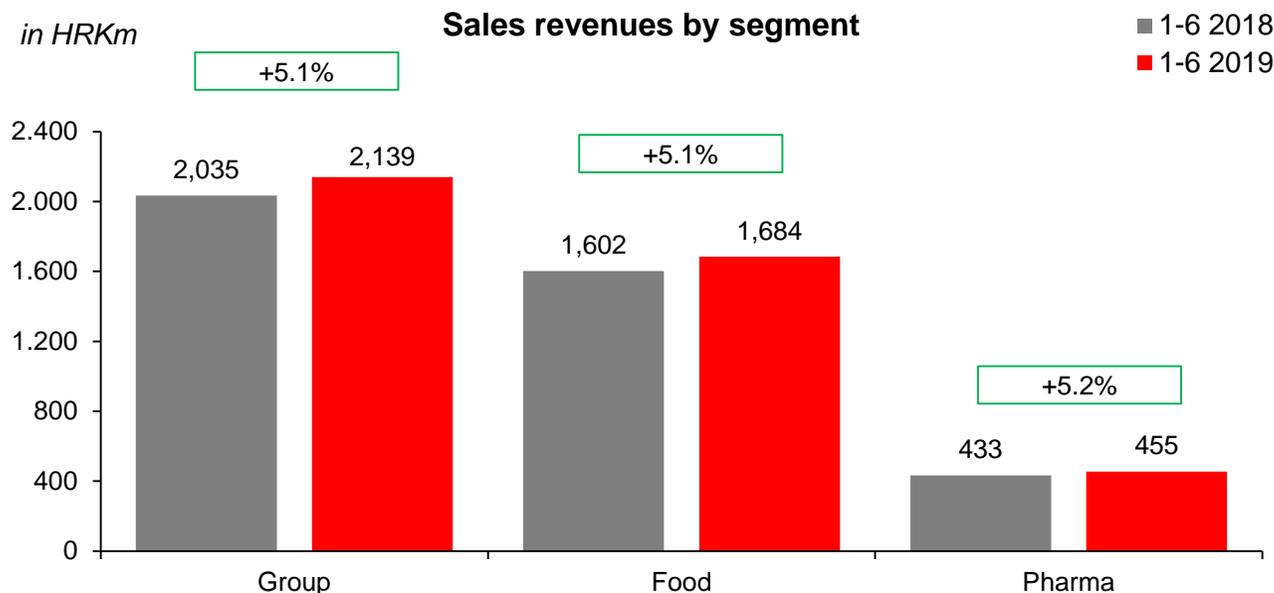




Podravka Group business results for 1-6 2019 period



Strong sales revenues growth of 5.1%



Net foreign exchange (FX) impact on sales revenues:

- FX impact on sales revenues shows for how much sales revenues would have been higher or lower in 1-6 2019 if FX rates had remained on the same levels as in 1-6 2018.

HRK _m	Own brands	Other sales	Total	Currency	HRK _m
Food	(1)	(0)	(1)	RUB	(2)
Pharmaceuticals	(1)	0	(1)	PLN	(1)
Group	(2)	(0)	(2)	USD	2
				Other	(1)
				Total	(2)

Food segment in 1-6 2019¹:

- Own brands** → 4.8% higher sales (+4.8% excl. FX), due to the growth in sales of business units Culinary, Baby food, sweets and snacks 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** → 10.4% higher sales (+10.5% excl. FX), as a result of higher sales of trade goods of the Lagris company,
- Total Food** → 5.1% higher sales (+5.2% excl. FX).

Pharmaceuticals segment in 1-6 2019¹:

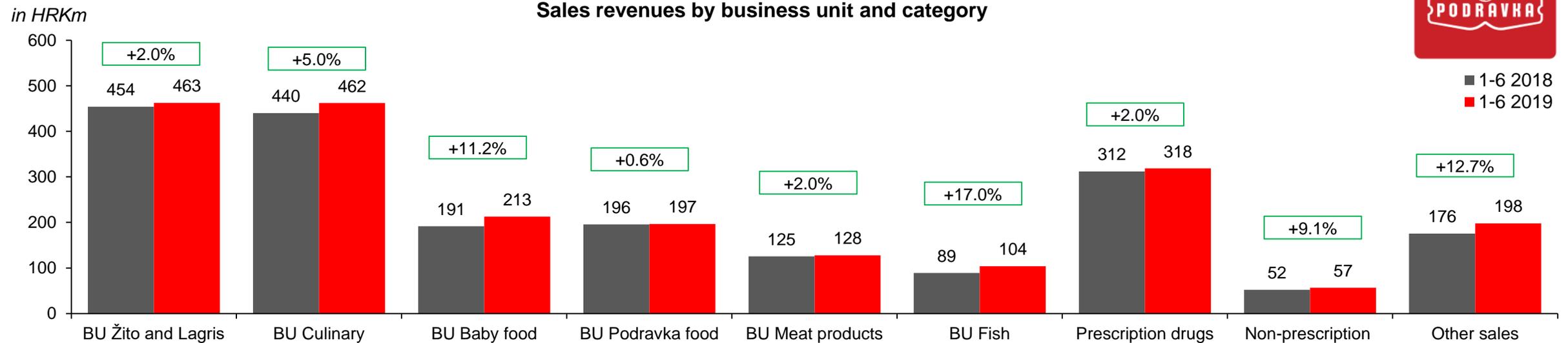
- Own brands** → 3.0% higher sales (+3.2% excl. FX), due to the increase in sales on the markets of Russia and Croatia,
- Other sales** → 16.4% higher sales (+16.4% excl. FX), as a result of higher sales of trade goods in the Farmavita company,
- Total Food** → 5.2% higher sales (+5.3% excl. FX).

Podravka Group in 1-6 2019¹:

- Own brands** → 4.4% higher sales (+4.5% excl. FX),
- Other sales** → 12.7% higher sales (+12.8% excl. FX),
- Total Podravka Group** → 5.1% higher sales (+5.2% excl. FX).

¹Percentages in the text relate to performance in 1-6 2019 compared to 1-6 2018.

Sales growth across all business segments



Business unit and category performance in 1-6 2019¹:

- **BU Žito and Lagris (+2.0%; +2.0% excl. FX)** → growth of the Bakery and mill products category in the markets of Slovenia and Italy,
- **BU Culinary (+5.0%; +5.2% excl. FX)** → higher sales in the categories Seasonings and Soups, due to the optimum mix of selling and marketing activities and the demand for new products, resulting in sales growth in most regions,
- **BU Baby food, sweets and snacks (+11.2%; +11.1% 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 (+0,6%; +0,8% excl. FX)** → higher sales of the Flour and Condiments, as result of stronger selling and marketing activities as well as increased demand, managed to compensate for lower revenues of the Frozen vegetables category, connected to the problems with procurement of raw materials from a supplier from Serbia,
- **BU Meat products, meat solutions and savoury spreads (+2.0%; +1.7% excl. FX)** → increase in sales of the categories of Canned ready-to-eat meals and Luncheons,
- **BU Fish (+17.0%; +16.9% excl. FX)** → higher sales, primarily due to the increased demand and stronger selling and marketing activities,
- **Prescription drugs (+2.0%; +2.2% excl. FX)** → higher sales in the markets of Russia and Croatia, which compensated for the decrease in sales in the markets of Turkey, Bosnia and Herzegovina and Kosovo, due to changes in local legislation,
- **Non-prescription programme (+9.1%; +9.2% excl. FX)** → growth in the OTC drugs subcategory in Croatia and Russia due to increased demand and targeted marketing and selling activities,
- **Other sales (+12.7%; +12.8% excl. FX-a)** → higher sales as a result of the increase in sales of trade goods of the Lagris and Farmavita.

