



Podravka Group

Always with a heart!



Food segment organized in 6 key business units, Pharma segment in 2 categories



BU Žito & Lagris

Pasta, rice, nature & bio products, pulses & groats, bakery and mill products, tea, confectionery, cereals for adults, private labels, service production.

2019 sales: **957 HRK**m; % total sales: **21.7%**



BU Culinary

Seasonings, monospices, soups, ready-to-cook meals and bouillons, food mixes, private labels, service production.

2019 sales: **935 HRK**m; % total sales: **21.2%**



BU Baby food, sweets & snacks

Dehydrate baby food, cream spreads, cereals, sweets, snacks, drinks, private labels, service production.

2019 sales: **436 HRK**m; % total sales: **9.9%**



BU Podravka Food

Condiments, tomato-based products, sauces, fruit-based products, vegetables, Podravka flour, private labels, service production.

2019 sales: **401 HRK**m; % total sales: **9.1%**



BU Meat prod., meals & spreads

Canned meat, sausages, pates, luncheon meat, ready meals, private labels, service production.

2019 sales: **284 HRK**m; % total sales: **6.4%**



BU Fish

Canned fish, fish salads, fish pates, private labels, service production.

2019 sales: **208 HRK**m; % total sales: **4.7%**



Prescription drugs

For skin problems, for heart and blood vessels, for central nervous system and for 8 more areas.

2019 sales: **670 HRK**m; % total sales: **15.2%**



Non-prescription programme

OTC medicine, dietary products, natural products.

2019 sales: **113 HRK**m; % total sales: **2.6%**



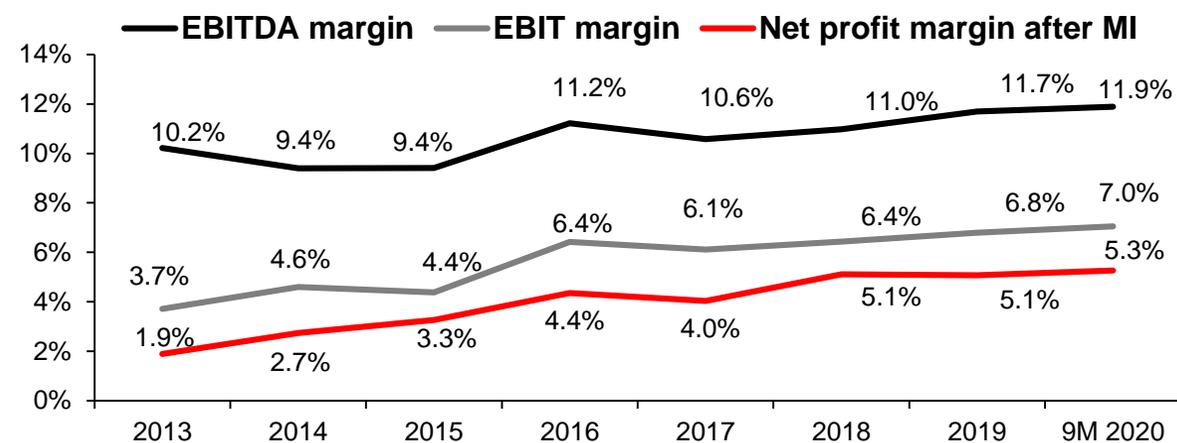
Financial indicators continuously improving

Restructuring related one-off items burdened profitability

(in HRKm)	2012	2013	2014	2015	2016	2017	2018	2019	9M 20
Value adjustments	(32)	(81)	(28)	(35)	(11)	(89)	(9)	(11)	3
Severance payments	(50)	(57)	(72)	(41)	(12)	(40)	(6)	(5)	(2)
Other	(44)	5	10	298 ¹	8	(18)	4	13	1
Total net one-offs	(126)	(133)	(90)	222	(15)	(147)	(10)	(2)	1

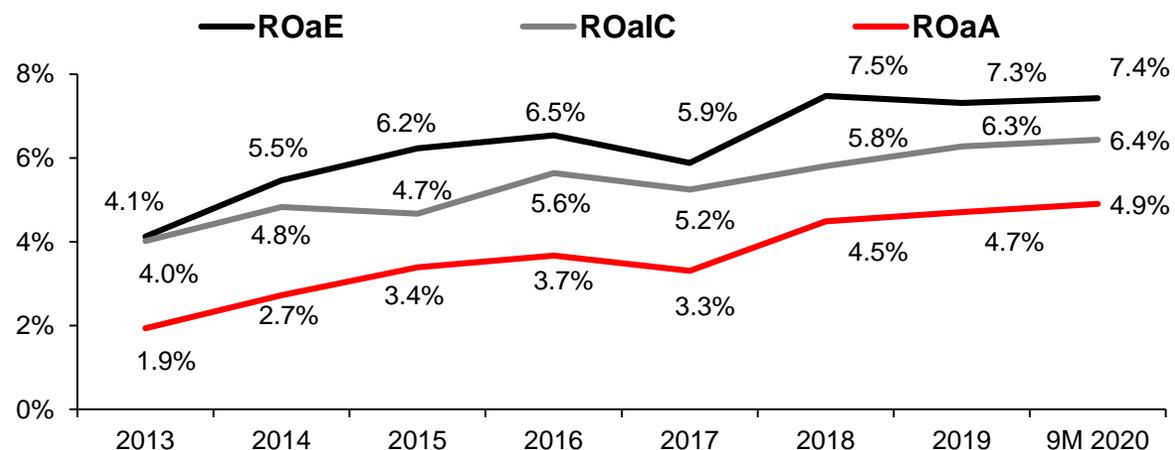
¹HRK 116m of gain on a bargain purchase from Žito acquisition (badwill), HRK 164m of deferred tax income from Croatian government's incentives for the construction of new Belupo pharmaceutical factories, HRK 19m refers to other items.

