



# Podravka Group

*Always with a heart!*

Austria & CEE Investor Conference, London, 2nd February 2017





# **The Company**

Business

Investment highlights

Strategic goals

1-9 2016 results

# Podravka Group at a glance



## **BUSINESS:**

- branded food – primary business,
- generic pharmaceuticals.



## **2015 FIGURES:**

- HRK 3,626.8 million of sales,
- HRK 4,945.8 million of total assets,
- 6,657 employees.

## **YEAR OF ESTABLISHMENT:** 1947

- 70 years in food production,
- 45 years in pharma production,
- culinary institution in SEE.



## **HEADQUARTERS:**

- Koprivnica, Croatia.



## **MAIN MARKETS:**

- South East Europe,
- Central Europe,
- Eastern Europe.



## **SHARE LISTING:**

- Zagreb Stock Exchange, Croatia,
- 7,120,003 ordinary shares,
- MCap of HRK 2,579.3 million\*.

\*MCap on 31 December 2016.



# Long tradition of food and pharmaceutical production



1934

Fruit processing and marmalade workshop by brothers Wolf established



1947

Wolf brothers workshop became publicly owned under Podravka name



1952

Condiments, dried and sterilized vegetables, etc. production established



1957

Famous Podravka soups production established



1958

Production of meat products established



1959

Vegeta, universal seasoning, production established



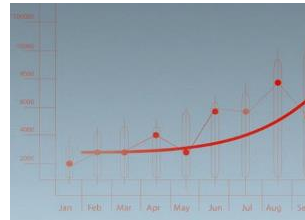
1970

Baby food production established



1972

Belupo pharmaceutical company established, pharmaceutical production established



1993

Podravka became a joint-stock company, free share trading from 1994



2012

Commencement of full-scale restructuring process

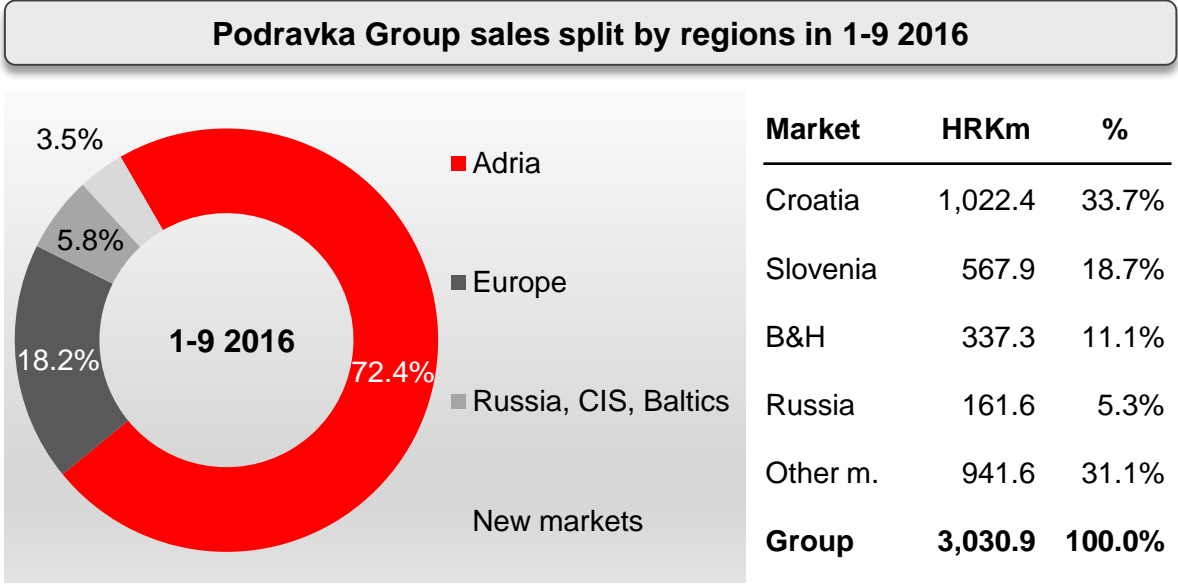
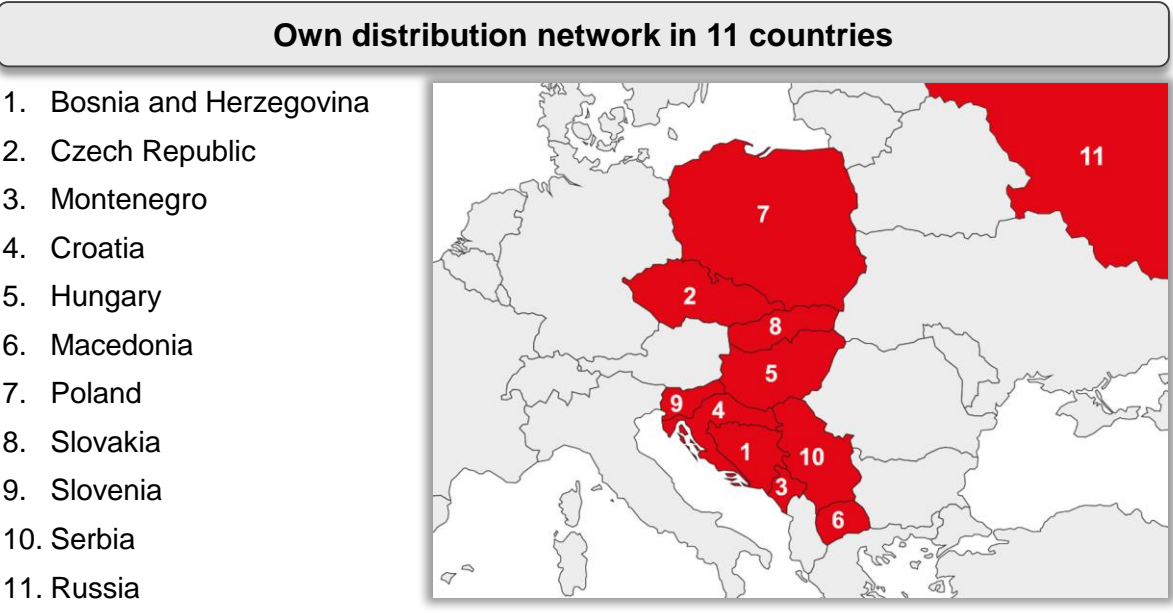
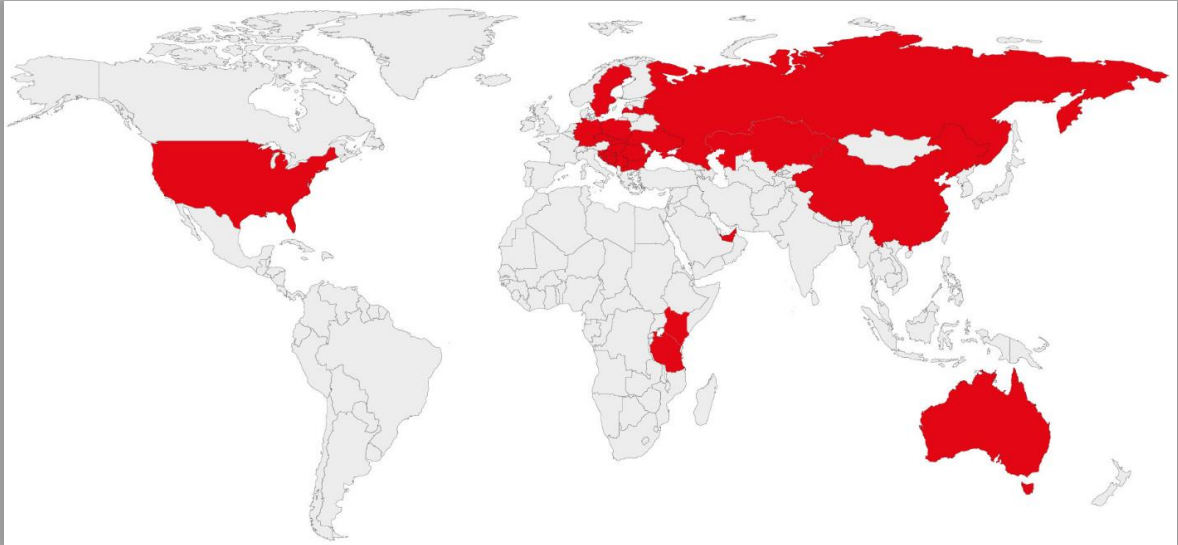
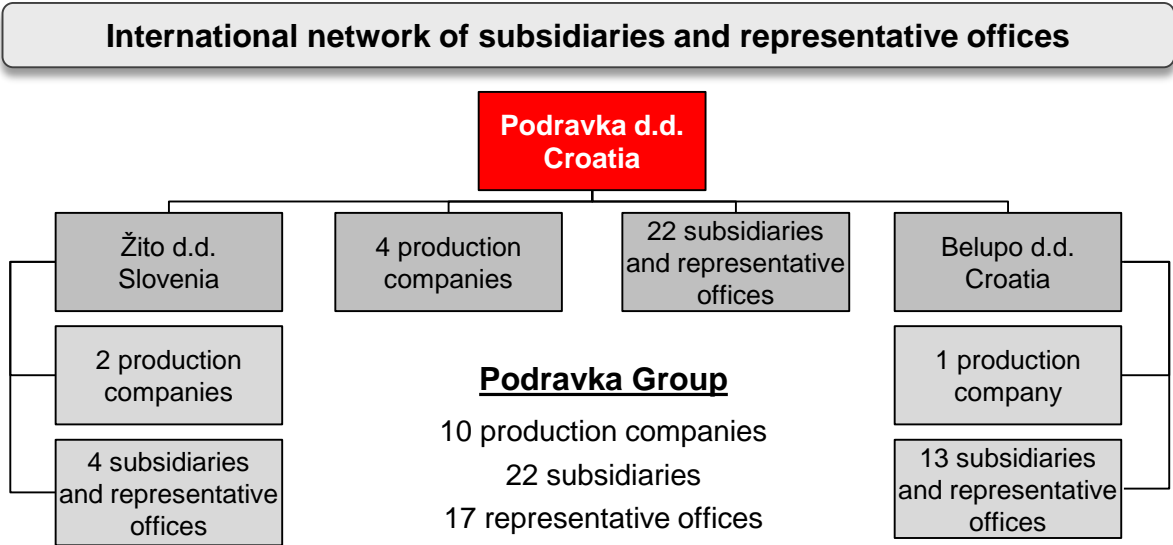


2015

Žito, Slovenian food producer, acquisition



# Podravka Group is present in 25 countries with subsidiaries and representative offices



# Highly developed corporate governance

## Management board



**Zvonimir Mršić**

### President of MB

- Group strategy,
- former 3 times mayor of Koprivnica,
- FBA,
- vice-president of Croatian Exporters Association.



