

Krka (KRKG SV)

ALTA

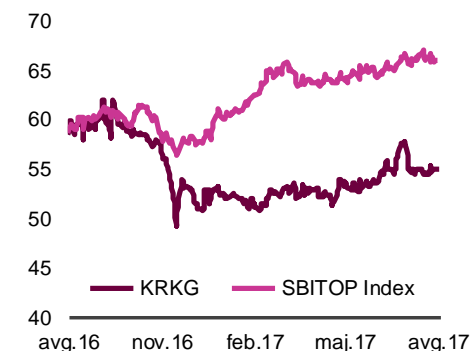
NEW
INVESTMENT
CULTURE
12M Target price: 64 EUR Recommendation: BUY

Previous target price: 58 EUR, HOLD (12.5.2017)

KEY MARKET DATA:

Stock data as of 17.08.2017 :		Price performance:		3M	12M
Market price (EUR)	54.9	Price change in %	2.1%	-7.0%	
52 week range (EUR)	49.2 - 62.0	SBI 20 index change in %	3.1%	11.5%	
Market Cap (EUR)	1,798.7	Relative to SBI 20 index in %	-0.9%	-16.6%	
		Valuation multiples:		TTM	Forward
Avg. daily trade vol., EUR(k)	358	EV/Sales	1.4	1.3	
Average daily % of stock traded	0.020%	EV/EBITDA	6.5	5.7	
No. of Shares in millions	32.8	EV/EBIT	11.1	9.5	
		P/E	13.6	12.0	
Dividend yield	5.0%	P/B	1.2	1.2	

SHARE PRICE DYNAMIC:

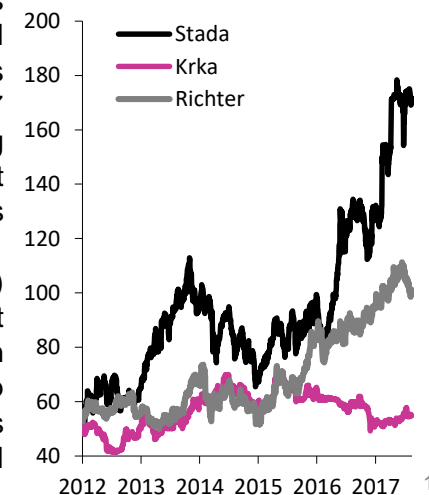


KEY COMPANY DATA & ESTIMATES:

million €	FY2015	FY2016	TTM	2017F	2018F
Sales	1,164.6	1,174.4	1,225.7	1,259.0	1,291.2
EBITDA	306.7	228.2	258.4	297.6	301.3
Margin	26.3%	19.4%	21.1%	23.6%	23.3%
EBIT	199.4	122.4	152.2	178.2	183.0
Net income	158.2	108.4	130.0	147.7	152.8
EPS	4.9	3.3	4.0	4.6	4.8
DPS	2.65	2.75		3.0	3.1
Financial debt	0.0	0.0	14.8	0.0	0.0
Cash	35.8	38.6	53.0	37.8	38.7
Net debt	-92.6	-48.6	-82.7	-138.0	-180.9
Equity	1,404.7	1,443.4	1,524.5	1,523.3	1,546.2
Assets	1,809.2	1,911.5	1,964.9	2,005.3	2,069.1
ND/EBITDA	-0.3	-0.2	-0.3	-0.5	-0.6
P/E	13.4	15.8	13.6	11.9	11.5
EV/EBITDA	6.7	7.4	6.5	5.7	5.6

KEY CURRENT DEVELOPMENT:

- Stronger sales, improved margins and lowered capex guidance positively affected Krka's valuations. Although tax guidance increased, overall effects led us to an increase of target price (from EUR 58.0 to EUR 63.6) and recommendation.**
- Additionally, several new product launches are planned for 2H17, which is crucial regarding positive West Europe sales dynamic. Consequently its implied 2H17 will balance out the drop in sales during 1H17. This is encouraging, especially if at the same time East Europe sales momentum continues.
- Small investment in China (R&D company) was revealed in the beginning of July. First intended as market penetration, then manufacturing agreements and follow up investments are expected adding sales and production capacity. Meaningful contribution only after 2020.



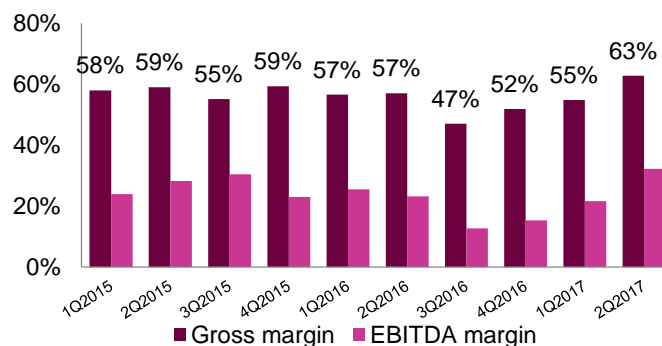
1H17 Results

ALTA

NEW
INVESTMENT
CULTURE

- Sales in Russia influenced by strong growth of ruble versus euro. Namely average ruble appreciation was 20% in the mentioned period.
- Sales in Western Europe decreased by 4.8% in the first half, however, second quarter sales was higher than in the same period 2016 (+1.6%). High competition is still affecting sales in Germany and Spain (expiry of public tenders) where revenues decreased by 12% and 19%, respectively. On the other hand sales improved on the second largest market in the region, France, where sales grew by 11% YoY.
- Pricing pressures in the second quarter were less severe. That together with more profitable product mix contributed to improved margins.
- Additionally, positive effects to profitability came also from stockpiling and change in the value of inventories of products and work in progress (EUR 30.3m versus EUR 3.4m in 1H16; deducted from period expenses). According to the statements Krka is now well prepared for new product launches expected for the second half 2017.
- Effective tax rate was higher due to higher EBT and relatively unchanged level of tax allowances (capex etc.).