Normalized profitability margins movement²

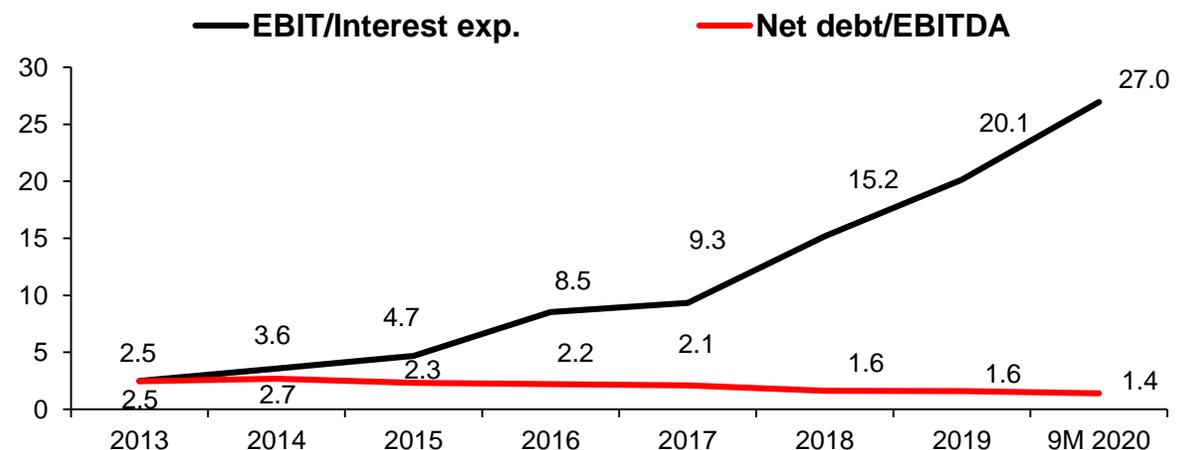


Note: Due to sales revenues reclassification in 2016, 2013-2014 margins are made by approximation.

Normalized return rates movement²



Normalized debt level movement²



²2015 figures include pro-forma Podravka Group and Žito Group full year figures, excluding consolidation effects and tax incentives for Belupo factories; 2019 and 9M 2020 figures include IFRS 16; 9M 2020 calculated as TTM.

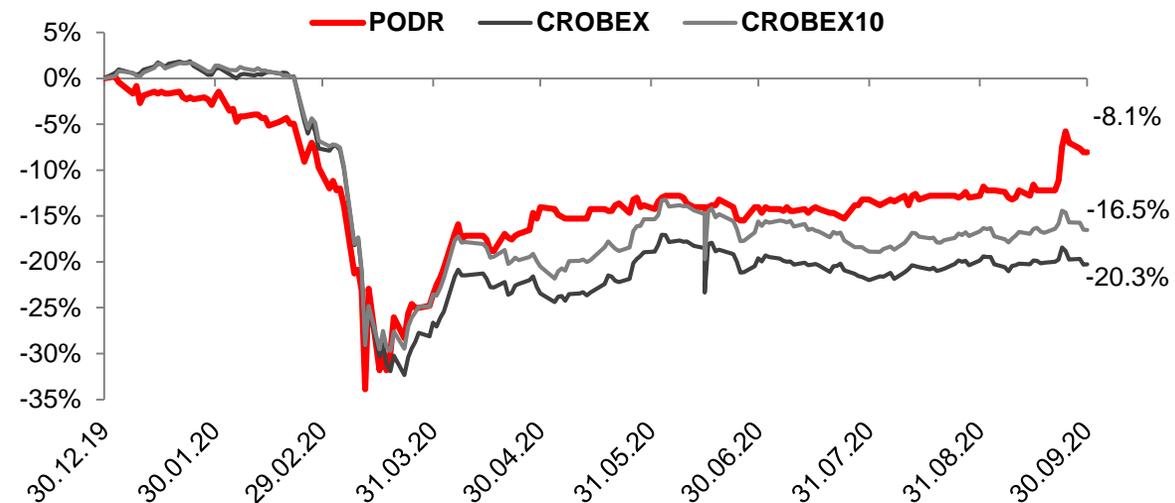
Podravka's share price movement in 1-9 2020



Market activity with PODR share

(HRK; units)	1-9 2019	1-9 2020	% change
Average daily price	412.2	404.1	(2.0%)
Average daily number of transactions	12	16	36.6%
Average daily volume	1,065	1,416	32.9%
Average daily turnover	439,142.5	572,030.7	30.3%
Reported earnings per share	32 ¹	34	7.0%
Normalized earnings per share	32 ¹	34	6.0%

