



Podravka Group business results for 1-3 2017 period



Key highlights of Q1 2017

Change in Supervisory Board and Management Board of Podravka Inc.:

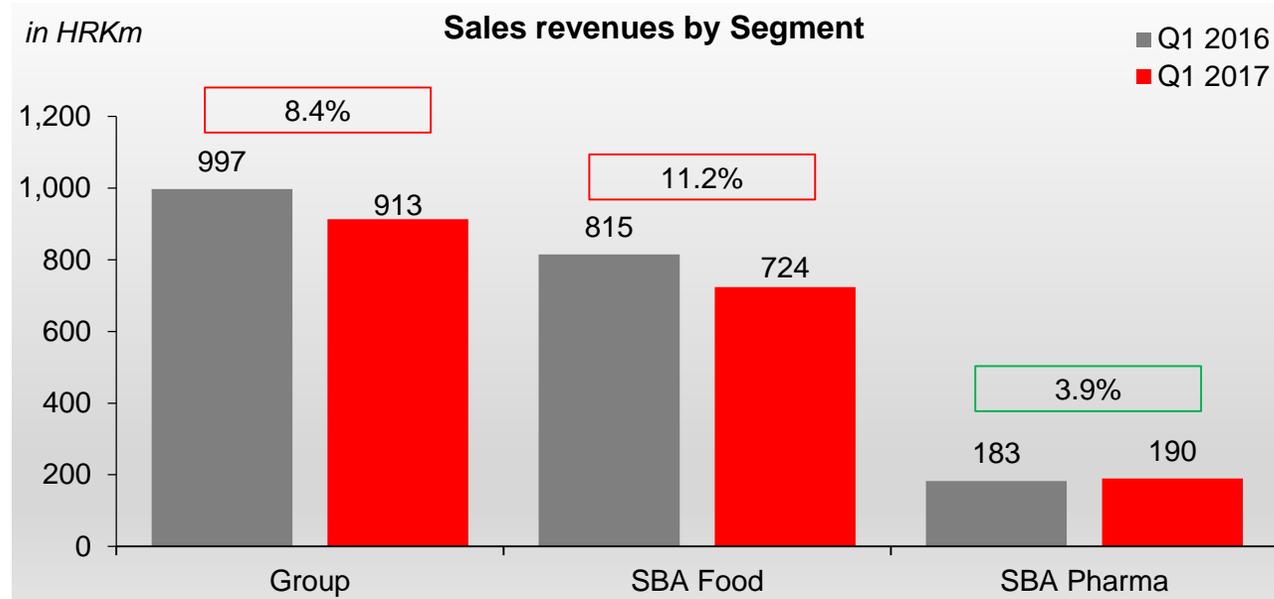
- On 21st February 2017, the General Assembly of Podravka d.d. was held where the decision to recall two members of the Supervisory Board of Podravka d.d. was adopted - Mato Crkvenac and Ivo Družić,
- At the same General Assembly meeting, the decision on the election of four members of the Supervisory Board of Podravka d.d. was adopted - Marko Kolaković, Slavko Tešija, Luka Burilović and Damir Grbavac,
- The term of the elected members of Podravka d.d. Supervisory Board started as of 21st February and lasts until 7th September 2018.



- On 23rd February 2017, the meeting of the Supervisory Board of Podravka d.d. was held where the decision on the appointment of the president and members of the Management Board of Podravka d.d. was adopted,
- Marin Pucar was appointed president of the Management Board of Podravka d.d., Ljiljana Šapina, Iva Brajević and Hrvoje Kolarić were appointed as members of the Management Board,
- The term of the appointed president and members of the Management Board began as of 24th February 2017 and lasts until 31st October 2018, except for the appointed Management Board member Iva Brajević - her term expires on 30th April 2017,
- As of 1st May 2017, Podravka d.d. Management Board member will be Davor Doko.

Note: The term Q1 2017 relates to the period January 2017 - March 2017, while the term Q1 2016 relates to the period January 2016 - March 2016.