Market	1H16	1H17	YoY
Slovenia	41.2	43.0	4.4%
South-East Europe	76.8	79.8	3.9%
East Europe without Russia	52.4	57.6	9.8%
Russia	123.1	156.4	27.1%
Central Europe	141.4	154.4	9.2%
Czech Republic	12.4	22.0	77.4%
Western Europe	150.4	143.2	-4.8%
Overseas	18.5	20.7	11.9%
Total	603.8	655.0	8.5%



Income statement (EURm)	1H16	1H17	YoY
Sales revenues	603.8	655.0	8.5%
Total expenses	566.2	589.3	4.1%
EBITDA	147.1	177.3	20.5%
EBITDA margin	24.4%	27.1%	
EBIT	94.3	124.1	31.6%
EBIT margin	15.6%	18.9%	
Net income	70.0	91.7	30.9%
Balance Sheet (EURm)	Dec16	Mar17	Chg.
Inventories	280.7	300.8	7.2%
Trade and other receivables	544.2	529.6	-2.7%
Cash and Short-term fin. Inv.	48.6	59.2	21.9%

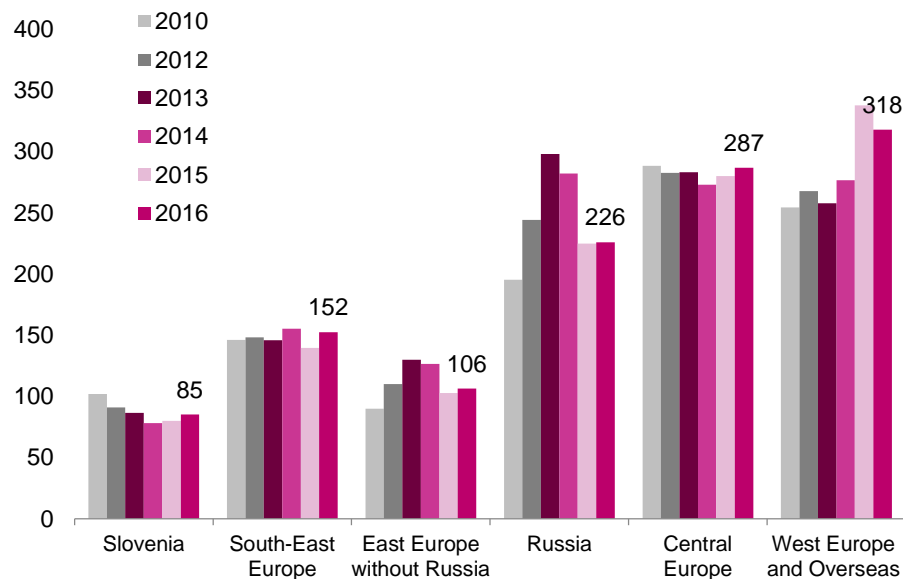
- 3% sales growth in Romania is due to cautious purchasing approaches of the distributors picked up in the second quarter (18% 2q16 to 2q17 vs. -12% 1q16 to 1q17).
- Strong growth continued also in Croatia (+13% to EUR 15.7m).
- Czech growth was the result of changes to the country's health care system and changes of leadership in subsidiary.
- Human health products sales are up 9.6% YoY in 1H17 with domestic health results services up 7.2% YoY to EUR 16.5m. On the other hand animal health products sales stood at EUR 35.0m, down 6.3%.
- In the first half-year of 2017 Krka entered a new therapeutic area: the treatment of HIV infections with the combination of emtricitabine and tenofovir disoproxil. It was launched in Slovenia and Latvia.
- While first quarter cashflow was relatively weak due to prepayments for equipment and also prepayments to suppliers, however first half net cash position already improved.
- Net operating CF for 1H17: EUR 117.8m.
- Note that high level of cash at the end of the June was prior to the payment of dividends – EUR 88m in July.
- In 1H17 Krka received first marketing authorizations (MAs) for 9 new products (5 prescription, 2 non-prescription and 2 animal) in 17 dosage forms / strengths.