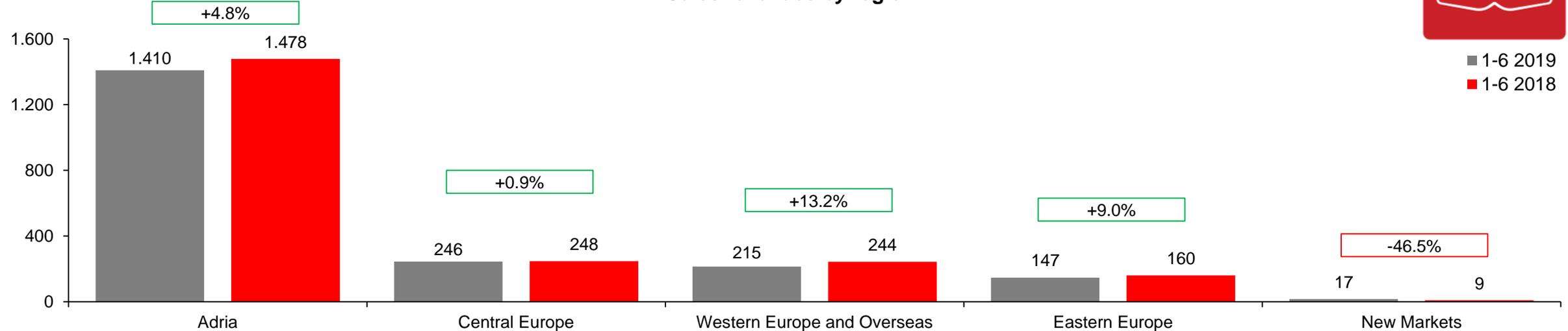
¹Percentages in the text relate to performance in 1-6 2019 compared to 1-6 2018.

Growth acceleration in Western Europe and Overseas region



in HRKm

Sales revenues by region



Region performance in 1-6 2019¹:

- **Adria (+4.8%; +4.8% excl. FX)** → **Food** sales 5.0% higher due to growth of the Baby food, sweets and snacks, Žito and Lagris and Fish business units, as a result of implemented selling and marketing activities, expanded distribution and launching of new and innovated products; **Pharmaceuticals** sales 4.2% higher mostly as a result of the increase in sales of trade goods and non-prescription programme,
- **Centralna Europa (+0.9%, +1.9% excl. FX)** → **Food** sales 0.3% higher due to the increase in revenues of the Culinary business unit and the increase in sales of trade goods, compensating for lower revenues of the Žito and Lagris business unit; **Pharmaceuticals** sales recorded a 5.1% sales growth, primarily due to the sales growth in the market of the Czech Republic,
- **Western Europe and Overseas region (+13.2%; +12.6% excl. FX)** → **Food** sales 13.3% higher due to growth of Culinary business unit, the continuous growth in revenues of the Žito and Lagris

business unit and the increase in sales of trade goods; **Pharmaceuticals** segment recorded revenues at the same level as in the comparative period,

- **Eastern Europe (+9.0%, +10.2% excl. FX)** → **Food** sales 2.0% lower because the increase in revenues of the Culinary business unit is annulled by the decrease in revenues of the Podravka Food business unit following lower sales of the Frozen vegetables category, connected to the problems with procurement of raw materials from a supplier from Serbia; **Pharmaceuticals** sales rose 15.4% due to increased demand in the market of Russia,
- **New markets (-46.5%; -46.5% excl. FX)** → **Food** sales 14.4% 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.

¹Percentages in the text relate to performance in 1-6 2019 compared to 1-6 2018.

Food segment profitability backed by favorable sales mix



Food (in HRK _m)	REPORTED			
	1-6 2018	1-6 2019	Δ	%
Sales revenue	1,602	1,684	82	5.1%
Gross profit	541	574	33	6.2%
EBITDA	172	195	23	13.5%
EBIT	105	120	15	14.0%
Net profit after MI	85	94	10	11.3%
Gross margin	33.8%	34.1%		+33 bp
EBITDA margin	10.7%	11.6%		+85 bp
EBIT margin	6.6%	7.1%		+56 bp
Net profit margin after MI	5.3%	5.6%		+31 bp

Food segment profitability in 1-6 2019:

- **Gross margin** → higher 6.2% as a result of higher sales revenues and the positive impact of the sales structure itself,
- **EBIT** → higher HRK 15m 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 +2m in 1-6 2019; HRK -6m in 1-6 2018). Aforementioned successfully compensated for the increase in certain operating expenses, primarily marketing expenses, staff costs and costs related to the sales growth. In line with the Group's strategy, higher investments in brand development were continued through effective marketing activities, while the increase in staff costs is a consequence of the planned improvement in material rights of the Podravka Group employees,
- **Net margin after MI** → higher HRK 10m higher, which compensated for the less favourable movements in foreign exchange differences on borrowings than in the comparative period (HRK -0m in 1-6 2019; HRK +5m in 1-6 2018).

