

# Krka (KRKG SV)

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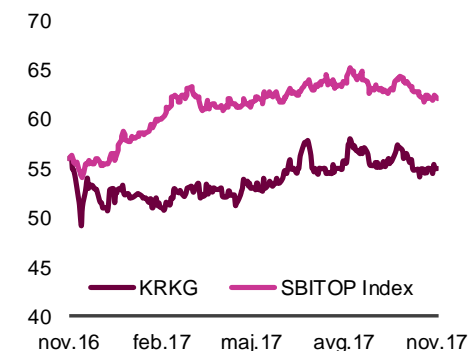
NEW  
INVESTMENT  
CULTURE
**12M Target price: 64 EUR Recommendation: BUY**

Previous target price: 64 EUR, BUY (17.8.2017)

## KEY MARKET DATA:

Stock data as of 20.11.2017 :		Price performance:		3M	12M
Market price (EUR)	55.0	Price change in %	-1.3%	-1.8%	
52 week range (EUR)	49.2 - 58.0	SBI 20 index change in %	-2.6%	10.9%	
Market Cap (EUR)	1,803.6	Relative to SBI 20 index in %	1.3%	-11.5%	
		Valuation multiples:		TTM	Forward
Avg. daily trade vol., EUR(k)	323	EV/Sales	1.4	1.4	
Average daily % of stock traded	0.018%	EV/EBITDA	6.2	5.8	
No. of Shares in millions	32.8	EV/EBIT	10.1	9.7	
		P/E	12.8	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	1,250.3	1,259.0	1,291.2
EBITDA	306.7	228.2	278.4	297.6	301.3
Margin	26.3%	19.4%	22.3%	23.6%	23.3%
EBIT	199.4	122.4	172.0	178.2	183.0
Net income	158.2	108.4	138.2	147.7	152.8
EPS	4.9	3.3	4.3	4.6	4.8
DPS	2.65	2.75		3.0	3.1
Financial debt	0.0	0.0	0.0	0.0	0.0
Cash	35.8	38.6	30.9	37.8	38.7
Net debt	-92.6	-48.6	-31.4	-138.0	-180.9
Equity	1,404.7	1,443.4	1,448.6	1,523.3	1,546.2
Assets	1,809.2	1,911.5	1,882.8	2,005.3	2,069.1
ND/EBITDA	-0.3	-0.2	-0.1	-0.5	-0.6
P/E	13.4	15.8	12.8	12.0	11.5
EV/EBITDA	6.7	7.4	6.2	5.8	5.7

## KEY CURRENT DEVELOPMENT:

- Krka continued with share buyback activities. In the period from 1st September to 15th November it bought 71,689 shares. Therefore Krka was also the biggest buyer in the period, albeit the share count represents only 0.22% of total shares. Therefore Krka has more room to continue with its share buyback activities (it now has 1.99% of allowed 10%).
- On 17th November Krka also held an Analyst day, not only to elaborate on latest 9M17 results, but also to discuss a 2018-2020 strategy. Please note this strategy was long awaited, we could say from weak 3Q16 results onward. Key message was that while 2016 weaker performance was due to adverse FX dynamic and price pressures on all markets, it now seems everything is back to normal (and years 2014-2015). Consequently its strategy is relatively unchanged / evolutionary.
- **In 9M17 / 3Q17 product mix improved and results were more or less in line with our estimates**, which were lifted after good 1H17. In addition Krka now posted they expect sales growth of 6% for 2017 (EUR 1,240m) while **net profit is guided at approximately EUR 140m**. Both numbers are above initial plan and only slightly below our revised estimates. **All in all 9M17 and 2017/18 guidance do not warrant a change to our estimates and consequently target price also remains unchanged.**

# 9M17 Results

- In Ukraine sales increased by 15% YoY to EUR 31.4m, surpassing market growth. In Kazakhstan sales increased by 12% YoY to EUR 12.0m while sales decreased in Uzbekistan by 1% to EUR 10.6m.

- In Russia, sales increase for 9M17 is slightly curbed by weaker 3Q17 sales, where we calculated in a 4.8% YoY decline in sales. Management did not see any problem with 3Q regarding Russia – possibly normal volatility throughout the year as 1H17 was very strong. Krka noted the portion of locally manufactured product exceeded 60% in the period. Also value sales (FX adjusted) was above volume growth in 9M17.

- Margins expanded in the period. While 1H17 EBITDA margin was up 2.7 p.p. versus 1H16 you should note 3Q margins are seasonally weak due to several reasons. Nevertheless 3Q17 EBITDA margin of 18.9% was still considerably higher than problematic 3Q16 where Krka recorded only 12.8% EBITDA margin. Margin expansion is mostly due to cost management, as almost all categories showed very little growth in 9M17 with exception of sales and marketing (+6.8% to EUR 237.5m) and R&D (+8.9% to EUR 92.9m). The later growth is long term positive.

