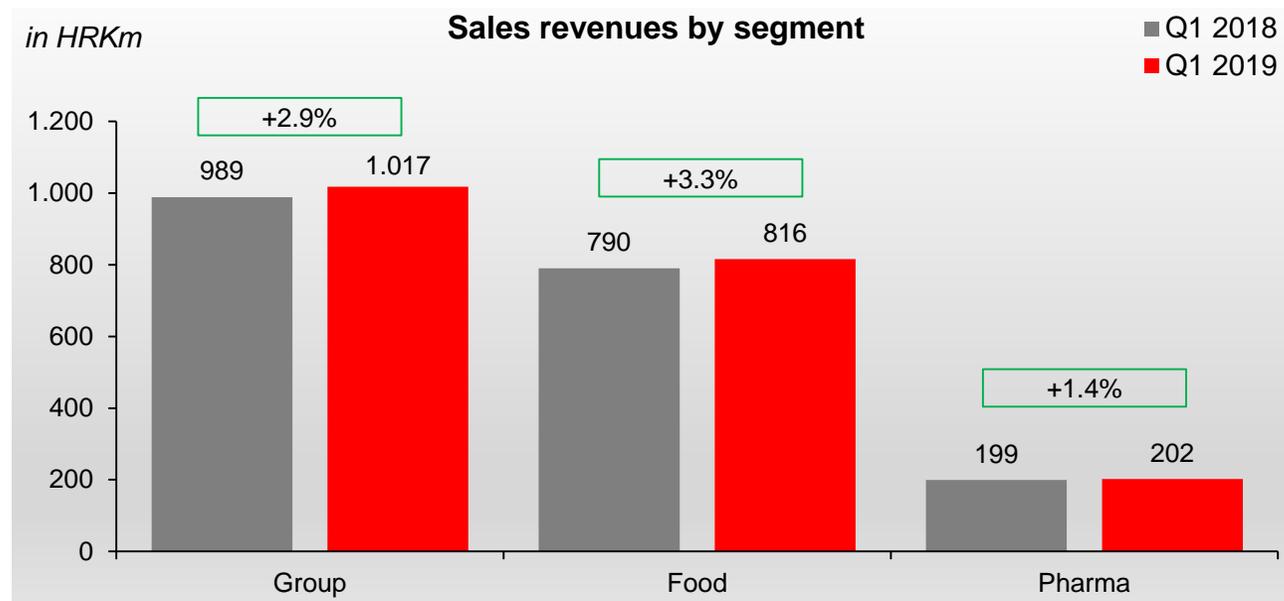




# Podravka Group business results for 1-3 2019 period



# Sales revenues in 1-3 2019 surpassed a billion kuna



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

HRK <sub>m</sub>	Own brands	Other sales	Total	Currency	HRK <sub>m</sub>
Food	(2)	0	(2)	RUB	(3)
Pharmaceuticals	(2)	(0)	(2)	PLN	(1)
Group	(4)	0	(4)	Other	0
				Total	(4)

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-3 2019 if FX rates had remained on the same levels as in 1-3 2018.

## Food segment in 1-3 2019<sup>1</sup>:

- Own brands** → 2.1% higher sales (+2.5% excl. FX), due to the growth in sales of business units Baby food, sweets and snacks, Culinary and Fish, as a result of stronger selling and marketing activities, demand for newly launched products and the expanded distribution of certain categories,
- Other sales** → 20.2% higher sales (+19.4% excl. FX), as a result of higher sales of trade goods of the Lagris company,
- Total Food** → 3.3% higher sales (+3.5% excl. FX).

