



# Audited Podravka Group business results for 1-12 2015 period



## 2015 financial results impacts that are not fully related to usual business activities



### Food sales revenues impacts:

- **acquisition of Slovenian food company Žito** → consolidation of Žito's sales revenues from Q4 2015,
- **consolidation of Mirna's sales revenues** from April 2015 and acquired **PIK** product range sales revenues from June 2014,
- **unfavourable political and economical developments in Eastern Europe** → impact on market conditions and local currencies.

### Food profitability impacts:

- aforementioned sales revenues impacts,
- consolidation of Žito and Mirna expenses that didn't burden 2014.
- **subsidiary established in Russia** in Q4 2014 → new expenses in 2015 that didn't fully burden 2014,
- **establishment of subsidiaries in Tanzania and Dubai, representative office in China** → new expenses in 2015 that didn't burden 2014.



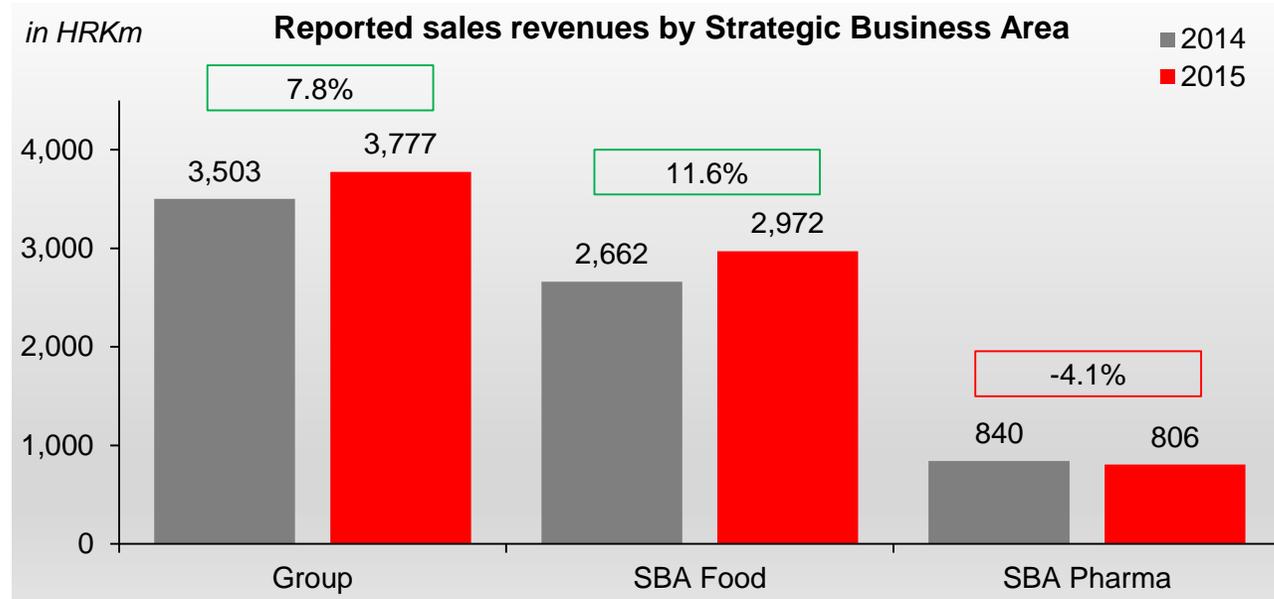
### Pharmaceutical sales revenues impact:

- **unfavourable political and economical developments in Eastern Europe** → led to temporary suspension of operations in Ukraine and Kazakhstan, estimated impact of HRK -11.2m,
- significant **Russian ruble FX impact** of HRK -35.4m on sales revenues,
- Prescribed **price reduction on RX drugs by Croatian Health Insurance Fund (CHIF)** → estimated impact of HRK -10.0m.

### Pharmaceutical profitability impacts:

- aforementioned sales revenues impacts,
- HRK -23.2m of **net foreign exchange losses on trade payables and receivables**,
- received **incentives from Croatian Ministry of Economy** for the construction of the new Belupo factory → HRK 163.7m of positive tax effect.