Market	9M16	9M17	YoY
Slovenia	63.9	66.7	4.3%
South-East Europe	111.5	116.3	4.3%
East Europe without Russia	75.7	85.3	12.7%
Russia	154.3	186.1	20.6%
Central Europe	209.1	226.0	8.1%
Czech Republic	23.6	33.1	40.3%
Western Europe	211.0	217.7	3.2%
Overseas	26.9	30.1	12.0%
<b>Total</b>	<b>852.4</b>	<b>928.3</b>	<b>8.9%</b>

- In West Europe, sales surged by 23% in 3Q17 therefore pushing negative 1H17 dynamic into positive territory for 9M17. Here the main market is Germany, where Krka recorded 17% growth in 3Q17 pushing an overall 9M17 YoY growth to negative 4.4%. The rest of West Europe had even a higher surge during the third quarter and consequently West ex Germany 9M17 YoY growth is now at 7.6% YoY: France +9% to EUR 28.6m, Spain down 9% to EUR 24.9m, UK up 39% to EUR 20.9m etc.

Income statement (EURm)	9M16	9M17	YoY
Sales revenues	852.4	928.3	8.9%
Total expenses	837.1	866.9	3.6%
EBITDA	178.8	229.0	28.0%
EBITDA margin	21.0%	24.7%	
EBIT	99.7	149.2	49.7%
EBIT margin	11.7%	16.1%	
Net income	80.3	110.1	37.1%
Balance Sheet (EURm)	9M16	9M17	YoY
Inventories	278.8	304.8	9.3%
Trade and other receivables	472.0	512.0	8.5%
Cash and Short-term fin. Inv.	56.7	31.9	-43.7%

- Krka noted sales volume increased by 1.5% versus 9M16. This means value growth exceeded volume growth ... which is a nice turnaround versus past dynamic.

- In SEE sales were up 4.3%, mainly driven by Serbia (+31% to EUR 12.3m), Croatia (+11% to EUR 23.2m), Macedonia (+12% to EUR 13.6m) and Bulgaria (+13%). In Romania, sales decreased by 4% while Krka remains the second biggest on the market. In BiH sales also fell by 12% YoY to EUR 11.5m due to the protection of domestic pharma companies by limiting the admission on reimbursement list.

- In Central Europe, sales increased in all countries but Slovakia. In Czech Republic reported sales growth was excellent. In Poland sales increased by 3% to EUR 108.1m. In Hungary sales were up 8% to EUR 33m. In Slovakia sales amounted to EUR 25.5m.

- Net financing result deteriorated by EUR 8.8m in all explained by FX related items in the income statement. In addition effective tax rate was 5.6% higher shrugging off EUR 7.2m. Both contributed to a lower net income growth versus what EBIT implies.

- Net operating CF for 9M17: EUR 177.0m, down EUR 7.6m due to NWC related items.

- In 9M17 Krka received first marketing authorizations (MAs) for 14 new products (8 prescription, 4 non-prescription and 2 animal) in 25 dosage forms / strengths.