Sales growth of Pharmaceuticals segment wasn't able to compensate for sales drop of Food segment



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

HRKm	Own brands	Other sales	Total	Currency	HRKm
Food	(3.8)	(0.8)	(4.6)	RUB	10.3
Pharmaceuticals	5.8	(0.4)	5.4	EUR	(5.6)
Group	2.1	(1.3)	0.8	Other	(3.9)
				Total	0.8

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in Q1 2017 if FX rates had remained on the same levels as in Q1 2016.

Food segment¹:

- Own brands** → 13.3% lower sales (-12.7% excl. FX) as a result of a series of negative external and internal impacts,
- Other sales** → 3.1% higher sales (+3.9% excl. FX) due to trade goods and private label sales growth,
- Total Food** → 11.2% lower sales (-10.6% excl. FX).

Pharmaceuticals segment¹:

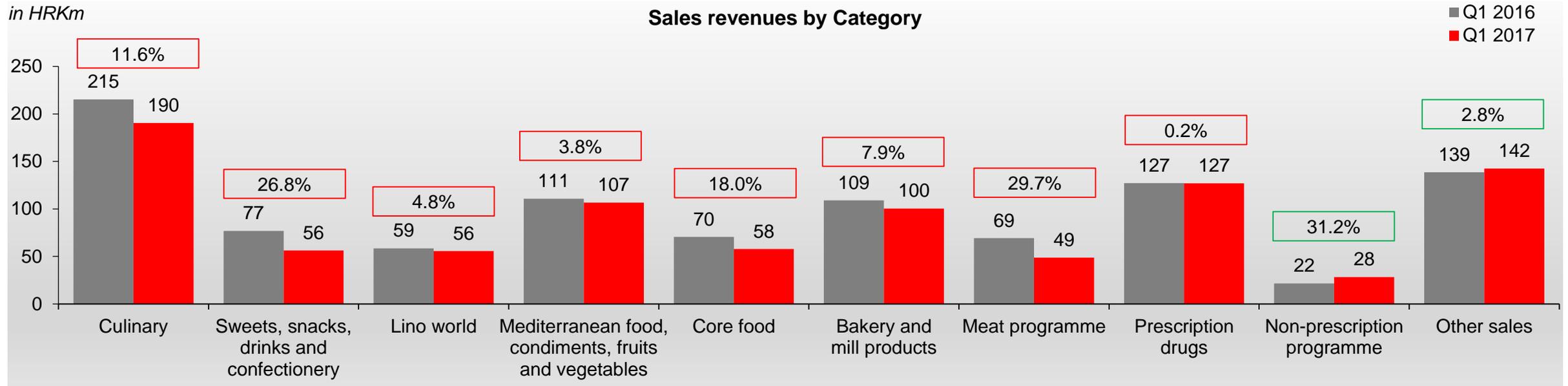
- Own brands** → 4.3% higher sales (+0.4% excl. FX) due to the strong flu season in the Croatian market and implemented selling and marketing activities,
- Other sales** → 2.0% higher sales (+3.2% excl. FX) due to trade goods sales increase in pharmacies,
- Total Pharmaceuticals** → 3.9% higher sales (+0.9% excl. FX).

Podravka Group¹:

- Own brands** → 10.2% lower sales (-10.5% excl. FX),
- Other sales** → 2.8% higher sales (+3.8% excl. FX),
- Total Podravka Group** → 8.4% lower sales (-8.5% excl. FX).

¹Percentages in the text relate to performance in Q1 2017 compared to Q1 2016.

Own brands of Food segment under the negative influence of a series of external and internal impacts