# Own brands in Food segment recorded 2.7% organic sales revenues growth in 2015



## SBA Food excluding acquired product range and beverages:

- **own brands** → 2.7% higher sales due to higher sales in culinary category (+2.6%) and baby, breakfast and other food category (+5.4%),
- **other sales** → 8.5% lower sales mostly due to lower poppy seed market price in Europe Region,
- **total SBA Food** → 1.3% higher sales.

## Net FX impact on sales revenues:

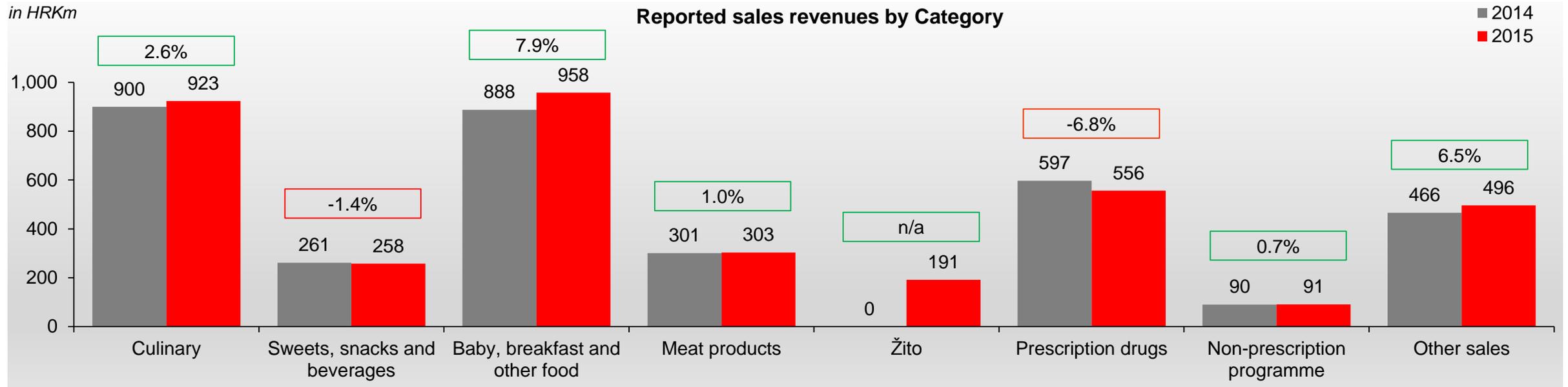
HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(21.4)	(0.5)	(21.9)	RUB	(57.8)
Pharmaceuticals	(35.9)	(0.3)	(36.2)	RSD	(4.3)
Group	(57.3)	(0.8)	(58.1)	EUR	(2.6)
				BAM	(1.3)
				USD	7.9
				Other	(0.0)
				Total	(58.1)

- FX impact on sales revenues shows by for how many HRK would sales revenues have been higher or lower if FX rates had remained as in 2014.

## SBA Pharmaceuticals:

- **own brands** → 5.8% lower sales due to significant FX impact (HRK -35.9m), suspension of operations in Ukraine and Kazakhstan (est. HRK -11.2m) and CHIF impact (est. HRK -10.0m),
- **other sales** → 3.6% higher sales due to trade goods sales growth in Farmavita,
- **total SBA Pharmaceuticals** → 4.1% lower sales.