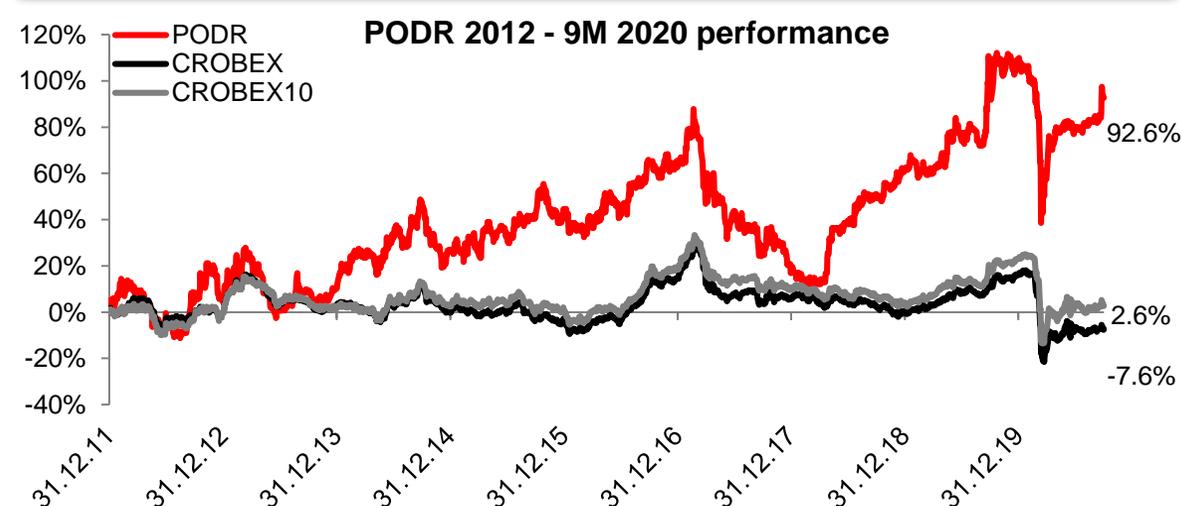
PODR share price movement in 1-9 2020



Analyst coverage

Analysts	Recommendation	Target price	Potential ²
InterCapital	Under review	-	-
Raiffeisen BANK	Hold	HRK 433.00	(2.7%)
ERSTE Group	Accumulate	HRK 480.00	7.9%
WOOD COMPANY	Hold	HRK 443.00	(0.4%)

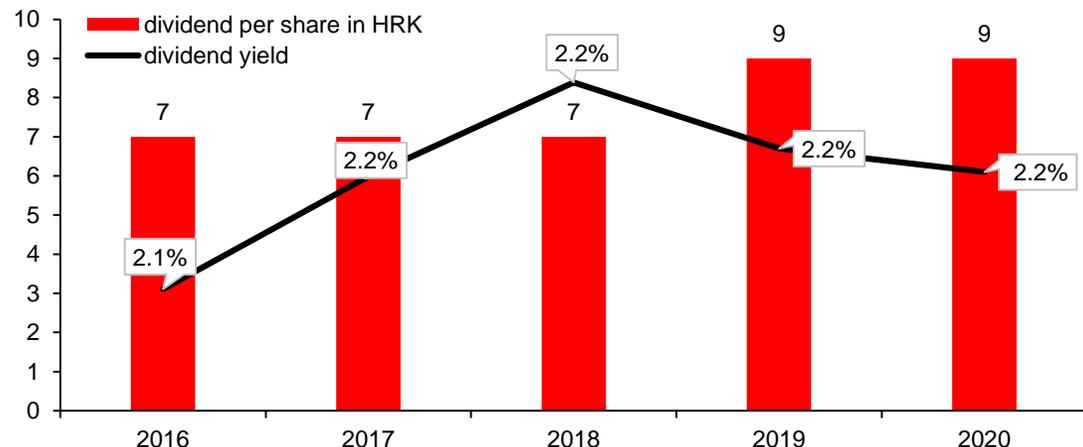
Historical share price movement



¹Calculated on FY 2019 basis, ²Compared to the last trading price (HRK 445.0) on 30th Sep 2020.

Stable dividend yield during the years

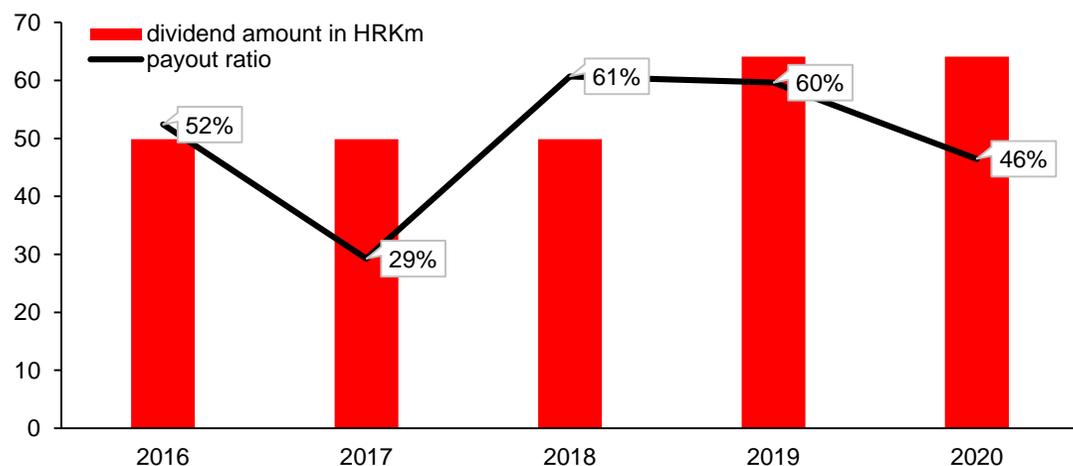
Dividend and dividend yield¹



Dividend policy of Podravka Inc.

- Podravka Inc. started with regular dividend payout in 2016,
- Dividend policy defines, that Podravka Inc. will assess the possibility of dividend payment and, if possible, propose to the General Assembly dividend payment in the amount of at least 25% of the available funds for dividend payment after part of the net profit of Podravka Inc. is allocated to the legal and other reserves of Podravka Inc.,
- Legal reserves are 5% of total net profit of Podravka Inc.,
- The amount of dividend accounted for Podravka Inc. treasury shares is retained in undistributed profit.

Dividend policy of Podravka Inc.



Peer group multiples comparison

Peer group multiples ²	EV/Sales	EV/EBITDA	EV/EBIT	P/B	P/E
Weighted average peer group	2.2	12.0	16.4	2.8	19.1
Normalized weight. av. peer group ³	1.6	11.0	15.8	2.2	18.1
Podravka Group reported	0.9	7.4	12.9	0.9	13.1
Podravka Group normalized ⁴	0.9	7.3	12.4	0.9	13.1

Peer Group Food: Atlantic Grupa, Ebro, Hochdorf, La Doria, McCormick, Orkla;

Peer Group Pharma: Alkaloid, Richter Gedeon, Hikma Pharmaceuticals, Krka, Recordati, Stada Arzneimittel.

¹DY calculation is based on last mkt. price on the GA date, ²Obtained from Bloomberg on 28th Oct 2020; ³Calculated excluding max. and min. values; ⁴Normalized for items stated in the publication 9M 2020 and 2019 results.

