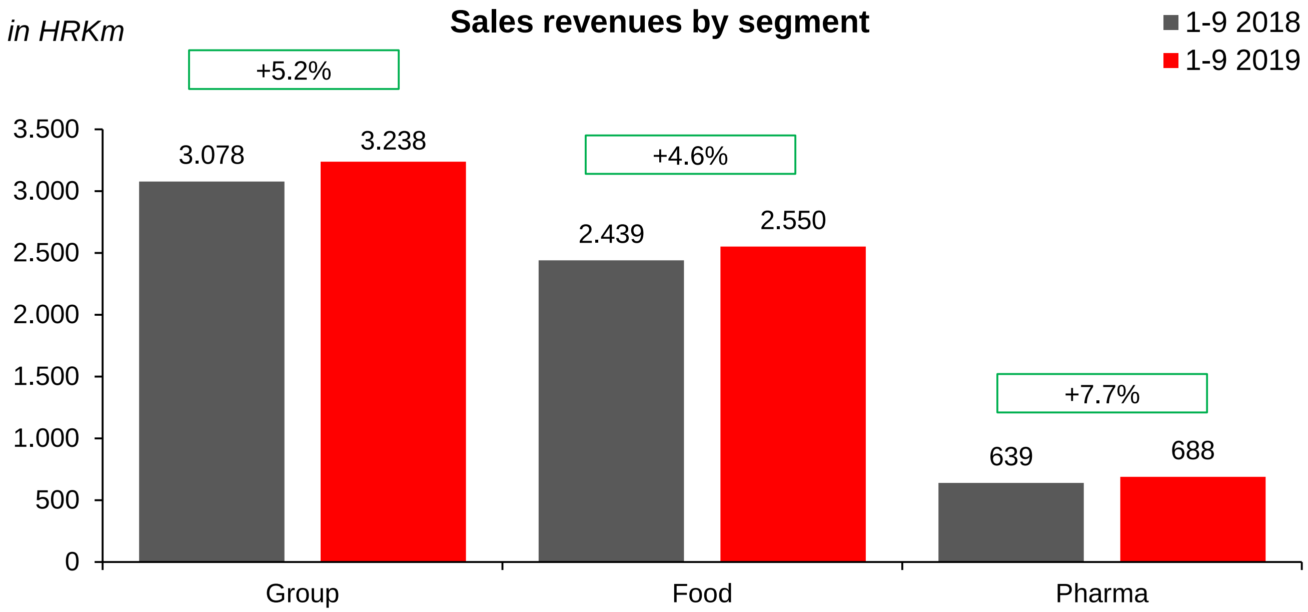
Podravka Group business results for 1-9 2019 period

Strong organic sales revenues growth continues



Net foreign exchange (FX) impact on sales revenues:

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-9 2019 if FX rates had remained on the same levels as in 1-9 2018.

HRKm	Own brands	Other sales	Total
Food	(1)	(0)	(2)
Pharmaceuticals	2	(0)	2
Group	1	(0)	1

Currency	*HRKm*
RUB	2
PLN	(2)
USD	3
Other	(3)
Total	1

Food segment in 1-9 2019[1]:

- **Own brands** → 4.7% higher sales, due sales growth of the Culinary, Baby food, sweets and snacks and Fish business units, as a result of stronger selling and marketing activities, demand for newly launched products and the expanded distribution of certain categories (+4.8% excl. FX),
- **Other sales** → 2.2% higher revenues, primarily as a result of higher sales of trade goods in the Croatian and Czech markets (+2.4% excl. FX),
- **Total Food** → 4.6% higher sales (+4.6% excl. FX).