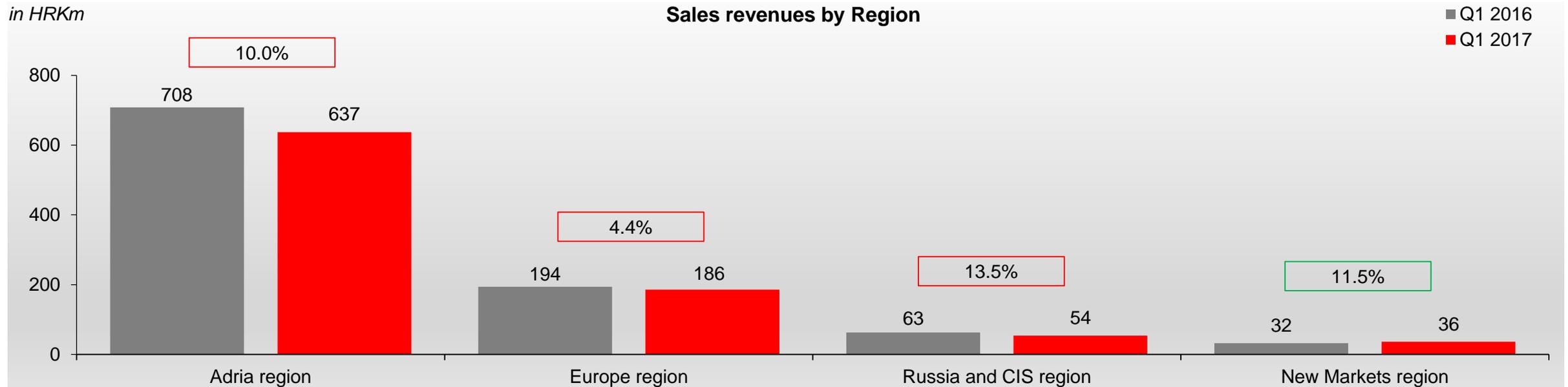


Category performance in Q1 2017¹:

- **Culinary (-11.6%; -12.1% excl. FX)** → reduced selling and marketing activities due to later Easter holidays and sales structure changes in the Adria region; last-year's change of distributor in Europe that is still in the process of taking over sales channels,
- **Sweets, snacks, drinks and confectionery (-26.8%; -25.4% excl. FX)** → the absence of sales of the Beverages segment and later Easter holidays compared to the previous year,
- **Lino world (-4.8%; -3.9% excl. FX)** → different selling and marketing activities than in the comparative period and changes in the sales structure,
- **Mediterranean food, condiments and core food (-3.8%; -3.1% excl. FX)** → change of distributor in Europe; later Easter and sales structure changes in the Adria region,
- **Core food (-18.0%; -17.5% excl. FX)** → temporarily reduced sales to the main distributor in Russia to establish an improved dynamics of receivables collection,
- **Bakery and mill products (-7.9%; -6.0% excl. FX)** → situation with the key customer in the Adria market and aggressive price competition in the market of Slovenia,
- **Meat programme (-29.7%; -29.5% excl. FX)** → portfolio optimization and the absence of special one-off orders resulting from tenders for deliveries of buffer stock,
- **Prescription drugs (-0.2%; -3.7% excl. FX)** → a decrease in market of certain drugs, some products out of stock in Croatia; higher Q1 2016 in Russia with new distributor,
- **Non-prescription programme (+31.2%; +24.5% excl. FX)** → strong flu season in the market of Croatia and implemented selling and marketing activities,
- **Other sales (+2.8%; +3.8% excl. FX)** → trade goods and private label growth.

¹Percentages in the text relate to performance in Q1 2017 compared to Q1 2016.

The most significant impact on sales revenues came from the Adria region



Region performance in Q1 2017¹:

- **Adria region (-10.0%; -8.9% excl. FX)** → **food** sales 12.8% lower due to: (i) the absence of Beverage sales, (ii) later Easter, (iii) Meat programme optimisation and the absence of special one-off sales impacts, (iv) key customer situation, (v) lower trade goods sales; **pharmaceuticals** sales 1.1% higher due to Non-prescription programme growth,
- **Europe region (-4.4%; -3.2% excl. FX)** → **food** sales 5.6% lower due to last-year's change of distributor that is still in the process of taking over sales channels, lower selling and marketing activities due to later Easter and changes in the sales structure; **pharmaceuticals** sales 16.9% higher due to growth in the market of the Czech Republic, as planned,
- **Russia and CIS region (-13.5%; -29.8% excl. FX)** → **food** sales 31.7% lower due to temporarily reduced sales to the main distributor with the purpose of establishing an improved dynamics of receivables collection; **pharmaceuticals** sales 7.5% higher,
- **New markets (+11.5%; +9.2% excl. FX)** → **food** sales 7.0% higher due to the increase in trade goods of the company Lagris and the Culinary category; **pharmaceuticals** sales 81.4% higher due to Prescription drugs category growth in the market of Turkey.

¹Percentages in the text relate to performance in Q1 2017 compared to Q1 2016.