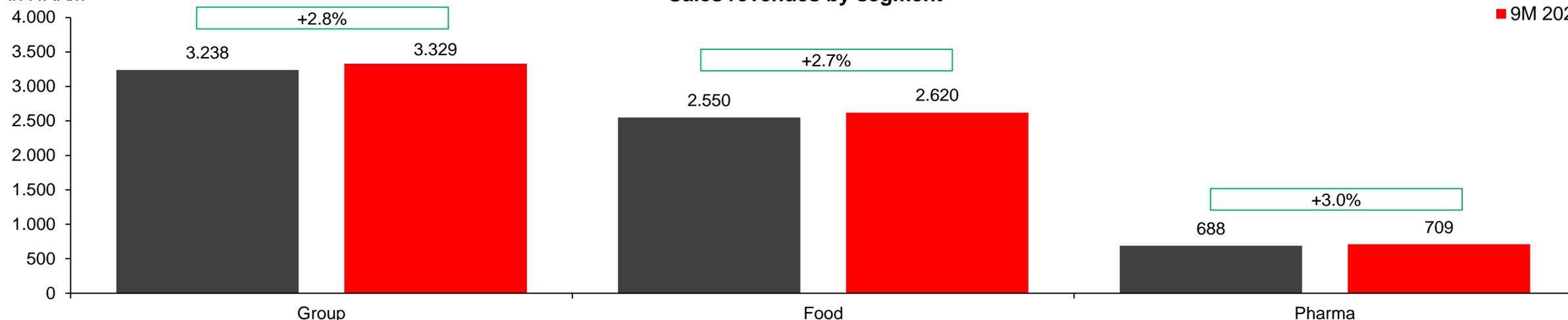


9M 2020 results



Sales revenues growth in reported period

in HRK_m



■ 9M 2019
■ 9M 2020

Podravka Group in 1-9 2020^{1,2}:

- **Own brands** → 3.5% higher sales,
- **Other sales** → 4.3% lower sales,
- **Total Podravka Group** → 2.8% higher sales.

Food segment in 1-9 2020^{1,2}:

- **Own brands** → 4.1% 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 Baby food, sweets and snacks,
- **Other sales** → 15.5% lower revenues, as a lower sales of trade goods in some markets following the closure of gastro channel (schools, kindergartens, restaurants, hotels), in April and May and difficulties in the HoReCa channel business in the third quarter due to a weak tourist season,
- **Total Food** → 2.7% higher sales.

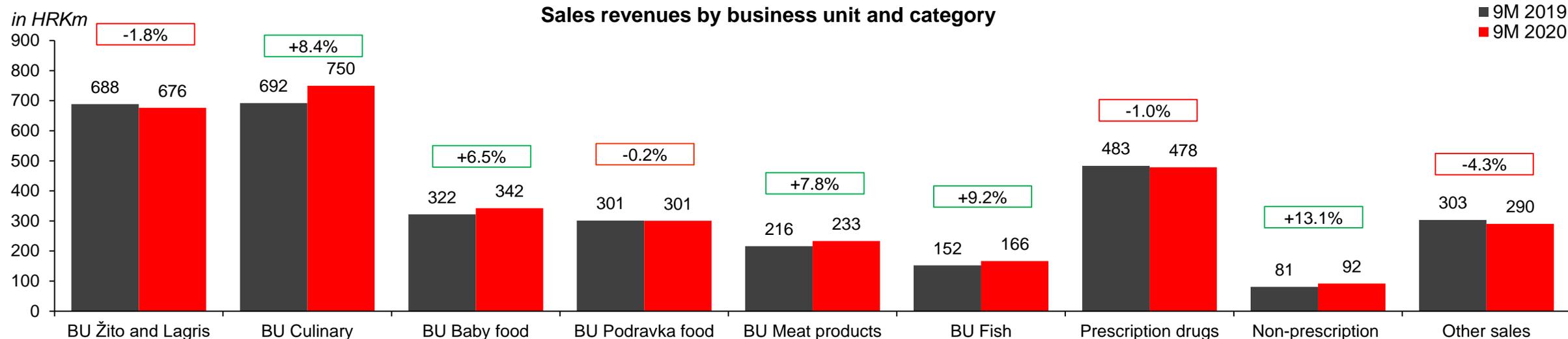
Pharmaceuticals segment in 1-9 2020^{1,2}:

- **Own brands** → 1.1% higher sales, due to the increase in demand for pharmaceutical products, primarily OTC drugs category,
- **Other sales** → 11.8% higher sales, as a result of higher sales of trade goods in the markets of Bosnia and Herzegovina and Croatia,
- **Total Pharma** → 3.0% higher sales.

¹Given the Podravka Group's range of products, the situation caused by COVID-19 disease positively impacted the sales revenues trends in the first quarter, but this impact cannot be clearly distinguished from the impact of regular demand for products. A negative impact on sales revenues arises in the second and the third quarters. This is primarily related to restrictive measures in April and May aimed at preventing the spread of COVID-19 disease (closing of the 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 was a positive moment, but the measures introduced affected the absence of shoulder season in Croatia. Furthermore, the tourist season was weaker in the reporting than in the comparative period and it ended earlier than usual due to the worsening epidemiological situation in Croatia in mid-August, which also impacted the shoulder season. All this affected the sales revenues trends, but the effect of the restrictive measures and the weak tourist season on sales revenues cannot be clearly assessed or quantified.

²Percentages in the text relate to performance in 1-9 2020 compared to 1-9 2019.