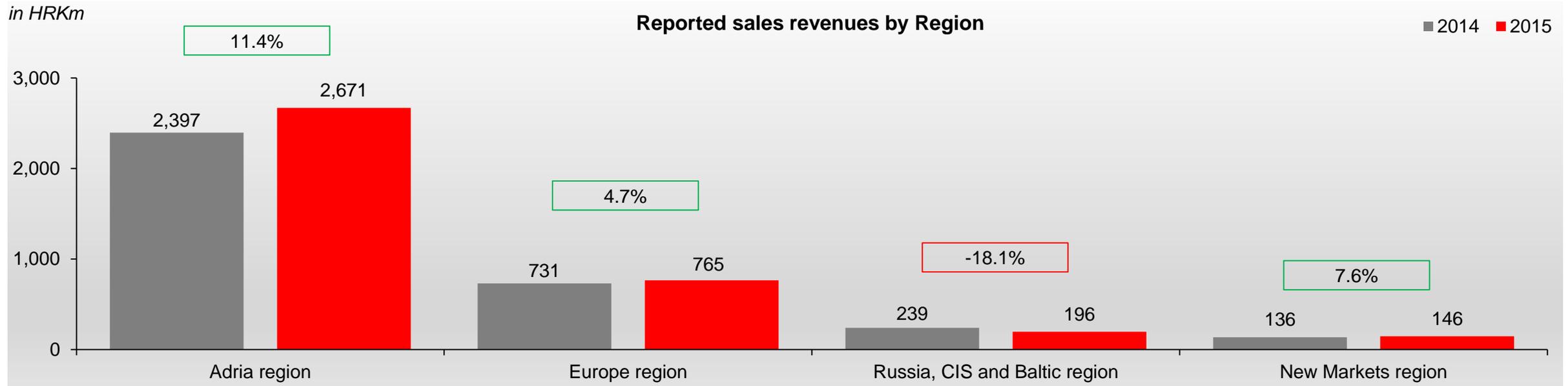
# Significant organic sales growth of baby, breakfast and other food category in 2015



## Key highlights:

- **culinary** → sales increase of universal seasonings subcategory and soups subcategory,
- **sweets, snacks and beverages** → **excluding beverages product range** which is for sale, sales dropped 2.4% due to product range rationalization, competitor activities and shrinkage of overall snacks category,
- **baby, breakfast and other food** → **excluding Mirna assortment**, sales grew 5.4% thanks to sales growth of baby food, condiments and frozen vegetables subcategories,
- **meat products** → **excluding PIK assortment**, sales dropped 2.7% due to stronger marketing activities of competitors,
- **Žito** → consolidated Q4 2015 of Žito's sales; in whole 2015 Žito posted 3.7% sales growth of own brands,
- **prescription drugs** → HRK -32.3m of Russian ruble impact, estimated HRK -11.2m impact of Ukraine and Kazakhstan operation suspension, HRK -10.0m of estimated CHIF impact,
- **non-prescription programme** → 5.1% sales growth of OTC subcategory on the market of Croatia,
- **other sales** → **excluding Žito's sales**, 3.7% lower sales due to lower market price of poppy seeds, partially compensated by higher sales of trade goods in Farmavita.

# Adria region is the main driver of sales growth in 2015



## Key highlights:

- **Adria region** → 1.4% sales growth **excluding acquired product range and beverages**, mostly as a result of soups, baby food and prescription drugs subcategories sales growth,
- **Europe region** → 0.4% sales growth **excluding acquired product range and beverages**; 5.3% sales growth of own brands compensated for lower sales of poppy seeds,
- **Russia, CIS & Baltic region** → Russian ruble had HRK -22.4m impact in food and HRK -35.4m impact in pharma segment; **excl. FX impact**, region saw 5.6% sales growth, mostly as a result of frozen vegetables subcategory,
- **New Markets region** → 6.2% sales growth **excluding acquired product range and beverages** due to culinary category growth in Australia and USA.

## Net FX impact on region's sales revenues:

Region	HRKm
Adria	(7.9)
Europe	(0.1)
Russia, CIS, Baltics	(57.8)
New Markets	7.7

- FX impact on sales revenues shows by how many HRK would sales revenues have been higher or lower if FX rates had remained as in 2014.