Profitability improvement in Pharmaceuticals segment



Pharmaceuticals (in HRK _m)	REPORTED			
	1-6 2018	1-6 2019	Δ	%
Sales revenue	433	455	22	5.2%
Gross profit	220	229	10	4.5%
EBITDA	72	94	22	30.6%
EBIT	44	63	19	43.2%
Net profit after MI	36	46	10	27.3%
Gross margin	50.7%	50.4%		-34 bp
EBITDA margin	16.6%	20.6%		+401 bp
EBIT margin	10.1%	13.8%		+366 bp
Net profit margin after MI	8.3%	10.1%		+176 bp

Pharmaceuticals segment profitability in 1-6 2019:

- **Gross profit** → higher 4.5% as a result of higher sales and the sales structure,
- **EBIT** → higher HRK 19m as a result, in addition to the mentioned above, of favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +9m in 1-6 2019; HRK -6m in 1-6 2018), which compensated for the increase in certain operating expenses, primarily marketing expenses and staff costs related to the improvement in the material rights of employees,
- **Net profit after MI** → higher HRK 10m which compensated for the less favourable movements in foreign exchange differences on borrowings than in the comparative period (HRK +1m in 1-6 2019; HRK +8m in 1-6 2018) and higher tax expenses.

Group profitability influenced by favourable sales structure of the Food segment



Podravka Group (in HRK _m)	REPORTED			
	1-6 2018	1-6 2019	Δ	%
Sales revenue	2,035	2,139	104	5.1%
Gross profit	761	804	43	5.7%
EBITDA	244	289	45	18.5%
EBIT	149	183	34	22.6%
Net profit after MI	121	140	19	16.1%
Gross margin	37.4%	37.6%		+19 bp
EBITDA margin	12.0%	13.5%		+152 bp
EBIT margin	7.3%	8.5%		+122 bp
Net profit margin after MI	5.9%	6.5%		+62 bp

Profitability of the Podravka Group in 1-6 2019:

- **Gross margin** → higher 5.7%, where the stronger impact comes from the Food segment as a result of a favourable sales structure. Cost of goods sold increased by 4.8%, which resulted in the gross margin of 37.6%,
- **EBIT** → higher HRK 34m, as a result of the previously mentioned factors and favourable movements in foreign exchange differences on trade receivables and trade payables (HRK +11m in 1-6 2019; HRK -12m in 1-6 2018). This more than successfully compensated for the increase in certain operating expenses, primarily marketing expenses, staff costs and costs related to the sales growth. In line with the Group's strategy, higher investments in brand development were continued through effective marketing activities, while the increase in staff costs is a consequence of the planned improvement in material rights of the Podravka Group employees,
- **Net profit after MI** → higher 19m, which compensated for the less favourable movements in foreign exchange differences on borrowings than in the comparative period (HRK +1m in 1-6 2019; HRK +13m in 1-6 2018) and higher tax expense.

