



Podravka Group business results for 1-6 2020 period



Sales revenues growth in 1H 2020

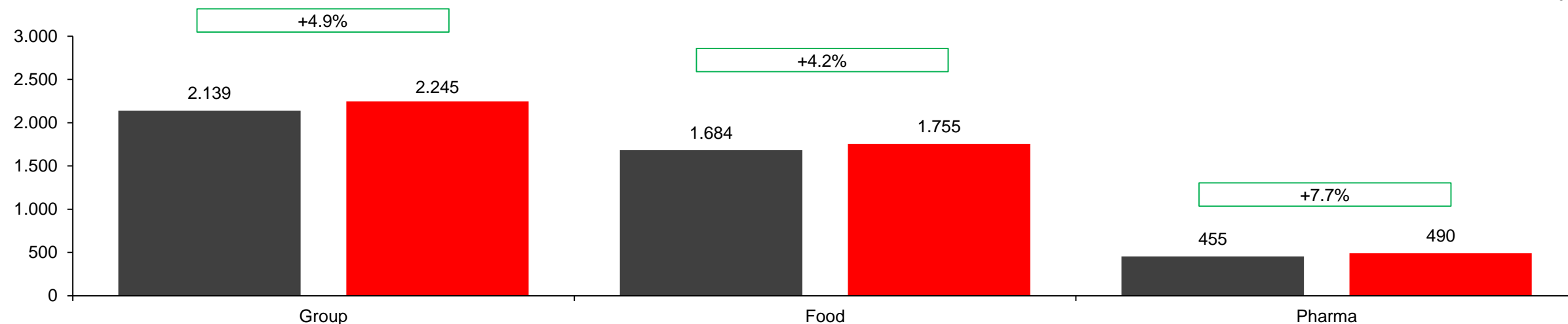


in HRKm

Sales revenues by segment

■ 1H 2019

■ 1H 2020



Podravka Group in 1-6 2020^{1,2}:

- **Own brands** → 6.1% higher sales,
- **Other sales** → 6.5% lower sales,
- **Total Podravka Group** → 4.9% higher sales.

Food segment in 1-6 2020^{1,2}:

- **Own brands** → 6.2% higher sales, due to of the increased demand for food products. The revenue growth was recorded by almost all business units, with the biggest absolute growth recorded by BU Culinary and Meat products, meat solutions and savory spreads,
- **Other sales** → 23.1% lower revenues, as a lower sales of trade goods in some markets following the closure of gastro channel (schools, kindergartens, restaurants, hotels),
- **Total Food** → 4.2% higher sales.

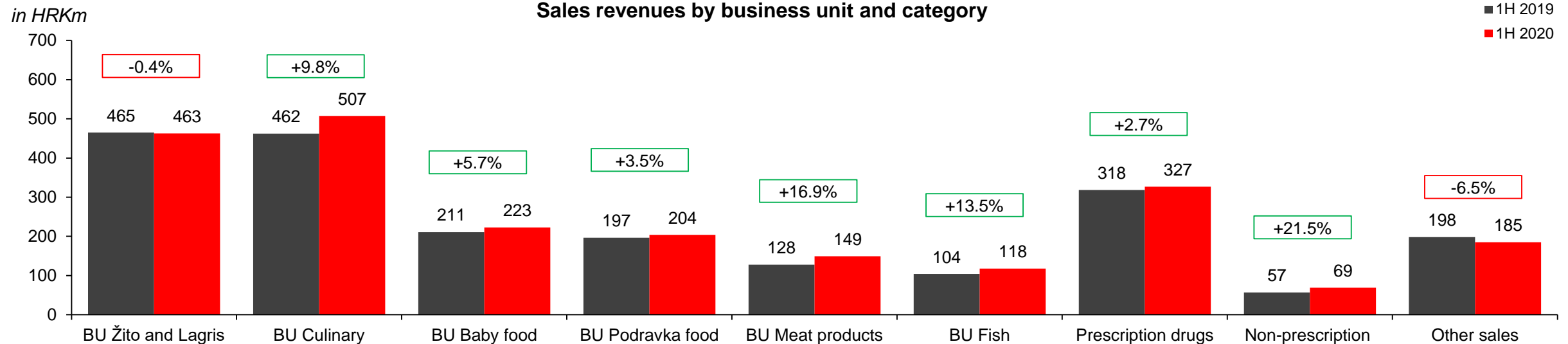
Pharmaceuticals segment in 1-6 2020^{1,2}:

- **Own brands** → 5.5% higher sales, due to the increase in demand for pharmaceutical products, primarily OTC drugs category,
- **Other sales** → 17.9% higher sales, as a result of higher sales of trade goods in the markets of Bosnia and Herzegovina and Croatia,
- **Total Pharma** → 7.7% higher sales.