Sales distribution and dynamic

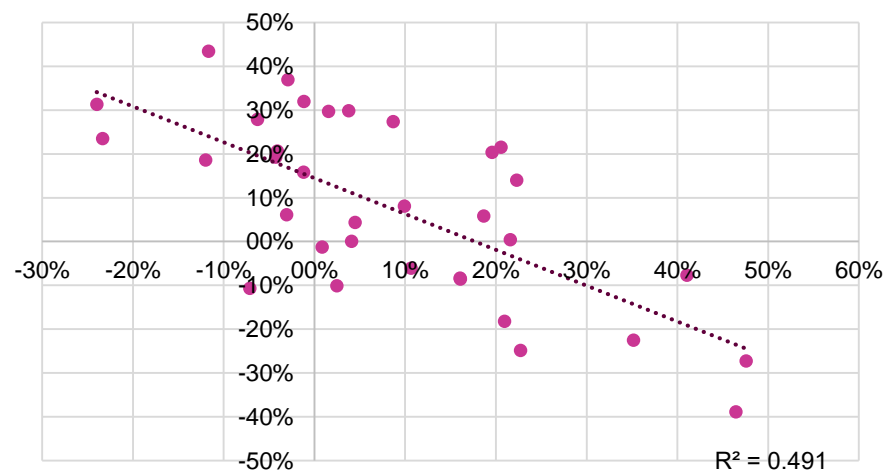
EURm	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Slovenia	21.1	21.9	22.1	21.5	19.3	19.1	19.6	20.0	19.2	19.5	20.2	20.9	20.2	21.0	22.7	21.2	21.1	21.9
South-East Europe	34.2	33.8	30.6	47.2	34.2	41.2	31.7	48.3	30.6	29.9	34.9	44.2	37.7	39.1	34.7	40.9	38.7	41.1
Romania	11.9	9.3	11.7	17.7	12.5	15.3	12.4	21.0	9.6	6.2	12.7	18.0	13.5	13.0	12.5	15.4	11.9	15.3
Other SEE	22.3	24.5	18.9	29.5	21.7	25.9	19.3	27.3	14.5	17.4	35.0	72.7	24.2	26.1	22.2	25.5	26.8	25.8
East Europe ex Russia	30.2	31.7	25.8	42.1	31.6	32.4	24.1	38.5	20.0	32.0	21.6	29.2	23.9	28.5	23.3	30.7	28.0	29.6
Ukraine	13.6	16.3	11.7	27.5	13.2	12.8	10.3	17.4	2.8	9.6	9.9	11.6	7.9	10.5	9.0	12.1	8.8	10.7
Other EE	16.6	15.4	14.1	14.6	18.4	19.6	13.8	21.1	17.2	22.4	11.7	17.6	16.0	18.0	14.3	18.6	19.2	18.9
Russia	70.3	78.8	60.5	88.4	84.6	72.2	56.8	68.5	61.5	72.5	34.7	56.0	56.2	66.9	31.2	71.6	73.8	82.6
Central Europe	63.5	71.5	68.7	79.2	62.1	68.1	66.2	76.6	68.4	68.8	69.8	72.9	73.0	68.4	67.6	77.6	76.9	77.5
Poland	30.5	30.6	29.5	30.9	31.5	31.8	29.5	33.1	34.1	35.5	33.6	32.8	36.1	36.1	32.7	35.1	35.4	37.7
Czech Republic	12.0	13.1	18.6	19.3	3.2	14.8	14.6	15.8	5.0	6.9	10.1	13.9	4.3	8.1	11.2	14.2	10.7	11.3
Madžarska	5.7	14.6	7.9	14.5	11.0	8.9	8.0	12.4	11.1	11.2	13.2	9.7	13.6	8.7	8.3	13.4	12.0	11.0
Other CE	15.3	13.2	12.7	14.5	16.4	12.6	14.1	15.3	18.2	15.2	12.9	16.5	19.0	15.5	15.4	14.9	18.8	17.5
WE	65.0	61.7	44.5	55.2	59.8	62.5	54.9	73.9	82.1	80.6	74.6	68.8	80.0	70.4	60.6	71.4	71.7	71.6
Overseas	10.1	2.9	8.9	9.4	6.5	5.8	5.4	7.8	7.5	7.3	7.6	9.3	9.9	8.6	8.5	8.6	10.9	9.8

Source: Krka Interim and Annual report / our estimates for missing data.

Sales segmentation



Regression between YoY RUB / EUR move and YoY Krka Russian Sales growth

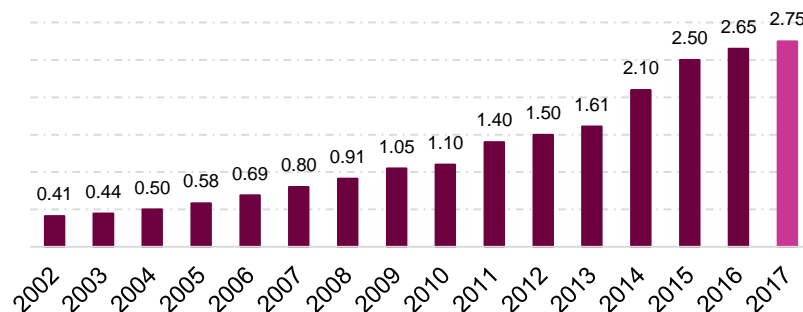


Investment Thesis

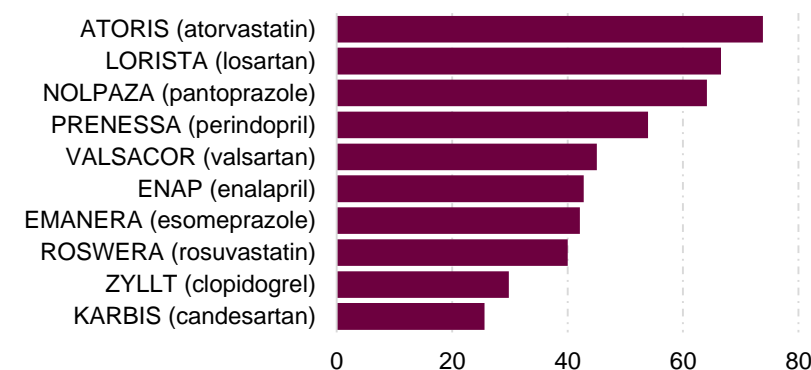
POSITIVE:

- Traditionally Krka was more focused on South East and East European markets, however Krka Group has in the last few years strengthened its sales in West European markets as well, and consequently **diversified its sales**. Its true, however, that pricing pressures and sales volatility on these markets are higher.
- Balance sheet remains strong as Krka has **a net cash position with no financial debt**. In addition the Group is still **generating strong annual cash** flow with EBITDA ex CAPEX at EUR 96m in 2016 and EUR 125m in 1H17. That supports both (hefty) dividend policy and share buyback program (up to 10% of issuance).
- FX volatility **exposure to Russia (~20% of sales) was a headwind, but it can quickly shift to tailwind**. Positive effects were evident already in the first half 2017.
- The company is **R&D oriented** with 38% of sales generated with products developed in the last 5 years. After weaker launches in 2016 **management believes pipeline will be stronger in 2H17**. Also some other negative one-offs that weigh in onto 2016 results should disappear during 2017.
- Although there is strong trend of commoditization in generic drugs market, Krka is countering this negative trend with **branding** and promotions which are important for diffraction from chemically identical competitive products.
- In comparison to other competitors, Krka decided for **organic growth** with very limited use of M&A. That gives Krka better control over production quality.
- Valuations of large generic manufacturers are under significant pressures in the last few years, however, **consolidation process in the industry** can result in significant takeover premium. Latest case of Stada M&A deal implies target EUR 87 per share.