Favorable sales mix compensated the increase in certain operating expenses

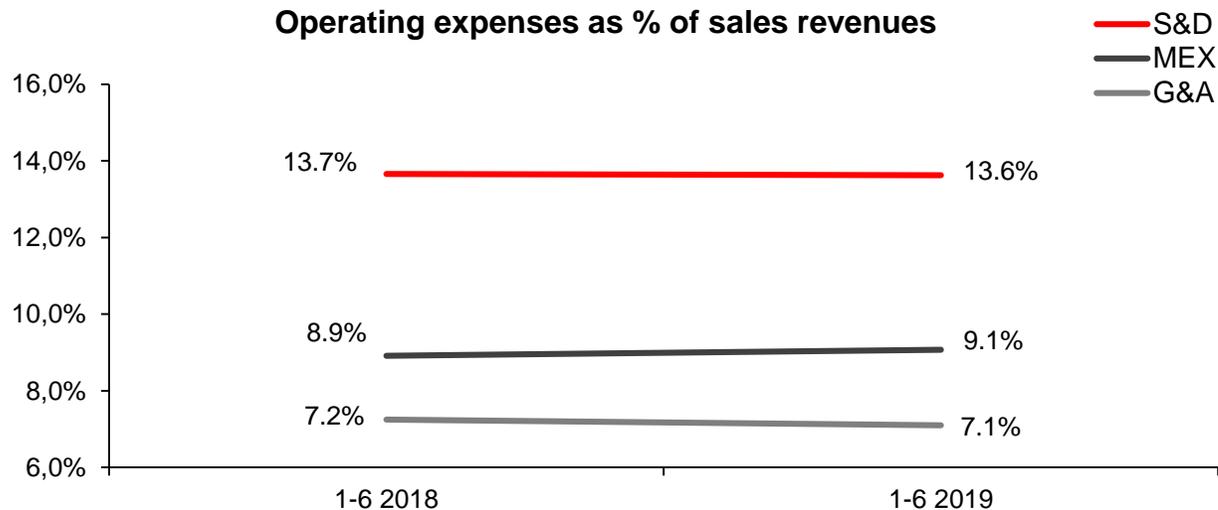


Operating expenses 19 vs. 18 % change	REPORTED
Cost of goods sold (COGS)	4.8%
General and administrative expenses (G&A)	3.0%
Sales and distribution costs (S&D)	4.9%
Marketing expenses (MEX)	7.0%
Other expenses / revenues, net	n/p
Total	3.8%

Key highlights of operating expenses in 1-6 2019:

- Cost of goods sold (COGS):**
 - Higher 4.8%, as a result of higher sales realised, the sales structure itself and higher staff costs in line with the planned improvement in material rights of employees,
- General and administrative expenses (G&A):**
 - Higher 3.0%, primarily as a result of higher staff costs and different dynamics of movements in provisions,
- Sales and distribution costs (S&D):**
 - Higher 4.9%, where the increase is related to the increase in sales, but also to the increase in staff costs in line with the planned improvement of material rights of employees,
- Marketing expenses (MEX):**
 - Higher 7.0% as a result of stronger investments in the promotion of newly launched products and further development of own brands through effective marketing activities,
- Other expenses / revenues, net:**
 - In 1-6 2019, other income and expenses, net amounted to HRK +17m, while in the comparative period they amounted to HRK -5m. This line item also includes foreign exchange differences on trade receivables and trade payables that amounted to HRK +11m in 1-6 2019, while in the comparative period they amounted to HRK -12m.

Operating expenses as % of sales revenues

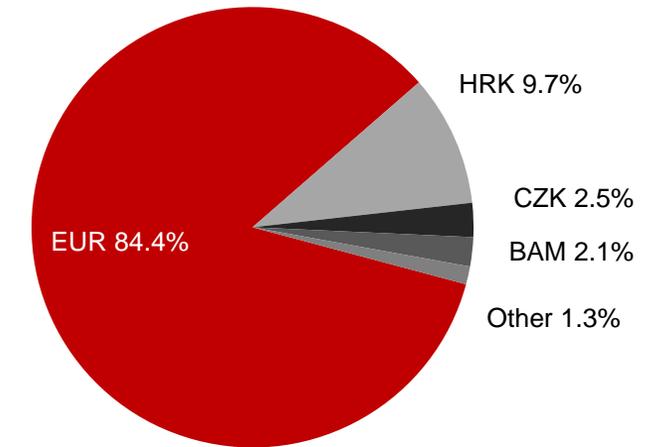


The increase in reported net debt is the result of the adoption of the new IFRS 16



<i>(in HRKm)</i> ¹	2018	1-6 2019	% change
Net debt	755	776	2.7%
Interest expense	18	16	(8.2%)
Net debt / normalized EBITDA	1,6	1.5	(6.8%)
Normalized EBIT / interest expense	15.2	18.7	23.5%
Equity to total assets ratio	62.9%	63.3%	+38 bp