## Pharmaceuticals segment in 1-3 2019<sup>1</sup>:

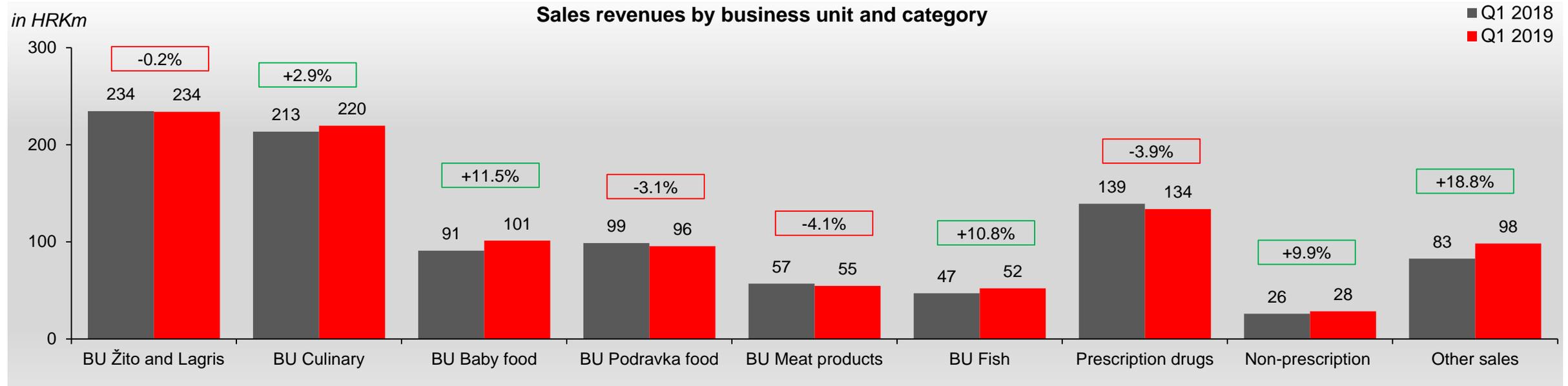
- Own brands** → 1.7% lower sales (-0.6% excl. FX), due to lower sales in the market of Bosnia and Herzegovina and the changed legislation on the markets of Kosovo and Turkey,
- Other sales** → 16.7% higher sales (+16.9% excl. FX) as a result of higher sales of trade goods in the Farmavita company,
- Total Pharmaceuticals** → 1.4% higher sales (+2.4% excl. FX).

## Podravka Group in 1-3 2019<sup>1</sup>:

- Own brands** → 1.4% higher sales (+1.9% excl. FX),
- Other sales** → 18.8% higher sales (+18.4% excl. FX),
- Total Podravka Group** → 2.9% higher sales (+3.3% excl. FX).

<sup>1</sup>Percentages in the text relate to performance in 1-3 2019 compared to 1-3 2018.

# Sales growth largely driven by growth in the Food segment



## Business unit and category performance in 1-3 2019<sup>1</sup>:

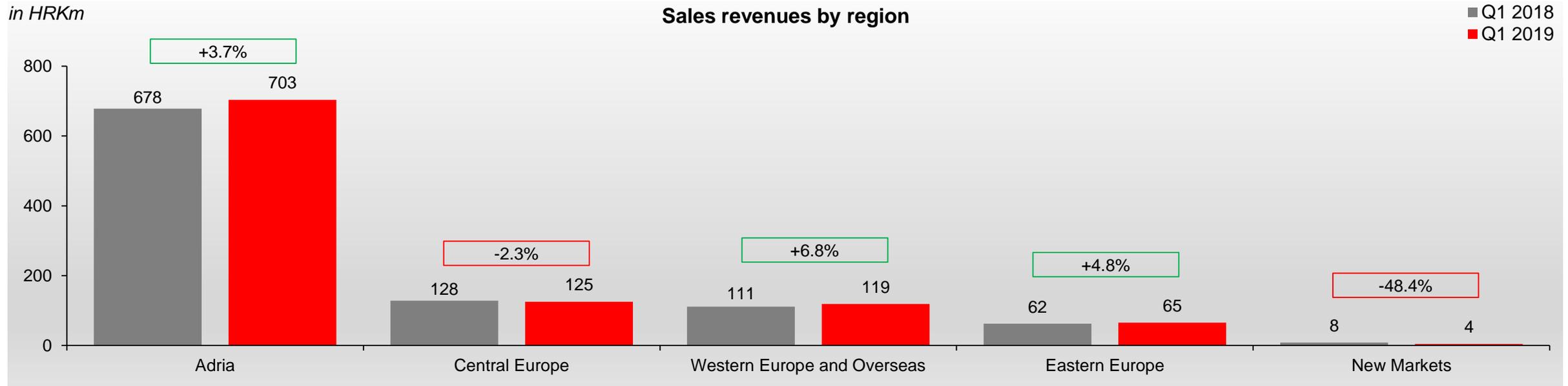
- **BU Žito and Lagris (-0.2%; -0.1% excl. FX)** → growth of the Bakery and mill products did not manage to compensate for lower sales of the Confectionery category due to aggressive competitors' discounts as well as lower sales of the Tea category because of a warm season,
- **BU Culinary (+2.9%; +3.6% excl. FX)** → sales growth primarily in the categories Seasonings and Soups, where the sales growth was recorded in most regions,
- **BU Baby food, sweets and snacks (+11.5%; +11.5% excl. FX)** → higher sales, primarily as a consequence of marketing activities in categories Creamy spreads, Baby food and Snacks as well as a result of well-received new and innovated products of the Lino Lada and Kviki brands,
- **BU Podravka food (-3.1%; -2.5% excl. FX)** → lower sales of frozen vegetables in the market of Russia, timing of selling activities related to the pre-Easter period in the Croatian market and