# Sales distribution and dynamic

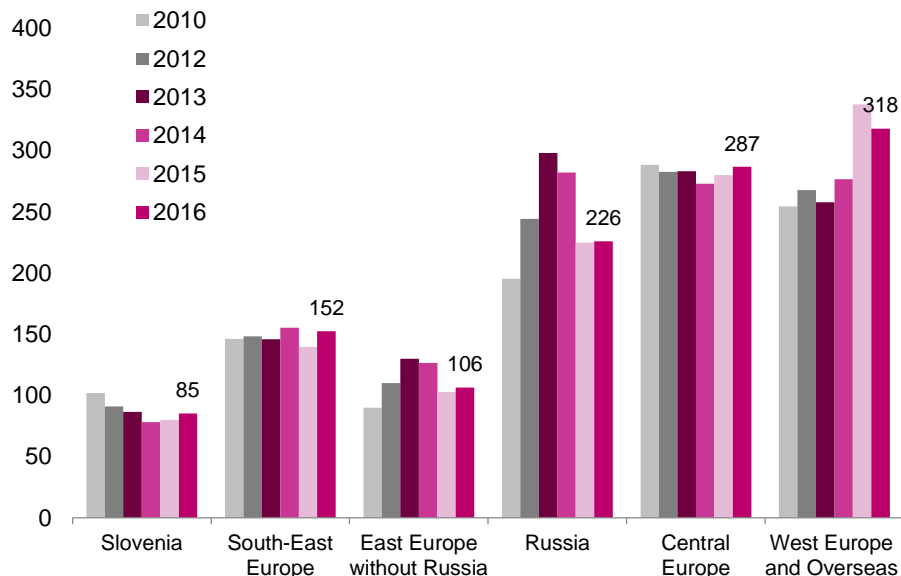


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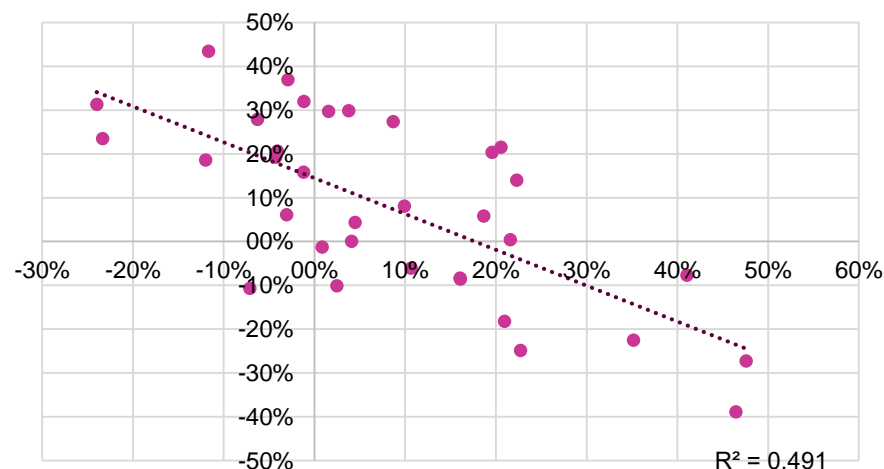
EURm	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Slovenia	21.9	22.1	21.5	19.3	19.1	19.6	20.0	19.2	19.5	20.2	20.9	20.2	21.0	22.7	21.2	21.1	21.9	23.7
South-East Europe	33.8	30.6	47.2	34.2	41.2	31.7	48.3	30.6	29.9	34.9	44.2	37.7	39.1	34.7	40.9	38.7	41.1	36.5
Romania	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	10.1
Other SEE	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	26.4
East Europe ex Russia	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	27.8
Ukraine	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	11.9
Other EE	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	15.9
Russia	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	29.7
Central Europe	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	71.6
Poland	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	35.0
Czech Republic	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	11.1
Madžarska	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	10.0
Other CE	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	15.5
WE	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	74.5
Overseas	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	9.5