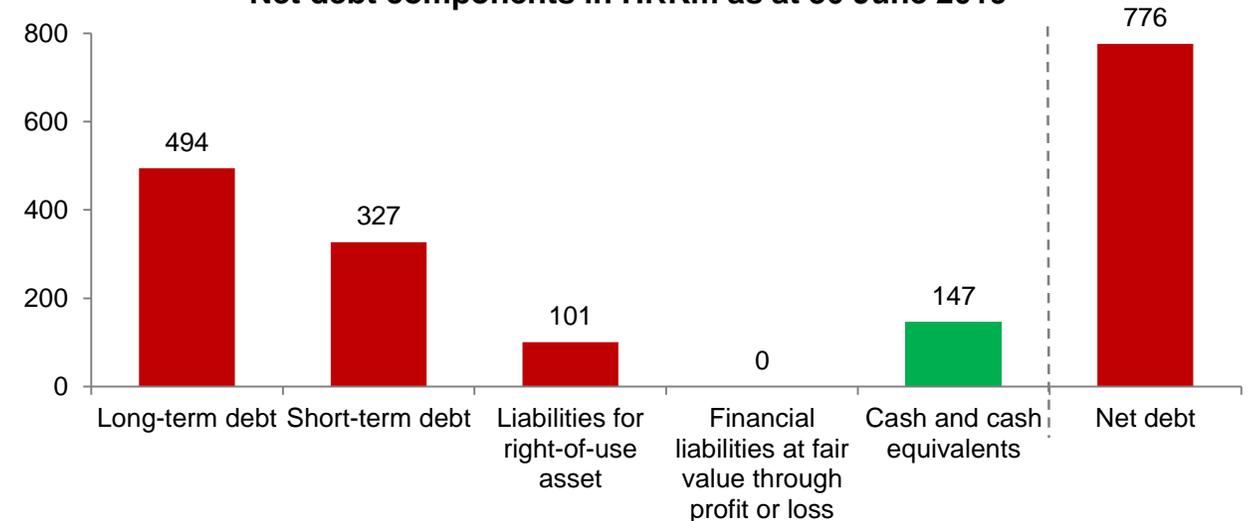
Currency structure of debt as at 30 June 2019



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,
- Decrease in Net debt/normalized EBITDA due to higher normalized EBITDA. Without inclusion of right-of-use assets (leases) in debt according to new accounting standard IFRS 16, the net debt to normalised EBITDA ratio would amount to estimated 1.4,
- **Weighted average cost of debt excluding liabilities for right-of-use assets:**
 - As at 30 June 2019 → 1.5%,
 - As at 31 December 2013 → 4.3%.

Net debt components in HRKm as at 30 June 2019



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

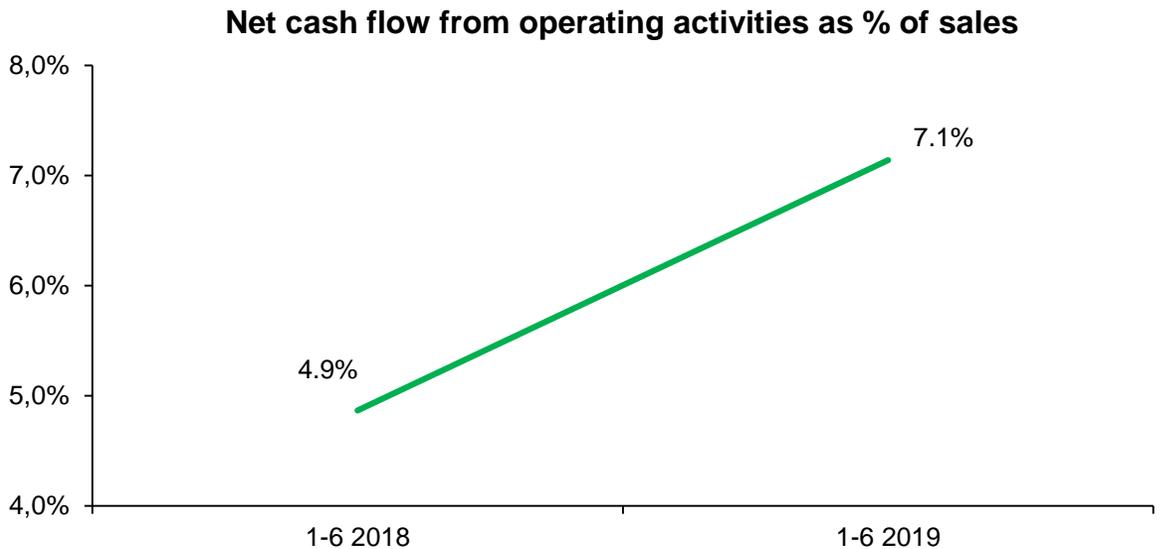
Higher level of net cash from operating activities as a result of operating business growth