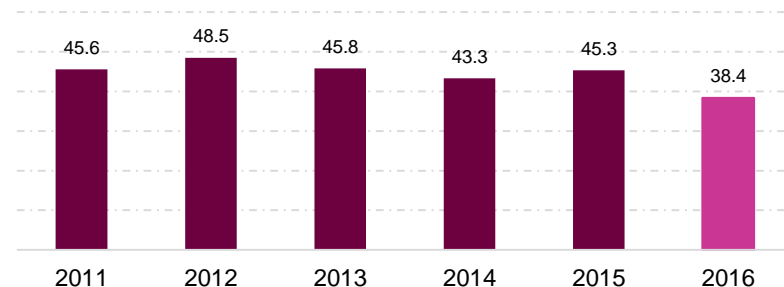
Dividend per share at constant growth



Sales of leading products in 2016 in EURm



Share of products developed in the last five years in Krka Group sales (in %)

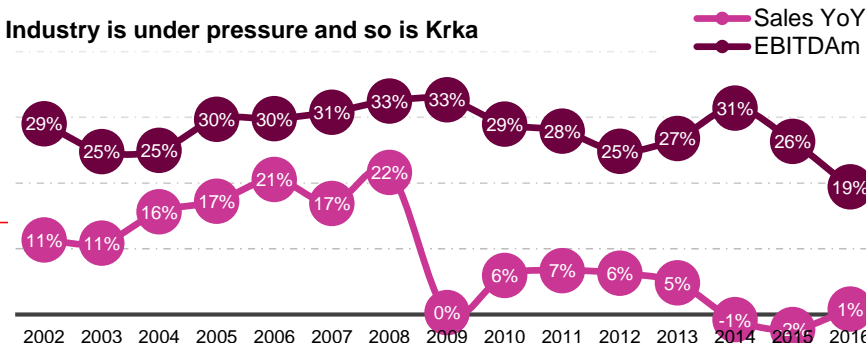


Investment Thesis

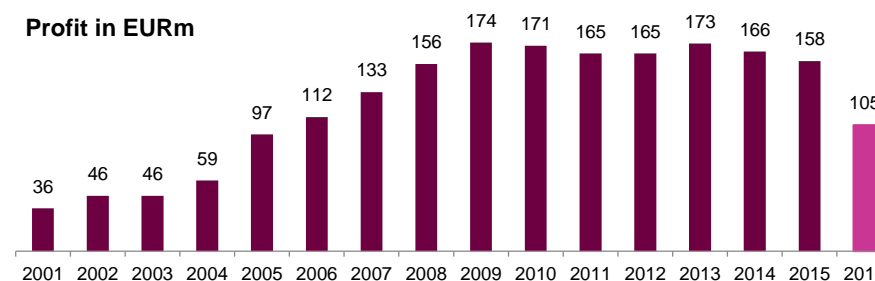
NEGATIVE:

- With patent expirations and governments looking to lower health costs there is growing demand for generic drugs. On the other hand we can see that even **generic drugs segment is under significant pressure due to competition and healthcare reforms**. Additionally, **future pricing pressures could be even stronger in case of Krka** which in the past exploited opportunities related to differences between process and product patent protection and which could decrease in the future. Margins are and will be under pressure.
- While Krka has somewhat offset pricing pressures with higher production volumes, they have also avoided riskier but also potentially more profitable industry trends – production partnerships with low cost manufacturers and investing in biogenerics. This was also **lowering Krka growth profile** as double digit volume growth was offset by above mentioned pricing pressures.
- New strategy coming out only in end-November**. Investors are consequently still nervous from very weak 3Q16 implying a strategic shift is needed.
- Krka Group strong cash generation, healthy balance sheet and presence on Eastern European markets could be appealing **as M&A target** for industry consolidators, however, we believe this scenario is **highly unlikely**. Beside statutory obstacles Krka is also listed as strategic investment for Slovenia. Strive for independence remains high and any potential acquirer would face an uphill battle.
- Krka's extensive exposure to conducting business in emerging high growth markets leads also to **higher downside risk based on macroeconomic and political instability** of those markets. In the last years this risks realized through increased level of trade receivables and higher sales and margin volatility due to situation in Ukraine and Russia.