stronger competitors' selling activities in the market of Poland,

- **BU Meat products, meat solutions and savoury spreads (-4.1%; -4.2% excl. FX)** → decrease in sales due to lower selling and marketing activities in the Pâtés and Sausages categories in the Croatian market, related to the timing of activities in the pre-Easter period,
- **BU Fish (+10.8%; +10.9% excl. FX)** → higher sales, due to the increased demand and stronger selling and marketing activities, related to the pre-Easter fasting period,
- **Prescription drugs (-3.9%; -2.6% excl. FX)** → decrease recorded in the market of Bosnia and Herzegovina and in the markets of Kosovo and Turkey following changes in legislation,
- **Non-prescription programme (+9.9%; +10.7% excl. FX)** → growth in the OTC drugs subcategory in the markets of Croatia and Russia due to increased demand and targeted marketing and selling activities,
- **Other sales (+18.8%; +18.4% excl. FX)** → higher trade goods sales of Lagris and Farmavita.

<sup>1</sup>Percentages in the text relate to performance in 1-3 2019 compared to 1-3 2018.

# Strong performance of Adria region which is up by 3.7%



## Region performance in 1-3 2019<sup>1</sup>:

- **Adria (+3.7%; +3.8% excl. FX)** → **Food** sales 3.6% higher due to growth of the Culinary, Baby food, sweets and snacks and Fish business units in most markets, due to implemented selling and marketing activities, expanded distribution and launching of new and innovated products; **Pharmaceuticals** sales 4.1% higher as a result of increase in other sales,
- **Central Europe (-2.3%, -1.8% excl. FX)** → **Food** sales 1.9% lower because of weaker sales of Žito and Lagris business unit, following the decrease in sales of the Core food category in the market of the Czech Republic and the Podravka food business unit due to the decrease in revenues of the Tomato category in the market of Poland, in both cases as a consequence of fewer selling and marketing activities and strong competitors' selling activities; **Pharmaceuticals** sales 4.5% lower due to lower demand in the market of Poland,

- **Western Europe and Overseas (+6.8%; +6.2% excl. FX)** → **Food** sales 6.9% higher as result of the continuous growth in revenues of the Žito and Lagris business unit in the markets of Italy and Germany, and the increase in sales of Lagris trade goods on all markets of the region; this compensated for a decrease in the **Pharmaceuticals** segment revenues,
- **Eastern Europe (+4.8%, +10.1% excl. FX)** → **Food** sales 7.1% higher as result of growth in revenues of Culinary business unit in the markets of the Baltic region, as a result of stronger selling and marketing activities and trade goods of the Lagris company; **Pharmaceuticals** sales rose 2.9% due to increased demand for the Non-prescription drugs category which annulled the unfavourable effect of foreign exchange differences,
- **New markets (-48.4%; -48.4% excl. FX)** → **Food** sales 16.1% lower where the most significant impact came from lower demand in the markets of Africa and Asia; in the **Pharmaceuticals** decrease in revenue is a consequence of changes in legislation in the market of Turkey.