# Positive impact of Q4 2015 Žito consolidation on food segment profitability

2015 (in HRK <sup>1</sup> )	Food stand-alone		Gain on a bargain purchase of Žito		Food reported	
Sales revenues	2,732.3	2.6%	-	n/a	2,971.6	11.6%
Gross profit	1,030.3	1.8%	-	n/a	1,110.8	9.7%
EBITDA	227.6	16.0%	115.7	n/a	369.3	88.3%
EBIT	106.6	41.4%	115.7	n/a	237.6	215.0%
Net profit after MI	86.4	199.5%	110.4	n/a	210.0	628.2%

2015 (% of sales revenues) <sup>2</sup>	Food stand-alone		Q4 2015 Žito impact		Food reported	
Gross margin	37.7%	-32 bp			37.4%	-65 bp
EBITDA margin	8.3%	+96 bp			12.4%	+506 bp
EBIT margin	3.9%	+107 bp			8.0%	+516 bp
Net margin after MI	3.2%	+208 bp			7.1%	+598 bp

## Key highlights:

### Stand-alone food segment:

- lower **gross profit margin** as a result of changed sales structure, with the increase in sales of the range that has lower gross margin than the food segment average,
- **operating profit** in 2015 impacted by: (i) HRK 24.8m positive effect of Mirna consolidation, (ii) HRK 33.0m severance payments and (iii) HRK 9.4m Žito related acquisition and integration expenses; in 2014 impacted by HRK 65.2m of severance payments,
- **net profit after minorities** in 2015 impacted by HRK 6.7m finance costs related to the ESOP and HRK 11.6m deferred tax revenue.

### Žito impact:

- gain on a bargain purchase impact of HRK 115.7m on EBITDA and EBIT and impact of HRK 110.4m on net profit after minorities.

<sup>1</sup>Performance in 2015; % change when compared to 2014; <sup>2</sup>% of sales revenues in 2015; basis points change when compared to 2014.

# Food segment profitability compensated for lower pharma segment profitability in 2015

2015 (in HRKm) <sup>1</sup>	Food reported		Pharmaceuticals		Group reported	
Sales revenues	2,971.6	11.6%	805.7	(4.1%)	3,777.2	7.8%
Gross profit	1,110.8	9.7%	424.6	(8.4%)	1,535.5	4.0%
EBITDA	369.3	88.3%	98.9	(19.0%)	468.2	47.1%
EBIT	237.6	215.0%	47.7	(40.6%)	285.2	83.3%
Net profit after MI	210.0	628.2%	187.3	194.4%	397.3	329.7%

2015 (% of sales revenues) <sup>2</sup>	Food reported		Pharmaceuticals		Group reported	
Gross margin	37.4%	-65 bp	52.7%	-245 bp	40.7%	-149 bp
EBITDA margin	12.4%	+506 bp	12.3%	-225 bp	12.4%	+331 bp
EBIT margin	8.0%	+516 bp	5.9%	-363 bp	7.6%	+311 bp
Net margin after MI	7.1%	+598 bp	23.2%	1.567 bp	10.5%	+788 bp

## Key highlights:

### Pharmaceuticals:

- top line negative impacts weighted down on the whole profitability,
- lower **gross margin** as a result of changed sales structure with a decrease in sales of own brands and unchanged sales of trade goods,
- FX differences on trade payables and receivables (in other operating expenses) in 2015 HRK -23.3m and in 2014 HRK -43.7m,
- **net profit after MI** was additionally impacted in 2015 by HRK 1.3m of ESOP financial expenses and by HRK 163.7m of deferred tax revenues.

### Tax incentive for Belupo factory:

- Belupo received incentive for the construction of new factory in the allowed maximum amount of HRK 163.7m. In 2015 Belupo initially recognized the maximum approved amount of incentives as deferred tax asset and tax revenue.

<sup>1</sup>Performance in 2015; % change when compared to 2014; <sup>2</sup>% of sales revenues in 2015; basis points change when compared to 2014.

# Operating expenses movement in line with business developments

Operating expenses	2015/2014 without Žito	2015/2014 reported
Cost of goods sold (COGS)	3.0% 	10.6% 
General and administrative expenses (G&A)	(8.4%) 	(5.4%) 
Selling and distribution costs (S&D)	1.8% 	11.1% 
Marketing expenses (MEX)	8.2% 	11.5% 
Other costs	(17.6%) 	(18.9%) 
<b>Total</b>	<b>1.9%</b> 	<b>8.5%</b> 

## Key highlights:

### COGS without Žito:

- 3.0% higher COGS due to both organic growth of food segment and inorganic growth of food segment (Mirna and PIK assortment),