Industry is under pressure and so is Krka



Profit in EURm



Trade and other receivables in EURm

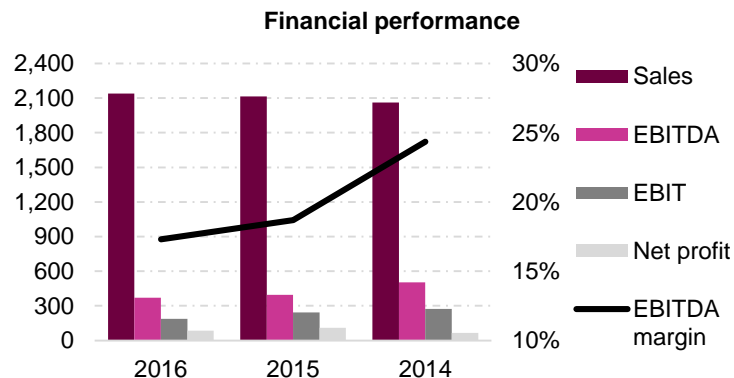


Stada comparison

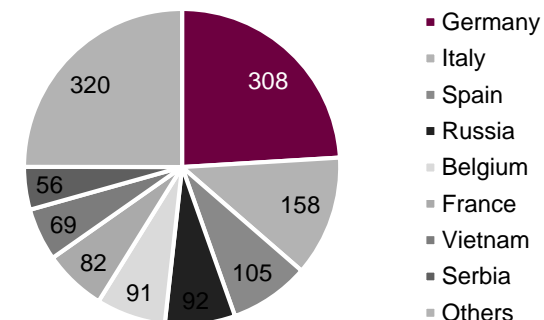
- Stada found itself under significant activist investors pressures which resulted in major M&A developments. In February 2017 after multiple speculations and names which included Advent International, Permira, CVC, Bain Capital and Cinven, the latest two managed to persuade shareholders with EUR 65.53 per share offer. Additionally, investors will receive 72 cents of dividend per share. Taking all that into account the transaction is valued at EUR 5.4bn.
- Krka and Stada sale its products on very similar markets, however, actual exposure in case of Slovenian company lean much more toward Eastern Europe. Beside higher exposure to higher growth markets Krka operates without financial leverage and is almost without M&A legacies. Note that Stada has EUR 405m (12% of Assets) of goodwill versus EUR 43m (4% of Assets) in case of Krka.

STADA

Key indicators	
EV/EBITDA	10.3
EV/EBIT	16.5
EV/Sales	2.4
Net debt / EBITDA	3.2
Net debt to Equity	121%
ROE	9.1%

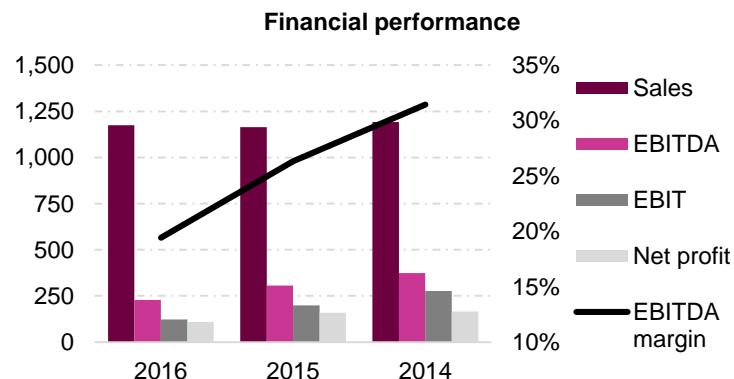


Sales breakdown (EURm)

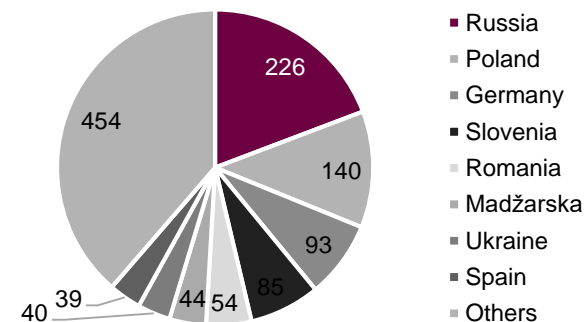


KRKA

Key indicators	
EV/EBITDA	6.5
EV/EBIT	11.2
EV/Sales	1.4
Net debt / EBITDA	-0.3
Net debt to Equity	-5.4%
ROE	8.5%



Sales breakdown (EURm)



Relative valuation

ALTA

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CULTURE

Company name	EV/S			EV/EBITDA			P/E		
	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F
Stada Arzneimittel	2.3	2.2	2.0	13.4	11.0	9.8	42.1	17.5	15.7
Richter Gedeon	2.7	2.4	2.2	12.0	9.8	8.9	19.6	15.7	12.5
Recordati	6.3	5.4	5.2	19.0	15.6	14.8	27.3	23.0	21.7
Teva Pharmaceutical	2.2	2.3	2.3	11.3	7.4	7.3	27.5	4.1	4.0
Mylan	2.6	2.5	2.4	11.7	7.3	7.0	25.1	5.9	5.6
Hikma Pharmaceuticals	2.4	2.2	1.9	10.6	8.0	7.1	25.3	12.6	9.9
Taro Pharmaceutical Ind.	3.1	3.6	n.a.	5.4	6.8	n.a.	10.0	12.3	n.a.
Dr. Reddy's Laboratories	2.6	2.1	1.9	14.8	9.5	8.1	29.2	15.4	12.8
Cipla	3.4	2.6	2.3	19.3	13.1	11.3	42.6	21.1	18.2
Krka	1.4	1.3	1.3	6.5	5.7	5.6	13.6	11.9	11.5
Median	2.6	2.4	2.3	12.0	9.5	8.5	27.3	15.4	12.6