Pharmaceuticals segment in 1-9 2019[1]:

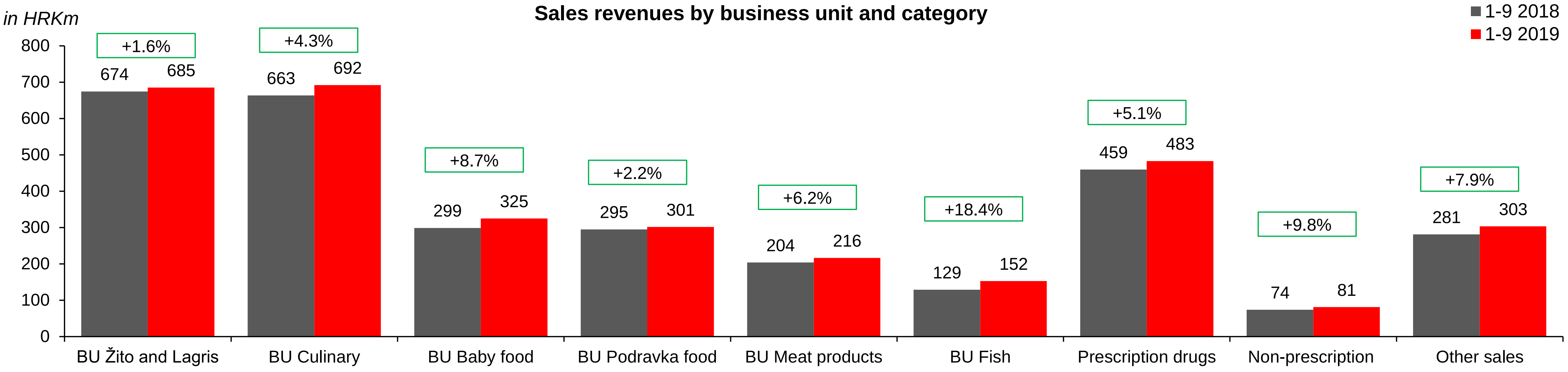
- **Own brands** → 5.8% higher sales (+5.3% excl. FX), due to the increase in demand and a shift of a portion of selling activities in the market of Russia, and the sales increase in the market of Croatia,
- **Other sales** → 17.2% higher sales (+17.2% excl. FX), as a result of higher sales of trade goods in the Farmavita company,
- **Total Pharma** → 7.7% higher sales (+7.3% excl. FX).

Podravka Group in 1-9 2019[1]:

- **Own brands** → 4.9% higher sales (+4.9% excl. FX),
- **Other sales** → 7.9% higher sales (+8.0% excl. FX),
- **Total Podravka Group** → 5.2% higher sales (+5.2% excl. FX).

[1]Percentages in the text relate to performance in 1-9 2019 compared to 1-9 2018.

Sales growth across all business segments



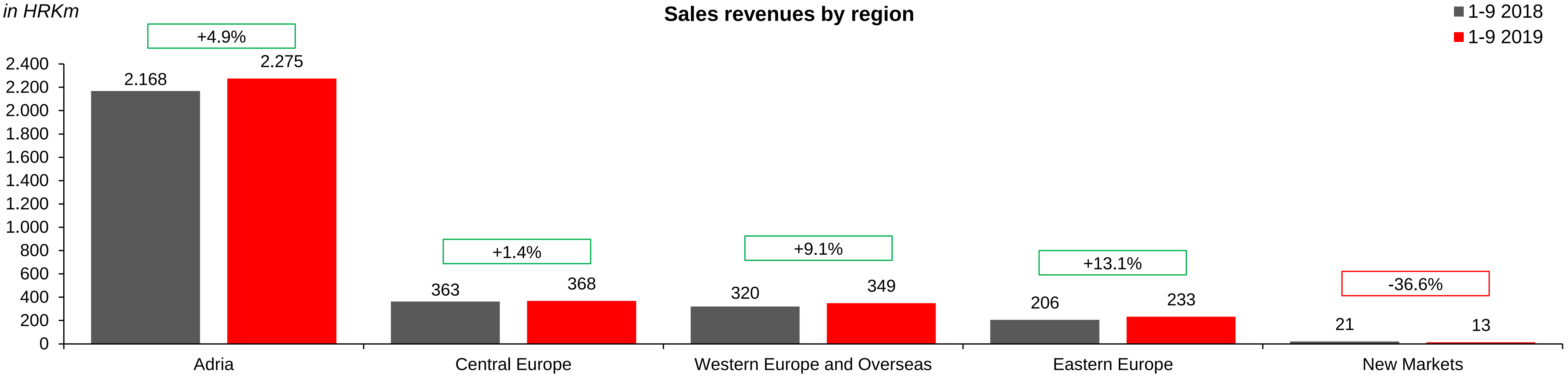
Business unit and category performance in 1-9 2019[1]:

- **BU Žito and Lagris (+1.6%; +1.7% excl. FX)** → result of a continuous growth of the Bakery and mill products category,
- **BU Culinary (+4.3%; +4.4% excl. FX)** → higher sales in the categories Seasonings and Soups, due to the optimum mix of selling and marketing activities and the demand for new products, resulting in sales growth in most regions,
- **BU Baby food, sweets and snacks (+8.7%; +8.6% excl. FX)** → higher sales, primarily as a consequence of marketing activities in categories Creamy spreads, Baby food and Snacks, as well as a result of well received new and innovated products of the Lino Lada and Kviki brands,
- **BU Podravka food (+2.2%; +2.2% excl. FX)** → higher sales of the Flour and Condiments, as result of stronger selling and marketing activities as well as increased demand, managed to compensate for lower revenues of the Frozen vegetables category, connected to the problems with procurement of raw materials from a supplier from Serbia,
- **BU Meat products, meat solutions and savory spreads (+6.2%; +6.0% excl. FX)** → increase in sales of the categories of Canned ready-to-eat meals and Luncheons,
- **BU Fish (+18.4%; +18.4% excl. FX)** → higher sales, primarily due to the increased demand and stronger selling and marketing activities in the Adria region,
- **Prescription drugs (+5.1%; +4.7% excl. FX)** → higher sales in the markets of Russia and Croatia, which compensated for the decrease in sales in the markets of Turkey, Bosnia and Herzegovina and Kosovo, due to changes in local legislation,
- **Non-prescription programme (+9.8%; +9.5% excl. FX)** → growth in the OTC drugs subcategory in Croatia, Slovenia and Russia due to increased demand and targeted marketing and selling activities,
- **Other sales (+7.9%; +8.0% excl. FX-a)** → higher sales as a result of the increase in sales of trade goods of the Lagris and Farmavita.

[1]Percentages in the text relate to performance in 1-9 2019 compared to 1-9 2018.

Growth acceleration in Eastern Europe

in HRKm



Region performance in 1-9 2019[1]:

- **Adria (+4.9%; +4.9% excl. FX) → Food** sales 4.7% 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 5.6% higher primarily as a result of the increase in sales of trade goods and non-prescription programme,
- **Central Europe (+1.4%, +2.3% excl. FX) → Food** sales 0.8% higher due to the increase in revenues of the Culinary business unit and trade goods, compensating; **Pharmaceuticals** sales recorded a 6.0% sales growth, primarily due to the sales growth in the market of the Czech Republic and Slovakia,
- **WE and Overseas region (+9.1%; +8.7% excl. FX) → Food** sales 9.2% higher, revenue growth in all business units, led by the Culinary and Baby food, sweets & snacks; **Pharmaceuticals** segment recorded lower revenues without a significant impact on the region's performance,
- **Eastern Europe (+13.1%, +12.0% excl. FX) → Food** sales 2.8% lower because the increase in revenues of the Culinary business unit is annulled by the decrease in revenues of the Podravka Food business unit 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 22.9% due to continuous growing demand for Belupo products and a shift of a portion of selling activities from November and December 2019 to an earlier period,
- **New markets (-36.6%; -36.6% excl. FX) → Food** sales recorded a revenue growth of 5.2%, primarily due to the growth of trade goods; **Pharmaceuticals** segment, recorded the decrease in revenue is a consequence of changes in legislation in the market of Turkey.