<sup>1</sup>Percentages in the text relate to performance in 1-3 2019 compared to 1-3 2018.

## Food segment profitability backed by favorable sales mix

Food (in HRKm)	REPORTED			
	1-3 2018	1-3 2019	Δ	%
Sales revenue	790	816	26	3.3%
Gross profit	269	287	18	6.9%
EBITDA	102	115	13	12.6%
EBIT	69	79	10	14.6%
Net profit after MI	54	63	9	16.9%
Gross margin	34.0%	35.2%		+119 bp
EBITDA margin	13.0%	14.2%		+118 bp
EBIT margin	8.7%	9.7%		+96 bp
Net profit margin after MI	6.8%	7.7%		+90 bp

### Food segment profitability in 1-3 2019:

- **Gross profit** → higher 6.9% as a result of higher sales revenues and the positive impact of the sales structure itself,
- **EBIT** → higher HRK 10m as result of the increase in sales of the profitable range as well as favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +3m in 1-3 2019; HRK -4m in 1-3 2018). Previously mentioned has compensated the increase in expenses related to higher investments in brand development through effective marketing activities and increase in staff costs as a consequence of the planned improvement in material rights of the Podravka Group employees,
- **Net profit after MI** → higher HRK 9m higher, while an additional negative effect came from higher tax expenses resulting from higher profit before tax.

## Pharma impacted by own brands sales decline, but keeps up with cost savings

Pharmaceuticals (in HRK <sub>m</sub> )	REPORTED			
	1-3 2018	1-3 2019	Δ	%
Sales revenue	199	202	2	1.4%
Gross profit	103	97	(6)	(5.8%)
EBITDA	33	41	8	23.8%
EBIT	19	26	7	35.4%
Net profit after MI	16	17	1	7.9%
Gross margin	51.6%	48.0%		-367 bp
EBITDA margin	16.6%	20.3%		+367 bp
EBIT margin	9.5%	12.6%		+317 bp
Net profit margin after MI	8.0%	8.5%		+51 bp

### Pharmaceuticals segment profitability in 1-3 2019:

- **Gross profit** → lower 5.8% due to a changed sales structure where the sales of profitable own brands decreased, and sales of trade goods increased,
- **EBIT** → higher HRK 7m as a result of the optimisation of certain operating expenses, favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +8m in 1-3 2019; HRK -2m in 1-3 2018) and increase in sales of lower profitable product range,
- **Net profit after MI** → higher HRK 1m where an additional effect came from higher net finance costs caused by movements in foreign exchange differences on borrowings (HRK -1m in 1-3 2019; HRK +5m in 1-3 2018).

## Group profitability driven by Food segment profitability

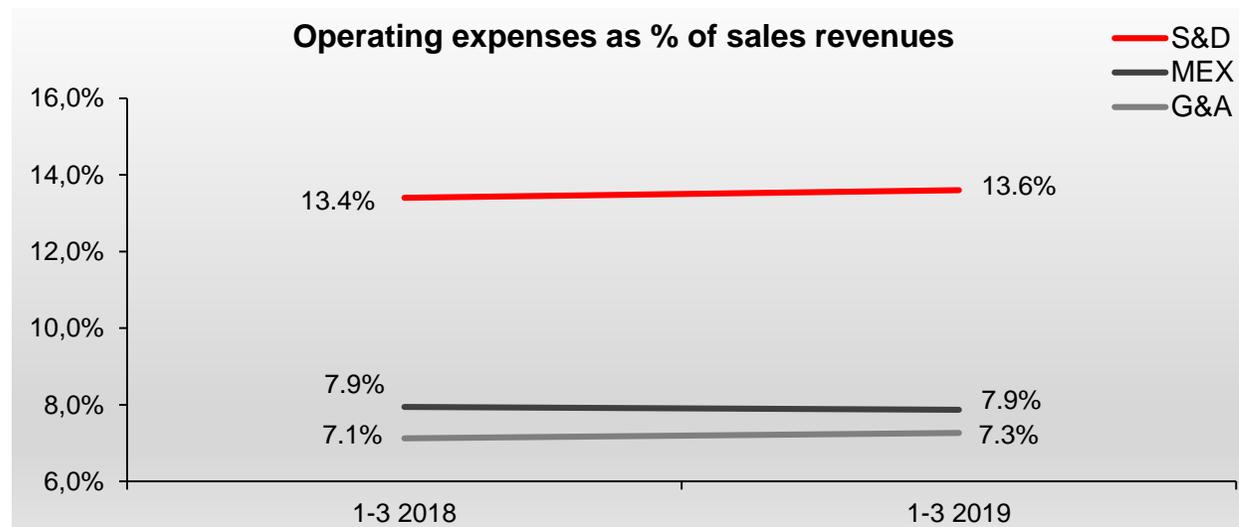
Podravka Group (in HRK <sub>m</sub> )	REPORTED			
	1-3 2018	1-3 2019	Δ	%
Sales revenue	989	1.017	29	2.9%
Gross profit	372	384	13	3.4%
EBITDA	136	156	21	15.4%
EBIT	88	104	17	19.1%
Net profit after MI	70	80	10	14.8%
Gross margin	37.6%	37.7%		+17 bp
EBITDA margin	13.7%	15.4%		+166 bp
EBIT margin	8.9%	10.3%		+139 bp
Net profit margin after MI	7.1%	7.9%		+82 bp