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



# Segment reporting

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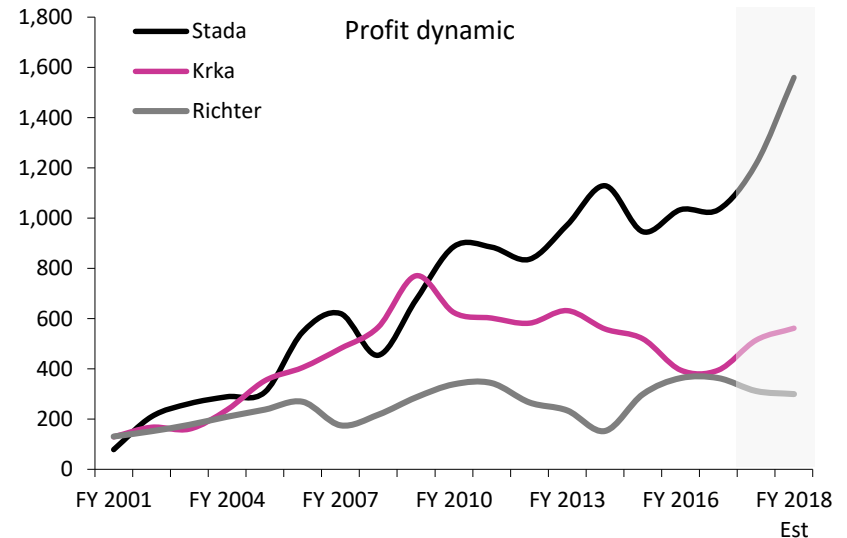
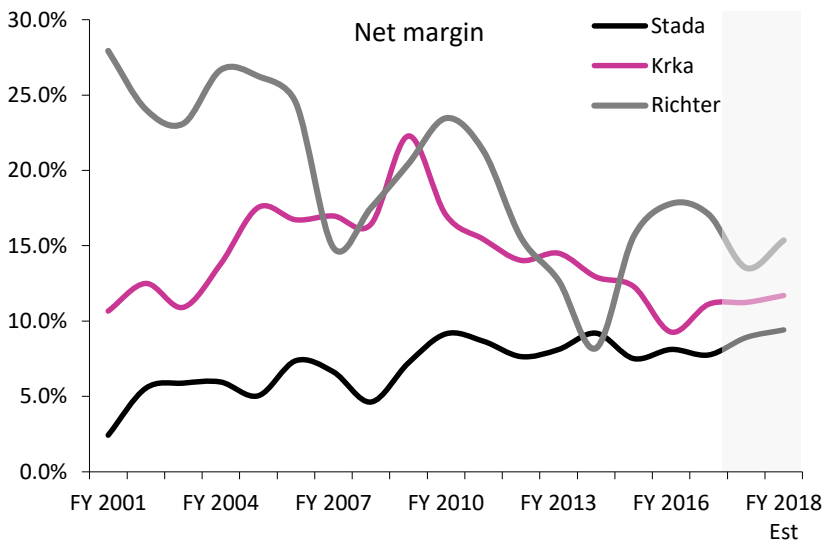
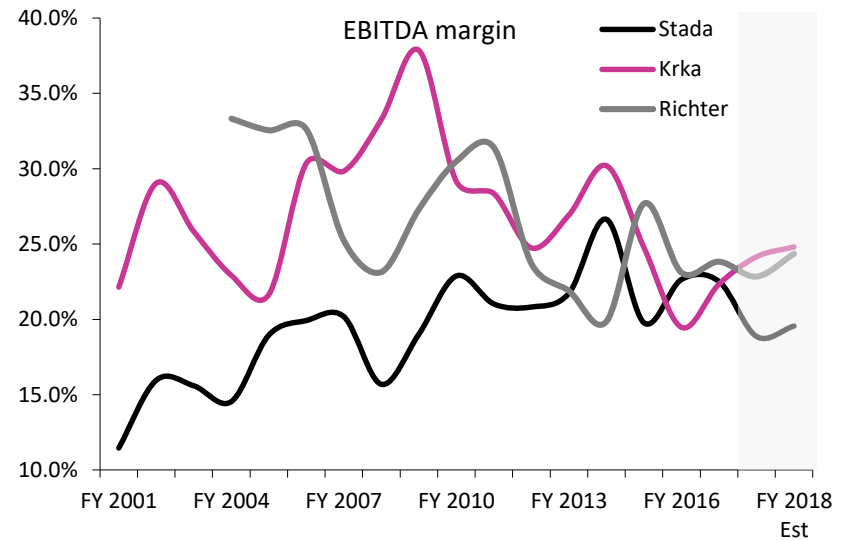
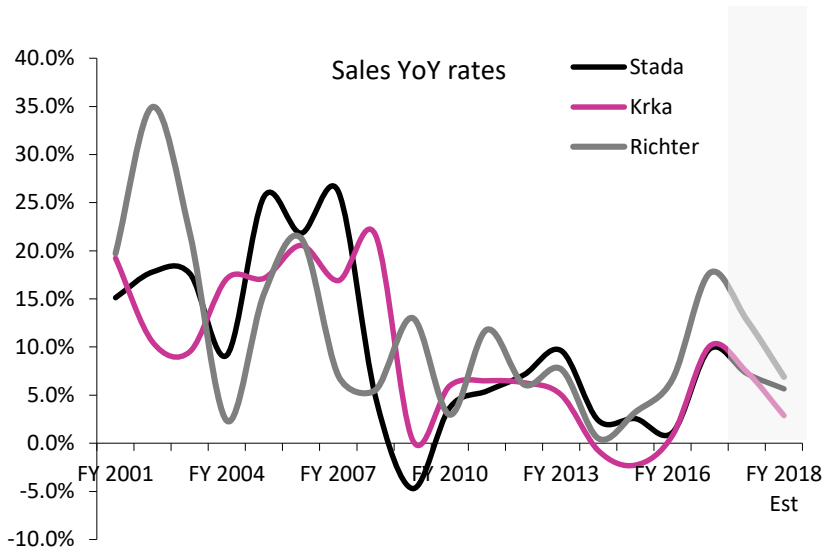
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9M17 results in EURm	European Union	South-East Europe	East Europe	Other
Revenues from non-group companies	574.2	46.2	271.4	36.4
Intra-group revenues	172.8	22.5	172.5	0.0
Operating profit	83.9	12.5	38.1	14.8
Net profit	73.5	11.4	12.0	13.2
CAPEX	72.7	0.1	2.4	0.0
D&A	53.2	1.6	24.5	0.4
EBITDA	137.1	14.1	62.5	15.2
Assets	1,369.1	41.8	462.1	9.8