**Olivija Jakupec**

### Member of MB

- sales & marketing,
- work experience on the Russian market,
- former director of Nexe B&H.



**Iva Brajević**

### Member of MB

- finance & IT,
- former finance manager of Unilever and DHL in Croatia.



**Hrvoje Kolarić**

### Member of MB

- pharmaceuticals,
- former director of Bristol Myers Squibb and PharmaSwiss,
- MBA.

## Supervisory board

### President:

- Dubravko Štimac → president of MB of PBZ CO OPF

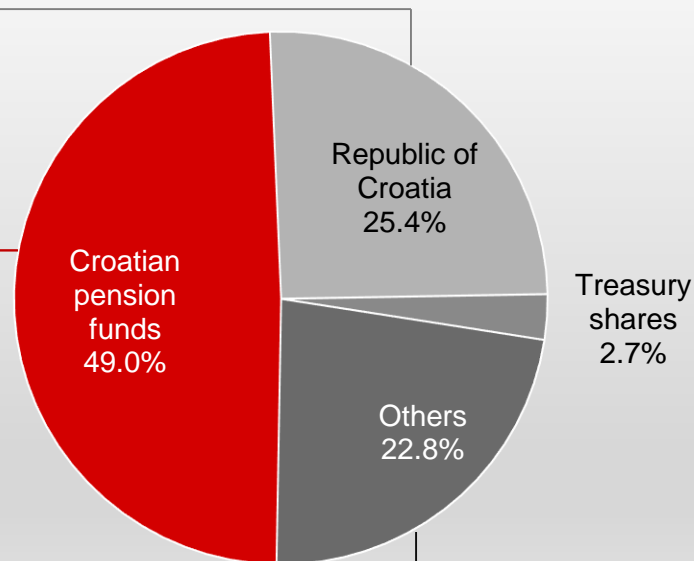
### Vice President:

- Mato Crkvenac → ex finance minister

### Members:

- Ksenija Horvat → workers representative
- Ivo Družić → academy professor of economy
- Petar Vlaić → president of MB of Erste Plavi OPF
- Dinko Novoselec → president of MB of Allianz ZB OPF
- Petar Miladin → academy professor of law

## Shareholder structure as at 31 December 2016



## Audit committee

### President:

- Dinko Novoselec

### Members:

- Petar Vlaić
- Mato Crkvenac

## Remuneration committee

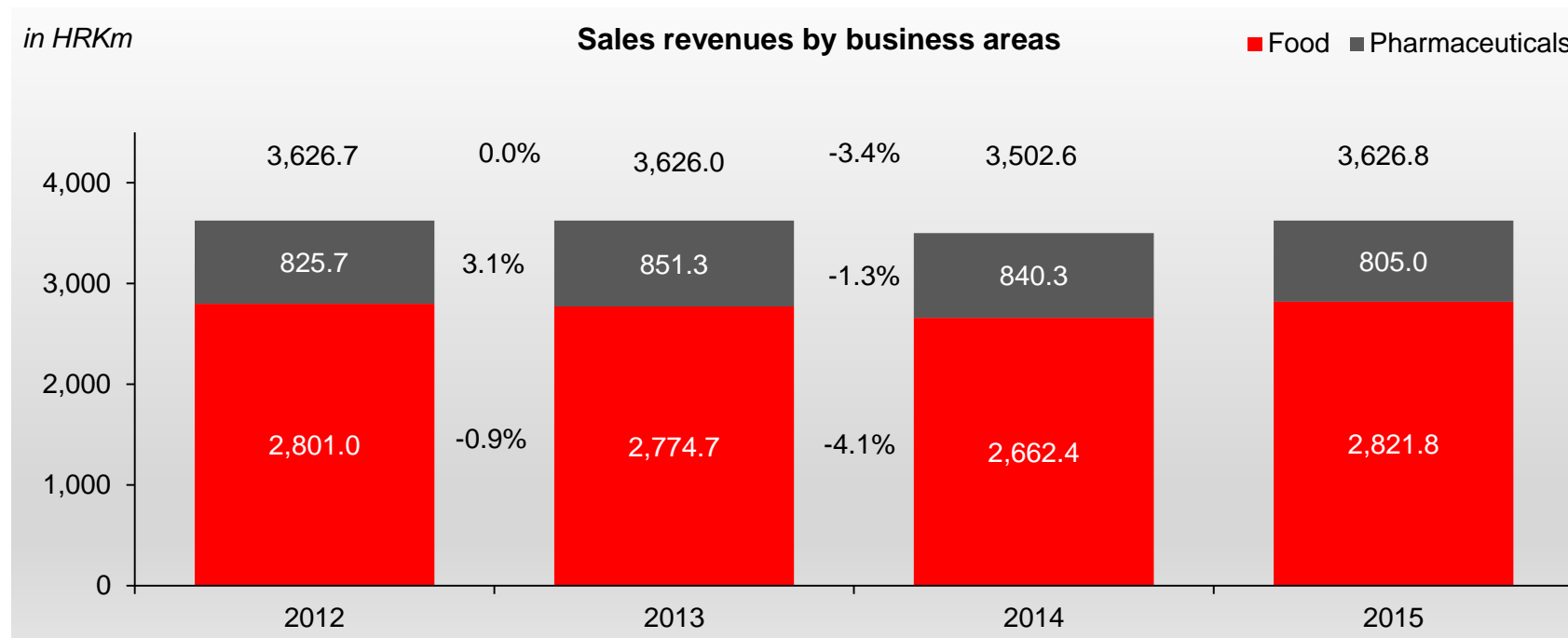
### President:

- Petar Vlaić

### Members:

- Dubravko Štimac

## Snapshot of key financial figures



2015 pro-forma*	HRKm	EURm
Sales revenues	4,218.4	555.1
Adjusted EBITDA	396.8	52.2
Adjusted EBIT	184.8	24.3
Adjusted net profit	137.4	18.1
Total assets	4,945.8	650.8
Net debt	922.4	121.4
CFO	274.2	36.1
CAPEX	271.2	35.7

### Key highlights of sales revenues:

#### ▪ Food:

- restructuring process resulted in exiting from several non-profitable business segments in 2013 and 2014;
- acquisition of Slovenian food company Žito in 2015, consolidation started from Q4 2015,

#### ▪ Pharmaceuticals:

- strong Russian ruble depreciation and constant price decrease from Croatian Health Insurance Fund pressures top-line.

#### \*Note:

- Consolidation of acquired Žito Group started from Q4 2015;
- 2015 sales revenues were reclassified, for more info see „1-9 2016" results section;
- 2015 P&L items adjusted for HRK 115.7m gain on a bargain purchase from Žito acquisition, HRK 78.0m of Žito impairment and HRK 163.7m of deferred tax income from incentives for the construction of new pharmaceutical factories;
- EUR/HRK FX rate of 7.6.