### Group profitability in 1-3 2019:

- **Gross profit** → higher 3.4%, where the increase in gross profit of the food segment compensated for the lower gross profit of the pharmaceuticals segment. In this, cost of goods sold increased by 2.6%, which resulted in the gross margin of 37.7%,
- **EBIT** → HRK 17m higher, as a result of positive impact of sales structure in Food segment and favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +11m in 1-3 2019; HRK -7m in 1-3 2018). Before mentioned has compensated the increase in certain operating expenses related to higher investments in brand development through effective marketing activities and increase in staff costs is a consequence of the planned improvement in material rights of the Podravka Group employees,
- **Net profit after MI** → HRK 10m higher where an additional effect came from higher net finance costs, mainly caused by movements in foreign exchange differences on borrowings (HRK +0.2m in 1-3 2019; HRK +5m in 1-3 2018) and higher tax expenses an additional negative effect came from the increase in net finance costs and higher tax expense.

# Favorable sales mix compensated the increase in certain operating expenses

Operating expenses 19 vs. 18 % change	REPORTED
Cost of goods sold (COGS)	2.6% 
General and administrative expenses (G&A)	4.9% 
Sales and distribution costs (S&D)	4.4% 
Marketing expenses (MEX)	1.9% 
Other expenses / revenues, net	n/a 
<b>Total</b>	<b>1.3%</b> 

