



Podravka Group business results for 1-6 2017 period



Key highlights of H1 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.

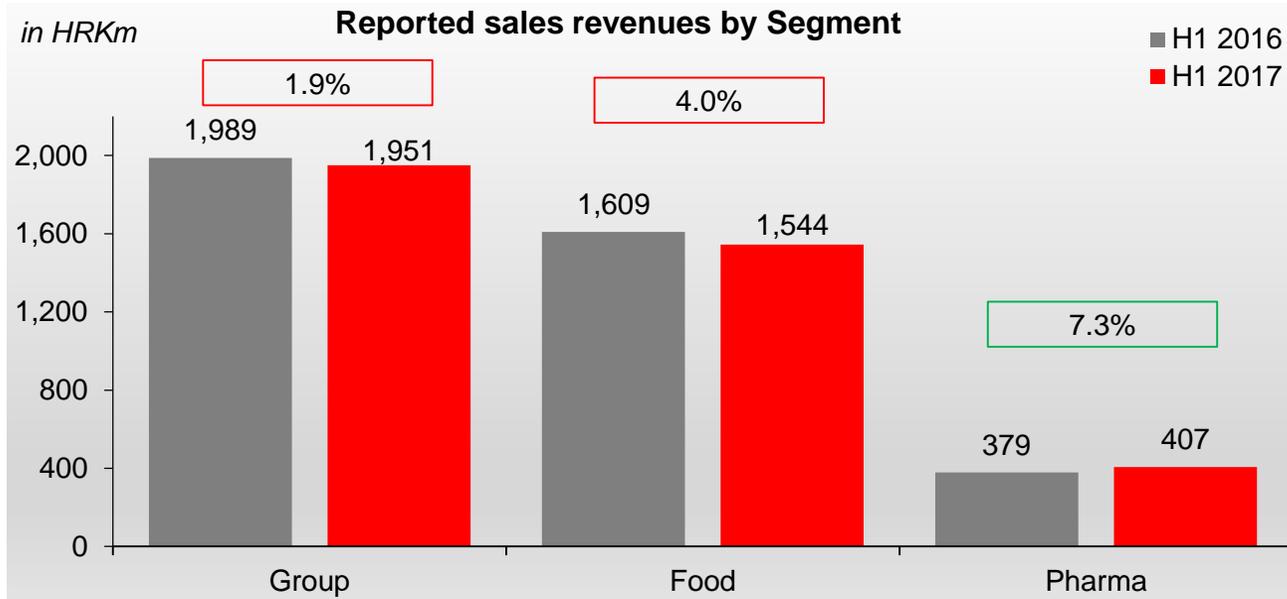


- On 23rd February 2017, the meeting of the Supervisory Board of Podravka d.d. was held where the decision on the appointment of the president and members of the Management Board of Podravka d.d. was adopted,
- Marin Pucar was appointed president of the Management Board of Podravka d.d., Ljiljana Šapina, 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,
- On 18th July 2017, the decisions were adopted that Marko Đerek be appointed a member of the Management Board and that the term for the president and members of the Management Board be prolonged until 23rd February 2022.



Note: The term H1 2017 relates to the period January 2017 - June 2017, while the term H1 2016 relates to the period January 2016 - June 2016.

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



Net foreign exchange (FX) impact on sales revenues:

HRK _m	Own brands	Other sales	Total	Currency	HRK _m
Food	(2.8)	(1.1)	(3.9)	RUB	(10.1)
Pharmaceuticals	11.8	(0.6)	11.2	EUR	20.7
Group	9.0	(1.7)	7.3	Other	(3.0)
				Total	(0.3)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in H1 2017 if FX rates had remained on the same levels as in H1 2016.

Food segment H1 2017¹:

- Own brands** → 5.7% lower sales (-5.5% excl. FX) as a result of a series of negative external and internal impacts,
- Other sales** → 6.2% higher sales (+6.7% excl. FX) due to trade goods and private label sales growth,
- Total Food** → 4.0% lower sales (-3.8% excl. FX).