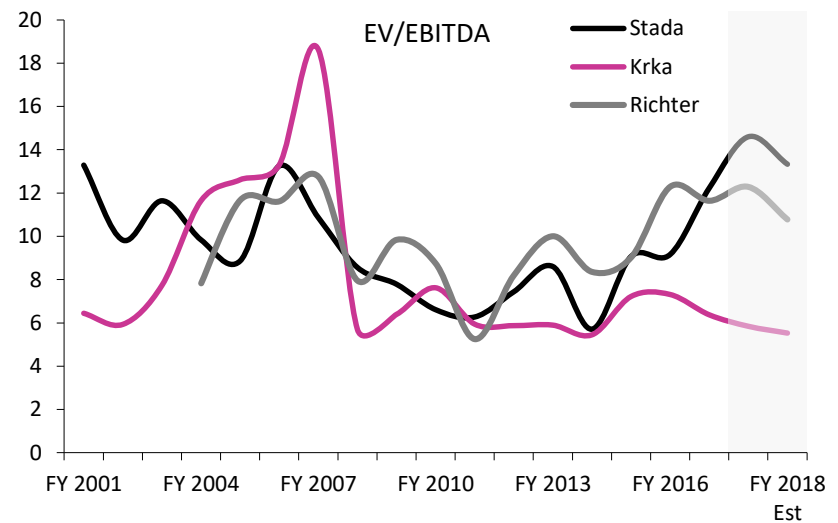
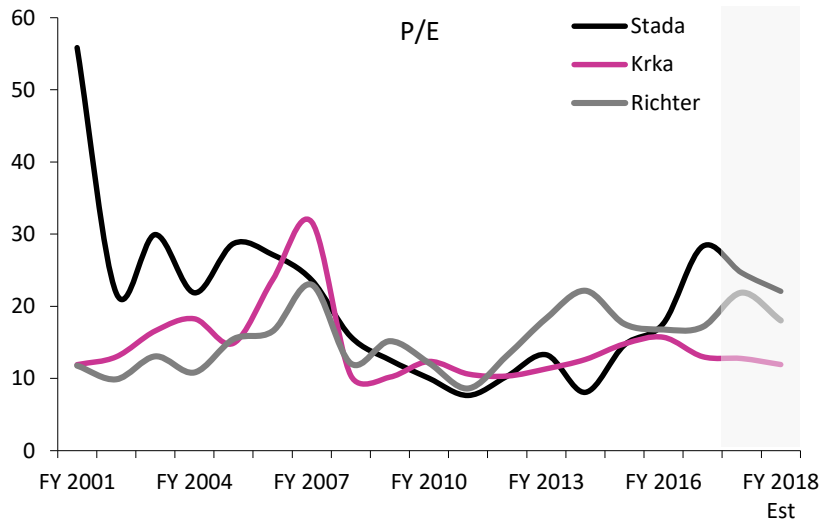
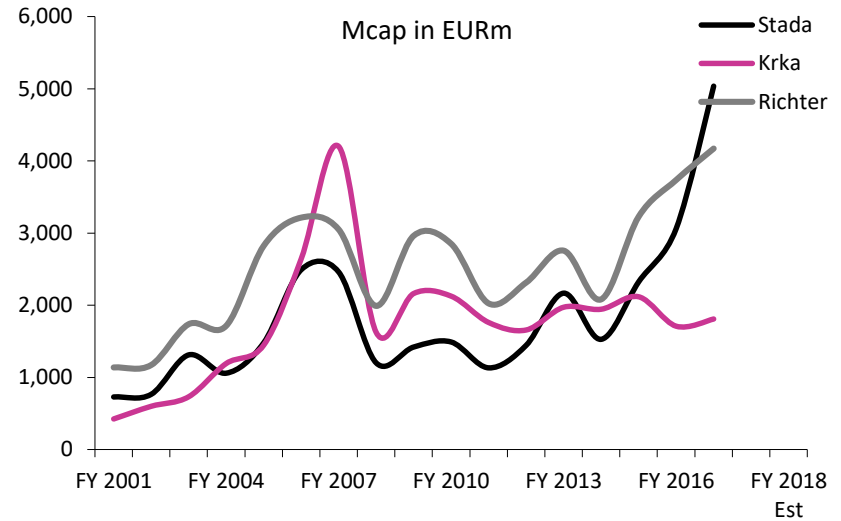
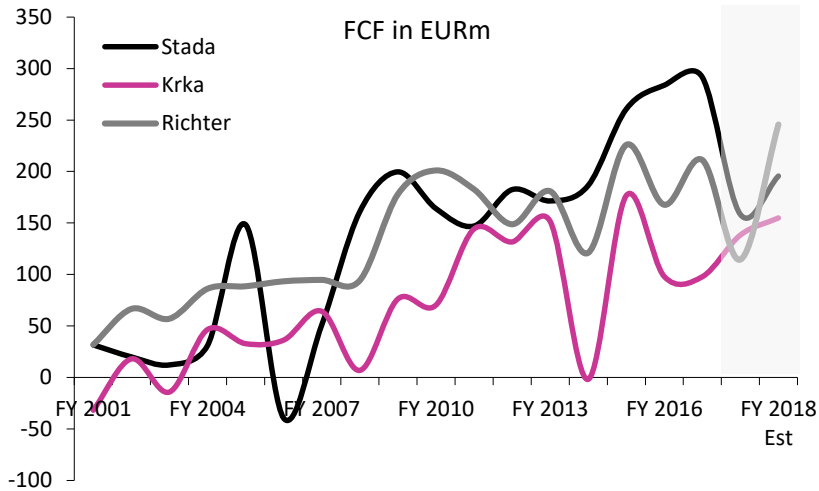
9M16 results in EURm	European Union	South-East Europe	East Europe	Other
Revenues from non-group companies	545.0	43.0	230.0	34.3
Intra-group revenues	158.9	20.3	114.8	0.0
Operating profit	58.6	9.7	18.6	12.7
Net profit	51.9	8.8	8.4	11.2
CAPEX	74.7	0.1	13.7	0.0
D&A	55.4	1.8	21.6	0.4
EBITDA	114.0	11.4	40.2	13.2
Assets	1,394.2	40.1	467.3	9.9