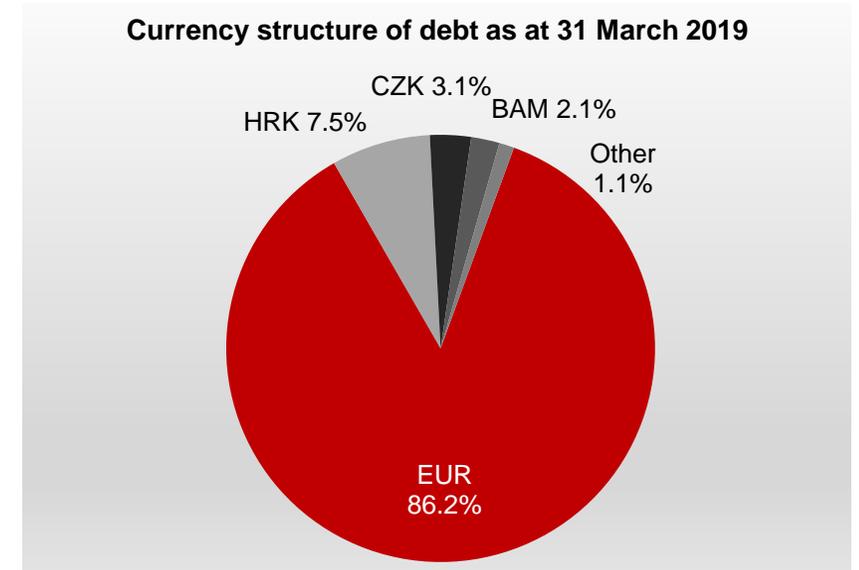


## Key highlights of operating expenses in 1-3 2019:

- **Cost of goods sold (COGS):**
  - Higher 2.6%, in line with higher sales realised and the sales structure itself,
- **General and administrative expenses (G&A):**
  - Higher 4.9% primarily as a result of higher provisions for prepaid expenses,
- **Sales and distribution expenses (S&D):**
  - Higher 4.4% where the growth came primarily from the food segment, while the pharmaceuticals segment recorded lower selling and distribution costs. The increase in selling and distribution costs is related to the increase in sales, but also to the planned increase in staff costs,
- **Marketing expenses (MEX):**
  - Higher 1.9% as a result of stronger investments in further development of own brands through effective marketing activities,
- **Other expenses / revenues, net:**
  - In 1-3 2019, other income and expenses, net amounted to HRK +13m, while in the comparative period they amounted to HRK -2m. This line item also includes foreign exchange differences on trade receivables and trade payables that amounted to HRK +11m in 1-3 2019, while in the comparative period they amounted to HRK -7m.

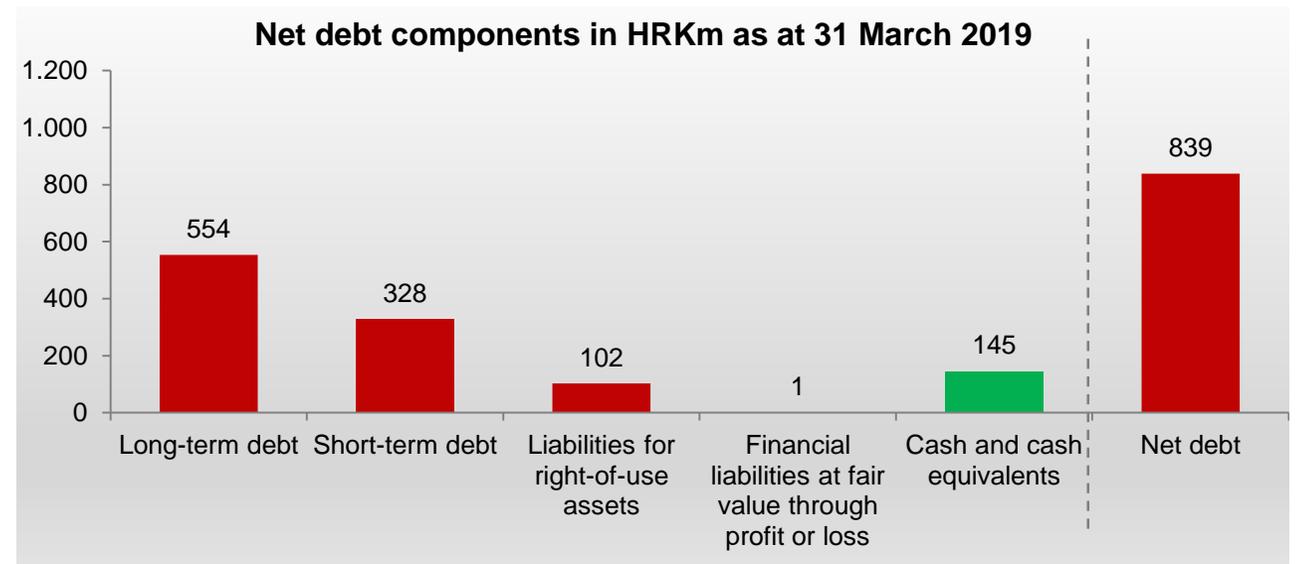
# The increase in net debt is the result of the adoption of the new IFRS 16

<i>(in HRKm)<sup>1</sup></i>	2018	1-3 2019	% change
Net debt	755	839	11.1%
Interest expense	18	17	(4.6%)
Net debt / normalized EBITDA	1.6	1.7	6.4%
Normalized EBIT / interest expense	15.2	16.9	11.2%
Equity to total assets ratio	62.9%	63.8%	+93 bp



## Key highlights:

- Net debt increase → due to inclusion of right-of-use assets (leases) in debt according to new accounting standard IFRS 16 as well as lower amount of cash and cash equivalents,
- Lower interest expenses → repayment of a part of borrowings,
- Net debt/normalized EBITDA rose due to inclusion of right-of-use assets (leases) in debt according to new accounting standard IFRS 16; without the effect of new IFRS 16, the net debt to normalised EBITDA ratio would amount to estimated 1.5,
- **Weighted average cost of debt:**
  - As at 31 March 2019 → 1.7%,
  - As at 31 December 2013 → 4.3%.