Lower Food sales revenues reflected on Food segment and Group profitability

Q1 2017 (in HRK ¹)	Food		Pharmaceuticals		Podravka Group	
Sales revenues	723.6	(11.2%)	189.6	3.9%	913.2	(8.4%)
Gross profit	225.4	(17.1%)	95.2	1.8%	320.6	(12.3%)
EBITDA	46.1	(50.3%)	29.7	(13.1%)	75.8	(40.3%)
EBIT	8.7	(84.8%)	19.5	(17.7%)	28.2	(65.2%)
Net profit after MI	0.3	(99.4%)	17.8	10.5%	18.8	(70.0%)

Q1 2017 (% of sales revenues) ²	Food		Pharmaceuticals		Podravka Group	
Gross margin	31.2%	-223 bp	50.2%	-102 bp	35.1%	-154 bp
EBITDA margin	6.4%	-501 bp	15.7%	-306 bp	8.3%	-442 bp
EBIT margin	1.2%	-584 bp	10.3%	-270 bp	3.1%	-504 bp
Net margin after MI	0.0%	-537 bp	9.4%	+56 bp	2.0%	-405 bp

Key highlights in Q1 2017:

Food:

- Lower gross profit is primarily a consequence of lower sales that weren't completely compensated by lower COGS,
- Lower other profitability levels are directly related to lower sales and the costs of a larger number of exercised share options,
- Finance costs were, due to lower FX gains on borrowings, HRK 2.5 million higher, while at the same time tax liability is HRK 7.8 million lower, as a result of lower profit before tax.

Pharmaceuticals:

- Gross profit growth, lower gross margin due to COGS growth,
- Other operating expenses/revenues (excl. COGS) growth of 8.4% due to stronger marketing activities, led to lower EBITDA and EBIT,
- FX gains on borrowings and lower interest expense led to financial income, while tax liability was slightly above the comparative period.

¹Performance in Q1 2017; % of change when compared to Q1 2016; ²% of sales revenues in Q1 2017; basis points change when compared to Q1 2016.

Lower total operating expenses under the influence of lower COGS

Operating expenses	Q1 2017 / Q1 2016
Cost of goods sold (COGS)	(6.2%) 
General and administrative expenses (G&A)	12.5% 
Sales and distribution costs (S&D)	2.4% 
Marketing expenses (MEX)	(1.6%) 
Other expenses / revenues, net	74,0% 
Total	(3.4%) 

Key highlights in Q1 2017:

Cost of goods sold (COGS):

- Lower 6.2% primarily as a result of lower sales in the Food segment,

General and administrative expenses (G&A):

- Higher 12.5% than in the comparative period primarily due to the costs of a larger number of exercised share options compared to Q1 2016,

Sales and distribution expenses (S&D):

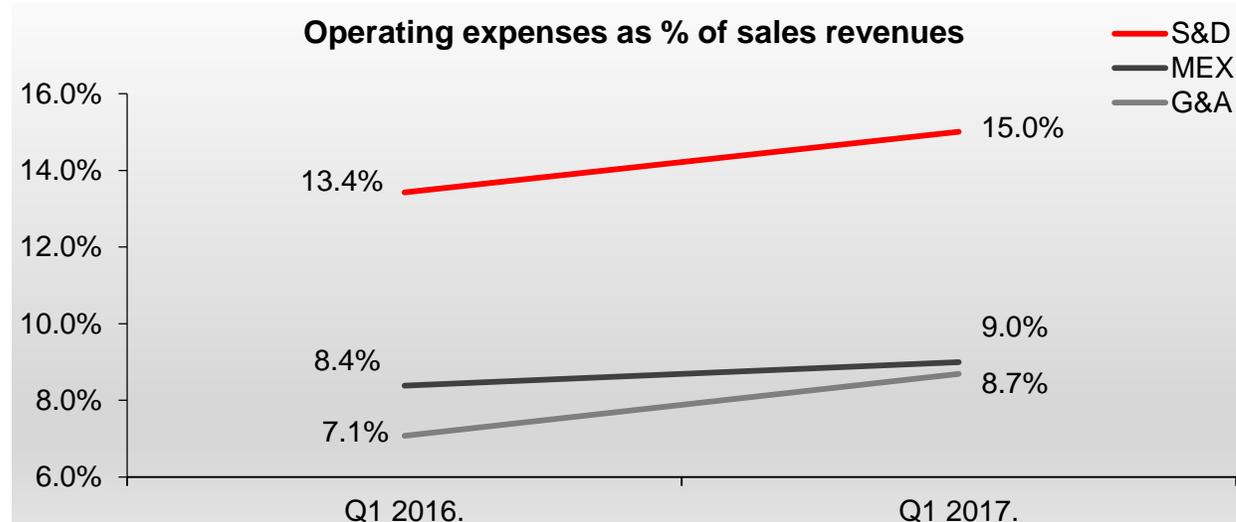
- Higher 2.4% due to more significant investments in the regional distribution on the market of Russia compared to the same period of the previous year,