¹Given the Podravka Group's range of products, there was an increased demand in March for certain food and pharmaceutical products, whereby the positive business trend and sales revenue growth from the first two months were strongly driven in March as well. The impact of the situation caused by COVID-19 on sales revenue trends was certainly significant in positive terms, but it cannot be clearly distinguished from the impact of regular demand for products. Restrictive measures introduced in mid-March aimed at preventing the spread of COVID-19 had a negative impact on sales revenues (closing of gastro channel, shortened working hours of supermarkets and pharmacies, limiting the number of customers in supermarkets and pharmacies, limiting the number of medical procedures in hospitals, limiting and implementing measures in family medicine centres, limiting the number of visits of associates to doctors and pharmacists, ban on the movement of people outside the place of residence, closing of borders). The easing of the introduced measures started in mid-May, which is a positive moment, but the effect of the introduction of restrictive measures on sales revenues cannot be clearly assessed or quantified.

²Percentages in the text relate to performance in 1-6 2020 compared to 1-6 2019.

Sales growth across almost all business units



Business unit and category performance in 1-6 2020^{1,2}:

- **BU Žito and Lagris (-0.4%)** → growth in sales of most categories was unable to compensate for the decrease in sales of fresh bakery products category (Slovenia and Italy). Significant revenue growth was recorded in Central Europe region,
- **BU Culinary (+9.8%)** → sales growth due to the increased demand and sales in categories Seasonings and Soups. Higher sales and growth were recorded in all regions except New markets region,
- **BU Baby food, sweets and snacks (+5.7%)** → higher sales, driven by increased demand and sales in Powdered sweets, Baby food and Creamy spreads categories. Growth was recorded in all regions except New markets region,
- **BU Podravka food (+3.5%)** → higher sales due to Tomato category growth. Most significant revenue growth was generated in Adria and Central Europe regions,
- **BU Meat products, meat solutions and savory spreads (+16.9%)** → increase in sales of categories Canned ready-to-eat meals, Pates and Luncheon meats. Most significant revenue growth was recorded in Adria and Western Europe and Overseas regions,
- **BU Fish (+13.5%)** → higher sales due to the higher demand and sales of the Tuna and Sardine categories. Sales growth was recorded in Adria, Central Europe and Eastern Europe regions,
- **Prescription drugs (+2.7%)** → higher sales with the most significant increase recorded in Bosnia and Herzegovina, Croatia and Serbia,
- **Non-prescription programme (+21.5%)** → result of sales growth in the OTC drugs subcategory, primarily in Croatia, due to significant increase in demand and sales of Lupocet and Neofen brands in March,
- **Other sales (-6.5%)** → Pharmaceuticals other sales increased by HRK 14m due to sales of trade goods of the Farmavita; Food segment lower sales by HRK 27m due to closure of gastro channel in Croatia following the emergence of COVID-19 and lower sales of Lagris trade goods.

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Significant growth recorded in Adria and Central Europe regions