The Company

**Business**

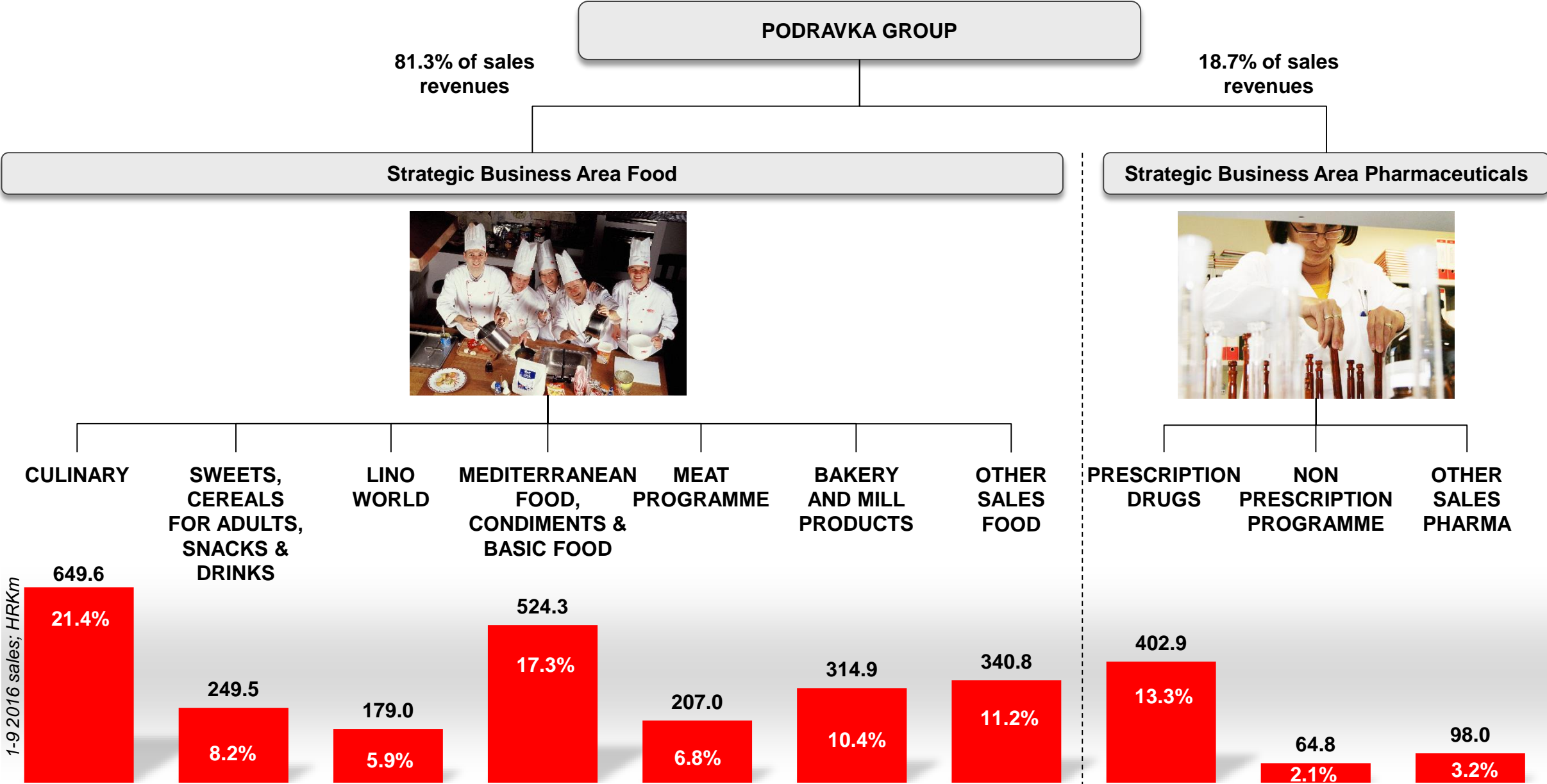
Investment highlights

Strategic goals

1-9 2016 results



# A well diversified product portfolio divided in two business areas



# Culinary category is a cornerstone of food business

Food segment products overview				1-9 2016 sales; % of total	
<b>CULINARY</b> <ul style="list-style-type: none"> <li>seasonings*, bouillons, soups*,</li> <li>semi-finished meals, mixes for meals, sauces.</li> </ul>				HRK 649.6m	21.4%
<b>SWEETS, CEREALS FOR ADULTS, SNACKS &amp; DRINKS</b> <ul style="list-style-type: none"> <li>powdered sweets*, cereals for adults and breakfast,</li> <li>confectionary, salted snack, non-alcoholic beverages.</li> </ul>				HRK 249.5m	8.2%
<b>LINO WORLD</b> <ul style="list-style-type: none"> <li>dehydrated baby food*, cereals for kids,</li> <li>spreads and other Lino assortment.</li> </ul>				HRK 179.0m	5.9%
<b>MEDITERRANEAN FOOD, CONDIMENTS &amp; BASIC FOOD</b> <ul style="list-style-type: none"> <li>canned fish products*, fruits, vegetables, condiments*,</li> <li>rice, pasta, cereals, seeds.</li> </ul>				HRK 524.3m	17.3%
<b>MEAT PROGRAMME</b> <ul style="list-style-type: none"> <li>ready to eat meals and meat sauces,</li> <li>sausages, pâtés, frozen meat.</li> </ul>				HRK 207.0m	6.8%
<b>BAKERY AND MILL PRODUCTS</b> <ul style="list-style-type: none"> <li>fresh bakery products, fresh pastry, toast, rusk,</li> <li>sandwiches, flour, additives, mixes for bakery.</li> </ul>				HRK 314.9m	10.4%
<b>OTHER SALES</b> <ul style="list-style-type: none"> <li>private labels, service production,</li> <li>trade goods, other.</li> </ul>				HRK 340.8m	11.2%

\*Strategic products with international potential.

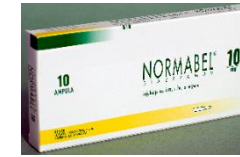
# Prescription drugs category is a cornerstone of pharmaceutical business

## Pharmaceutical category products overview

1-9 2016 sales; % of total

### PRESCRIPTION DRUGS

- for skin disorders\*
- for heart and blood vessels,
- for central nervous system,
- for 8 more areas.



HRK 402.9m 13.3%

### NON-PRESCRIPTION PROGRAMME

- OTC medicine,
- dietary products,
- natural products.



HRK 64.8m 2.1%

### OTHER SALES

- trade goods,
- services.



HRK 98.0m 3.2%

\*Strategic products with international potential.

# High-quality brands with exceptional recognisability and strong international potential

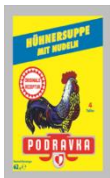


## VEGETA

- universal seasoning, category synonym in Adria region,
- for years No. 1 FMCG brand in CRO and in the top 3 in the region,
- number 1 brand in Europe in universal seasoning category,

- Superbrand award in more than 15 European countries,
- Laur consumenta award in Poland for 2004-2014 period.

Vol. MP <sup>1</sup>	ADRIA	POL	SLK	CZE	RUS
Vegeta	1	2	1	3	4



## PODRAVKA SOUPS

- dehydrated instant soups,
- sold in 25 countries around the world,
- market leader or among top 3 in the Adria region,

- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	SER	MAC	RUS
Soups	1	4	1	2	1	7



## LINO

- dehydrated baby food; umbrella brand,
- category synonym in Adria region,
- sold in more than 20 countries around the world,

- Trusted brand award and Best Buy award winner in Croatia,
- Superbrand awards winner in Croatia, Slovenia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	SER
Lino	1	1	1	1



## DOLCELA

- powdered product for preparation of sweets,
- No. 1 or strong No. 2 brand in Adria region,

- Quadal (Quality Medal) award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H
Dolcela	1	2	1



## EVA (MEDITERRANEAN ASSORTMENT)

- one of the most recognisable brands in canned fish category in the Adria region,
- flagship of Mediterranean cuisine,

- Quadal (Quality Medal) award and Superior taste award in Croatia,
- Best Buy award in Croatia and B&H.

Vol. MP <sup>1</sup>	CRO	SLO	B&H	SER
Eva	2	6	1	3



## BELUPO DERMATICS

- strong international position in niche dermatology segment.

Vol. MP <sup>2</sup>	CRO	RUS	CZE	SLO	B&H	SER	MAC	SLR
D07 <sup>3</sup>	1	5	2	2	1	2	1	1

<sup>1</sup>Source: Nielsen, last available data; <sup>2</sup>Source: IMS; <sup>3</sup>Corticosteroids for the treatment of skin disorder.



The Company

Business

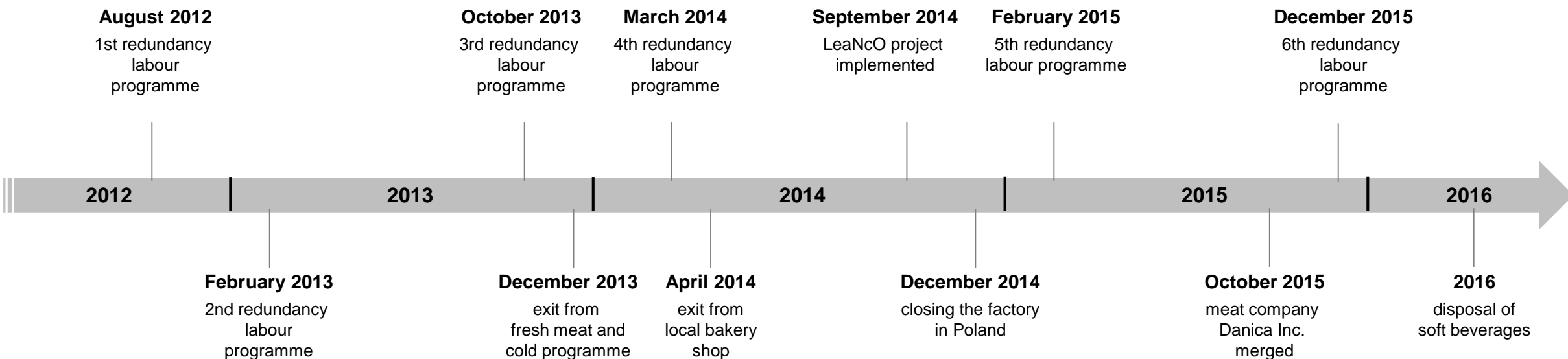
**Investment highlights**

Strategic goals

1-9 2016 results



# Successful implementation of restructuring and reorganization process



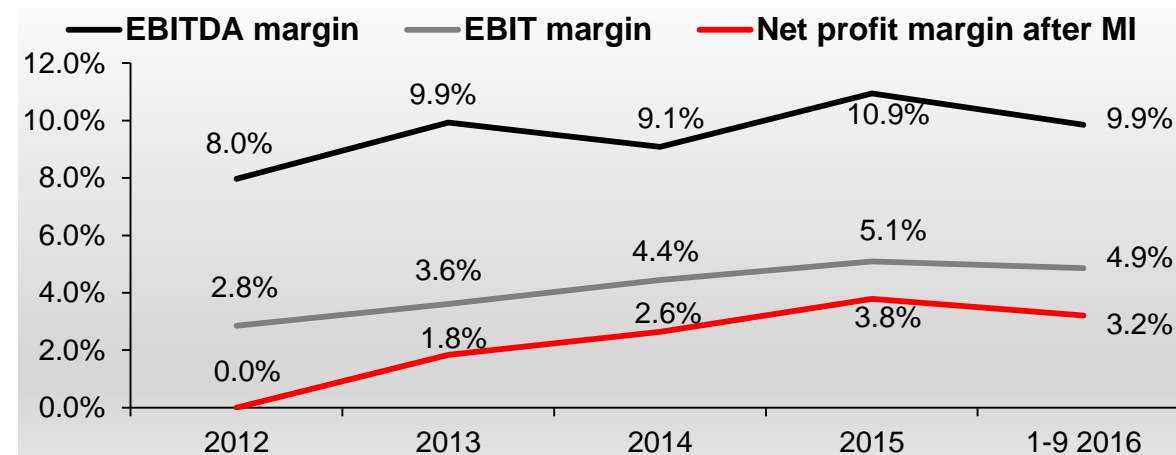
# Significantly improved financial position

## Restructuring related one-off items burdened past profitability

(in HRKm)	2012	2013	2014	2015	1-9 2016
Value adjustments	(32.3)	(80.8)	(27.8)	(34.6)	-
Severance payments	(49.9)	(57.2)	(72.1)	(41.1)	-
Other	(44.3)	4.6	9.8	298.4*	-
Total net one-off items	(126.5)	(133.4)	(90.1)	222.7	-

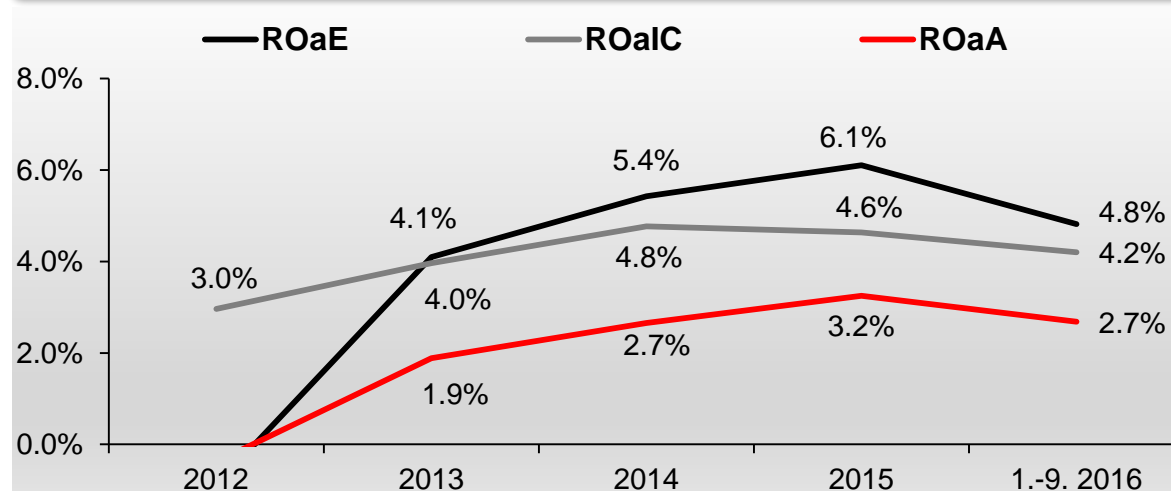
\*HRK 115.7m of gain on a bargain purchase from Žito acquisition (badwill), HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19.0m refers to other items.