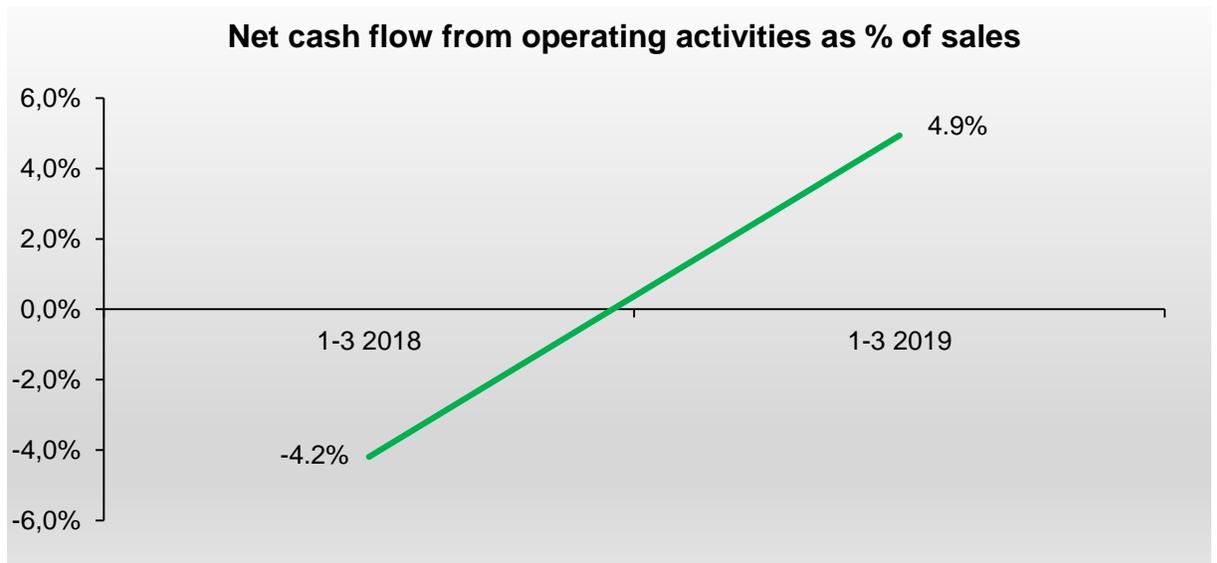
<sup>1</sup>All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period.

## Lower level of net cash from operating activities reflects working capital movement in 1-3 2019

Working capital movement in BS	31 March 2019 / 31 March 2018		Impact
Inventories		4.8%	<ul style="list-style-type: none"> <li>The increase in inventories is a consequence of different dynamics of drawing finished products by customers related to the timing of the pre-Easter period, resulting in the increase in inventories of finished products.</li> </ul>
Trade and other receivables		0.7%	<ul style="list-style-type: none"> <li>This movement is in line with normal operations.</li> </ul>
Trade and other payables		(8.4%)	<ul style="list-style-type: none"> <li>This movement is in line with normal operations.</li> </ul>