Company name	EBITDA margin TTM	EBIT margin (%)	Profit margin (%)	ROE TTM	ROA TTM	Assets turnover	Div. yield (%)	Assets/ Equity	Net debt to EBITDA
Stada Arzneimittel	17.3%	8.5%	4.2%	9.1%	2.8%	0.66	1.13	3.29	3.21
Richter Gedeon	22.2%	14.2%	14.3%	9.0%	7.5%	0.53	1.64	1.20	-0.68
Recordati	33.0%	29.6%	21.5%	26.4%	14.8%	0.69	1.01	1.79	0.90
Teva Pharmaceutical	19.8%	11.3%	3.2%	2.6%	0.9%	0.27	5.01	3.54	7.46
Mylan	22.0%	7.4%	5.5%	5.1%	1.9%	0.34	0.00	2.77	5.46
Hikma Pharmaceuticals	23.0%	15.5%	7.9%	6.7%	3.6%	0.45	1.91	1.82	1.57
Taro Pharmaceutical Ind.	57.6%	55.8%	49.7%	18.6%	17.0%	0.34	0.00	1.10	-3.11
Dr. Reddy's Laboratories	17.3%	9.0%	8.0%	9.2%	5.2%	0.64	1.00	1.77	1.27
Cipla	17.8%	8.3%	7.6%	8.6%	5.1%	0.67	0.35	1.67	1.06
Krka	21.1%	12.4%	10.6%	8.5%	6.6%	0.62	5.01	1.29	-0.32
Median	22.0%	11.3%	7.9%	9.0%	5.1%	0.53	1.01	1.79	1.27

- Our relative analysis implies a vast 61% upside as target price based on EV/Sales, EV/EBITDA, EV/EBIT and P/E as **target price is set at EUR 87.6**. That is only slightly below our previous analysis. While Krka's TTM earnings and our estimates for 2017 and 2018 improved, negative trends in the industry affected industry valuations.
- Despite weak third quarter 2016, margins are only slightly below peer median. However note that EBITDA growth expectations (TTM till 2018F) are higher (almost double) for peer group than for Krka. This possibly explains the valuation discount.
- At the same time dividend yield is significantly higher. Given no debt and expected recovery of profitability we believe future dividend return is sustainable and is unlikely to be cut as for instance in case of Teva.

FCF valuation - forecasts

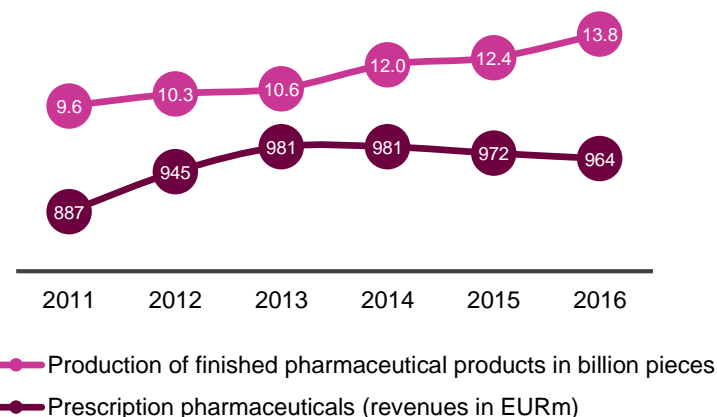
ESTIMATES:

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Sales	1,259.0	1,291.2	1,322.0	1,352.5	1,384.0	1,411.7	1,439.9	1,468.7	1,498.1	1,528.1
COGS	541.4	555.2	568.5	581.6	595.1	607.0	619.2	631.6	644.2	657.1
R&D costs	125.9	129.1	132.2	135.2	138.4	141.2	144.0	146.9	149.8	152.8
Administrative expenses	81.8	83.9	85.9	87.9	90.0	82.9	84.5	86.2	88.0	89.7
Selling and marketing costs	339.9	348.6	356.9	365.2	373.7	381.2	388.8	396.6	404.5	412.6
EBITDA	297.6	301.3	305.9	310.4	315.1	317.6	321.6	325.6	329.8	334.0
EBITDA margin	23.6%	23.3%	23.1%	23.0%	22.8%	22.5%	22.3%	22.2%	22.0%	21.9%
EBIT	178.2	183.0	187.6	192.1	196.9	199.5	203.4	207.5	211.7	215.9
EBT	178.0	184.1	189.7	195.5	201.8	206.3	211.4	215.7	220.0	224.4
Net income	147.7	152.8	157.4	162.3	167.5	171.2	175.5	179.0	182.6	186.3

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Total Assets	2,005.3	2,069.1	2,142.8	2,237.5	2,339.4	2,458.4	2,479.6	2,501.2	2,523.2	2,545.4
Inventories	289.6	297.0	304.1	311.1	318.3	324.7	331.2	337.8	344.6	351.5
Trade receivables	541.4	555.2	568.5	581.6	595.1	600.0	604.8	609.5	614.2	618.9
Cash	37.8	38.7	39.7	40.6	41.5	42.4	43.2	44.1	44.9	45.8
Equity	1,523.3	1,546.2	1,595.3	1,646.8	1,700.7	1,760.9	1,825.0	1,890.0	1,956.2	2,023.8
Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade payables	125.0	128.2	131.3	134.3	137.5	140.2	143.0	145.9	148.8	151.8

MAIN ASSUMPTIONS:

- We expect that sales volume in the next few years will continue to increase and average value per piece to slowly drift lower – hence resulting in slower revenue growth and margin contraction.
- After last conference call we have also implemented lower capex guidance for 2017 (and onwards; EUR 120m) and higher effective tax rate.
- Although margins improved significantly in 1H17 we remain cautious regarding performance in the second half of the year. We believe that positive effects came mainly from higher sales growth in Russia, which is strongly related to FX movements. Given the latest trends and weakening of ruble, positive contribution from Russia could be less significant.