Sales growth across most of business units

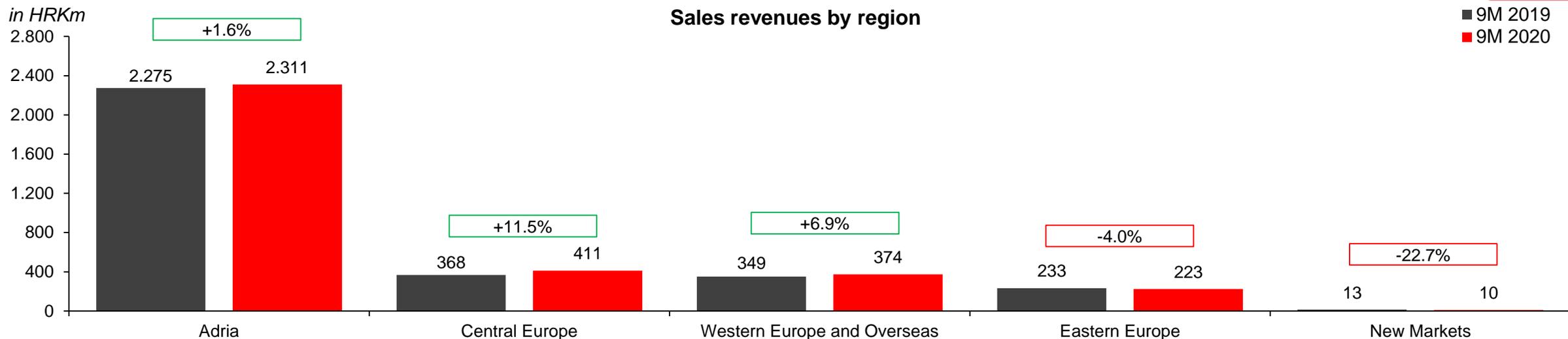


Business unit and category performance in 1-9 2020¹:

- **BU Žito and Lagris (-1.8%)** → growth in sales of most categories was unable to compensate for the decrease in sales of fresh bakery products category and private labels (Slovenia, Italy and Germany). Significant revenue growth was recorded in Central Europe region,
- **BU Culinary (+8.4%)** → growth in all regions and categories, largest share of the growth due to the increased demand and sales in categories Seasonings and Soups,
- **BU Baby food, sweets and snacks (+6.5%)** → 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 (-0.2%)** → significant growth of the Tomato category largely cancelled out the decrease in the Vegetables, Fruit and Flour categories. The revenue growth was recorded in the Central Europe region and the WE and the Overseas region,
- **BU Meat products, meals and spreads (+7.8%)** → increase in sales of categories Canned ready-to-eat meals, Pates and Luncheon meats. Most significant revenue growth was recorded in Adria and WE and Overseas regions,
- **BU Fish (+9.2%)** → higher sales due to higher demand and sales of Fish Salads, Tuna and Sardine categories. Sales growth was recorded in all regions where we are present with this product range,
- **Prescription drugs (-1.0%)** → lower sales, primarily due to the reclassification of certain fees for various promotional and marketing activities (in 1-9 2019 they were recorded within marketing expenses, in 1-9 2020 they are recorded as a decrease in sales). If we correct the comparative period for the reclassification amount (HRK 10m), the sales of prescription drugs in the reporting period would grow by HRK 5.0m (+1.0%),
- **Non-prescription programme (+13.1%)** → due to 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, and in Russia,
- **Other sales (-4.3%)** → Pharmaceuticals other sales increased by HRK 15m due to sales of trade goods of the Farmavita; Food segment lower sales by HRK 28m due to closure of gastro channel in Croatia following the emergence of COVID-19 disease and lower sales of trade goods in the markets of Czech Republic and Slovenia.

¹Percentages in the text relate to performance in 1-9 2020 compared to 1-9 2019.

Significant growth recorded in Central Europe region



Region performance in 1-9 2020¹:

- **Adria (+1.6%)** → **Food** sales 0.1% higher where revenue growth is recorded in almost all business units which cancelled out the decrease in sales of trade goods; **Pharmaceuticals** sales 7.1% higher primarily as a result of the increase in sales of OTC drugs and trade goods,
- **Central Europe (+11.5%)** → **Food** sales surged 13.3%, due to sales increase of all business units; **Pharmaceuticals** sales down by 0.5% primarily due to the decrease in sales in the market of Poland,
- **WE and Overseas region (+6.9%)** → **Food** sales 6.6% higher, due to the increase in sales of the most, where growth in BU Culinary successfully compensated for the lower sales of BU Žito and Lagris in fresh bakery products category; **Pharmaceuticals** segment recorded HRK 1m higher revenues (+175.7%) due to increase in sales of prescription drugs,
- **Eastern Europe (-4.0%)** → **Food** sales up by 7.1%, due to the growth of almost all BU, with the biggest absolute growth by BU Culinary; **Pharmaceuticals** sales down by 9.5% as a result of reclassification of fees for various promotional and marketing activities² and different dynamics of delivery of goods in the comparative period in the Russian market (shift of a portion of selling activities from November and December 2019 to an earlier period),
- **New markets (-22.7%)** → **Food** sales down by HRK 4m (-27.7%) primarily due to lower sales of trade goods; **Pharmaceuticals** recorded HRK 1m revenue growth (+72.1%) due to increase in prescription drugs sales (dermatological drugs).

¹Percentages in the text relate to performance in 1-9 2020 compared to 1-9 2019.

²At the end of 2019, based on *IFRS 15 Revenue from Contracts with Customers*, the Pharmaceuticals segment reclassified certain fees for various promotional and marketing activities that had been recorded within marketing expenses to decrease in sales. If the reclassification were applied to the 1-9 2019 period, sales of the Pharmaceuticals would be HRK 10m lower in this period, primarily of the prescription drugs category in the Eastern Europe region.