[1]Percentages in the text relate to performance in 1-9 2019 compared to 1-9 2018.

Food segment profitability backed by favorable sales mix

Food segment	REPORTED				NORMALIZED[1]			
(in HRKm)	1-9 2018	1-9 2019	Δ	%	1-9 2018	1-9 2019	Δ	%
Sales revenue	2,439	2,550	111	4.6%	2,439	2,550	111	4.6%
Gross profit	828	865	37	4.5%	828	866	38	4.6%
EBITDA	281	281	1	0.2%	269	284	14	5.4%
EBIT	182	167	(14)	(7.9%)	170	170	(1)	(0.4%)
Net profit after MI	144	133	(11)	(7.7%)	130	135	5	3.8%
Gross margin	33.9%	33.9%		-3 bp	33.9%	33.9%		+1 bp
EBITDA margin	11.5%	11.0%		-48 bp	11.0%	11.1%		+9 bp
EBIT margin	7.5%	6.6%		-89 bp	7.0%	6.7%		-33 bp
Net profit margin after MI	5.9%	5.2%		-70 bp	5.3%	5.3%		-4 bp

Food segment profitability in 1-9 2019:

- **Gross profit**→ reported gross profit higher 4.5% as a result of higher sales revenues and the positive impact of the sales structure itself,
- **EBIT** → reported EBIT is lower as a consequence of HRK 12m of extraordinary income in the comparative period (sale of a portion of non-operating assets of Mirna Inc.), while normalized operating profit is slightly below the comparative period. The company remained in line with its strategy, increased marketing investments by HRK 14m (+13.9%), which contributed to the sales growth that successfully compensated for higher staff costs of HRK 41m (+7.4%) 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 lower primarily as a consequence of the effect of the sale of a portion of non-operating assets of Mirna Inc. in the comparative period. Normalized net profit after minority interests is HRK 5m higher as a result of the previously mentioned factors and lower tax.

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

Profitability improvement in Pharmaceuticals segment

Pharma segment	REPORTED				NORMALIZED[1]			
(in HRKm)	1-9 2018	1-9 2019	Δ	%	1-9 2018	1-9 2019	Δ	%
Sales revenue	639	688	49	7.7%	639	688	49	7.7%
Gross profit	317	342	25	7.9%	317	342	25	7.9%
EBITDA	99	132	33	33.6%	99	132	33	33.6%
EBIT	57	85	28	48.8%	57	85	28	48.8%
Net profit after MI	41	61	20	47.1%	42	61	19	45.8%
Gross margin	49.5%	49.6%		+11 bp	49.5%	49.6%		+11 bp
EBITDA margin	15.4%	19.1%		+372 bp	15.4%	19.1%		+372 bp
EBIT margin	8.9%	12.3%		+340 bp	8.9%	12.3%		+340 bp
Net profit margin after MI	6.5%	8.9%		+238 bp	6.5%	8.9%		+232 bp

Pharmaceuticals segment profitability in 1-9 2019:

- **Gross profit** → higher 7.9% as a result of higher sales revenue and the positive impact of the sales structure itself,
- **EBIT** → higher HRK 28m higher as a result of the increase in sales and favorable movements in foreign exchange differences on trade receivables and trade payables (HRK +10m 1-9 2019; HRK -8m in 1-9 2018). This allowed stronger marketing investments of HRK 5m (+12.2%) and compensated for higher staff costs of HRK 14m (+8.3%). Higher staff costs are a result of the planned improvement in the material rights of employees,
- **Net profit after MI** → higher HRK 20m which compensated for the less favorable movements in foreign exchange differences on borrowings than in the comparative period (HRK +0m in 1-9 2019; HRK +6m in 1-9 2018).