Pharmaceuticals segment H1 2017¹:

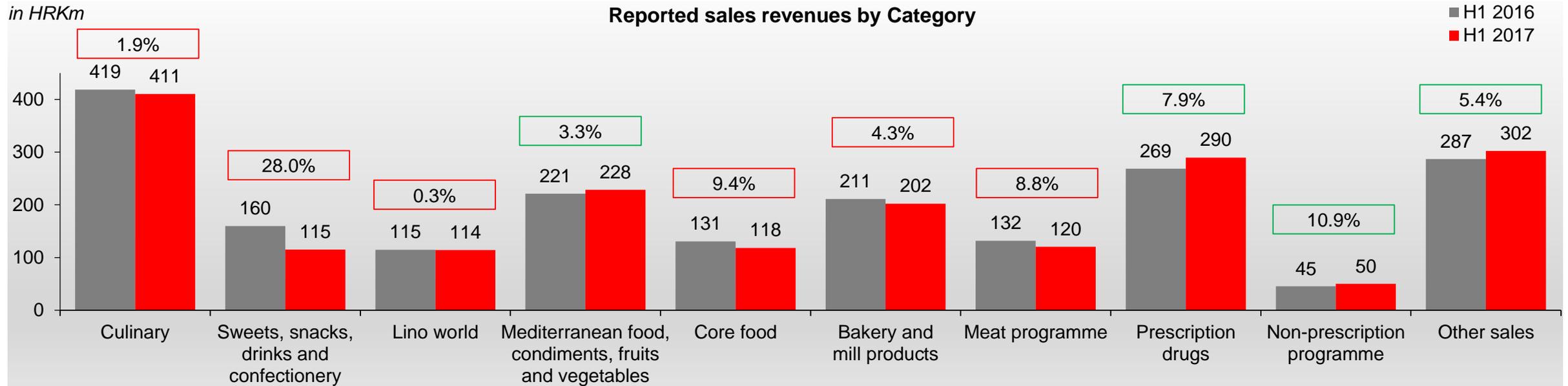
- Own brands** → 8.3% higher sales (+4.5% excl. FX) due to the extension of the product range and positive effect of foreign exchange differences in the market of Russia,
- Other sales** → 2.6% higher sales (+3.5% excl. FX) due to trade goods sales increase in pharmacies,
- Total Pharmaceuticals** → 7.3% higher sales (+4.4% excl. FX).

Podravka Group H1 2017¹:

- Own brands** → 3.1% lower sales (-3.6% excl. FX),
- Other sales** → 5.4% higher sales (+5.9% excl. FX),
- Total Podravka Group** → 1.9% lower sales (-2.2% excl. FX).

¹Percentages in the text relate to performance in H1 2017 compared to H1 2016.

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



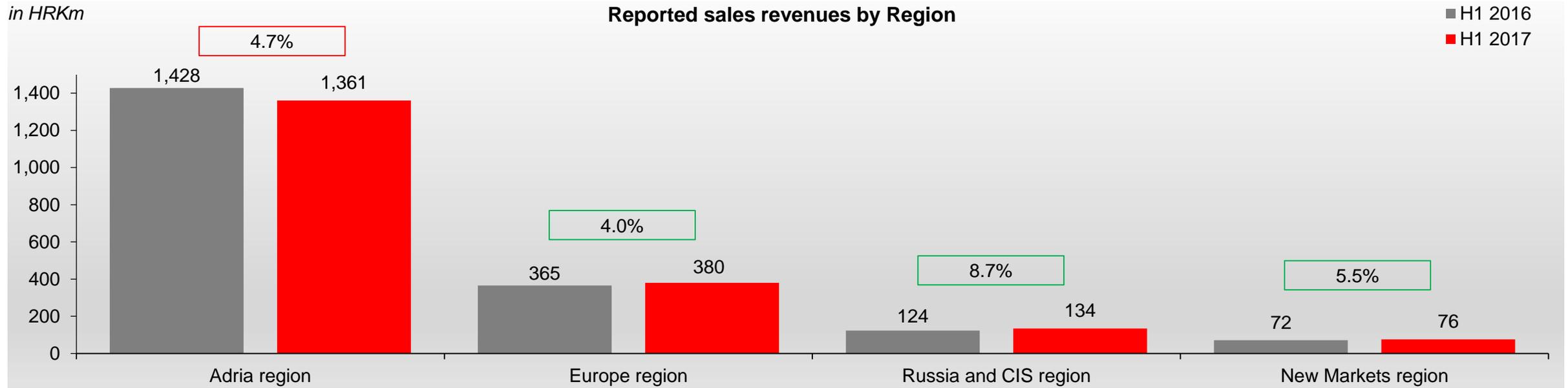
Category performance in H1 2017¹:

- **Culinary (-1.9%; -2.8% excl. FX)** → different dynamics of selling and marketing activities in Europe than in the comparative period and the last-year's change of distributor in Western Europe that is still in the process of taking over sales channels,
- **Sweets, snacks, drinks and confectionery (-28.0%; -26.9% excl. FX)** → the absence of sales of the Beverages segment. Without Beverages the category would fell 6.1% (-4.8% excl. FX),
- **Lino world (-0.3%; +0.4% excl. FX)** → slightly lower than in the comparative period,
- **Mediterranean food, condiments and core food (+3.3%; +3.3% excl. FX)** → increase in sales of Mediterranean range and vegetables in the Croatian market.

- **Core food (-9.4%; -8.5% excl. FX)** → primarily impacted by lower sales in the region of Russia and CIS due to lower orders of frozen vegetables range,
- **Bakery and mill products (-4.3%; -2.9% excl. FX)** → situation with the key customer in the Adria market and aggressive price competition in the market of Slovenia,
- **Meat programme (-8.8%; -8.7% excl. FX)** → absence of special one-off orders resulting from tenders for deliveries of buffer stock,
- **Prescription drugs (+7.9%; +4.0% excl. FX)** → revenue growth in the Russia and CIS region as a consequence of the product range extension and positive FX effect,
- **Non-prescription programme (+10.9%; +7.6% excl. FX)** → extension of the product range and positive effect of foreign exchange differences in the Russian market,
- **Other sales (+5.4%; +5.9% excl. FX)** → trade goods and private label growth.

¹Percentages in the text relate to performance in H1 2017 compared to H1 2016.

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



Region performance in H1 2017¹:

- **Adria region (-4.7%; -3.8% excl. FX)** → **food** sales 6.1% lower due to: (i) the absence of Beverage sales, (ii) recent developments with the most significant customer in the Adria region, and aggressive price competition in the market of Slovenia, (iii) the Meat programme as a result of the absence of one-off orders resulting from tenders for deliveries of buffer stock; **pharmaceuticals** sales 0.9% higher due all categories recording a slight increase in sales,
- **Europe region (+4.0%; +4.5% excl. FX)** → **food** sales 2.9% higher due to the extension of the product range and distribution of Bakery category and from the increase in revenues from other sales; **pharmaceuticals** sales 18.9% higher due to growth in sales of Prescription drugs in the market of Poland,
- **Russia and CIS region (+8.7%; -8.1% excl. FX)** → **food** sales 12.1% lower due to the lower orders of frozen vegetables range; **pharmaceuticals** sales 31.5% higher due to the extension of the product range,
- **New markets (+5.5%; +3.7% excl. FX)** → **food** sales 2.8% higher due to the increase in trade goods of the company Lagris and the Culinary category; **pharmaceuticals** sales 50.0% higher due to Prescription drugs category growth in the market of Turkey.

¹Percentages in the text relate to performance in H1 2017 compared to H1 2016.

Lower Food sales revenues impacted Food segment and overall Group profitability

H1 2017 (in HRK ^m) ¹	Food	Pharmaceuticals	Podravka Group
Sales revenues	1,544.4 (4.0%)	406.8 7.3%	1,951.2 (1.9%)
Gross profit	480.9 (8.4%)	208.4 5.0%	689.3 (4.8%)
EBITDA	84.2 (45.9%)	55.7 (16.0%)	140.0 (36.9%)
EBIT	9.3 (89.0%)	35.5 (22.0%)	44.8 (65.5%)
Net profit after MI	(5.0) (107.5%)	29.8 (1.8%)	24.8 (74.5%)

H1 2017 (% of sales revenues) ²	Food	Pharmaceuticals	Podravka Group
Gross margin	31.1% -150 bb	51.2% -114 bb	35.3% -107 bb
EBITDA margin	5.5% -422 bb	13.7% -380 bb	7.2% -399 bb
EBIT margin	0.6% -464 bb	8.7% -328 bb	2.3% -423 bb
Net margin after MI	(0.3%) -448 bb	7.3% -68 bb	1.3% -362 bb

Key highlights in H1 2017:

Food:

- Lower gross profit is primarily a result 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 and higher costs of termination benefits,
- Finance costs were higher, due to lower FX gains on borrowings, while at the same time interest expense is lower.