### G&A expenses without Žito:

- HRK 41.1m of severance payments and HRK 9.4m of Žito acquisition and integration expenses in 2015, HRK 72.1m of severance payments in 2014; excluding aforementioned impacts, G&A expenses were 2.5%, lower; excluding Mirna expenses that were not included in 2014, G&A expenses would be 6.9% lower,

### S&D costs without Žito:

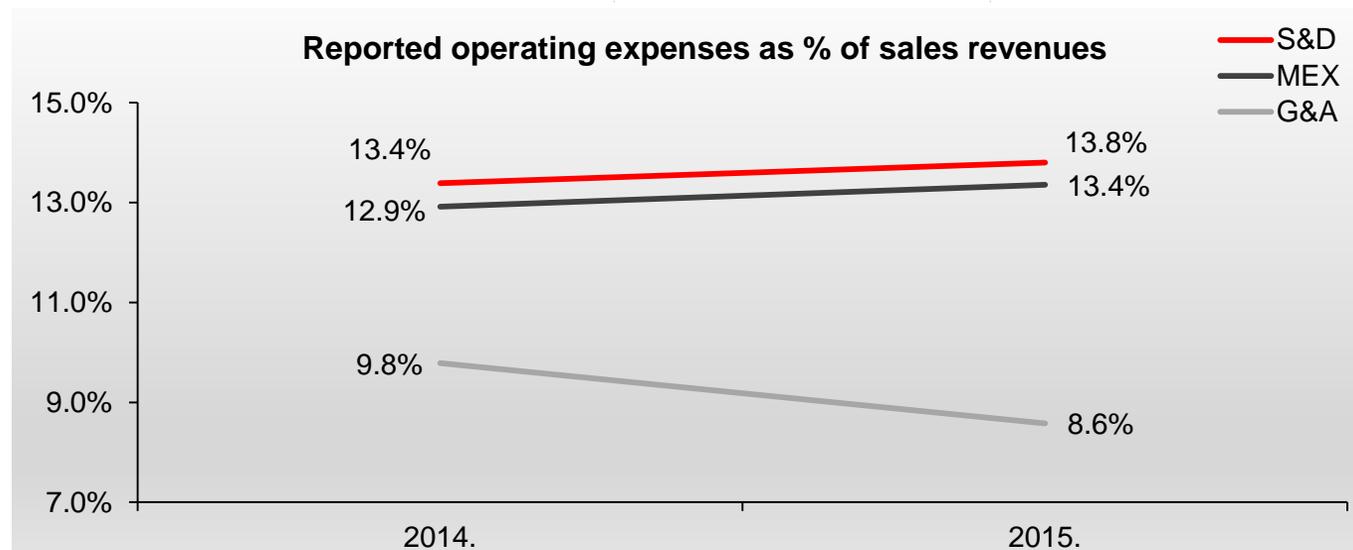
- impact of initial costs related to the decision to enter new markets and by S&D costs of food company in Russia and Mirna that were not charged in 2014; excluding aforementioned impacts, S&D costs fell 2.7%,

### MEX without Žito:

- stronger marketing activities related to the opening of new markets, culinary category in Western Europe and baby food and meat products assortment in Adria region,

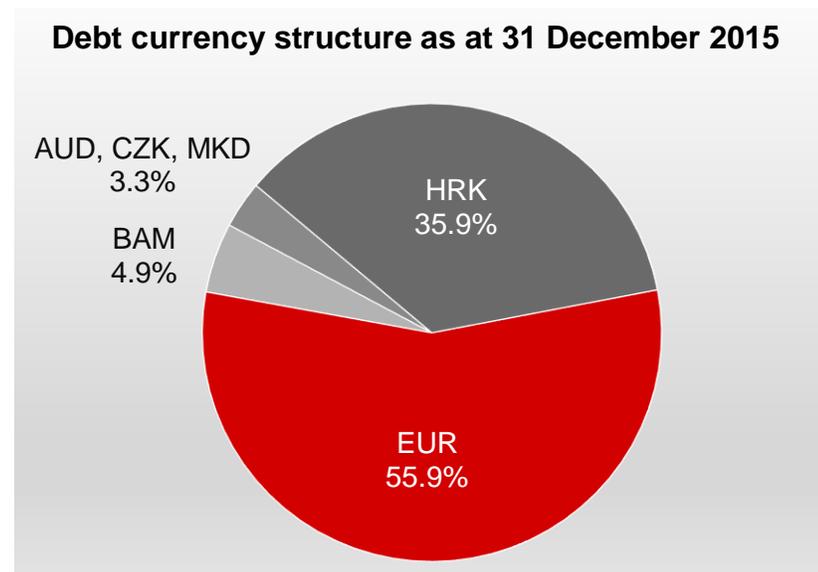
### Other costs without Žito:

- 37% lower net foreign exchange losses on trade receivables and payables.



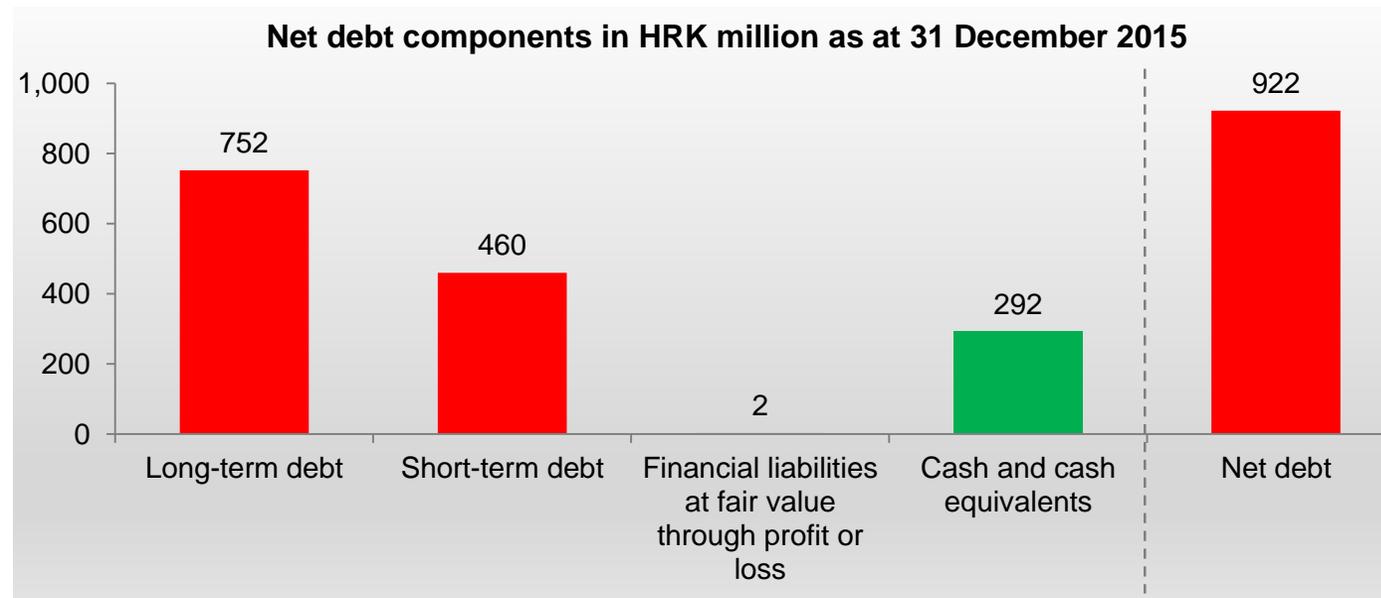
# Sound level of indebtedness following Žito consolidation

(in HRK 000)	2015	2014	% change
Net debt	922,376	856,829	7.7%
Interest expense (excl. banking fees)	36,918	43,542	(15.2%)
Net debt / EBITDA	2.0	2.7	(26.7%)
EBITDA / Interest expense	12.7	7.3	73.3%
Equity to total assets ratio	57.0%	50.9%	+609 bp



## Key highlights:

- net debt increase → due to the consolidation of Žito Group,
- lower interest expense → liabilities refinanced under more favourable commercial conditions and repayment of a part of borrowings,
- gearing ratio calculated on Podravka and Žito Group full 2015 EBITDA, excluding favourable purchase gain from Žito, equals 2.3, while interest coverage ratio equals 10.8.
- weighted average cost of debt:**
  - on 31 December 2015 → 3.0%,
  - on 31 December 2013 → 4.3%.