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

Group profitability influenced by both business segment

Pharma segment	REPORTED				NORMALIZED[1]			
(in HRKm)	**1-9 2018**	**1-9 2019**	**Δ**	**%**	**1-9 2018**	**1-9 2019**	**Δ**	**%**
Sales revenue	3,078	3,238	160	5.2%	3,078	3,238	160	5.2%
Gross profit	1,144	1,206	62	5.4%	1,144	1,207	63	5.5%
EBITDA	379	413	34	8.9%	368	415	48	12.9%
EBIT	239	252	13	5.6%	227	254	27	11.9%
Net profit after MI	186	194	8	4.5%	172	196	24	14.0%
Gross margin	37.2%	37.2%		+7 bp	37.2%	37.3%		+11 bp
EBITDA margin	12.3%	12.8%		+43 bp	11.9%	12.8%		+88 bp
EBIT margin	7.8%	7.8%		+3 bp	7.4%	7.9%		+47 bp
Net profit margin after MI	6.0%	6.0%		-4 bp	5.6%	6.1%		+47 bp

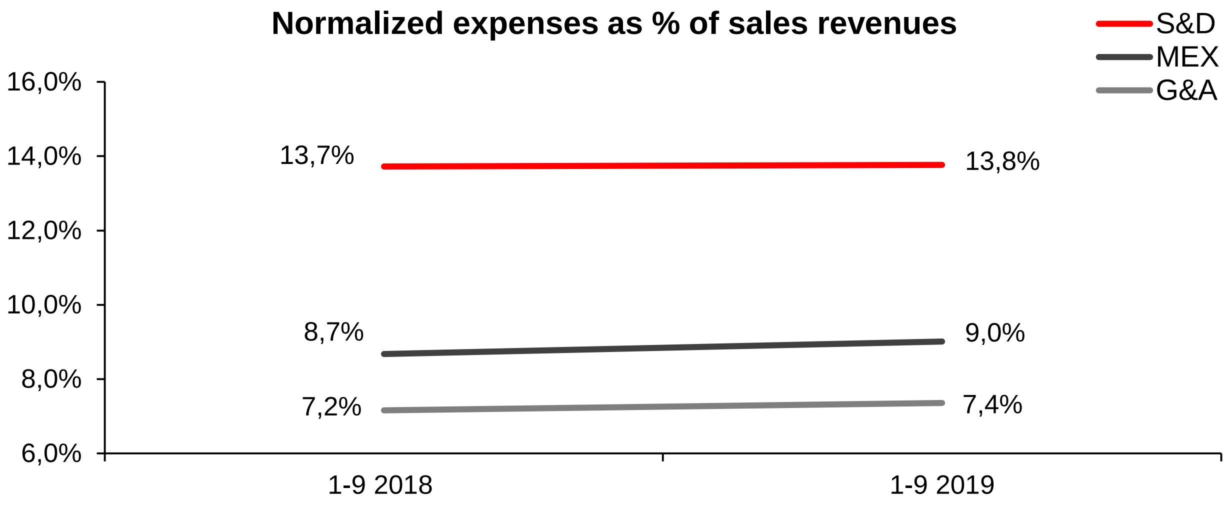
Profitability of the Podravka Group in 1-9 2019:

- **Gross profit** → higher 5.4%, where the strong impact comes from both business segments as a result of a favorable sales structure. Cost of goods sold increased by 5.1%, which resulted in the gross margin of 37.2%,
- **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 24m higher. In addition to the previously mentioned factors, normalized net profit was also affected by less favorable movements in foreign exchange differences on borrowings than in the comparative period (HRK +2.5m in 1-9 2019; HRK +9m in 1-9 2018).