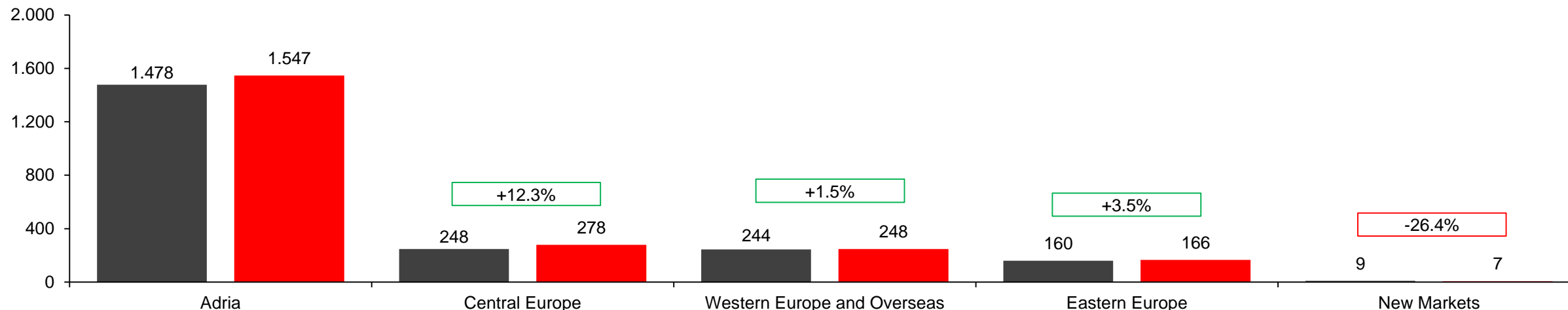


in HRK^m

Sales revenues by region

■ 1H 2019

■ 1H 2020



Region performance in 1-6 2020^{1,2}:

- **Adria (+4.6%)** → **Food** sales 2.9% higher where revenue growth is recorded in all business units; **Pharmaceuticals** sales 11.0% higher primarily as a result of the increase in sales of OTC drugs and trade goods,
- **Central Europe (+12.3%)** → **Food** sales surged 14.9%, due to the increase in sales of all business units; **Pharmaceuticals** sales down by 4.9% primarily due to the decrease in sales in the market of Poland,
- **WE and Overseas region (+1.5%)** → **Food** sales 1.3% higher, due to the increase in sales of BU Culinary, Podravka Food and Meat products, meat solutions and savory spreads which successfully compensated for the lower sales of BU Žito and Lagris in fresh bakery products category; **Pharmaceuticals** segment recorded HRK 0.5m higher revenues (+78.3%) due to increase in sales of prescription drugs,
- **Eastern Europe (+3.5%)** → **Food** sales up by 7.7%, due to the growth of BU Culinary and Fish; **Pharmaceuticals** sales rose 1.4% as a result of the increase in sales of the OTC drugs category,
- **New markets (-26.4%)** → **Food** sales down by HRK 2.7m (-32.0%) primarily due to lower sales of the BU Baby food, sweets and snacks; **Pharmaceuticals** recorded HRK 0.3m revenue growth (+77.9%) due to increase in prescription drugs sales.

¹Given the Podravka Group's range of products, there was an increased demand in March for certain food and pharmaceutical products, whereby the positive business trend and sales revenue growth from the first two months were strongly driven in March as well. The impact of the situation caused by COVID-19 on sales revenue trends was certainly significant in positive terms, but it cannot be clearly distinguished from the impact of regular demand for products. Restrictive measures introduced in mid-March aimed at preventing the spread of COVID-19 had a negative impact on sales revenues (closing of gastro channel, shortened working hours of supermarkets and pharmacies, limiting the number of customers in supermarkets and pharmacies, limiting the number of medical procedures in hospitals, limiting and implementing measures in family medicine centres, limiting the number of visits of associates to doctors and pharmacists, ban on the movement of people outside the place of residence, closing of borders). The easing of the introduced measures started in mid-May, which is a positive moment, but the effect of the introduction of restrictive measures on sales revenues cannot be clearly assessed or quantified.

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Food segment profitability influenced by prices of raw materials and supplies and FX differences



Food segment (in HRKm)	REPORTED				NORMALIZED ¹			
	1-6 2019	1-6 2020	Δ	%	1-6 2019	1-6 2020	Δ	%
Sales revenue	1,684	1,755	71	4.2%	1.684	1.755	71	4.2%
Gross profit	574	599	24	4.3%	577	599	22	3.8%
EBITDA	195	227	33	16.7%	198	228	30	15.1%
EBIT	120	150	30	25.0%	123	151	28	22.4%
Net profit after MI	94	120	26	27.3%	97	120	23	24.2%
Gross margin	34.1%	34.1%		+2 bp	34.3%	34.1%		-14 bp
EBITDA margin	11.6%	13.0%		+138 bp	11.7%	13.0%		+123 bp
EBIT margin	7.1%	8.6%		+143 bp	7.3%	8.6%		+128 bp
Net profit margin after MI	5.6%	6.8%		+124 bp	5.7%	6.8%		+110 bp

Food segment profitability in 1-6 2020:

- **Gross profit** → reported gross profit higher 4.3% with the gross margin at the level of comparative period of 34.1%, while normalized gross profit grew 3.8%. The effect of unfavourable trends in prices of raw materials and supplies continued in the second quarter and the amount of the effect in the 1-6 2020 period is estimated at negative HRK 22m², primarily in relation to dried vegetables and meat,
- **EBIT** → reported EBIT is 25.0% higher, while normalized grew by 22.4%. Negative impact on operating profit came from movements in FX differences on trade receivables and trade payables (HRK -4m in 1-6 2020; HRK +2m in 1-6 2019), the increase in costs related to sales (logistics and distribution) and the increase in staff costs of HRK 9m (+2.3%), while a positive impact comes from lower marketing expenses. The increase in staff costs is largely the result of one-off award to employees in the manufacturing, logistics and distribution segment paid in the first quarter, and a provision for award to employees paid in July.
- **Net profit after MI** → reported net profit is 26m higher, while normalized net profit after MI is HRK 23m higher than in comparative period. Bottom line was negatively impacted by FX differences on borrowings (HRK -3m in 1-6 2020; HRK -0m in 1-6 2019), partly mitigated by lower finance costs. Tax liability is higher by HRK 3m.

¹Normalized for one-off impacts.

²Obtained as used volumes of raw materials and supplies in 1-6 2020*prices in 1-6 2020 – used volumes of raw materials and supplies in 1-6 2020*prices in 1-6 2019.

Pharmaceuticals segment profitability deteriorated as a result of sales mix and FX differences

Pharma segment (in HRK _m)	REPORTED				NORMALIZED ¹			
	1-6 2019	1-6 2020	Δ	%	1-6 2019	1-6 2020	Δ	%
Sales revenue	455	490	35	7.7%	455	490	35	7.7%
Gross profit	229	237	8	3.3%	229	234	5	2.1%
EBITDA	94	93	(1)	(1.1%)	94	90	(4)	(4.1%)
EBIT	63	61	(1)	(2.0%)	63	59	(4)	(6.6%)
Net profit after MI	46	42	(4)	(9.0%)	46	40	(6)	(13.2%)
Gross margin	50.4%	48.3%		-205 bp	50.4%	47.8%		-263 bp
EBITDA margin	20.6%	18.9%		-168 bp	20.6%	18.3%		-226 bp
EBIT margin	13.8%	12.5%		-125 bp	13.8%	11.9%		-182 bp
Net profit margin after MI	10.1%	8.5%		-157 bp	10.1%	8.1%		-196 bp

Pharmaceuticals segment profitability in 1-6 2020:

- **Gross profit** → higher 3.3% while normalized gross profit is 2.1% higher. The gross margin is 48.3% which is lower than in the comparative period, due to the sales structure and reclassification of certain fees for various promotional and marketing activities. In the sales structure, a share of trade goods which have lower profitability than own brands increased,
- **EBIT** → reported HRK 1m lower, while normalized is down by HRK 4m as a result of very unfavorable movements in FX differences on trade receivables and trade payables (HRK -14m in 1-6 2020; HRK +9m in 1-6 2019), mitigated by lower marketing expenses and lower general and administrative expenses,
- **Net profit after MI** → is HRK 4m lower, while normalized net profit after MI is HRK 6m lower. Bottom line was affected by unfavorable movements in FX differences on borrowings (HRK -3m in 1-6 2020; HRK +1m in 1-6 2019), partly mitigated by lower finance costs. Tax liability is lower by HRK 1m.

¹Normalized for one-off impacts.

Group profitability influenced by higher sales, FX differences and cost optimisation















Podravka Group	REPORTED				NORMALIZED ¹			
(in HRK m)	1-6 2019	1-6 2020	Δ	%	1-6 2019	1-6 2020	Δ	%
Sales revenue	2,140	2,245	106	4.9%	2,140	2,245	106	4.9%
Gross profit	804	836	32	4.0%	806	833	27	3.3%
EBITDA	289	320	32	10.9%	292	318	26	8.9%
EBIT	183	212	29	15.8%	186	209	24	12.6%
Net profit after MI	140	162	22	15.4%	143	160	17	12.2%
Gross margin	37.6%	37.2%		-34 bp	37.7%	37.1%		-59 bp
EBITDA margin	13.5%	14.3%		+77 bp	13.6%	14.1%		+52 bp
EBIT margin	8.5%	9.4%		+88 bp	8.7%	9.3%		+64 bp
Net profit margin after MI	6.5%	7.2%		+65 bp	6.7%	7.1%		+46 bp