## Positive profitability margins movement<sup>1</sup>



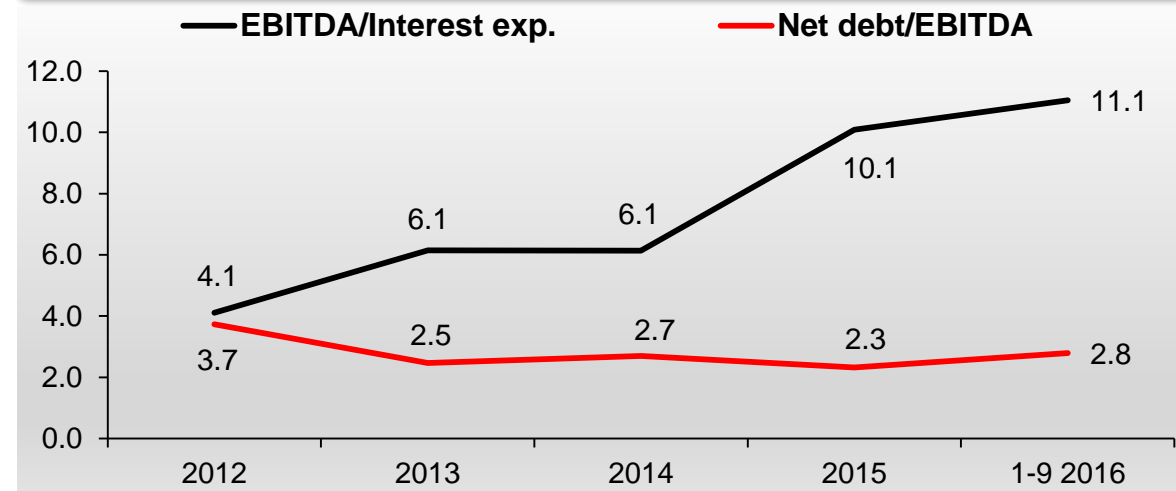
<sup>1</sup>Due to sales revenues reclassification in 2015, historical margins are not comparable.

## Žito acquisition reflected in return rates<sup>1</sup>



<sup>1</sup>2015 figures include Podravka and Žito Group full year figures, adjusted for Žito badwill, Žito impairment and Belupo tax incentives impacts; 1-9 2016 figures calculated on the trailing 12 months basis.

## Sustainable debt level<sup>1</sup>

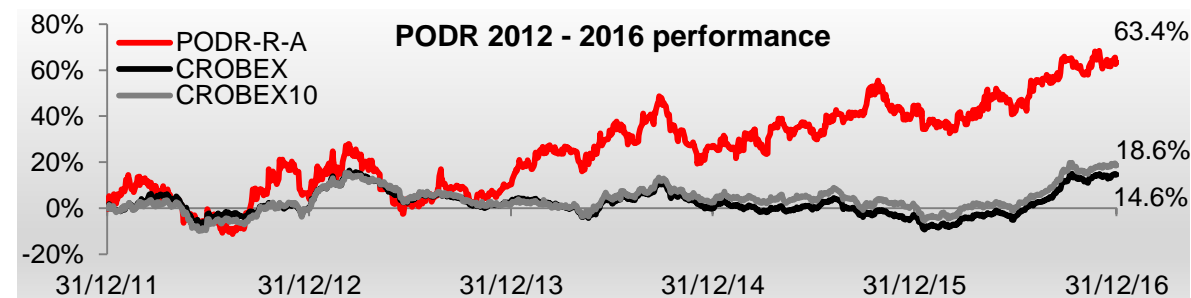
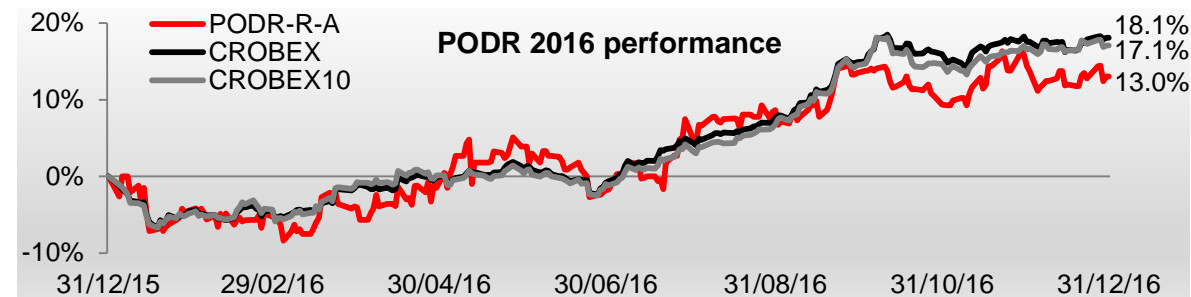


## Stable growth of Podravka's share price in 1-9 2016

(HRK; units)	2016	2016 / 2015	2015 / 2014	2014 / 2013
Average daily price	348.7	9.4%	7.4%	16.3%
Average daily number of transactions	11	(8.9%)	(9.1%)	39.6%
Average daily volume	1,112	(36.0%)	11.3%	105.4%
Average daily turnover	387,819.0	(30.0%)	19.6%	134.2%
Reported earnings per share <sup>1</sup>	58.9	(11.2%)	276.9%	38.8%
Adjusted earnings per share <sup>1</sup>	28.8	8.2%	31.6%	(8.8%)

<sup>1</sup>Calculated for 10 2015 - 9 2016 period, where pro-forma figures for 2015 were taken; adjustment excludes gain on a Žito bargain purchase, Žito impairment and Belupo deferred tax assets.

Analysts	Recommendation	Target price	Potential <sup>2</sup>
 InterCapital	Under review	-	n/a
 Raiffeisen BANK	Hold	HRK 383.00	1.5%
 ERSTE Group	Hold	HRK 400.00	6.0%
 UniCredit	Buy	HRK 398.96	5.7%
 WOOD & COMPANY	Hold	HRK 376.00	(0.4%)



Peer group multiples <sup>3</sup>	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	12.0	16.9	2.8	20.2
Normalized weight. av. peer group <sup>4</sup>	2.2	12.5	18.0	2.5	20.4
Podravka Group reported	0.9	7.4	12.2	1.0	6.6
Podravka Group normalized <sup>5</sup>	0.9	8.4	15.5	1.0	13.9

<sup>2</sup>Compared to the last price on 31 December 2016, **Peer group food:** Atlantic Grupa d.d., Greencore Group plc, Nestle S.A., Orkla S.A., Otmuchow S.A., Unilever plc,

<sup>3</sup>Obtained from Bloomberg on 30 January 2017, **Peer group pharma:** Krka Inc, Hikma Pharmaceuticals plc, Recordati S.p.A, Richter Gedeon Nyrt., Stada Arzneimittel AG.

<sup>4</sup>Calculated excluding max. and min. values,  
<sup>5</sup>Normalized for items stated in the publication of financial results.



The Company

Business

Investment highlights

**Strategic goals**

1-9 2016 results

# Podravka Group has two long-term key strategic objectives

## TWO KEY STRATEGIC OBJECTIVES



**Consolidation and strengthening of our position in the domestic market/region**



**Further internationalization outside of Adria Region**



### Consolidation and strengthening of our domestic position

#### ▪ Reasoning for consolidation:

- Adria region is our core market that accounts for 70.4% of sales revenues,
- for several years domestic retailers and producers are consolidating,
- foreign discounters are putting pressure on domestic retailers and producers.

#### ▪ Strategy:

- participation in potential further regional consolidation,
- focus on core business and most profitable products,
- product innovations.



### Further internationalization

#### ▪ Reasoning for further internationalization:

- high market positions of Podravka's brands in the Adria region provide limited organic growth potential,
- macroeconomic trends provide little support for significant organic growth.

#### ▪ Strategy:

- opening of new markets → Tanzania, Dubai, China,
- distribution model change in Russia,
- M&A opportunities in Europe, including Russia,
- further shift from ethno channels to mainstream markets in Western Europe, Australia and USA.



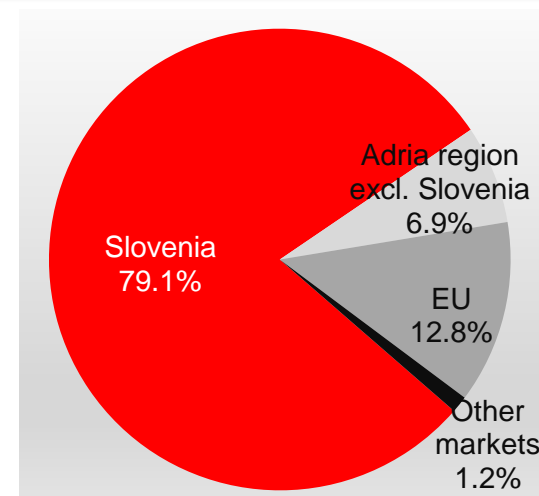
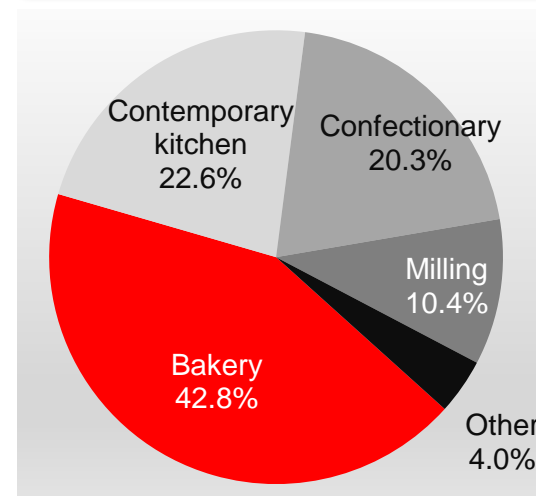
# Acquisition of Slovenian food producer Žito to strengthen market position in the Adria region

## Key highlights of Žito Group

- branded Slovenian food company with 35 retail bakery shops,
- portfolio of leading brands that hold top 2 market positions in Slovenia,
- 69 years of **experience** in food production,
- HRK 824.6 million of **sales revenues**,
- HRK 980.3 million of **total assets**,
- 1.147 **employees** as at 31 December 2015.