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

Favorable sales mix compensated the increase in certain operating expenses

Operating expenses 19 vs. 18 % change	REPORTED
Cost of goods sold (COGS)	5.1%
General and administrative expenses (G&A)	8.1%
Sales and distribution costs (S&D)	5.6%
Marketing expenses (MEX)	9.2%
Other expenses / revenues, net	n/a
Total	**4.7%**



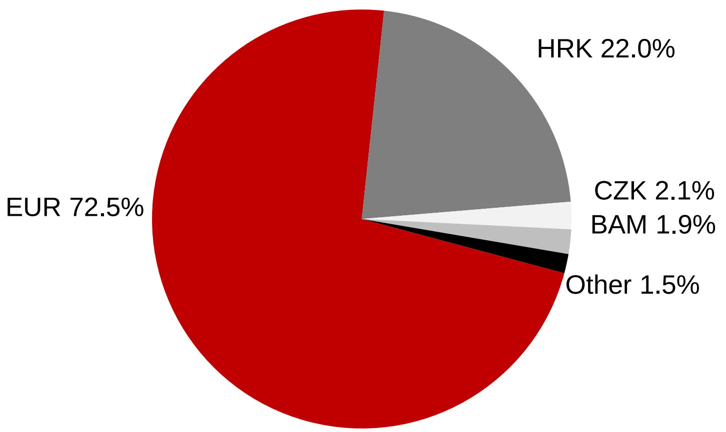
Key highlights of operating expenses in 1-9 2019:

- **Cost of goods sold (COGS):**
  - Higher 5.1%, as a result of higher sales realized, the sales structure itself and higher staff costs in line with the planned improvement in material rights of employees,
- **General and administrative expenses (G&A):**
  - Higher 8.1%, primarily as a result of higher staff costs and different dynamics of movements in provisions,
- **Sales and distribution costs (S&D):**
  - Higher 5.6%, where the increase is related to the increase in sales, but also to the increase in staff costs in line with the planned improvement of material rights of employees,
- **Marketing expenses (MEX):**
  - Higher 9.2%, out of which costs of marketing investments are 13.4% higher, while the remaining portion relates to expenses of the marketing department. Increase is a result of stronger investments in the promotion of newly launched products and further development of own brands through effective marketing activities,
- **Other expenses / revenues, net:**
  - In 1-9 2019, other income and expenses, net amounted to HRK +23m, while in the comparative period they amounted to HRK +5m. This line item also includes foreign exchange differences on trade receivables and trade payables that amounted to HRK +13m in 1-9 2019, while in the comparative period they amounted to HRK -13m.

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

(in HRKm)[1]	2018	1-9 2019	% change
Net debt	755	855	13.3%
Interest expense	18	16	(13.8%)
Net debt / normalized EBITDA	1.6	1.7	2.7%
Normalized EBIT / interest expense	15.2	19.4	27.6%
Equity to total assets ratio	62.9%	63.8%	+95 bp

