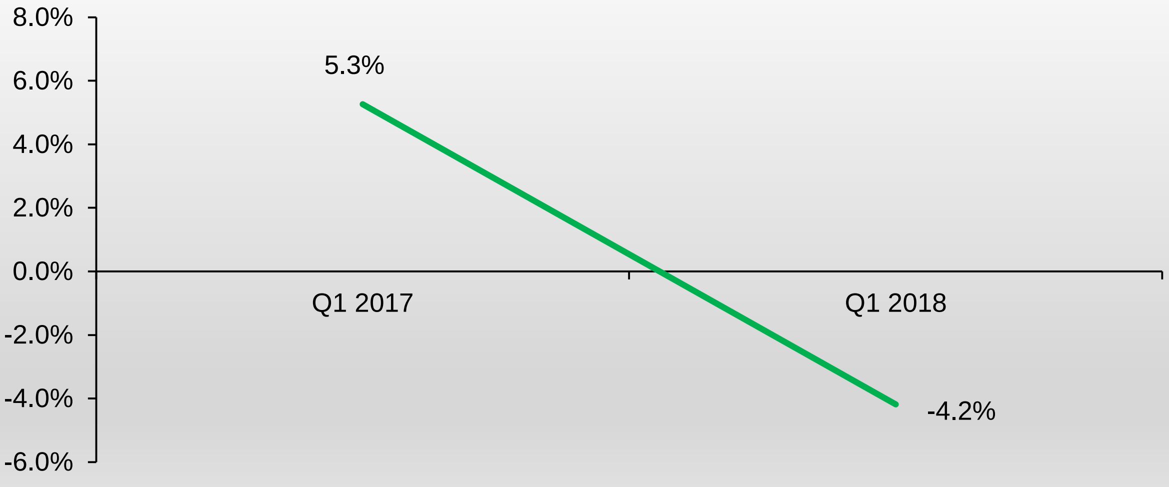
# Lower level of net cash from operating activities reflects working capital movement in Q1 2018

| Working capital movement in BS | 31 March 2018 / 31 March 2017 | Impact |
|---|---|---|
| Inventories | 4.1% | ▪ The increase in inventories was impacted, among other, by higher inventories of raw materials and supplies in the Pharmaceuticals segment in line with the planned production dynamics in 2018 and the increase in inventories of finished products in the new Belupo factory. |
| Trade and other receivables | (13.8%) | ▪ The significant decrease in trade and other receivables is a result of significant value adjustment at the end of 2017 related to receivables from the Agrokor companies in the amount of HRK 44.1m, and better collection of receivables in the Pharmaceuticals segment. |
| Trade and other payables | (18.7%) | ▪ The significant decrease in trade and other payables was impacted by the settlement of a portion of trade payables for the construction of the new pharmaceuticals factory and the repurchase of recourse bills of exchange from a factoring company. |

| *(in HRKm)* | Q1 2017 | Q1 2018 | Δ |
|---|---|---|---|
| Net cash from operating activities | 48.1 | (41.4) | (89.5) |
| Net cash from investing activities | (83.9) | (23.7) | 60.2 |
| Net cash from financing activities | (51.4) | (101.1) | (49.8) |
| Net change of cash and cash equivalents | (87.1) | (166.3) | (79.1) |