- 82.8% of sales are due to prescription pharmaceuticals:
  - Top three groups: Cardiovascular (39.1%), Central Nervous System (17.0%) and Alimentary Tract and Metabolism (13.8%);
  - +9.9% YoY increase in sales in 9M17 to EUR 768.2m.
- 8.9% Non-prescription products (+9.7% YoY in 9M17)
- 5.2% Animal health products (down 4% YoY in 9M17)
- 2.9% Health Resorts and Tourist Services (+7.9% YoY)
- 0.2% Other

# Comparison 1/2



# Comparison 2/2



## 2018-2022 Strategy (1/2)

- In its 9M17 report Krka disclosed its renewed 2018-2022 development strategy.

Key strategic objectives to 2022 are (source Krka):	Comment:
<i>To record an average annual sales growth in terms of volume/value of at least 5%.</i>	In 2014-2018 strategy Krka mentioned at least 5% average annual sales growth, after which it amended the strategy and 2016-2020 document states at least 5% value growth. So in the end this guidance is somewhere in the middle.
<i>CAPEX will amount to an average of EUR 136m per year.</i>	Krka noted 20 investment projects that will expand production by 1/3 in the coming years. This amount is 5% below last 5 year average, however our estimates were lower as we hoped CAPEX will go down more vs last few years.
<i>To expand not only with organic growth but by means of acquisitions and long-term business combinations (including joint ventures) in case of available commercially appealing acquisition targets. The primary objectives are to gain new products and/or new markets.</i>	Similar to previous strategic document, albeit Krka finally has a foothold regarding China JV and biosimilars. So things are progressing, albeit slowly.
<i>R&amp;D expenditure will account for up to 10%.</i>	Same.
<i>Focus on European markets, China and Central Asia.</i>	Now more focus on China, otherwise same. Krka signed a JV in China in November 2017. 60% stake owned by Krka and 40% by partner Ningbo Menovo Pharmaceutical. This JV will focus on development, production and sales of finished products in China. First major sales should be seen in about three years ... at the beginning in double digits then triple – with margins above current levels. All in all Krka is optimistic, but its a long term story.
<i>Entry into biosimilars, placing priority focus on treatments for autoimmune diseases and diabetes. Due to scale and complexity, separate dedicated department has been set up</i>	Entrance in 2021/22 and together with partners as otherwise it is too risky and costly. 10-15% of R&D will be dedicated to the area, however the partner will already have a developed product and Krka will invest to market the drug in their respective region. This is incremental as Krka remains cautious regarding biosimilars.

## 2018-2022 Strategy (2/2)

Key strategic objectives to 2022 are (source Krka):	Comment:
<i>To focus on the maximum long-term profitability of products sold, from development and production to the sale of finished products, including all other functions in the Krka Group.</i>	Similar.
<i>In addition to the existing range of products that represent the so-called gold standard, maintain the largest possible share of new products in total sales and the share of vertically integrated products.</i>	Same regarding vertically integrated products. However in the past Krka stated the share of new products to total products of at least one third. Consequently less quantified objective.
<i>To launch selected products on selected key markets as one of the first generic pharmaceutical companies.</i>	Same.
<i>To strengthen the competitive advantage of our product portfolio.</i>	Same. However document also reveals Krka wants to expand into new therapeutic areas (medicines for cardiovascular diseases, for the central nervous system and for the alimentary tract and metabolism) and in other prospective areas (analgesics and oncology medicines, antidiabetics, anti-virus medicines and antibiotics).
<i>To improve the cost-effective use of all assets.</i>	Same.
<i>To improve all business functions in innovative ways.</i>	Same.
<i>To maintain independence.</i>	Same.
<i>To pursue a stable dividend-increase policy, whereby the share of net profit to be allocated to dividends each year is determined also by considering Krka's financial requirements for investments and acquisitions, and at least 50% of the consolidated profit of major shareholders to be allocated to dividends.</i>	Dividend pay-out has been increasing steadily in the last 5 year period and we believe the real aim is to increase the dividend amount (per share). Given the guidance, strong balance sheet condition and dividend strategy this is attainable in the following years.