Marketing expenses (MEX):

- Lower 1.6% as a result of lower marketing expenses in the Food segment due to later Easter, while the Pharmaceuticals segment recorded an increase in marketing expenses in the market of Russia,

Other expenses / revenues, net:

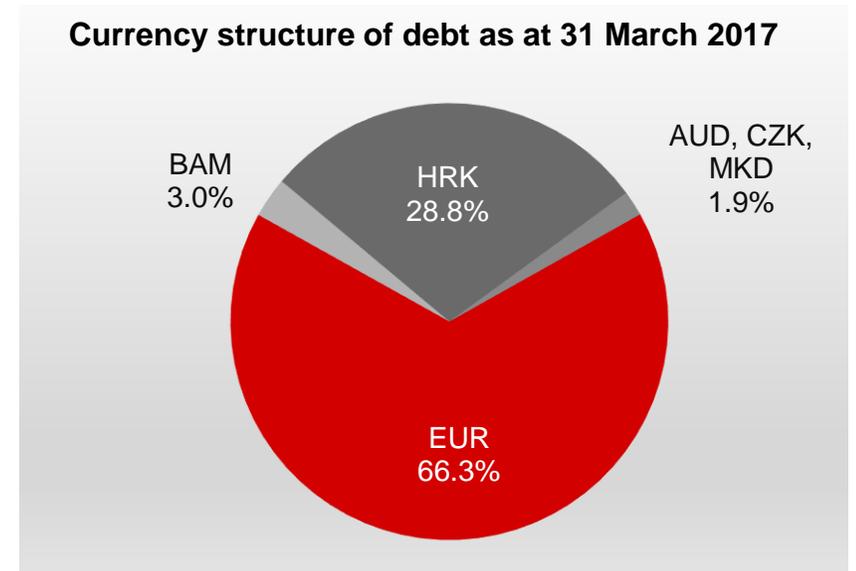
- Item includes foreign exchange differences from trade receivables and trade payables that were positive in Q1 2017, while in Q1 2016 they were negative. In Q1 2017, other income and expenses amounted to positive HRK 6.2 million, while in the comparative period they amounted to positive HRK 3.6 million.