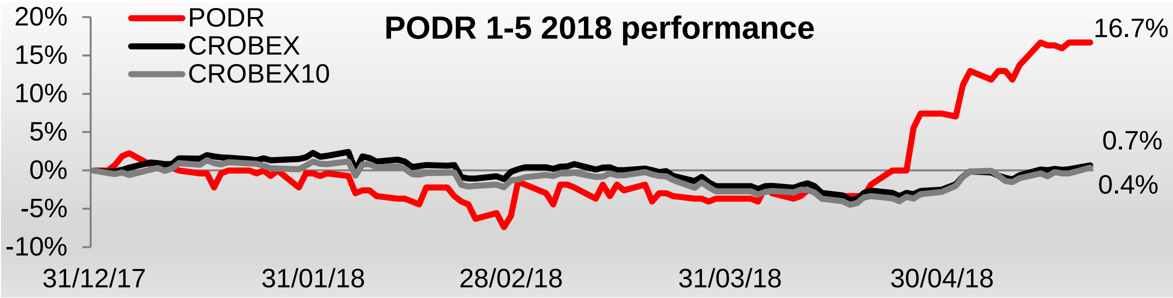
- **CAPEX** in 2018 is expected to be at the level of HRK 217m, in 2019 at the level of HRK 250 - 300m, and in 2020 and 2022 at the level of approximately HRK 200m.

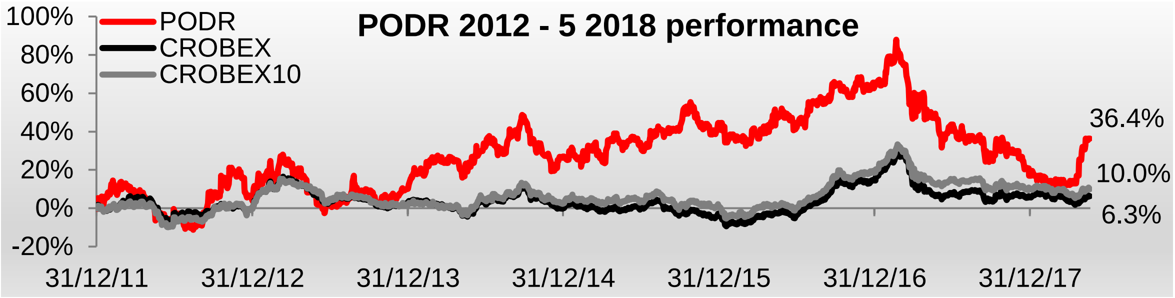
**Net cash flow from operating activities as % of sales**



# Podravka's share price movement in Q1 2018 under the influence of key customer situation

| *(HRK; units)* | Q1 2017 | Q1 2018 | % change |
|---|---|---|---|
| Average daily price | 389 | 265 | (31.8%) |
| Average daily number of transactions | 27 | 13 | (53.0%) |
| Average daily volume | 1,964 | 1,534 | (21.9%) |
| Average daily turnover | 763,021 | 406,530 | (46.7%) |
| Reported earnings per share | 10 | 3 | 283.6% |
| Normalized earnings per share | 24 | 31 | 29.8% |




| Analysts | Recommendation | Target price | Potential[1] |
|---|---|---|---|
| InterCapital | Under review | - | n/a |
| Raiffeisen BANK | Hold | HRK 300 | (4.8%) |
| ERSTE Group | Accumulate | HRK 370 | 17.5% |
| UniCredit | Buy | HRK 399 | 26.7% |
| WOOD & COMPANY | Hold | HRK 371 | 17.8% |

| Peer group multiples[2] | EV/Sales | EV/ EBITDA | EV/EBIT | P/B | P/E |
|---|---|---|---|---|---|
| Weighted average peer group | 1.9 | 11.7 | 17.2 | 2.7 | 35.3 |
| Normalized weight. av. peer group[3] | 1.6 | 10.9 | 15.6 | 2.4 | 20.3 |
| Podravka Group reported | 0.8 | 7.4 | 21.2 | 0.7 | 31.3 |
| Podravka Group normalized[4] | 0.8 | 6.5 | 10.4 | 0.7 | 10.2 |

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

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

[1]Compared to the last price on 21st May 2018; [2]Obtained from Bloomberg on 22nd May 2018; [3]Calculated excluding max. and min. Values; [4]Normalized for items stated in the publication of Q1 2018 and 2017 results.

# Contact

Podravka d.d.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

www.podravka.hr

Investor Relations

ir@podravka.hr

tel: +385 48 65 16 65

# Podravka Group business results for 1-3 2018 period