Pharmaceuticals:

- Gross profit growth, lower gross margin due to COGS growth related to the additional fixed costs of new factory,
- Higher costs of termination benefits and lower net other income due to negative FX differences from trade receivables and trade payables negatively impacted profitability. Positive impact came from positive FX differences on borrowings and lower interest expenses.

¹Performance in H1 2017; % of change when compared to H1 2016; ²% of sales revenues in H1 2017; basis points change when compared to H1 2016.

Lower total operating expenses under the influence of lower COGS

Operating expenses	H1 2017 / H1 2016
Cost of goods sold (COGS)	(0.2%) 
General and administrative expenses (G&A)	26.2% 
Sales and distribution costs (S&D)	(1.0%) 
Marketing expenses (MEX)	(3.6%) 
Other expenses / revenues, net	(153.7%) 
Total	2.6% 

Key highlights in H1 2017:

Cost of goods sold (COGS):

- Lower 0.2% primarily as a result of lower sales in the Food segment,

General and administrative expenses (G&A):

- Higher 26.2% than in the comparative period primarily due to the costs of a larger number of exercised share options (HRK +9.3 mil.) and higher costs of termination benefits (HRK +22.4 mil.) than in the comparative period,

Sales and distribution expenses (S&D):

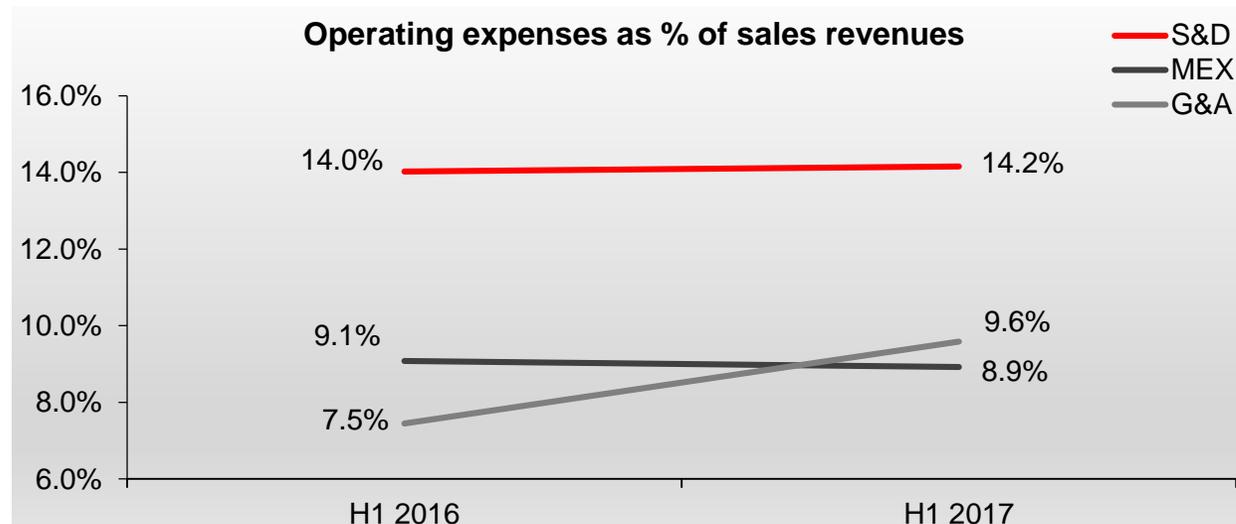
- Lower 1.0% due to lower provisions for trade receivables in the Pharmaceuticals segment and savings arising from the disinvestment of the Beverages business in the Food segment,

Marketing expenses (MEX):

- Lower 3.6% as a result of lower marketing expenses in the Food segment (fewer activities and time shift of activities), while the Pharma segment recorded an increase in marketing expenses in the market of Russia,

Other expenses / revenues, net:

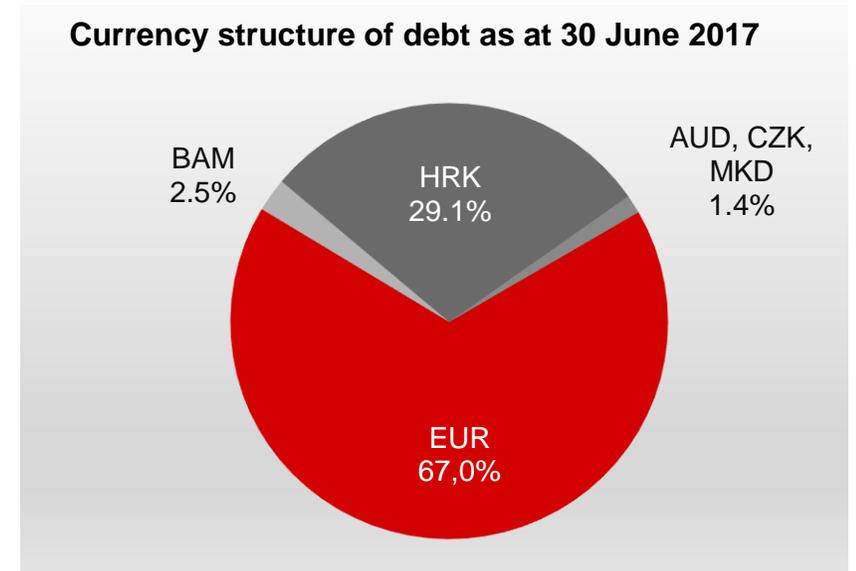
- Item includes foreign exchange differences from trade receivables and trade payables that were negative in H1 2017, while in H1 2016 they were positive. In H1 2017, other income and expenses amounted to negative HRK 7.4 mil., while in the comparative period they amounted to positive HRK 13.7 mil.



Sustainable level of Podravka Group indebtedness

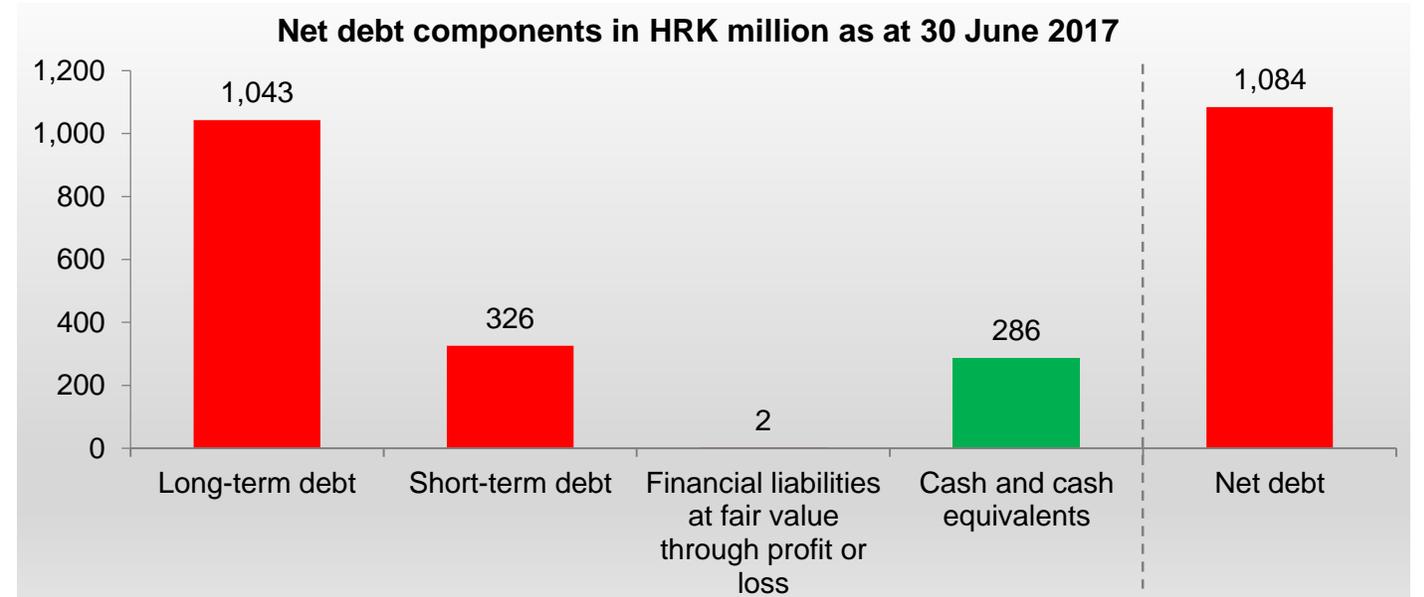
<i>(in HRK 000)</i> ¹	H1 2017	2016	% change
Net debt	1,084,385	1,041,740	4.1%
Interest expense	27,717	31,477	(11.9%)
Net debt / EBITDA	2.8	2.2	26.1%
EBITDA / Interest expense	14.0	14.9	(6.3%)
Equity to total assets ratio	57.6%	55.4%	+228 bp