Sustainable level of Podravka Group indebtedness

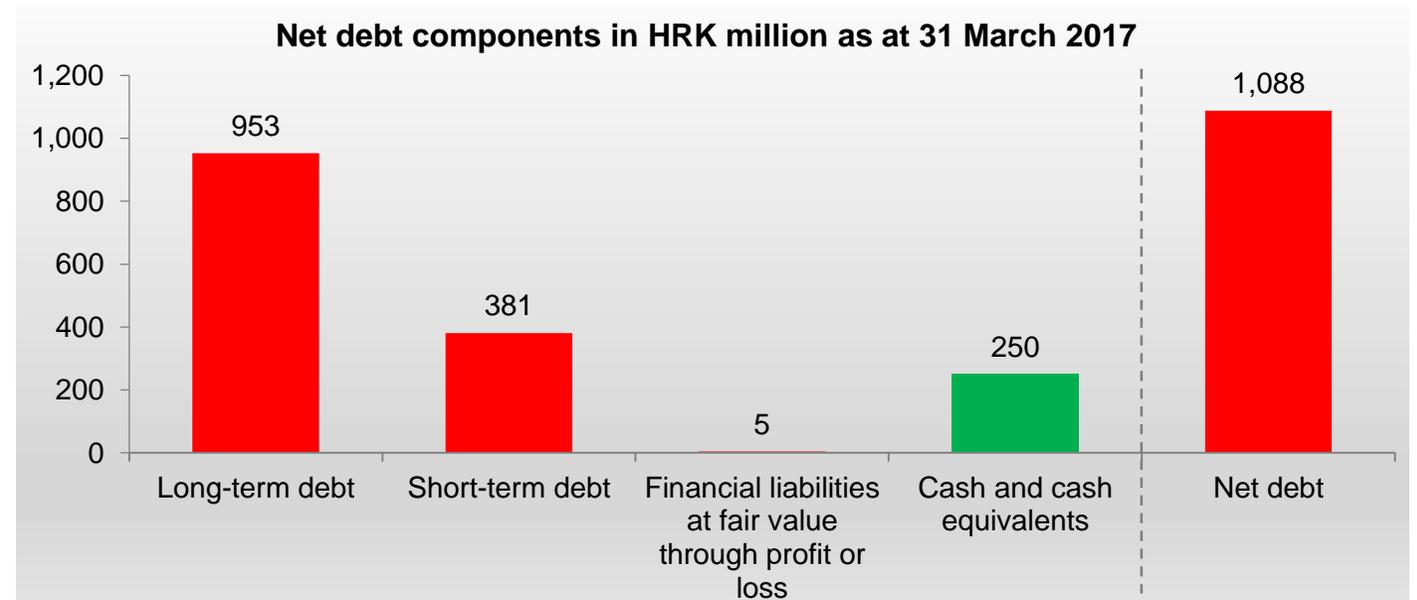
(u HRK 000) ¹	Q1 2017	Q1 2016	% change
Net debt	1,087,629	1,041,740	4.4%
Interest expense	29,431	31,477	(6.5%)
Net debt / EBITDA	2.6	2.2	17.1%
EBITDA / Interest expense	14.2	14.9	(4.7%)
Equity to total assets ratio	56.7%	55.4%	+137 bp

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



Key highlights:

- Net debt growth → lower level of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/EBITDA growth due to net debt growth and lower TTM EBITDA,
- **Weighted average cost of debt:**
 - As at 31 March 2017 → 2.5%,
 - As at 31 December 2013 → 4.3%.

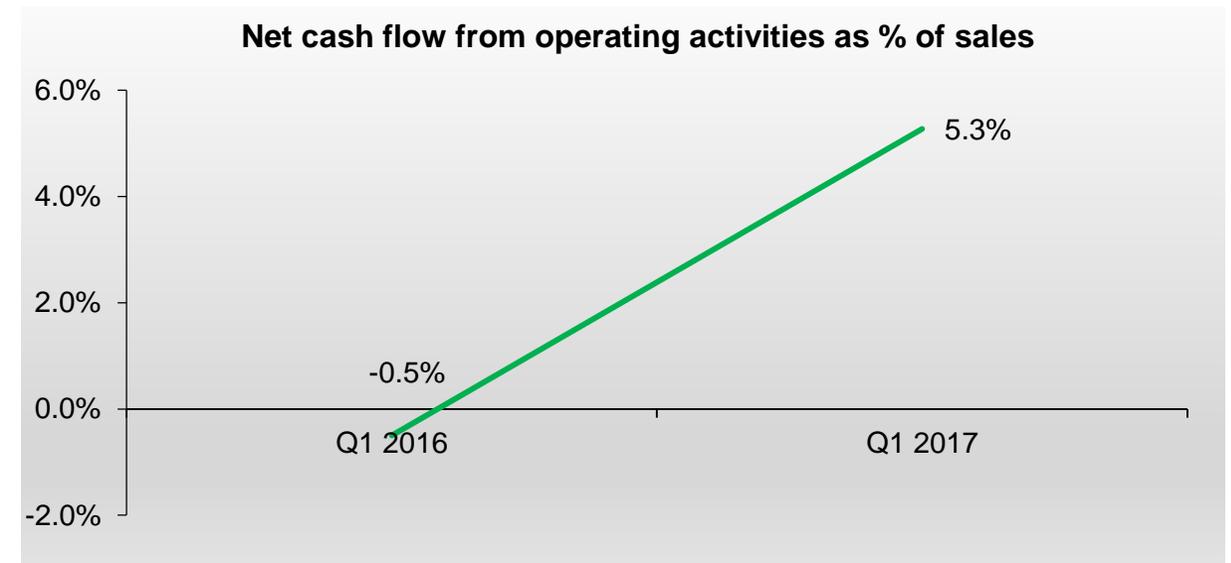


Cash flow from operating activities positively contributes to ensuring the financial stability of the Group