## Sales revenues of Žito Group by categories and markets in 2015



- Žito acquisition provides scale and positive synergy/consolidation effects



(in HRKm)	FY 2017	FY 2018	FY 2019
Expected EBITDA impact	+18.9	+18.8	+36.8

Disclaimer*	Podravka Group		Žito Group		Podravka & Žito Group without synergy / consolidation effects		Podravka & Žito Group with 100% synergy / consolidation effects	
(in HRKm)	2015	% of sales	2015	% of sales	2015	% of sales	% of sales	
EBITDA	326.4	9.6%	70.5	8.5%	396.9	9.4%	433.7	10.3%
EBIT	154.3	4.5%	30.5	3.7%	184.8	4.4%	221.6	5.3%
Net profit after MI	110.0	3.2%	27.4	3.3%	137.4	3.3%	174.2	4.1%

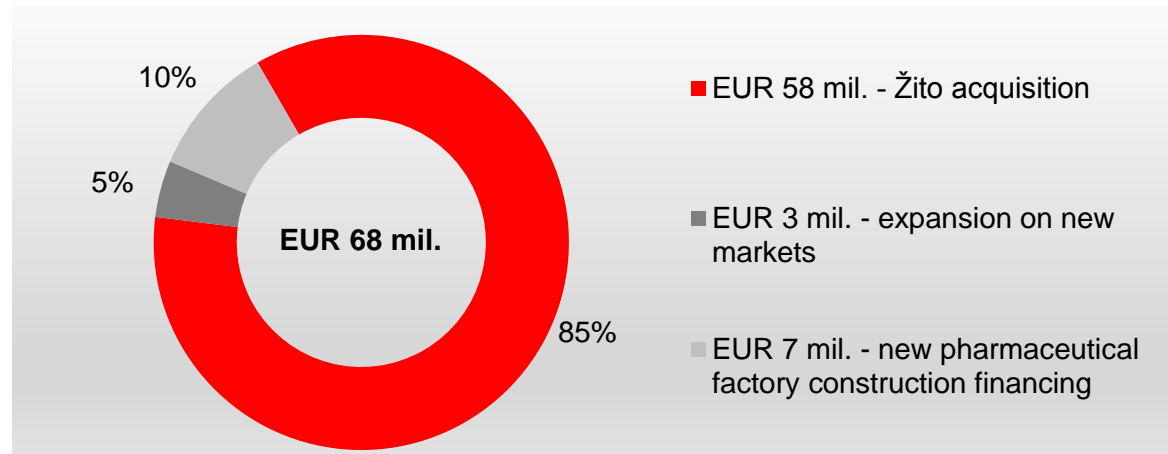
\*Stated overview **does not represent future guidance**, it only shows 2015 profitability and expected synergy effects; Podravka Group **figures are adjusted** for HRK 115.7m of gain on a bargain purchase from Žito acquisition, HRK 78.0m of Žito impairment and HRK 163.7m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories.

# Žito Group acquisition was financed via capital increase

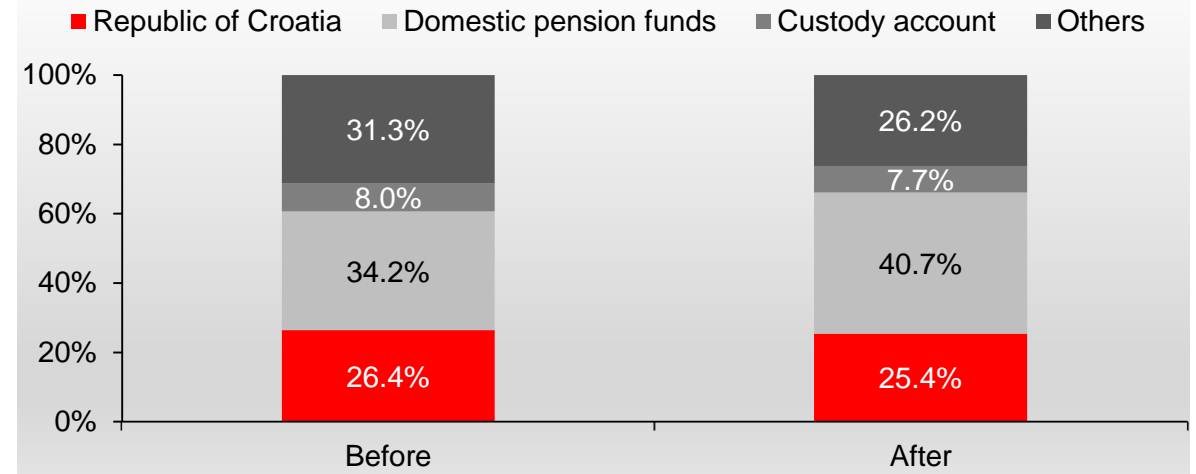
## Capital increase details

- **capital increase process:** started on 07 July 2015 and finished on 20 July 2015,
- **new shares issued:** 1.7 million,
- **price of issue:** HRK 300.00 per share (3.9% discount<sup>1</sup>),
- **amount raised:** HRK 510 million (EUR 68 million),
- **investors interest:** 33% higher than the available number of shares,
- **subscription of issue:** 60.7% domestic pension funds, 22.2% Republic of Croatia, 5.2% employees, 11.9% others,
- **capital increase adoption:** on 24 July 2015 by commercial court.

## Utilization of funds from capital increase



## Shareholder structure following the capital increase



## Purchase price for Žito

- signed SPA price for Žito was EUR 180.1 per share,
- stated price was 5.9% higher than market price, as a result of competitive process,
- additional shares were also purchased for EUR 180.1 per share,
- acquisition price for 90% of Žito shares was EUR 57.7m; Žito had 10% treasury shares.

<i><b>Multiples</b></i>	<b>Žito<sup>2</sup></b>	<b>Podravka rep.</b>	<b>Podravka norm.</b>	<b>Peer Group</b>
EV/Sales	0.6	0.7	0.7	2.1
EV/EBITDA	7.9	7.9	6.6	11.8

<sup>1</sup>Calculated as price of issue compared to the last market price on 02 June 2015, day prior to the General Assembly on which capital increase decision has been voted for; <sup>2</sup>Acquisition multiples.

# Further internationalization to be achieved via entering new markets

## Dubai – HUB for MENA region



### ▪ MENA region key macro data:

- population<sup>1</sup> → 436 million,
- BDP per capita<sup>1</sup> → USD 2,927 - 132,038,
- real BDP yoy growth<sup>1</sup> → 1.9% - 11.6%,

### ▪ business model:

- subsidiary, outsourced distribution & own sales force,

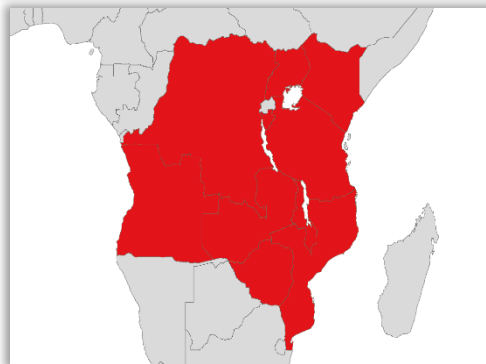
### ▪ planned product range:

- culinary,
- sweets, snacks and beverages,
- baby, breakfast and other food,

### ▪ manager Nermin Salman:

- former Gorenje Regional director for MENA region,
- former Supervisory Board president of Konzum Sarajevo and director of Droga Sarajevo.

## Tanzania – HUB for SE Africa region



### ▪ Southeast Africa region key macro data:

- population<sup>1</sup> → 342 million,
- BDP per capita<sup>1</sup> → USD 816 - 7,502,
- real GDP yoy growth<sup>1</sup> → 2.3% - 8.2%,

### ▪ business model:

- subsidiary, local production, outsourced distribution,

### ▪ planned product range:

- culinary,

### ▪ manager Davor Švarc:

- 11 years of working experience in Tanzania,
- director of Central Europe in Podravka Group,
- director of Western Europe and Overseas Countries and New Markets in Podravka Group.

## China



### ▪ China region key macro data:

- population<sup>1</sup> → 1.38 billion,
- BDP per capita<sup>1</sup> → USD 15,184,
- real GDP yoy growth<sup>1</sup> → 6.3%,

### ▪ business model:

- representative office, outsourced distribution,

### ▪ planned product range:

- culinary,
- sweets, snacks and beverages,
- baby, breakfast and other food,

### ▪ manager Goran Kapičić:

- Managing director for Actavis China,
- Head of China Operations for TEVA, Barr Laboratories and Pliva.

<sup>1</sup>Source: IMF, estimation for 2016, World Economic Outlook Database, October 2015; range refers to the lowest amount/growth and highest amount/growth for countries in a group of countries.

# Expansion of pharmaceutical capacities to satisfy international demand

Construction of new pharmaceutical facilities started in 2015

## Project:

- production facility for solid oral forms,
- production facility for semi solid and liquid forms,
- end of project → April 2017.

## Project reasoning:

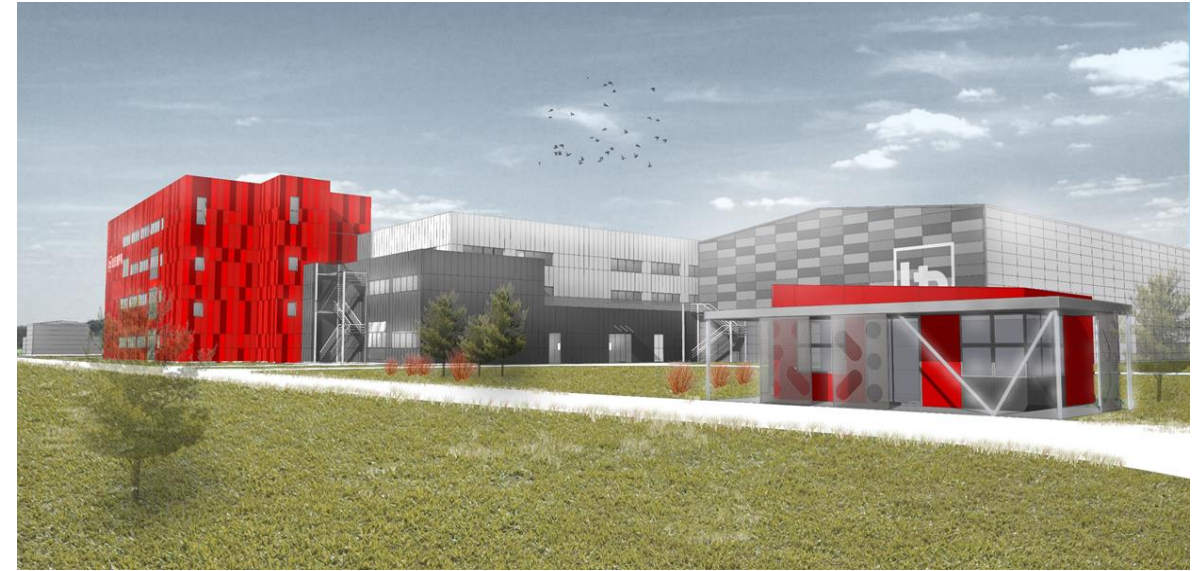
- insufficient production capacities due to perennial volume growth,
- acquiring of new technologies for product differentiation.