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 30 June 2017 → 2.2%,
 - As at 31 December 2013 → 4.3%.

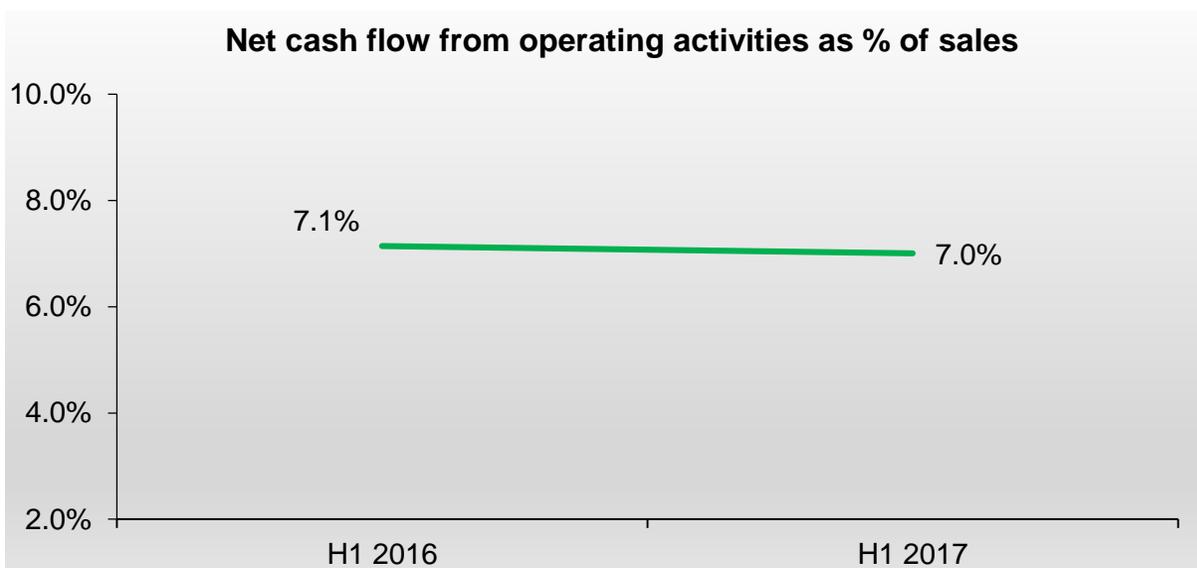


Cash flow from operating activities positively contributes to ensuring the financial stability of the Group

Working capital movement in BS	30 June 2017 / 30 June 2016		Impact
Inventories		2.2%	<ul style="list-style-type: none"> A portion of inventories related to the Beverages segment was classified in 2016 as assets held for sale. If we include Beverages inventories in the comparable period, inventories would be 0.8% higher on 30 June 2017 when compared to 30 June 2016.
Trade and other receivables		(8.1%)	<ul style="list-style-type: none"> Shorter customer payment periods to some Podravka's food companies and better collection in the Pharmaceuticals segment in foreign markets.
Trade and other payables		(8.5%)	<ul style="list-style-type: none"> In the comparative period a liability for recourse right on bills of exchange was added, which was in the meantime purchased by Podravka Inc. Without this liability, payables are 1.0% lower due to settlement of a portion of trade payables for the construction of the new pharmaceuticals factory.