# Guidance vs expectations

Guidance set by Krka:	Comment:
<p>2018 Guidance;</p> <ul style="list-style-type: none"><li>▪ Group sales of EUR 1.4 bn</li><li>▪ Net profit of EUR 153m.</li><li>▪ CAPEX of EUR 135m.</li></ul>	<p>Given our valuation estimates and model from 1H17 reports, these are exactly in line with expectations. Therefore no change is warranted for 2018, only CAPEX should be upward adjusted, albeit its true Krka often delivered lower CAPEX than budgeted.</p>
<p>2018-2022 performance objectives:</p> <ul style="list-style-type: none"><li>▪ Projected EBITDA margin between 21% and 25%</li><li>▪ Projected ROE between 9% to 12%.</li></ul>	<p>Their EBITDA margin target is fully in-line with our estimates, averaging at 23% for the mentioned period. ROE as well if we take into account higher dividend pay-out ratio (previously at up to 50%, now at least 50%).</p>
<p>2018-2022 CAPEX on average EUR 136m supporting 5% value/volume sales per year</p>	<p>CAPEX is set slightly higher (EUR 16m per annum) versus our expectation how much it will go down after last few years. However guided growth is also higher than we expected based on last few years when value was trailing volume dynamic. In reality both effects cancel each other out, so it seems the effect on our target price is actually negligible.</p>



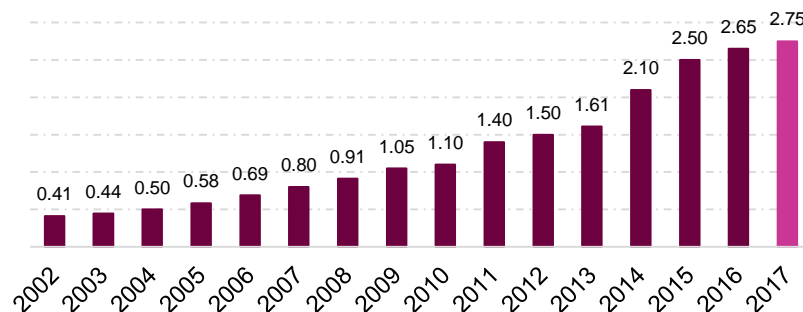
- **All in all 2018 guidance as well as 2018-2022 aims seem to be in-line with our expectations (set in 1H17 report). Some changes are warranted after 2018, but are cancelling each other out in terms of end result, namely target price.**
- **Also we can conclude the strategy is more evolutionally and not revolutionary as some expected after 3Q16 results. Time will tell if this is correct.**

# Investment Thesis

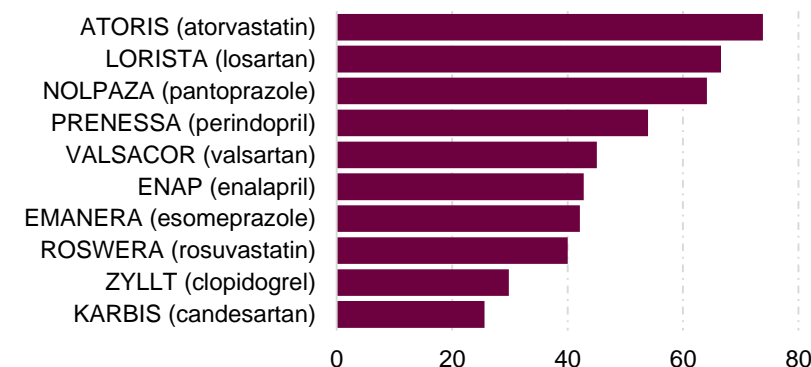
## POSITIVE:

- 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, which proved to be a weak year, and EUR 154m in 9M17. 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, albeit 3Q17 was again weaker.
- 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**. This thesis is materializing in 3Q17. Note also that Krka has been focusing on combination drugs – which is innovative and catering to more personal treatment.
- 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 implied target EUR 87 per share.