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



Food segment (in HRK _m)	REPORTED				NORMALIZED ¹			
	1-9 2019	1-9 2020	Δ	%	1-9 2019	1-9 2020	Δ	%
Sales revenue	2,550	2,620	69	2.7%	2,550	2,620	69	2.7%
Gross profit	865	890	26	2.9%	866	890	24	2.8%
EBITDA	282	323	41	14.7%	284	325	41	14.5%
EBIT	168	207	40	23.6%	170	209	39	23.2%
Net profit after MI	133	166	33	24.9%	135	168	33	24.3%
Gross margin	33.9%	34.0%		+8 bp	33.9%	34.0%		+3 bp
EBITDA margin	11.0%	12.3%		+128 bp	11.1%	12.4%		+128 bp
EBIT margin	6.6%	7.9%		+133 bp	6.7%	8.0%		+133 bp
Net profit margin after MI	5.2%	6.4%		+113 bp	5.3%	6.4%		+112 bp

Food segment profitability in 1-9 2020:

- **Gross profit** → reported gross profit higher 2.9% with the gross margin of 34.0%, while normalized gross profit grew 2.8%. The effect of unfavorable trends in prices of raw materials and supplies continued in the third quarter and the amount of the effect in the 1-9 2020 period is estimated at negative HRK 30m, primarily in relation to dried vegetables and meat²,
- **EBIT** → reported is 23.6% higher, while normalized grew by 23.2%. Negative impact on operating profit came from movements in FX differences on trade receivables and trade payables (HRK -10m in 1-9 2020; HRK +3m in 1-9 2019) and the increase in staff costs of HRK 6m (+1.0%), while a positive impact comes from lower marketing expenses and lower selling and distribution costs. 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 award to employees paid in July,
- **Net profit after MI** → reported and normalized net profit after MI is HRK 33m higher than in comparative period. Bottom line was negatively impacted by FX differences on borrowings (HRK -2m in 1-9 2020; HRK +2m in 1-9 2019), partly mitigated by lower finance costs. Tax liability is higher by HRK 4m.

¹Normalized for one-off impacts.

²Obtained as used volumes of raw materials and supplies in 1-9 2020*prices in 1-9 2020 – used volumes of raw materials and supplies in 1-9 2020*prices in 1-9 2019.

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

Pharma segment (in HRK _m)	REPORTED				NORMALIZED ¹			
	1-9 2019	1-9 2020	Δ	%	1-9 2019	1-9 2020	Δ	%
Sales revenue	688	709	21	3.0%	688	709	21	3.0%
Gross profit	342	342	1	0.3%	342	340	(2)	(0.6%)
EBITDA	132	113	(19)	(14.4%)	132	110	(22)	(16.6%)
EBIT	85	66	(19)	(22.4%)	85	63	(22)	(25.7%)
Net profit after MI	61	44	(17)	(28.4%)	61	42	(19)	(31.6%)
Gross margin	49.6%	48.3%		-132 bp	49.6%	47.9%		-172 bp
EBITDA margin	19.1%	15.9%		-324 bp	19.1%	15.5%		-364 bp
EBIT margin	12.3%	9.3%		-303 bp	12.3%	8.9%		-343 bp
Net profit margin after MI	8.9%	6.2%		-271 bp	8.9%	5.9%		-298 bp

Pharmaceuticals segment profitability in 1-9 2020²:

- **Gross profit** → higher 0.3% while normalized gross profit is 0.6% lower. 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 19m lower, while normalized is down by HRK 22m as a result of very unfavorable movements in FX differences on trade receivables and trade payables (HRK -36m in 1-9 2020; HRK +10m in 1-9 2019), mitigated by lower marketing expenses and lower general and administrative expenses,
- **Net profit after MI** → is HRK 17m lower, while normalized net profit after MI is HRK 19m lower. Bottom line was affected by unfavorable movements in FX differences on borrowings (HRK -2m in 1-9 2020; HRK +0m in 1-9 2019), which was mitigated by lower finance costs. Tax liability is lower by HRK 4m.

¹Normalized for one-off impacts.

²In August 2020, the Pharmaceuticals segment analysed the used estimate of impairment of inventories of raw materials, supplies and packaging and accordingly amended the impairment policy. The analysis showed that raw materials and packaging have increasingly long lives and that, consequently, a significant part of previously impaired raw materials and packaging is still used in production. The updated estimate of impairment will approximate the actual write-offs of raw materials and packaging. The changed assessment, i.e. policy, resulted in lower cost of goods sold in the amount of HRK 5m (pre-tax) in the 1-9 2020 period. If the amended policy were applied from the beginning of 2019, the cost of goods sold would be HRK 2m (pre-tax) lower in the comparative period 1-9 2019.

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

Podravka Group (in HRK _m)	REPORTED				NORMALIZED ¹			
	1-9 2019	1-9 2020	Δ	%	1-9 2019	1-9 2020	Δ	%
Sales revenue	3,239	3,329	90	2.8%	3,239	3,329	90	2.8%
Gross profit	1,206	1,233	26	2.2%	1,207	1,230	22	1.9%
EBITDA	413	436	22	5.4%	415	435	19	4.7%
EBIT	252	273	21	8.1%	254	272	18	6.9%
Net profit after MI	194	210	16	8.1%	196	210	14	6.9%
Gross margin	37.2%	37.0%		-21 bp	37.3%	36.9%		-34 bp
EBITDA margin	12.8%	13.1%		+33 bp	12.8%	13.1%		+24 bp
EBIT margin	7.8%	8.2%		+41 bp	7.9%	8.2%		+32 bp
Net profit margin after MI	6.0%	6.3%		+31 bp	6.1%	6.3%		+25 bp

Profitability of the Podravka Group in 1-9 2020:

- **Gross profit** → reported is higher 2.2%, while normalized is up by 1.9%. Cost of goods sold increased by 3.1%, which eventually resulted in the gross margin of 37.0% in the reported period,
- **EBIT** → reported is HRK 21m higher, while normalized grew by HRK 18m, primarily as a result of increase in sales in both business segments and savings realized (marketing expenses). Negative impact came from very unfavorable movements in FX differences on trade receivables and trade payables (HRK -46m in 1-9 2020; HRK +13m in 1-9 2019),
- **Net profit after MI** → is HRK 16m higher, while normalized is HRK 14m higher. Net profit after MI was impacted by unfavorable movements in FX differences on borrowings (HRK -4m in 1-9 2020; HRK +3m in 1-9 2019) and lower finance costs. Tax liability is HRK 1m lower.