Working capital movement in BS	31 March 2017 / 31 March 2016		Impact
Inventories		3.2%	<ul style="list-style-type: none"> Higher inventories in the company Farmavita, following the increase in sales of own brands.
Trade and other receivables		(6.2%)	<ul style="list-style-type: none"> Lower sales of the Food segment in Q1 2017 compared to Q1 2016.
Trade and other payables		4.1%	<ul style="list-style-type: none"> Growth of payables in relation to the construction of the new pharmaceutical factory.

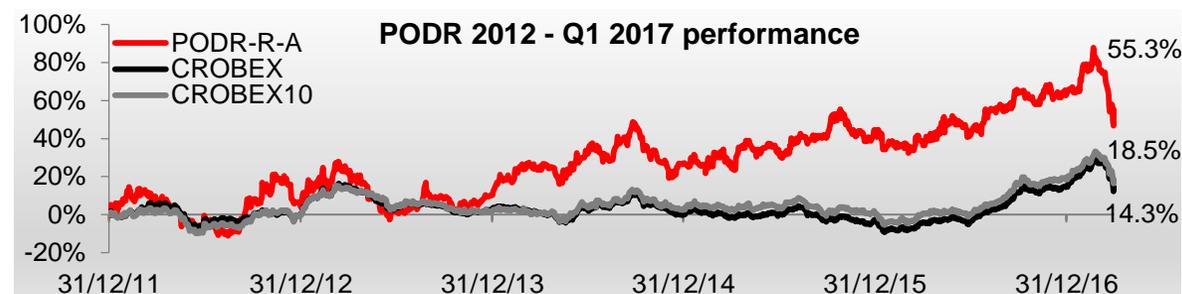
<i>(in HRK thousands)</i>	Q1 2017	Q1 2016	Δ
Net cash from operating activities	48.1	(5.0)	53.1
Net cash from investing activities	(83.9)	(133.8)	49.9
Net cash from financing activities	(51.4)	29.1	(80.4)
Net change of cash and cash equivalents	(87.2)	(109.7)	22.5

- **CAPEX** in 2017 is expected to be at the level of HRK 250 - 300m, in 2018 at the level of HRK 150 - 200m, and in 2019 at the level of HRK 250 - 300m.



Podravka's share price movement in Q1 2017 under the influence of key customer situation

(HRK; units)	Q1 2017	Q1 2017/ Q1 2016	2016 / 2015	2015 / 2014
Average daily price	388.6	21.7%	9.4%	7.4%
Average daily number of transactions	27	227.2%	(8.9%)	(9.1%)
Average daily volume	1,964	98.1%	(36.0%)	11.3%
Average daily turnover	763.021	141.0%	(30.0%)	19.6%
Reported earnings per share	20.2	(23.1%)	(11.2%)	276.9%
Adjusted earnings per share	20.7	(22.7%)	8.2%	31.6%



Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 380.00	5.9%
ERSTE Group	Hold	HRK 400.00	11.5%
UniCredit	Buy	HRK 398.96	11.2%
WOOD & COMPANY	Hold	HRK 376.00	4.8%

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.4	12.8	18.9	3.2	25.0
Normalized weight. av. peer group ³	2.3	13.7	19.8	2.6	24.9
Podravka Group reported	0.9	8.7	16.8	0.8	17.7
Podravka Group normalized ⁴	0.9	8.8	16.5	0.8	17.3

¹Compared to the last price on 31st March 2017,

²Obtained from Bloomberg on 27th April 2017,

³Calculated excluding max. and min. values.

⁴Normalized for items stated in the publication of Pharmaceuticals plc, Recordati S.p.A, Richter Gedeon Nyrt., Stada Arzneimittel AG.

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

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

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