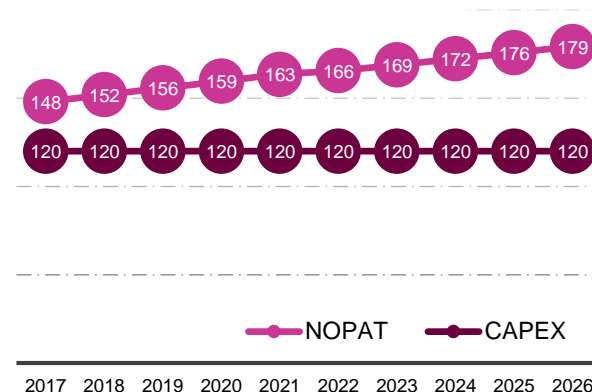
FCF valuation - commentary

VALUATION TABLE:

EURm	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
NOPLAT	147.9	151.9	155.7	159.5	163.4	165.5	168.9	172.2	175.7	179.2
NOPLAT growth	29.5%	2.7%	2.5%	2.4%	2.5%	1.3%	2.0%	2.0%	2.0%	2.0%
Depreciation	119.4	118.3	118.3	118.3	118.2	118.2	118.1	118.1	118.1	118.1
Depretiation/Sales	9.5%	9.2%	9.0%	8.7%	8.5%	8.4%	8.2%	8.0%	7.9%	7.7%
CAPEX	120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0
CAPEX/Sales	9.5%	9.3%	9.1%	8.9%	8.7%	8.5%	8.3%	8.2%	8.0%	7.9%
Change in net working capital	9.5	18.1	17.3	17.1	17.7	8.5	8.5	8.5	8.5	8.6
NWC/Sales	56.1%	56.1%	56.1%	56.1%	56.1%	55.6%	55.1%	54.6%	54.1%	53.6%
FCF to firm	137.8	132.2	136.8	140.7	144.0	155.3	158.6	161.9	165.3	168.8

FCF valuation	
Value in forecasting period	917
Continuing value	894
Total enterprise value	1,812
Net debt	-48
Equity value	1,859
No. of shares (in mio)	32.2
Equity value per share	57.7

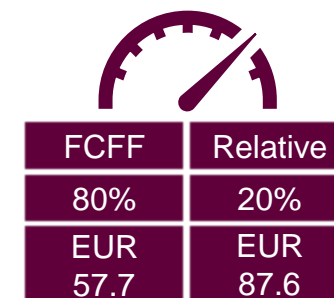
WACC		
	2017	TV
Tax rate	17.0%	17.0%
Cost of debt	1.0%	1.0%
Beta	0.9	0.9
Cost of equity	9.6%	9.6%
Debt/Equity	0.0%	0.0%
WACC	9.6%	9.6%
Perpetuity growth rate	2.0%	2.0%



- Given higher sales growth, margin recovery in the first half 2017 and especially lower capex guidance (short and long term) our FCF price target increased from EUR 49.8 per share to EUR 57.7.

WEIGHTING SCHEME & END COMMENTARY:

- Combination of FCF and relative valuation derives to a target price of EUR 63.6 per share versus previous price target of EUR 58.0. **Consequently given almost 16% upside we upgraded our recommendation from hold to buy.**
- Note that Krka's profit margins largely depend on less stable Eastern European markets, on the other hand Krka can surprise on the upside with stronger than expected launches of new products which are expected for the second half of the year.
- As noted new strategic document of Krka Group is expected at end-November.