¹Normalized for one-off impacts.

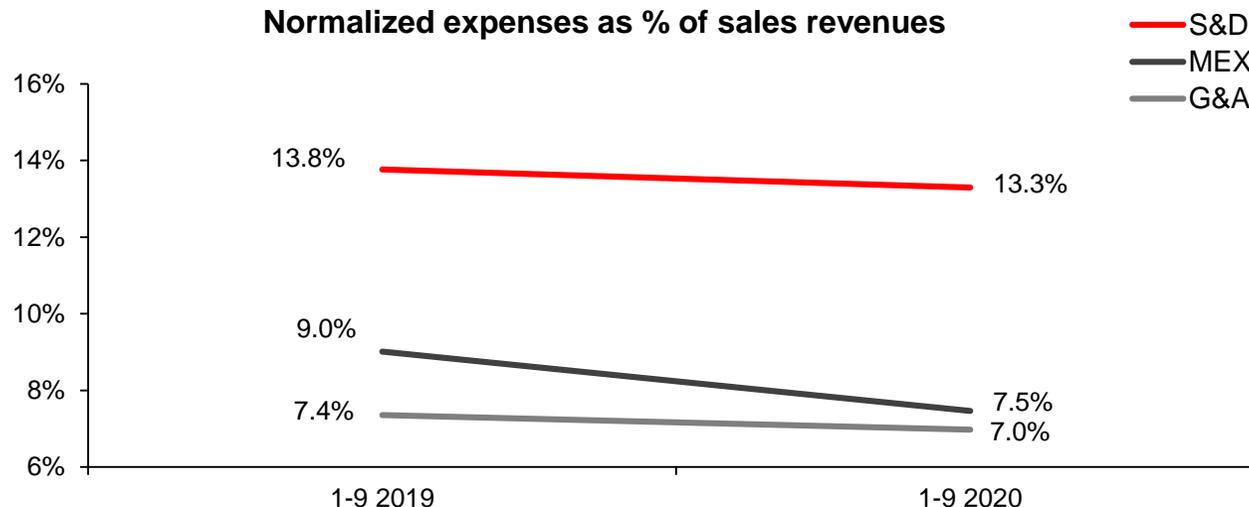
Operating expenses decline in reported period

Operating expenses 9M20 vs.9M19 % change	REPORTED	NORMALIZED ¹
Cost of goods sold (COGS)	3.1%	3.3%
General and administrative expenses (G&A)	(1.9%)	(2.6%)
Sales and distribution costs (S&D)	(0.9%)	(0.7%)
Marketing expenses (MEX)	(14.9%)	(14.9%)
Other expenses / revenues, net	252.7%	252.7%
Total	2.3%	2.4%

Key highlights of operating expenses in 1-9 2020:

- Cost of goods sold (COGS):**
 - Higher 3.1%, normalized up by 3.3%, 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 30m). COGS was influenced by the change of impairment of inventories of raw materials, supplies and packaging policy in Pharma segment (slide 6 foot note),
- General and administrative expenses (G&A):**
 - Down by 1.9%, normalized down by 2.6%, as a result of different dynamics of movements in provisions for some expenses and lower costs of services,
- Sales and distribution costs (S&D):**
 - Lower 0.9%, normalized down by 0.7%, due to lower other selling costs (lower costs of daily allowances) and the absence of costs in Africa market, lower transportation and other distribution costs,
- Marketing expenses (MEX):**
 - Lower 14.9%, (Food -11.0%, Pharma -19.3%). At the end of 2019, some promotional and marketing activities have been reclassified in the Pharma segment. If Pharma MEX in 1-9 2019 were reclassified, they would be HRK 10m lower for the period, thus MEX on Podravka Group level would be HRK 34m lower in 1-9 2020 compared to 1-9 2019.
- Other expenses / revenues, net:**
 - HRK -35m in 1-9 2020; HRK +23m in 1-9 2019 due to movements in FX differences on trade receivables and trade payables (HRK -46m in 1-9 2020; HRK +13m in 1-9 2019).

Normalized expenses as % of sales revenues

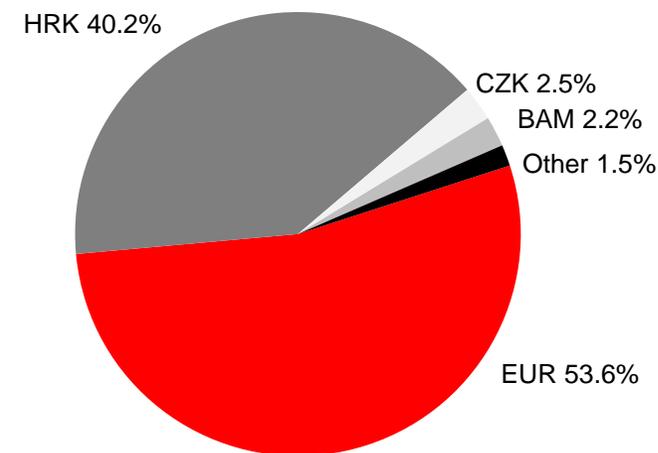


¹Normalized for one-off impacts.