Working capital movement in BS	30 June 2019 / 30 June 2018	Impact
Inventories	 12.3%	<ul style="list-style-type: none"> The increase in inventories is a consequence of the strategic increase in inventories of the fish range due to increased demand and production, and the increase in inventories of raw materials and supplies, in line with the planned production dynamics.
Trade and other receivables	 2.8%	<ul style="list-style-type: none"> This movement is in line with normal operations.
Trade and other payables	 8.2%	<ul style="list-style-type: none"> This movement is in line with normal operations, as well as the increase in the dividend payable, approved by the General Assembly.

(in HRKm)	1-6 2018	1-6 2019	Δ
Net cash from operating activities	99	153	54
Net cash from investing activities	(65)	(63)	2
Net cash from financing activities	(185)	(154)	31
Net change of cash and cash equivalents	(151)	(64)	87

- **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.



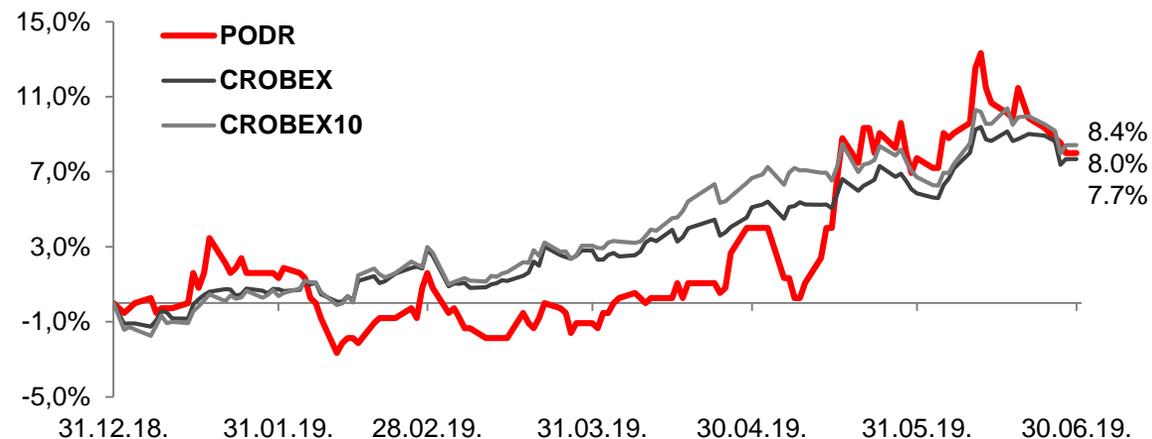
Podravka's share price movement in 1-6 2019



Performance in the Croatian capital market

(HRK; units)	1-6 2018	1-6 2019	% change
Average daily price	282	392	38.9%
Average daily number of transactions	13	10	(22.1%)
Average daily volume	1.493	997	(33.2%)
Average daily turnover	420,770	390,438	(7.2%)
Reported earnings per share	29.5	32.3	9.3%
Normalized earnings per share	31.1	34.1	9.9%

Share price movement



Analyst coverage

Analysts	Recommendation	Target price	Potential ¹
InterCapital	Buy	431 HRK	3.9%
Raiffeisen BANK	Hold	371 HRK	(10.6%)
ERSTE Group	Accumulate	480 HRK	15.7%
UniCredit	Under review	-	-
WOOD COMPANY	Under review	-	-

Peer group

Peer group multiples ²	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 ³	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 ⁴	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.

¹Compared to the last price on 23rd July 2019; ²Obtained from Bloomberg on 2nd May 2019; ³Calculated excluding max. and min. Values; ⁴Normalized for items stated in the publication of 1-6 2019 and 2018 results.

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Podravka Group business results for 1-6 2019 period