## Project financing:

- total value of investment EUR 66.3 million,
- 60% loan, 40% own funds,
- government incentive through income tax benefits in the amount of 40% of total investment.

## Business reasons for choosing Croatia as facilities location:

- high speed in obtaining all permits,
- tax incentives for strategic investments,
- availability of highly-educated workforce at acceptable cost level,
- incentives for hiring young workforce,
- proximity to other Belupo locations.





The Company

Business

Investment highlights

Strategic goals

**1-9 2016 results**



# Key highlights of 1-9 2016

## Food Solution – new business segment:

- Food Solution implies a completely new gastro segment in which, in addition to products, customers also obtain the “Know-How”.
- These are fresh-made/cooked/baked ready-to-eat or semi-prepared meals, and services provided in the preparation of menus, organisation of kitchen chores and staff and planning investments in kitchen equipment,
- Currently the offer includes 130 different products (meals) which are intended, among others, to institutions such as army, police, hospitals, deli departments in supermarkets and companies having own corporate restaurants.



## Sale of the beverages business segment:

- 20 September 2016 → signing the Sale and Purchase Agreement with the company Kofola ČeskoSlovensko for the purchase of a share in the company Studenac d.o.o.,
- After the agreed contractual preconditions are met, the share will be transferred until the end of 2016,
- This transaction is not expected to negatively impact the business results in 2016 and it is expected to have a positive impact on the EBITDA in the amount of approximately HRK 5 million in the following period.



## Contract on refinancing of borrowings signed:

- 6 September 2016 → a syndicated loan contract was signed with the EBRD as arranger (including Unicredit Slovenia) and four business banks: Privredna Banka Zagreb d.d., Raiffeisenbank Austria d.d., SKB d.d. and Erste & Steiermarkische Bank d.d.,
- The arrangement value is EUR 123 million:
  - EUR 99 million is intended for refinancing the existing liabilities,
  - EUR 24 million will be available for CAPEX and possible acquisitions,
- EUR 99 million will be repaid in 24 equal quarterly instalments, and the expected savings on interest expense should amount to approximately HRK 3.5 million annually.

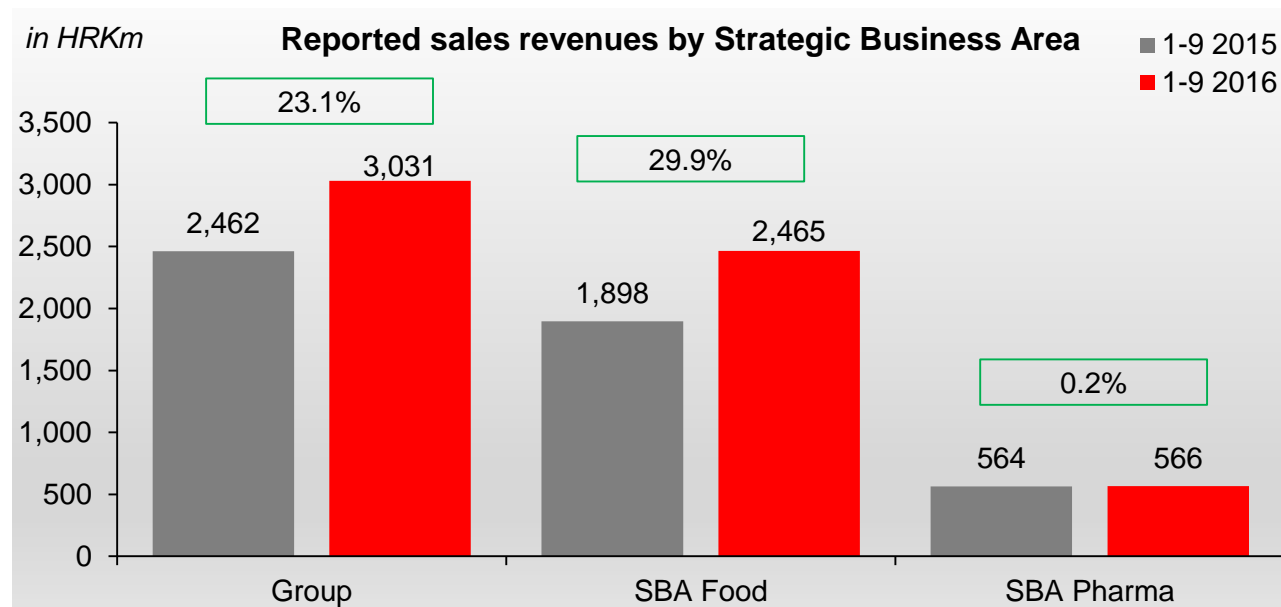
## Dividend distribution to shareholders of Podravka d.d.:

- 16 September 2016 → dividend distributed to shareholders of Podravka d.d. in the amount of HRK 7.00 per share,
- Last dividend distribution was 10 years ago,
- By successfully implemented restructuring processes and achieved positive business results prerequisites for the dividend distribution were met,
- Management's goal is to enable sustainable implementation of the dividend policy.



**Note** (i) Pro-forma overview in this presentation indicates that Žito figures are included in 1-9 2015 period, (ii) In Q2 2016, the fees contracted with customers for promotional, marketing and similar activities were reclassified from the position “Marketing expenses” to the decrease in the position “Sales revenues”. Both periods were reclassified.

# Growth of own brands despite negative FX differences, negative contribution of other sales



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

HRK <sub>m</sub>	Own brands	Other sales	Total	Currency	HRK <sub>m</sub>
Food	(29.7)	(3.6)	(33.3)	RUB	(26.8)
Pharmaceuticals	(17.6)	(0.6)	(18.2)	EUR	(9.1)
Group	(47.4)	(4.1)	(51.5)	Other	(15.6)
				Total	(51.5)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-9 2016 if FX rates had remained on the same levels as in 1-9 2015.

## Pro-forma SBA Food<sup>1</sup>:

- Own brands** → 0.2% higher sales (+1.6% excl. FX), despite negative FX differences and negative trends in the movement of key subcategories in the Adria region,
- Other sales** → 7.6% lower sales (-6.6% excl. FX) due to decreased scope of cooperation in the area of private labels,
- Total SBA Food** → 1.0% lower sales (+0.4% excl. FX).

## SBA Pharmaceuticals<sup>1</sup>:

- Own brands** → 5.2% higher sales (+9.2% excl. FX) due to the cooperation expansion in the Russian market,
- Other sales** → 18.2% lower sales (-17.7% excl. FX) as a result of stronger focus on own brands and consequently lower distribution of principal brands,
- Total SBA Pharmaceuticals** → 0.2% higher sales (+3.5% excl. FX).

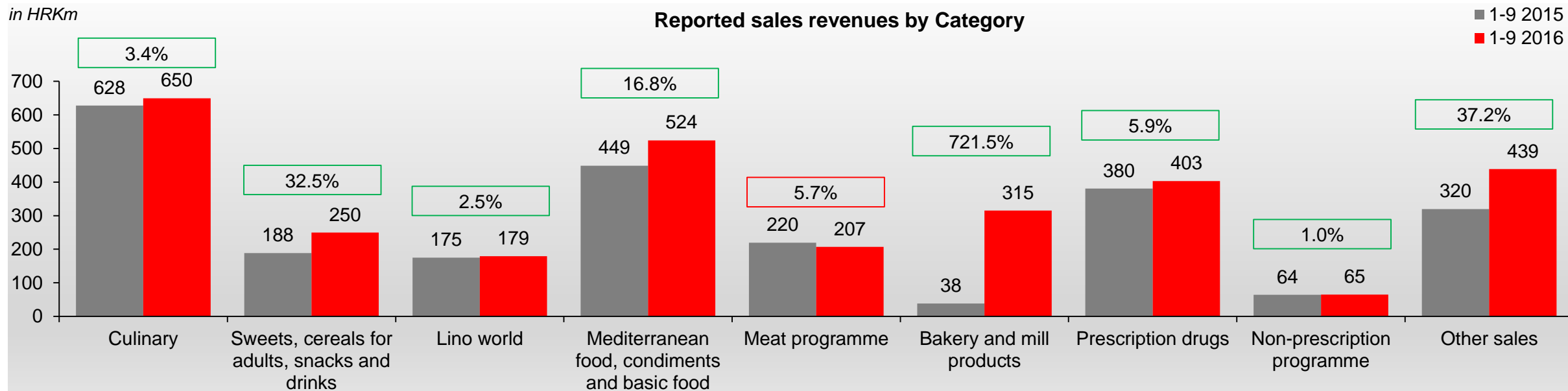
## Pro-forma Podravka Group<sup>1</sup>:

- Own brands** → 1.0% higher sales (+2.9% excl. FX),
- Other sales** → 10.2% lower sales (-9.3% excl. FX),
- Total Podravka Group** → 0.7% lower sales (+0.9% excl. FX).