Net debt decrease with improvement of debt indicators

(u HRK ¹)	2019	1-9 2020	% change
Financial debt ²	878	889	1.2%
Cash and cash equivalents	56	131	136.0%
Net debt	822	757	(7.9%)
TTM interest expense	15	12	(20.9%)
Net debt / TTM EBITDA	1.6	1.4	(11.2%)
EBITDA / Interest expense	20	27	33.9%
Equity to total assets ratio	65,9%	66,2%	+32 bp

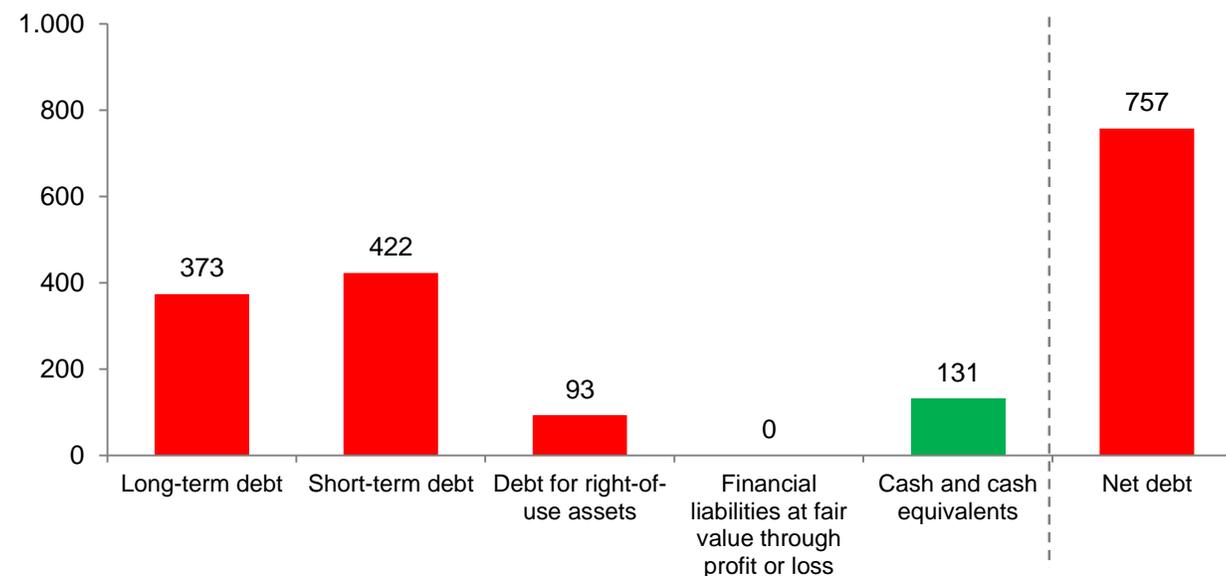
Currency structure of debt as at 30 September 2020



Key highlights:

- **Financial debt** increase → due to short-term debt increase,
- **Long-term debt** decrease → due to regular repayments and refinancing aiming to achieve an optimum currency structure,
- **Short-term debt** increase → due to maturity of a part of long-term debt and use of short-term loans to ensure enough liquidity to ease supply and production process in situation caused by COVID-19 disease,
- 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 30 September 2020 → 1.0%,
 - As at 31 December 2013 → 4.3%.

Net debt components in HRK¹ as at 30 September 2020



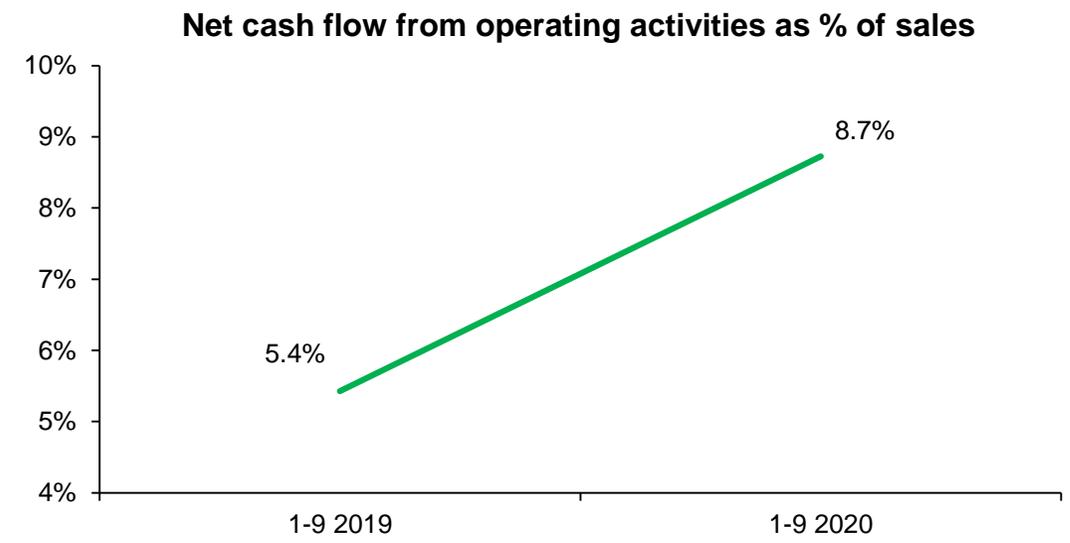
¹All P&L figures are calculated on the trailing 12 months level, while BS figures are taken at the end of period, ²long-term and short-term borrowings + liabilities for right-of-use assets + financial liabilities at fair value through P&L.

Significantly higher level of cash flow from operating activities

Working capital movement in BS	30 Sep 2020 / 30 Sep 2019		Impact
Inventories		9.8%	<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		(1.3%)	<ul style="list-style-type: none"> Due to reclassification of receivables from the Fortenova group (former Agrokor concern) from trade and other receivables to non-current financial asset (at 30 Sep 2019 this item was recorded in trade and other receivables, at 30 Sep 2020 it is recorded in non-current financial assets). If the item remained in trade and other receivables, the receivables would, compared to 30 Sep 2019, be HRK 24m (+2.5%) higher, which is in line with regular operations,
Trade and other payables		3.0%	<ul style="list-style-type: none"> This movement is in line with regular operations.

(in HRK _m)	1-9 2019	1-9 2020	Δ
Net cash from operating activities	176	291	115
Net cash from investing activities	(97)	(135)	(38)
Net cash from financing activities	(160)	(80)	80
Net change of cash and cash equivalents	(82)	76	157

• **CAPEX** in 2020 is expected to be at the level of HRK 200m¹, in 2021-2023 period at the level of HRK 200m.



¹The CAPEX amount approved for 2020 was HRK 298m, however, due to the situation caused by COVID-19 disease, it is unrealistic to expect that the approved amount will be fully used.

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Podravka Group

Always with a heart!