Profitability of the Podravka Group in 1-6 2020:

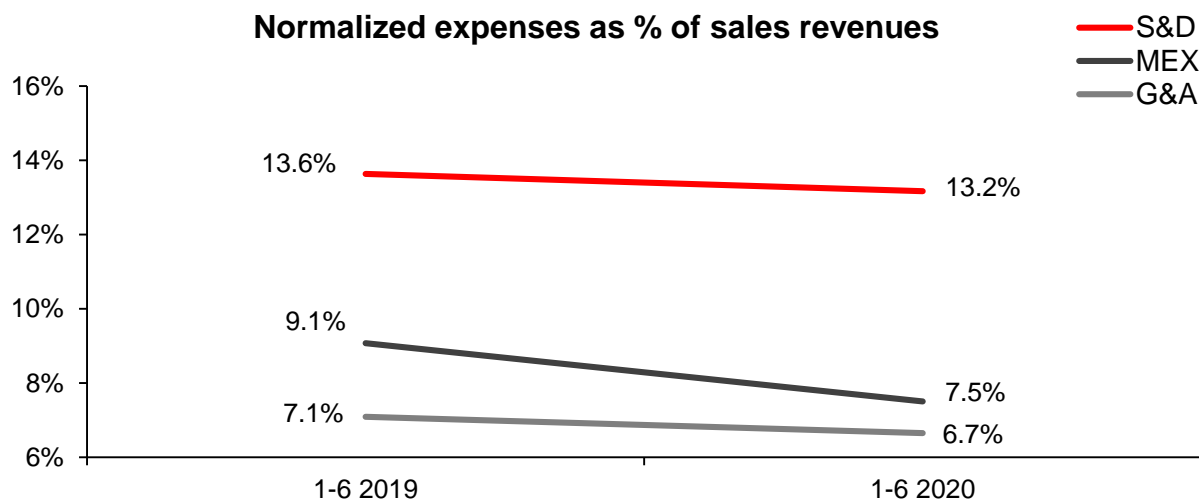
- **Gross profit** → reported is higher 4.0%, while normalized grew by 3.3%. Cost of goods sold increased by 5.5%, which eventually resulted in the gross margin of 37.2% in the reported period,
- **EBIT** → reported is HRK 29m higher, while normalized grew by HRK 24m, primarily as a result of increase in sales in both business segments and savings realized (marketing expenses). Negative impact came from higher costs related to the sales growth (logistics and distribution), very unfavorable movements in FX differences on trade receivables and trade payables (HRK -17m in 1-6 2020; HRK +11m in 1-6 2019) and the increase in staff costs of HRK 9m (+1.8%), which is largely the result of one-off award to employees in the manufacturing, logistics and distribution segment paid in the first quarter, and a provision for award to employees paid in July,
- **Net profit after MI** → is HRK 22m higher, while normalized is HRK 17m higher. Net profit after MI was impacted by unfavorable movements in FX differences on borrowings (HRK -6m in 1-6 2020; HRK +1m in 1-6 2019), partly mitigated by lower finance costs. Tax liability is higher by HRK 2m.

¹Normalized for one-off impacts.

Generated sales level compensated the increase in certain operating expenses

Operating expenses 1H20 vs.1H19 % change	REPORTED	NORMALIZED ¹
Cost of goods sold (COGS)	5.5% 	5.9% 
General and administrative expenses (G&A)	(1.5%) 	(1.6%) 
Sales and distribution costs (S&D)	1.4% 	1.4% 
Marketing expenses (MEX)	(13.1%) 	(13.1%) 
Other expenses / revenues, net	162.2% 	162.2% 
Total	3.9% 	4.2% 

Normalized expenses as % of sales revenues



Key highlights of operating expenses in 1-6 2020:

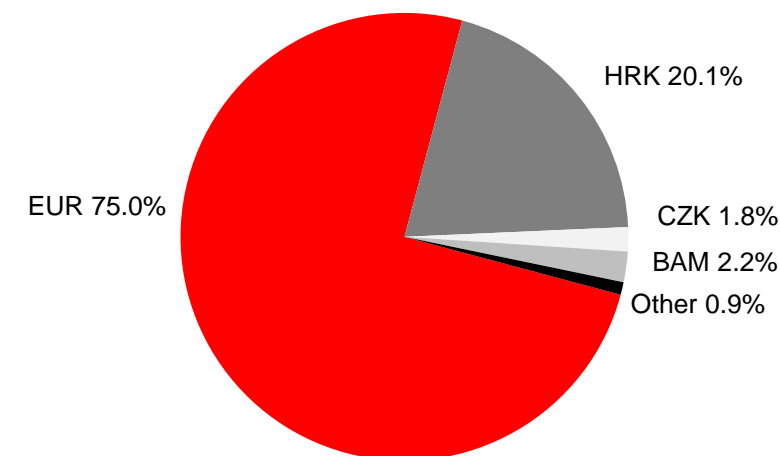
- Cost of goods sold (COGS):**
 - Higher 5.5%, normalized up by 5.9%, as a result of a higher level of sales realized, the structure of sales and the rise in prices of raw materials and supplies (estimated negative impact in the Food segment of HRK 22m, primarily from dried vegetables and meat) and higher staff costs, partly as a result of awards to employees,
- General and administrative expenses (G&A):**
 - Down by 1.5%, normalized down by 1.6%, as a result of different dynamics of movements in provisions for some expenses and lower costs of services,
- Sales and distribution costs (S&D):**
 - Higher 1.4%, due to the sales increase and staff costs increase (partly a result of awards to employees),
- Marketing expenses (MEX):**
 - Lower 13.1%, (Food segment -11.7%, Pharmaceuticals segment -14.8%). At the end of 2019 some promotional and marketing activities have been reclassified in the Pharmaceuticals segment. If marketing expenses in the Pharmaceuticals segment in 1-6 2019 were reclassified, they would be lower by HRK 5m for the period,
- Other expenses / revenues, net:**
 - HRK -10m in 1-6 2020, while HRK +17m in 1-6 2019. Mainly affected by the movements in FX differences on trade receivables and trade payables that amounted to HRK -17m in the 1-6 2020 period, while in 1-6 2019 they amounted to HRK +11m.

¹Normalized for one-off impacts.

Net debt decrease with improvement of debt indicators

(u HRK ¹)	2019	1-6 2020	% change
Financial debt ²	878	966	10.0%
Cash and cash equivalents	56	249	348.3%
Net debt	822	717	(12.8%)
TTM interest expense	15	13	(15.8%)
Net debt / TTM EBITDA	1.6	1.3	(17.0%)
EBITDA / Interest expense	20	26	28.1%
Equity to total assets ratio	65.9%	65.3%	-67 bp

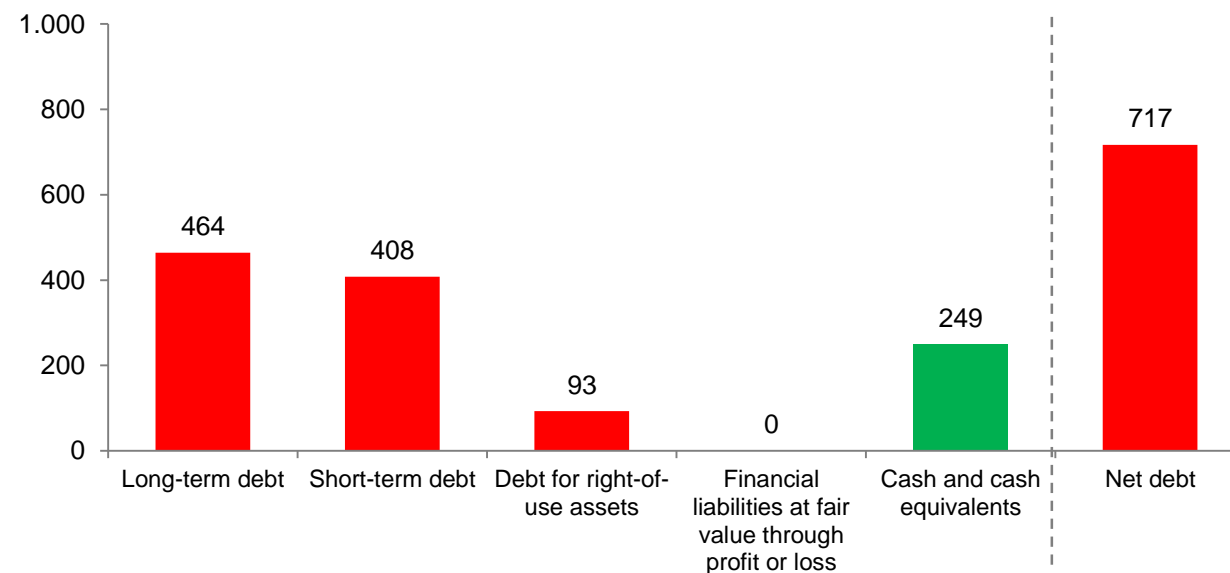
Currency structure of debt as at 30 June 2020