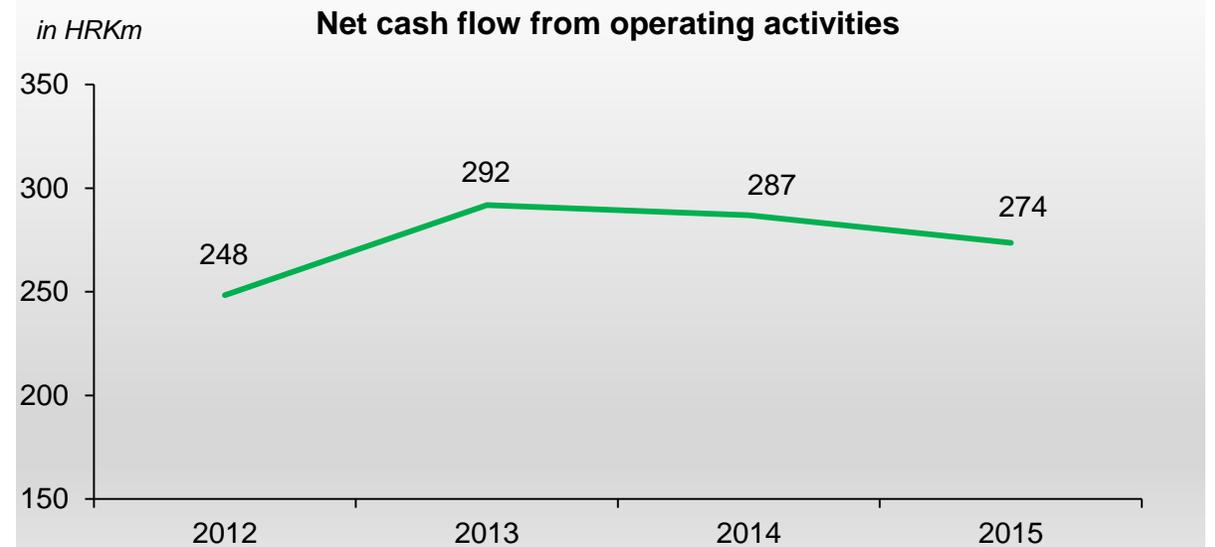


## Stable level of net cash flow from operating activities

Working capital movement excl. Žito	31 December 2015 / 31 December 2014		Impact
Inventories		HRK +59.9 million	<ul style="list-style-type: none"> <li>inventories of Mirna that were not consolidated as at 31 December 2014,</li> <li>increase in inventories of raw materials scheduled for shipment in Q1 2016,</li> <li>increase in Belupo's raw materials inventory to secure the production continuity,</li> <li>introduction of new products.</li> </ul>
Trade receivables		HRK -10.3 million	<ul style="list-style-type: none"> <li>primarily due to CHIF's settlement of portion of its liabilities.</li> </ul>
Trade payables		HRK +34.8 million	<ul style="list-style-type: none"> <li>partial impact of Mirna's trade payables that were not consolidated as at 31 December 2014.</li> </ul>

### Key highlights:

- net cash flow from operating activities → HRK 274.2m due to working capital movement,
- net cash flow from investing activities → HRK -675.2m as a result of Žito acquisition and HRK 271.2m of capital expenditures,
- net cash flow from financing activities → HRK 473.0m primarily due to cash collected by issuing new 1,700,000 ordinary shares,
- capital expenditure in 2016 is expected to be at a level of HRK 300-400m, in 2017 at a level of HRK 280-300m and after that at a level of around HRK 250m.