<sup>1</sup>Percentages in the text relate to performance in 1-9 2016 compared to 1-9 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

# Vast majority of categories posted organic sales growth on the pro-forma level

in HRKm

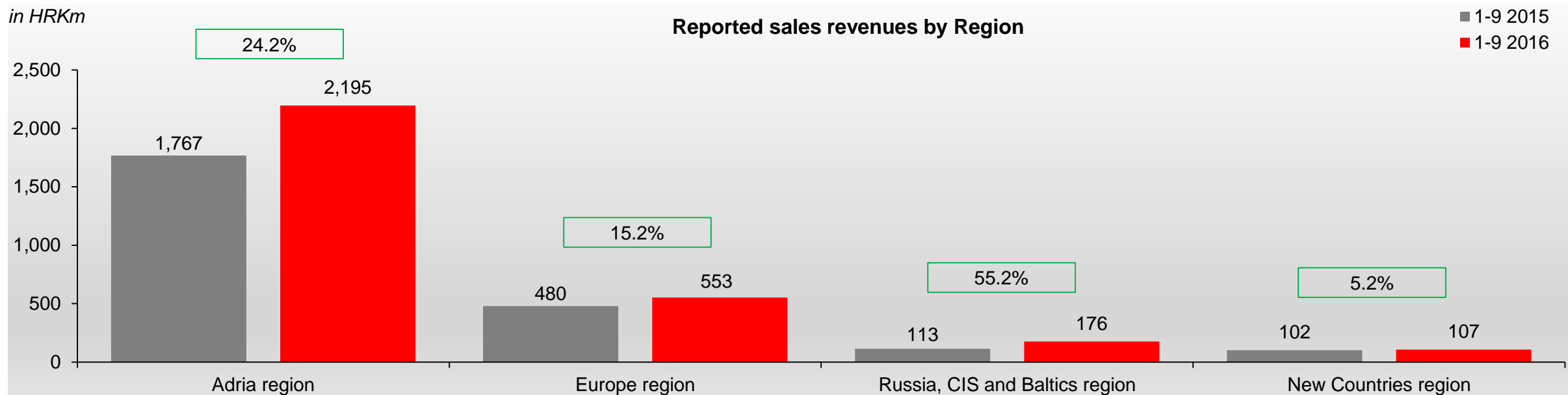


## Pro-forma category performance in 1-9 2016<sup>1</sup>:

- **Culinary (+0.8%; +3.3% excl. FX)** → promotional activities related to the Vegeta brand in Poland; successful implementation of the new business model in Russia,
- **Sweets, cereals for adults, snacks and drinks (-0.7%; -0.1% excl. FX)** → lower beverages sales due to decreased marketing support and higher competitors' activities,
- **Lino world (+2.5%; +2.9% excl. FX)** → activities and innovation on the Lino Lada brand in the Croatian market; introduction of baby purees range,
- **Mediterranean food, condiments and core food (+0.4%; +1.6% excl. FX)** → frozen vegetables growth in the Russian market; start of the Food Solution project in Croatia.
- **Meat programme (-5.7%; -5.3% excl. FX)** → restructuring of the sausage programme that currently reflects in sales revenues drop compared to the previous period,
- **Bakery and mill products (+2.3%; +3.5% excl. FX)** → increased activities in the Slovenian market; extended distribution and product range in European markets,
- **Prescription drugs (+5.9%; +10.1% excl. FX)** → expansion of business cooperation on the Russian market and heart and blood vessels assortment in the B&H market,
- **Non-prescription programme (+1.0%; +3.5% excl. FX)** → expansion of business cooperation in the Russian market and assortment extension in the Slovenian market,
- **Other sales (-10.2%; -9.3% excl. FX)** → lower sales in food and pharma.

<sup>1</sup>Percentages in the text relate to performance in 1-9 2016 compared to 1-9 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

## Pressures in the Adria region on key strategic subcategories compensated by sales growth in other regions


















### Pro-forma region performance in 1-9 2016<sup>1</sup>:













- **Adria region (-3.4%; -2.8% excl. FX)** → **food** sales lower 3.2% due to the decrease in the overall market of some key subcategories, the restructuring of the meat programme, lower beverages sales and decreased scope of cooperation in the area of PL; **pharma** sales lower 4.4% by the decrease in sales of trade goods, while own brands recorded a sales growth,
- **Europe region (-0.9%; +0.5% excl. FX)** → **food** sales lower 0.8% due to the change of the distributor in Western Europe, leading to certain changes in the usual dynamics of deliveries, while Central Europe posted sales growth in food; **pharma** sales lower 2.5% due to activities of the existing and new competitors in the Polish market,
- **Russia, CIS and Baltic region (+51.2%; +74.2% excl. FX)** → **food** sales higher 67.7% due to the successful implementation of the new business model that resulted, among other things, with distribution and assortment extension; **pharma** sales higher 36.2% due to expanded business cooperation in the market of Russia,
- **New markets (+0.8%; +2.8% excl. FX)** → **food** sales higher 0.2% - new markets opened last year are in the final phase of meeting all prerequisites for the normal commencement of operations and from the next year we expect their visible contribution to revenues; **pharma** sales higher 9.9%.

<sup>1</sup>Percentages in the text relate to performance in 1-9 2016 compared to 1-9 2015, under assumption that Žito Group has been consolidated from the beginning of 2015.

# Significant pharma profitability improvement due to the focus on own brands and more stable HRK/RUB FX

1-9 2016 (in HRKm) <sup>1</sup>	Food reported		Pharmaceuticals		Podravka Group reported	
Sales revenues*	2,465.2	 29.9%	565.7	 0.2%	3,030.8	 23.1%
Gross profit	810.3	 21.1%	293.8	 1.9%	1,104.1	 15.3%
EBITDA	238.0	 13.5%	99.3	 48.9%	337.4	 22.0%
EBIT	133.1	 2.3%	68.2	 85.7%	201.2	 20.6%
Net profit after MI	99.1	 (10.3%)	43.1	 110.0%	142.2	 8.6%

\*Reclassification of fees contracted with customers for promotional, marketing and similar activities from MEX to decrease of sales revenues.

1-9 2016 (% of sales revenues) <sup>2</sup>	Food reported		Pharmaceuticals		Podravka Group reported	
Gross margin	32.9%	 -238 bp	51.9%	 +87 bp	36.4%	 -245 bp
EBITDA margin	9.7%	 -140 bp	17.6%	 +574 bp	11.1%	 -10 bp
EBIT margin	5.4%	 -146 bp	12.0%	 +555 bp	6.6%	 -14 bp
Net margin after MI	4.0%	 -180 bp	7.6%	 +398 bp	4.7%	 -63 bp

## Key highlights in 1-9 2016:

### Food reported:

- In 1-9 2016 positive impact of Mirna consolidation of HRK 24.8m and positive influence of deferred tax liability from Danica of HRK 14.7m,
- Lower profitability of Žito Group assortment compared to the average profitability of food segment led to lower profitability margins in 1-9 2016.
















### Pharmaceuticals:

- 1.7% lower cost of goods sold as a result of focus on own brands and lowered distribution of trade goods,
- 10.4% lower operating expenses (excluding cost of goods sold) as a result of lower staff costs and FX gains on trade receivables and payables,
- Slight decrease of net financial expenses, while effective tax rate in 1-9 2016 was on the level of statutory rate.













<sup>1</sup>Performance in 1-9 2016; % of change when compared to 1-9 2015; <sup>2</sup>% of sales revenues in 1-9 2016; basis points change when compared to 1-9 2015.



# Pro-forma profitability growth of food segment and Podravka Group on all levels

1-9 2016 (in HRKm) <sup>1</sup>	Pro-forma Food	Pharmaceuticals	Pro-forma Podravka Group
Sales revenues*	2,465.2  (1.0%)	565.7  0.2%	3,030.8  (0.7%)
Gross profit	810.3  0.6%	293.8  1.9%	1,104.1  1.0%
EBITDA	238.0  (6.3%)	99.3  48.9%	337.4  5.2%
EBIT	133.1  97.7%	68.2  85.7%	201.2  93.5%
Net profit after MI	99.1  112.7%	43.1  110.0%	142.2  111.9%

\*Reclassification of fees contracted with customers for promotional, marketing and similar activities from MEX to decrease of sales revenues.

1-9 2016 (% of sales revenues) <sup>2</sup>	Pro-forma Food	Pharmaceuticals	Pro-forma Podravka Group
Gross margin	32.9%  +52 bp	51.9%  +87 bp	36.4%  +62 bp
EBITDA margin	9.7%  -55 bp	17.6%  +574 bp	11.1%  +62 bp
EBIT margin	5.4%  +269 bp	12.0%  +555 bp	6.6%  +323 bp
Net margin after MI	4.0%  +215 bp	7.6%  +398 bp	4.7%  +249 bp

## Key highlights in 1-9 2016:

### Pro-forma Food:







- Cost of goods sold 1.7% lower than in the comparative period due to the decrease in prices of certain raw materials,
- Total operating expenses (excl. COGS and Žito impairment) are 2.3% lower due to lower selling and distribution costs,
- Comparable period under the positive influence of HRK 24.8m effect of Mirna consolidation, negative influence of HRK 78.0m of Žito impairment and positive influence of HRK 14.7m of deferred tax liability from Danica → excluding aforementioned impacts EBIT grew 10.4% and net profit after MI grew 16.4%.

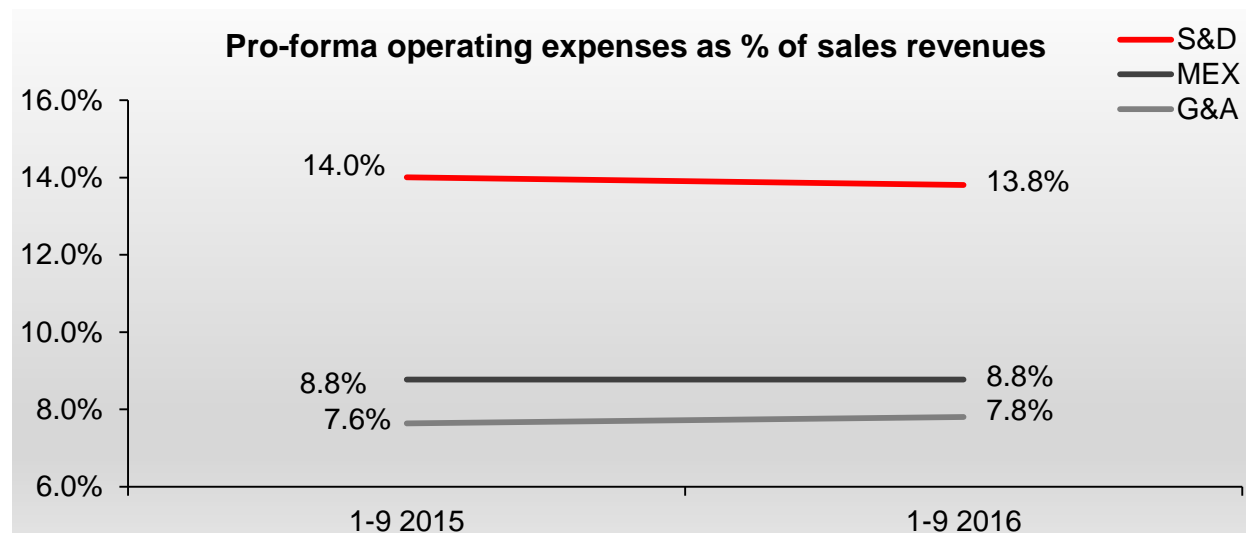
### Podravka Group:

- 4.4% lower total OPEX (excl. cost of goods sold and Žito impairment),
- Excluding aforementioned impacts of Mirna, Žito and Danica EBIT grew 28.0% and net profit after MI grew 34.6%.