Key highlights:

- Financial debt increase → short-term debt increase to insure enough liquidity to ease supply and production process in situation of increased demand and production,
- Net debt decrease → due to higher level of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings and refinancing under favorable conditions,
- Weighted average cost of debt excluding liabilities for right-of-use assets:**
 - As at 31 June 2020 → 1.0%,
 - As at 31 December 2013 → 4.3%.




Net debt components in HRK¹ as at 30 June 2020



¹All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period, ²long-term and short-term borrowings + liabilities for right-of-use assets + financial liabilities at fair value through P&L.

Significantly higher level of cash flow from operating activities

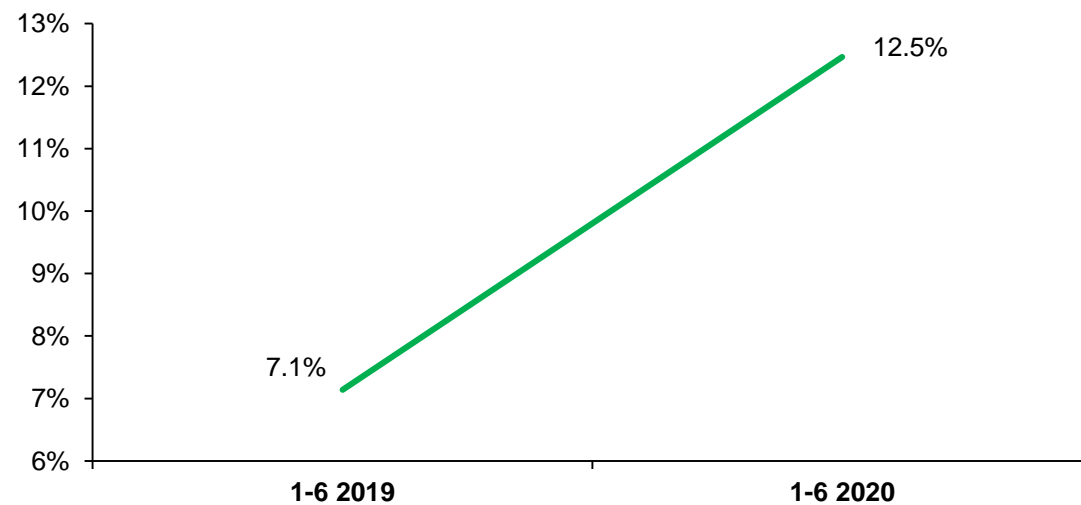


Working capital movement in BS	30 Jun 2020 / 30 Jun 2019		Impact
Inventories		13.8%	<ul style="list-style-type: none"> The increase in inventories is result of the increase in inventories of raw materials and supplies in the observed period, following the increased demand and production volume as a result of the situation caused by the COVID-19. and the increase in inventories of finished products of the fish range for the purpose of ensuring the range sufficiency,
Trade and other receivables		(8.4%)	<ul style="list-style-type: none"> Decrease is a result of lower withdrawal volumes of goods by the customers of the Podravka Group in the second quarter, due to stocks made in March, and lower activity of end customers in the second quarter, while receivables from the first quarter were regularly collected,
Trade and other payables		(13.7%)	<ul style="list-style-type: none"> This movement is primarily as a result of different dynamics of dividend distribution (June 2020 vs. August 2019).