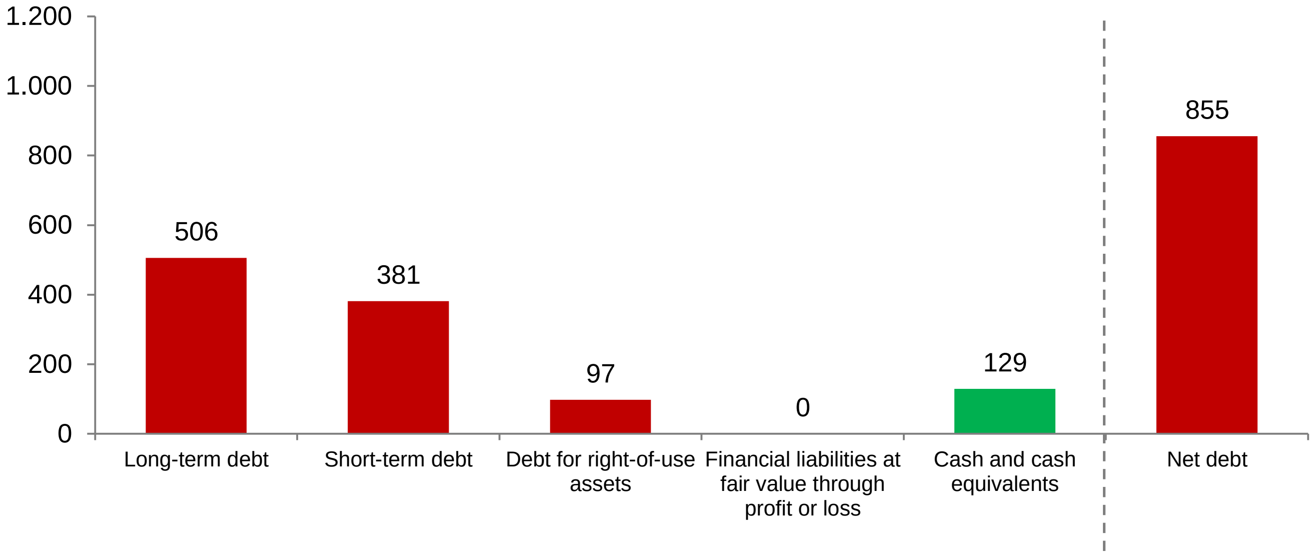
Currency structure of debt as at 30 September 2019



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 1.6,
- **Weighted average cost of debt excluding liabilities for right-of-use assets:**
  - As at 30 September 2019 → 1.2%,
  - As at 31 December 2013 → 4.3%.

Net debt components in HRKm as at 30 September 2019



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

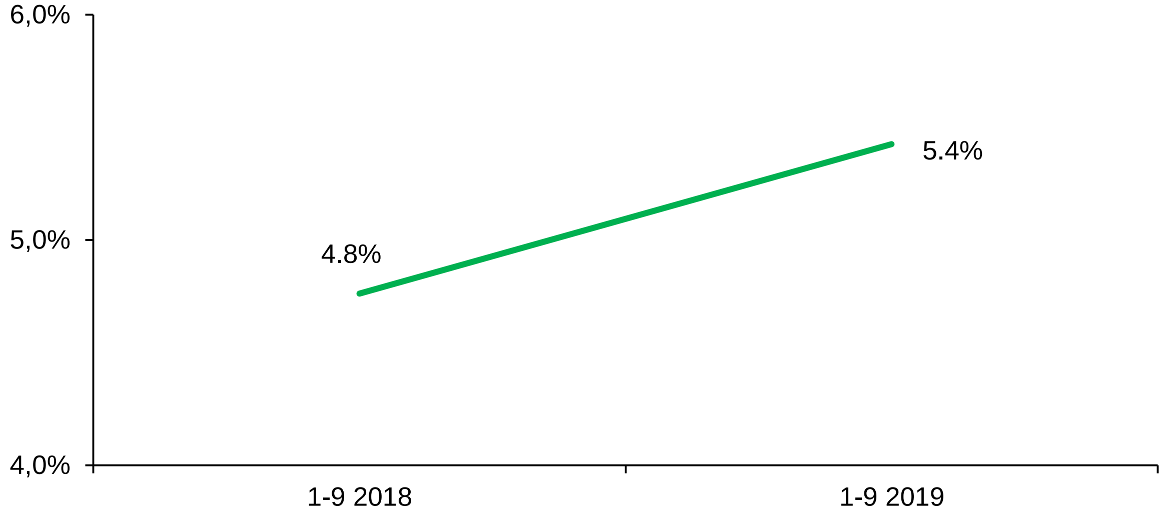
Higher level of net cash from operating activities as a result of operating business growth

Working capital movement in BS	30 Sep 2019 / 30 Sep 2018	Impact
Inventories	↑ 10.9%	▪ The increase in inventories is a consequence 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, in line with the planned production dynamics.
Trade and other receivables	↑ 1.7%	▪ This movement is in line with normal operations.
Trade and other payables	↑ 0.4%	▪ This movement is in line with normal operations, as well as the increase in the dividend payable, approved by the General Assembly.