Historic Financial Data

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in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets	879.1	1,121.4	1,271.0	1,341.0	1,488.2	1,534.0	1,626.7	1,759.9	1,795.7	1,809.2	1,911.5
Non-current assets	574.8	749.4	809.1	808.0	846.5	863.9	926.0	974.0	1,008.8	986.6	1,038.1
Current assets	304.3	372.0	462.0	533.0	641.7	670.2	700.7	785.9	786.9	822.6	873.5
Short term investment	24.1	4.4	2.1	3.0	1.9	1.7	11.8	21.0	1.8	49.2	9.5
Cash	10.4	15.8	7.6	13.4	7.8	20.2	23.0	67.3	23.6	35.8	38.6
Equity	570.9	680.9	783.3	920.4	1,053.3	1,139.8	1,240.5	1,332.6	1,351.9	1,406.0	1,444.4
Equity of non-controlling interests	7.9	10.0	1.8	1.7	1.6	1.5	1.4	1.4	1.3	1.2	1.1
Provisions	122.6	143.6	149.7	107.5	108.9	104.8	104.7	103.1	97.5	84.9	90.8
Non-current liabilities	41.4	108.7	102.5	123.5	86.7	43.6	28.2	12.9	13.1	12.7	12.3
Non-current financial liabilities	37.4	90.3	83.7	105.1	67.2	25.5	12.9	0.0	0.0	0.0	0.0
Current liabilities	137.3	184.5	219.7	181.1	222.4	237.9	238.4	291.4	317.1	284.2	350.1
Current financial liabilities	48.8	62.5	100.1	51.1	57.9	44.1	13.4	0.0	38.0	0.0	0.0
in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales revenues	668.0	780.9	949.9	953.0	1,010.0	1,075.6	1,143.3	1,200.8	1,191.6	1,164.6	1,174.4
Total Revenues	678.8	785.1	988.5	1,035.9	1,057.1	1,099.7	1,156.3	1,242.3	1,278.6	1,221.6	1,192.7
Cost of goods, materials and services	299.5	338.6	422.0	406.8	474.5	486.6	523.6	557.7	506.1	538.3	579.1
Labour costs	159.4	181.9	224.0	239.4	258.2	269.2	293.2	310.9	330.9	323.4	336.6
D&A plus impairments	47.7	56.9	71.6	76.7	81.7	102.9	106.8	113.4	109.9	124.8	121.3
Other operating expenses	14.4	24.8	34.1	78.1	31.2	29.4	40.4	32.6	54.8	35.6	33.2
EBITDA	198.2	240.6	308.4	311.7	293.2	298.7	282.3	321.7	374.5	306.7	228.2
Operating income	150.5	183.6	236.8	235.0	211.5	211.6	192.3	227.6	277.0	199.4	122.4
Financial Income	15.5	7.6	3.0	1.1	8.0	0.5	5.4	2.1	1.5	25.6	65.7
Financial expenses	17.2	16.3	34.2	11.7	8.1	12.1	7.2	28.4	103.1	44.3	71.8
Interest cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	148.8	174.9	205.6	224.3	211.4	200.0	190.5	201.3	175.3	180.7	116.3
Total taxes	36.7	42.1	49.7	50.6	40.5	37.2	30.7	28.6	9.2	22.5	7.8
Net profit / loss	112.1	132.9	155.9	173.7	170.9	162.7	159.8	172.8	166.2	158.2	108.5
Attributable to equity holders of the parent	111.7	132.6	156.0	173.8	170.8	162.7	159.8	172.7	166.1	158.2	108.5
CAPEX	-107.2	-113.0	-146.4	-90.3	-115.4	-109.7	-153.3	-157.3	-173.7	-95.9	-131.8
in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross margin	55.2%	56.6%	55.6%	57.3%	53.0%	54.8%	54.2%	53.6%	57.5%	53.8%	50.7%
EBITDA margin	29.7%	30.8%	32.5%	32.7%	29.0%	27.8%	24.7%	26.8%	31.4%	26.3%	19.4%
EBIT margin	22.5%	23.5%	24.9%	24.7%	20.9%	19.7%	16.8%	19.0%	23.2%	17.1%	10.4%
Net margin	16.7%	17.0%	16.4%	18.2%	16.9%	15.1%	14.0%	14.4%	13.9%	13.6%	9.2%
Assets Turnover	0.76	0.70	0.75	0.71	0.68	0.70	0.70	0.68	0.66	0.64	0.61
ROA	12.7%	11.8%	12.3%	13.0%	11.5%	10.6%	9.8%	9.8%	9.2%	8.7%	5.7%
Assets to Equity	1.54	1.65	1.62	1.46	1.41	1.35	1.31	1.32	1.33	1.29	1.32
ROE	19.6%	19.5%	19.9%	18.9%	16.2%	14.3%	12.9%	13.0%	12.3%	11.3%	7.5%
Net debt / EBITDA	0.4	0.6	0.6	0.5	0.4	0.2	0.0	-0.2	0.0	-0.1	-0.2
Debt to Assets	9.8%	13.6%	14.5%	11.6%	8.4%	4.5%	1.6%	0.0%	2.1%	0.0%	0.0%
Debt to Equity	0.15	0.22	0.23	0.17	0.12	0.06	0.02	0.00	0.03	0.00	0.00
TIE ratio											
NWC / Assets	20.6%	20.5%	26.2%	28.8%	31.4%	29.6%	27.1%	23.1%	26.9%	25.1%	24.8%
Days inventory outstanding	141.3	185.0	182.8	163.0	176.4	190.7	174.8	154.3	177.6	185.0	176.9
Days receivable outstanding	84.1	84.2	92.6	128.3	145.5	133.7	132.6	140.4	157.8	145.6	169.1
Days payable outstanding	107.8	131.5	103.4	116.7	126.5	145.3	156.9	190.7	201.3	192.7	220.7
EBITDA - CAPEX	91.0	127.6	162.0	221.4	177.7	189.0	129.0	164.5	200.8	210.9	96.4

Company & ALTA Description

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COMPANY DESCRIPTION:

- One of the largest pharmaceutical producers in Central and Eastern Europe.
- Sells Branded and non-branded generics.
- Sale is diversified over Europe, however there is even more emphasis on overseas (3% of total sales).
- 82% of sales revenues is attributed to prescription pharmaceuticals, 10% non-prescription, 5% animal health products and 3% health resorts (2016 data).

OWNERSHIP STRUCTURE:

SDH d.d.	16.2%
KAD d.d.	10.7%
Splitska Banka (Fiduciary account)	6.8%
Addiko Bank (Fiduciary account)	3.7%
Krka	1.7%

Source: KDD

RESEARCH REPORT:

Prepared by:
Matej Šimnic
Analyst

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CONTACTS:

ALTA Invest, investicijske storitve, d.d.
Železna cesta 18, 1000 Ljubljana, Slovenia
phone: + 386 1 32 00 300
e-mail: invest@alta.si
http://www.alta.si

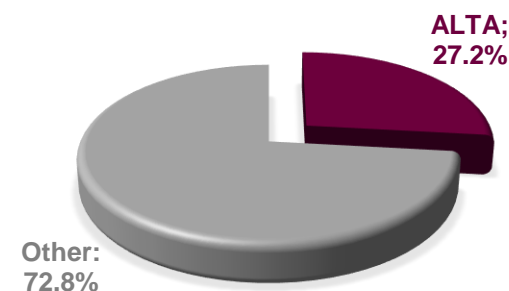
Head of Research:
Sašo Stanovnik
saso.stanovnik@alta.si
+386 (1) 32 00 310

Institutional Trading:
Darko Jurčević
darko.jurcevic@alta.si
+386 (1) 32 00 395

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- ✓ Our trading advantage is our execution of large trading blocks with low impact on the market.
- ✓ 38,300 brokerage clients with EUR 3.3 bn of assets.
- ✓ European Banking award: Best Broker & Best Asset Manager in 2015 and 2016.

TTM market share:



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Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation held securities of the relevant issuer.

First release of the recommendation was performed on 13.4.2010.

Quarterly updates are planned for data, valuation, target price and recommendation.

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