(in HRKm)	1-6 2019	1-6 2020	Δ
Net cash from operating activities	153	300	127
Net cash from investing activities	(63)	(90)	(27)
Net cash from financing activities	(154)	4	158
Net change of cash and cash equivalents	(64)	193	258

- **CAPEX** in 2020 is expected to be at the level of HRK 298m, in 202-2023 period at the level of HRK 200m.

Net cash flow from operating activities as % of sales



Podravka's share price movement in 1-6 2020



Market activity with PODR share

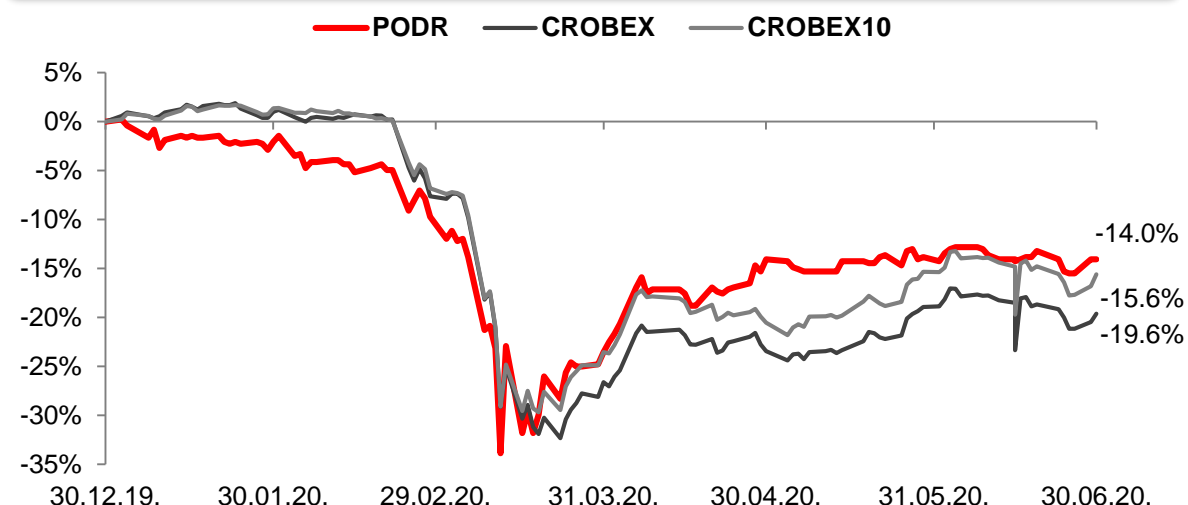
(HRK; units)	1-6 2019	1-6 2020	% change
Average daily price	391.5	397.3	1.5%
Average daily number of transactions	10	20	99.3%
Average daily volume	997	1,607	61.2%
Average daily turnover	390,437.7	638,704.3	63.6%
Reported earnings per share	32 ¹	35	9.6%
Normalized earnings per share	32 ¹	35	7.7%

Analyst coverage

Analysts	Recommendation	Target price	Potential ²
InterCapital	Under review	-	-
Raiffeisen BANK	Hold	HRK 433.00	4.1%
ERSTE Group	Accumulate	HRK 480.00	15.4%
WOOD COMPANY	Hold	HRK 443.00	6.5%

¹Calculated on FY 2019 basis, ²Compared to the last trading price on 30th June 2020, ³Obtained from Bloomberg on 27th July 2020; ⁴Calculated excluding max. and min. values; ⁵Normalized for items stated in the publication 1H 2020 results and 2019 results.

PODR share price movement in 1-6 2020



Peer group

Peer group multiples ³	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	12.5	16.6	2.8	19.5
Normalized weight. av. peer group ⁴	1.6	11.3	15.6	2.1	18.5
Podravka Group reported	0.8	6.8	11.8	0.9	12.0
Podravka Group normalized ⁴	0.8	6.8	11.4	0.9	12.1
Peer group food: Atlantic Grupa, Ebro, Hochdorf, La Doria, McCormick, Orkla;					
Peer group pharma: Alkaloid, Richter Gedeon, Hikma Pharmaceuticals, Krka, Recordati, Stada Arzneimittel.					

Podravka Inc.

Ante Starčevića 32, 48 000 Koprivnica, Croatia

www.podravka.hr

Investor Relations

ir@podravka.hr

tel: +385 48 65 16 35





Podravka Group business results for 1-6 2020 period