(in HRKm)	1-9 2018	1-9 2019	Δ
Net cash from operating activities	147	176	29
Net cash from investing activities	(69)	(97)	(28)
Net cash from financing activities	(294)	(160)	134
Net change of cash and cash equivalents	**(216)**	**(82)**	**134**

- **CAPEX** in 2019 is expected to be at the level of HRK 175m, in 2020 at the level of HRK 200 - 250m, and in 2021 and 2023 at the level of approximately HRK 200m.

Net cash flow from operating activities as % of sales

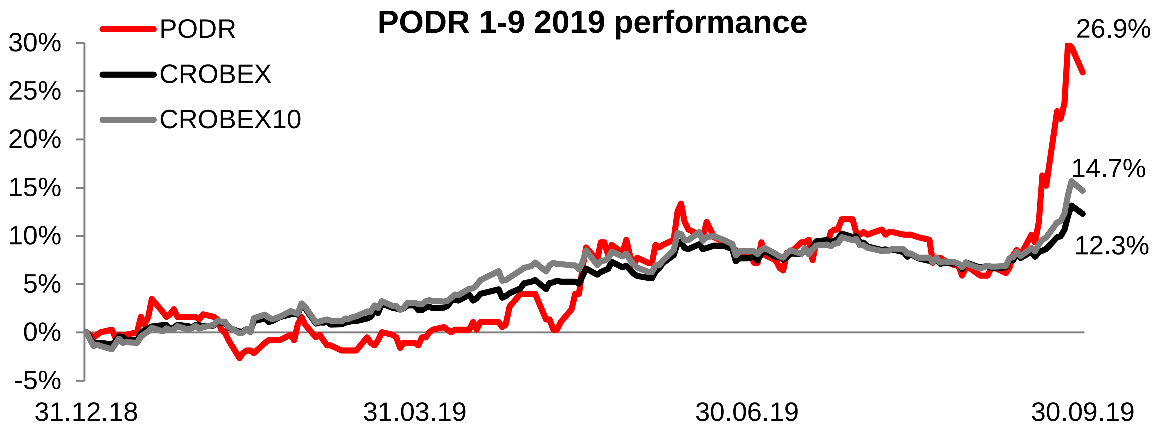


Podravka's share price movement in 1-9 2019

Market activity with PODR share

(HRK; units)	1-9 2018	1-9 2019	% change
Average daily price	298	412	38.4%
Average daily number of transactions	11	12	0.8%
Average daily volume	1,378	1,065	(22.7%)
Average daily turnover	410,631	439,143	6.9%
Reported earnings per share	30[1]	31	3.3%
Normalized earnings per share	31[1]	34	9.7%

2019 share price movement



Analyst coverage

Analysts	Recommendation	Target price	Potential[2]
InterCapital	Buy	431 HRK	(9.5%)
Raiffeisen BANK	Under review	-	-
ERSTE Group	Accumulate	480 HRK	0.8%
WOOD & COMPANY	Hold	443 HRK	(6.9%)

Peer group

Peer group multiples[3]	EV/Sales	EV/ EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	12.7	17.2	2.7	19.8
Normalized weight. av. peer group[4]	1.6	11.8	16.9	2.1	19.6
Podravka Group reported	1.0	8.5	15.5	1.0	15.5
Podravka Group normalized[5]	1.0	8.2	14.1	1.0	13.8

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

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

[1]Calculated on the FY 2018 basis; [2]Compared to the last price on 30rd Sep 2019; [3]Obtained from Bloomberg on 26th Sep 2019; [4]Calculated excluding max. and min. Values; [5]Normalized for items stated in the publication of 1-9 2019 and 2018 results.

Podravka d.d.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

www.podravka.hr

Investor Relations

ir@podravka.hr

tel: +385 48 65 16 35

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