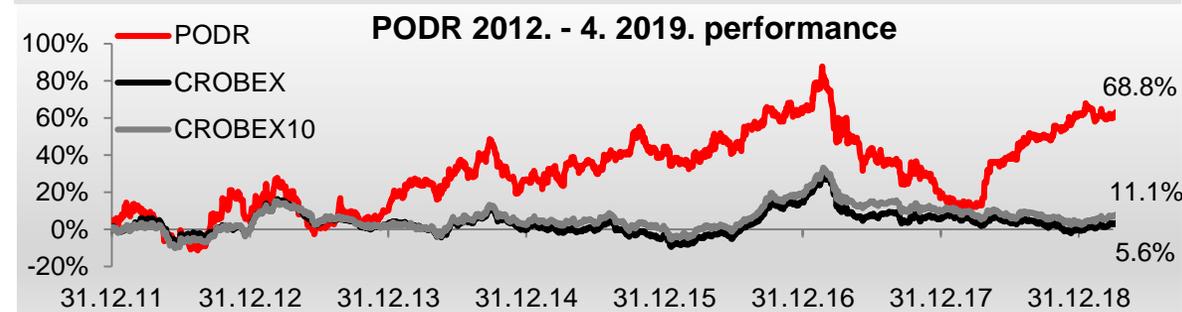
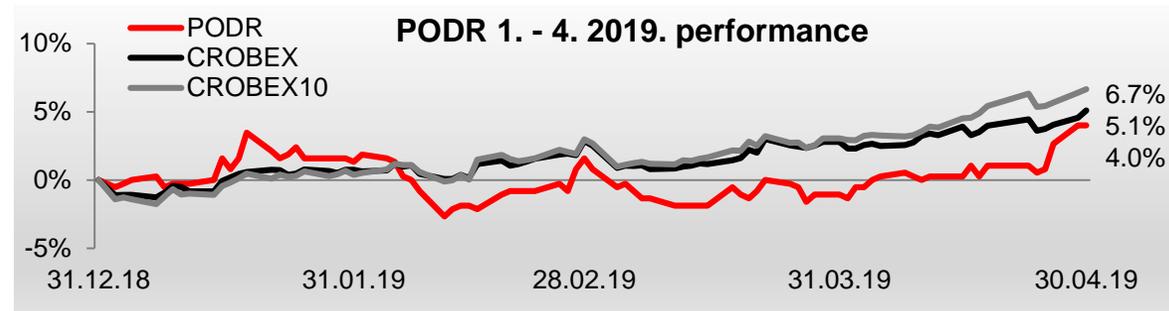
(in HRKm)	1-3 2018	1-3 2019.	Δ
Net cash from operating activities	(41)	50	92
Net cash from investing activities	(24)	(23)	0
Net cash from financing activities	(101)	(93)	8
Net change of cash and cash equivalents	<b>(166)</b>	<b>(66)</b>	<b>100</b>

- **CAPEX** in 2019 is expected to be at the level of HRK 210m, in 2020 at the level of HRK 200 - 250m, and in 2021 and 2023 at the level of approximately HRK 200m.



# Podravka's share price movement in 1-3 2019

(HRK; units)	1-3 2018	1-3 2019	% change
Average daily price	265	374	41.1%
Average daily number of transactions	13	9	(30.2%)
Average daily volume	1,534	454	(70.4%)
Average daily turnover	406,530	169,641	(58.3%)
Reported earnings per share	29.5	31.0	5.0%
Normalized earnings per share	31.1	32.5	4.6%



Analysts	Recommendation	Target price	Potential <sup>1</sup>
InterCapital	Buy	431 HRK	10.5%
Raiffeisen BANK	Hold	371 HRK	(4.9%)
ERSTE Group	Accumulate	405 HRK	3.8%
UniCredit	Buy	399 HRK	2.3%
WOOD & COMPANY	Hold	354 HRK	(9.2%)

Peer group multiples <sup>2</sup>	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.1	12.4	17.4	2.8	24.3
Normalized weight. av. peer group <sup>3</sup>	1.6	11.8	19.5	2.2	22.7
Podravka Group reported	0.7	7.4	13.1	0.9	12.6
Podravka Group normalized <sup>4</sup>	0.7	7.4	12.5	0.9	12.0

**Peer group food:** Atlantic Grupa, Ebro, Hochdorf, La Doria, McCormick, Orkla;

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

<sup>1</sup>Compared to the last price on 30th April 2019; <sup>2</sup>Obtained from Bloomberg on 2<sup>nd</sup> May 2019; <sup>3</sup>Calculated excluding max. and min. Values; <sup>4</sup>Normalized for items stated in the publication of 1-3 2019 and 2018 results.

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# Podravka Group business results for 1-3 2019 period