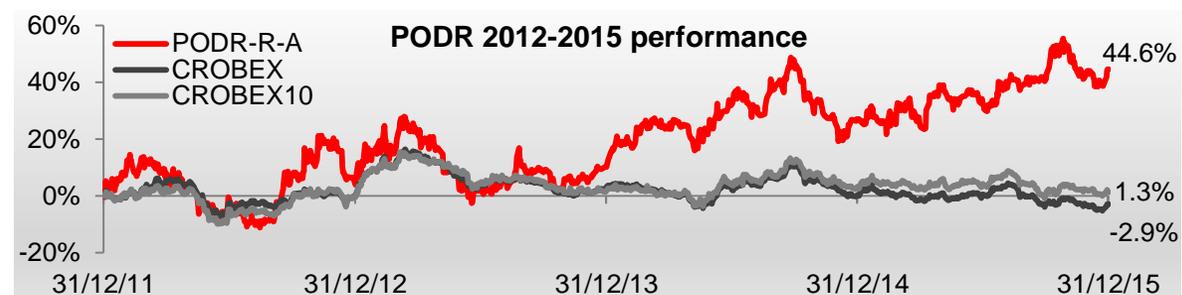
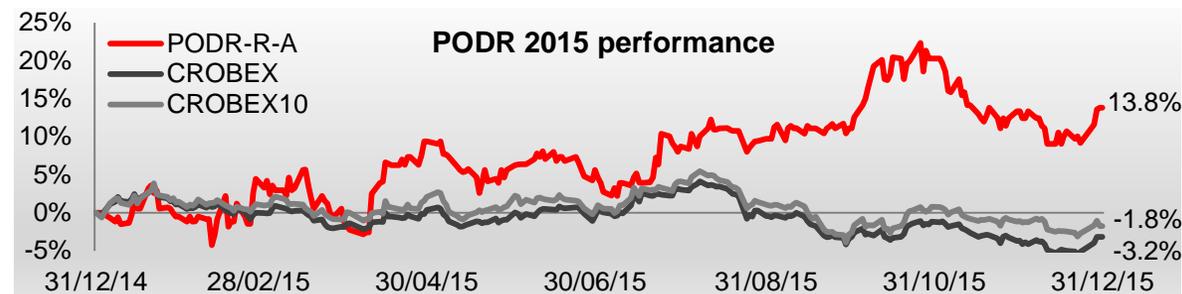


# Continuous improvement in Podravka's share performance

(HRK; units)	2015		2015 / 2014		2014 / 2013
Average daily price	318.8	↗	7.4%	↗	16.3%
Average daily number of transactions	12	↘	(9.1%)	↗	39.6%
Average daily volume	1,739	↗	11.3%	↗	105.4%
Average daily turnover	554,258.8	↗	19.6%	↗	134.2%
Reported earnings per share	66.5	↗	276.9%	↗	38.8%
Adjusted earnings per share <sup>1</sup>	23.2	↗	31.6%	↗	38.8%

<sup>1</sup>(Podravka and Žito Group pro-forma full 2015 result - favorable purchase gain from Žito - deferred tax revenues) / 5.987.697; 5.987.697 is weighted average number of shares in 2015.

Analysts	Recommendation	Target price	Potential <sup>2</sup>
 InterCapital	Buy	HRK 364.78	13.3%
 Raiffeisen BANK	Hold	HRK 353.00	9.6%
 ERSTE Group	Accumulate	HRK 355.00	14.9%
 UniCredit	Buy	HRK 398.96	23.9%
 WOOD & COMPANY	Hold	HRK 371.00	15.2%



Peer group multiples <sup>3</sup>	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.1	12.8	18.1	3.3	19.2
Normalized weight. av. peer group <sup>4</sup>	2.1	12.9	18.3	3.0	19.9
Podravka Group reported	0.9	6.9	11.4	0.8	5.7
Podravka Group normalized <sup>5</sup>	0.7	7.7	15.2	0.8	13.0

<sup>2</sup>Compared to the last price on 24 March 2016,

<sup>3</sup>Obtained from Bloomberg on 7 March 2016,

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

<sup>5</sup>Calculated on full 2015 Podravka and Žito Group normalized results.

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

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

## Contact

---

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



# Audited Podravka Group business results for 1-12 2015 period