<sup>1</sup>Performance in 1-9 2016; % of change when compared to 1-9 2015; <sup>2</sup>% of sales revenues in 1-9 2016; basis points change when compared to 1-9 2015.

## Positive movement of operating expenses in both business segments

Operating expenses	1-9 2016 / 1-9 2015 pro-forma
Cost of goods sold (COGS)	(1.7%) 
General and administrative expenses (G&A)	1.4% 
Sales and distribution costs (S&D)	(2.2%) 
Marketing expenses (MEX)	(0.7%) 
Other expenses <sup>1</sup>	n/p 
<b>Total</b>	<b>(2.6%)</b> 



<sup>1</sup>Excluding Žito impairment impact of HRK 78.0m.

### Key highlights in 1-9 2016 on the pro-forma level:

#### ▪ **Cost of goods sold (COGS):**

- 1.7% lower COGS due to a decrease in prices of certain raw materials and the decrease in the distribution of trade goods in the company Farmavita,

#### ▪ **General and administrative expenses (G&A):**

- 1.4% higher due to, among other things, higher costs related to opening of new markets that were not present in the comparative period,

#### ▪ **Sales and distribution expenses (S&D):**

- 2.2% lower due to, among other things, optimisation of rental expenses and transportation costs,

#### ▪ **Marketing expenses (MEX):**

- 0.7% lower primarily due to decreased marketing activities in the pharmaceuticals segment in the markets of the CIS due to deteriorating business climate,






#### ▪ **Other expenses:**

- Foreign exchange gains on trade receivables and payables in 1-9 2016 have positively affected the result, while in the comparative period they were burdened by the impairment cost on Žito's assets of HRK 78.0 million,

#### ▪ **Total operating expenses (excluding COGS and Žito impairment):**

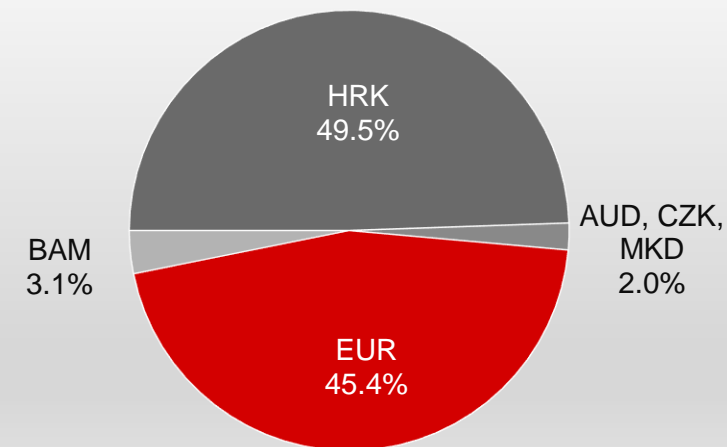
- 4.4% lower.

# Sustainable level of indebtedness after the Žito Group acquisition

(u HRK 000) <sup>1</sup>	1-9 2016	2015		% change
Net debt	1,155,646	922,380		25.3%
Interest expense	34,993	36,918		(5.2%)
Net debt / EBITDA	2.2	2.0		10.9%
EBITDA / Interest expense	15.1	12.7		19.2%
Equity to total assets ratio	56.6%	57.0%		-38 bp

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

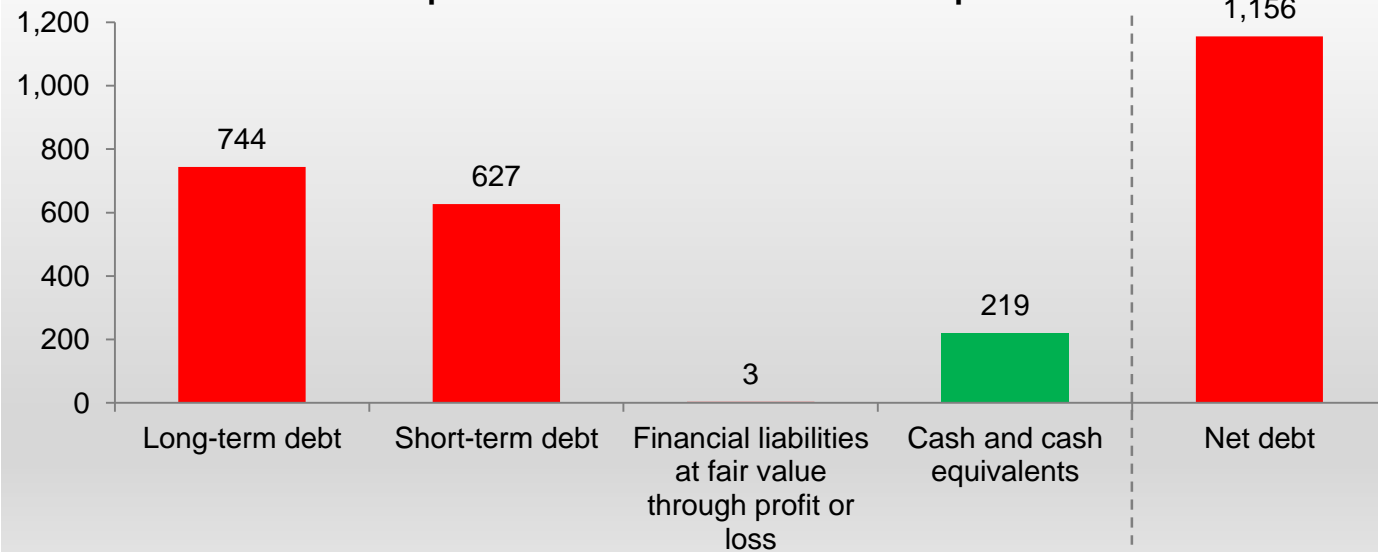
Currency structure of debt as at 30 September 2016



## Key highlights:

- Net debt growth → use of long-term borrowings for the purpose of the new pharmaceutical factory construction,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA calculated with the normalized 2015 pro-forma EBITDA is 2.5,
- **Weighted average cost of debt:**
  - As at 30 September 2016 → 2.5%,
  - As at 31 December 2013 → 4.3%.

Net debt components in HRK million as at 30 September 2016

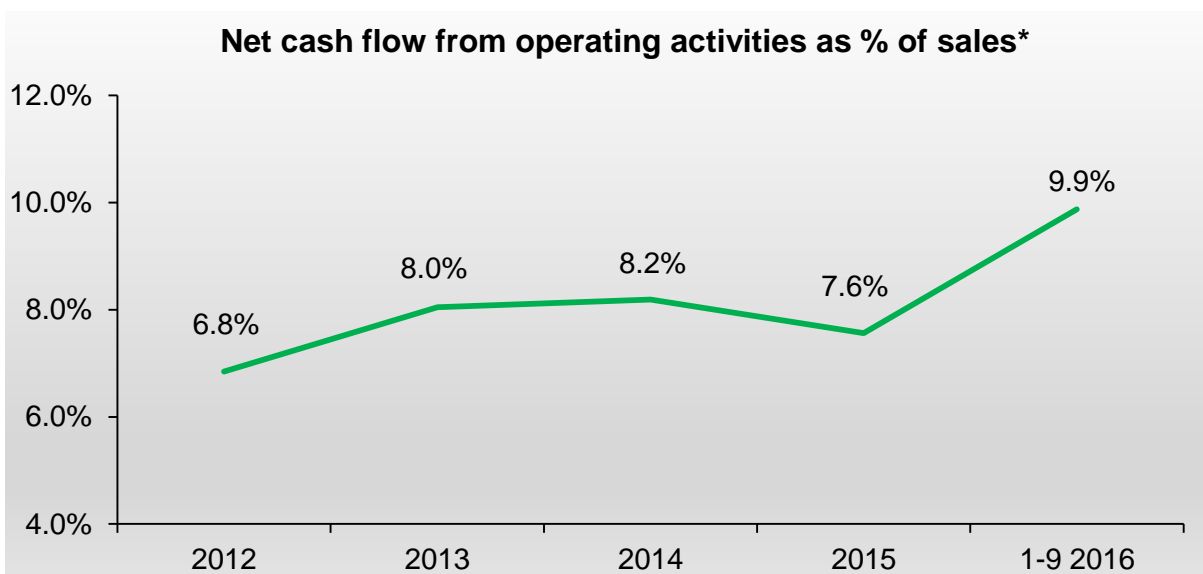


## Stable level of net cash flow from operating activities

Working capital movement	30 September 2016 / 30 September 2015		Impact
Inventories	➡	not comparable	<ul style="list-style-type: none"> <li>Žito Group hasn't been consolidated as at 30 September 2015,</li> <li>Excluding Žito Group, a mild increase in inventories due to the increase in inventories of raw materials in the Belupo Group, aimed at ensuring the continuity of production, but generally there were no significant departures.</li> </ul>
Trade and other receivables	➡	not comparable	<ul style="list-style-type: none"> <li>Žito Group hasn't been consolidated as at 30 September 2015,</li> <li>Excluding Žito Group, decrease of trade and other receivables is evident, resulting from, among other things, more efficient collection of receivables in the pharma segment.</li> </ul>
Trade and other payables	➡	not comparable	<ul style="list-style-type: none"> <li>Žito Group hasn't been consolidated as at 30 September 2015,</li> <li>Excluding Žito Group, decrease of trade and other payables is evident, resulting from further adjustment with the prescribed terms of payments to suppliers</li> </ul>

(in HRK thousands)	1-9 2016	1-9 2015	Δ
Net cash from operating activities	299,314	32,291	267,024
Net cash from investing activities	(387,838)	(283,356)	(104,482)
Net cash from financing activities	16,046	420,390	(404,344)
Net change of cash and cash equivalents	(72,477)	169,325	(241,801)

- **CAPEX** in 2016 is expected to be at the level of HRK 500 - 600m, in 2017 at the level of HRK 300 - 350m, and in 2018 at the level of HRK 250 - 300m.



\*Sales in 2012-2014 period have not been reclassified for marketing expenses.

## Contact

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# Podravka Group

*Always with a heart!*

Austria & CEE Investor Conference, London, 2nd February 2017