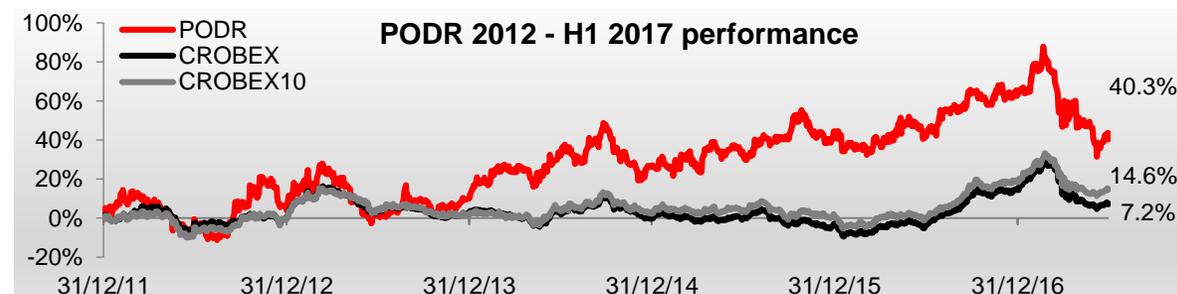
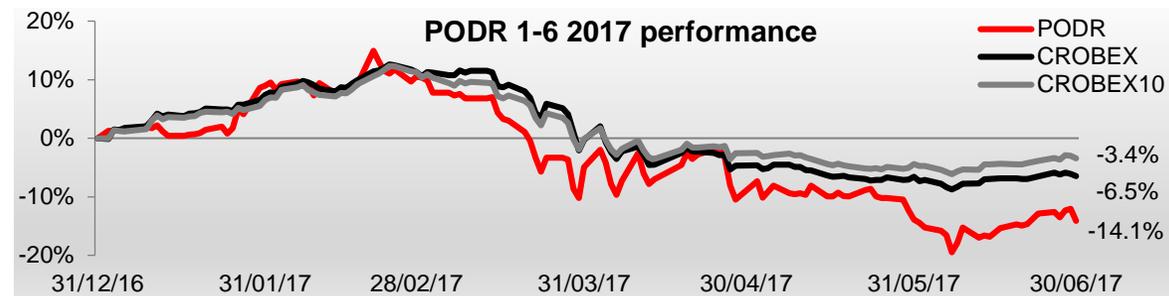
(in HRK thousands)	H1 2017	H1 2016	Δ
Net cash from operating activities	136.7	142.0	(5.3)
Net cash from investing activities	(119.7)	(235.6)	115.9
Net cash from financing activities	(68.8)	44.0	(112.8)
Net change of cash and cash equivalents	(51.8)	(49.7)	(2.2)

- **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 H1 2017 under the influence of key customer situation

(HRK; units)	H1 2017	H1 2017/ H1 2016	2016 / 2015	2015 / 2014
Average daily price	370.0	12.4%	9.4%	7.4%
Average daily number of transactions	23	160.3%	(8.9%)	(9.1%)
Average daily volume	1,661	55.3%	(36.0%)	11.3%
Average daily turnover	614,678.8	74.5%	(30.0%)	19.6%
Reported earnings per share	15.9	(39.8%)	(11.2%)	276.9%
Adjusted earnings per share	20.9	(22.0%)	8.2%	31.6%



Analysts	Recommendation	Target price	Potential ¹
InterCapital	Under review	-	n/a
Raiffeisen BANK	Hold	HRK 380.00	17.2%
ERSTE Group	Buy	HRK 370.00	14.1%
UniCredit	Buy	HRK 398.96	23.1%
WOOD & COMPANY	Hold	HRK 376.00	16.0%

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.3	13.6	20.3	3.0	27.1
Normalized weight. av. peer group ³	2.0	13.7	19.4	2.3	24.7
Podravka Group reported	0.8	8.7	18.4	0.8	20.4
Podravka Group normalized ⁴	0.8	8.2	15.5	0.8	15.5

¹Compared to the last price on 30th June 2017,

²Obtained from Bloomberg on 9th October 2017,

³Calculated excluding max. and min. values.

⁴Normalized for items stated in the publication of Pharmaceuticals, Recordati, Richter Gedeon, 2016 results.

Peer group food: Atlantic Grupa, Greencore Group, Nestle, Orkla, Otmuchow, Premier Foods, Unilever,

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

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