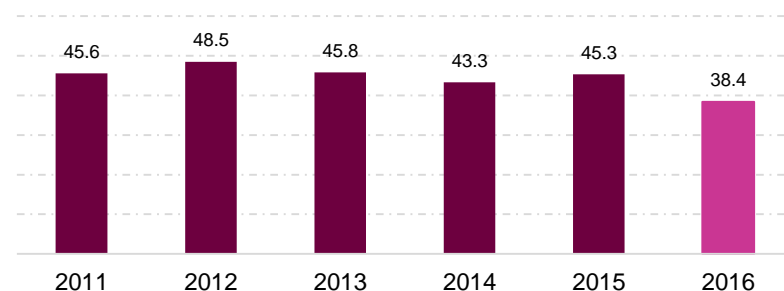
Dividend per share at constant growth



Sales of leading products in 2016 in EURm



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



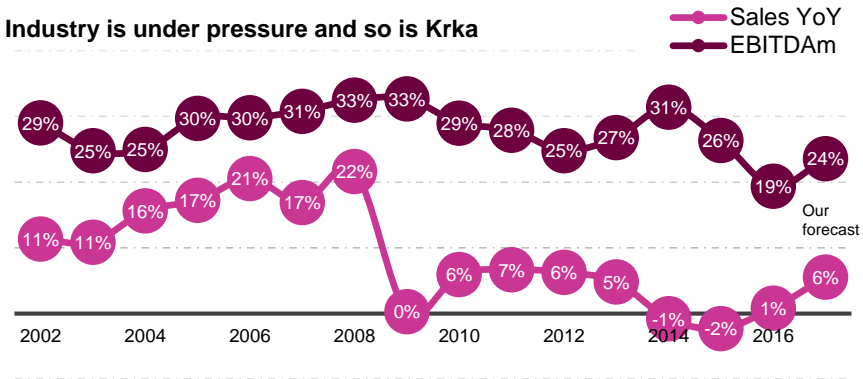
# Investment Thesis

## NEGATIVE:

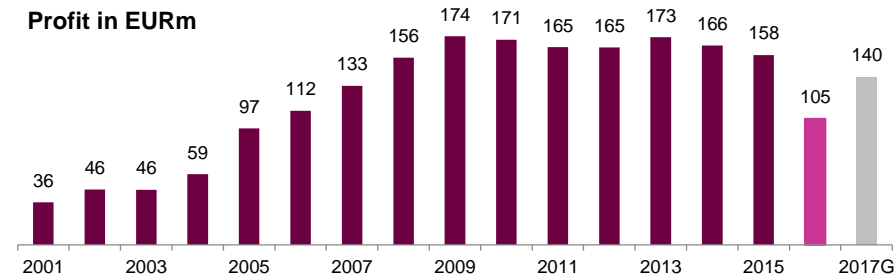
- With patent expirations and governments looking to lower health costs there is growing demand for generic drugs. On the other hand we can see that even **generic drugs segment is under significant pressure due to competition and healthcare reforms**. Additionally, **future pricing pressures could be 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.
- 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.
- 2018-2022 strategy brought little new news and is evolutionary and not revolutionary as some expected after very weak 2H16. True, if 2016 really proves to be an exception to the rule, then this is a correct step.

Source: Annual Reports, Bloomberg

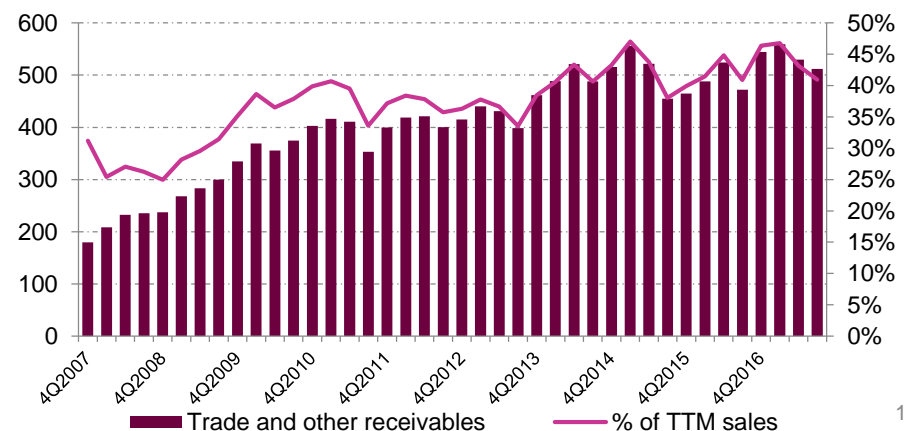
Industry is under pressure and so is Krka



Profit in EURm



Trade and other receivables in EURm



# Relative comparison

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Name	EV/S			EV/EBITDA			EV/EBIT			P/E			P/B		
	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F	TTM	2017F	2018F
Stada Arzneimittel	2.7	2.6	2.4	15.7	13.2	12.1	28.5	18.1	16.4	53.3	22.1	19.7	5.1	4.0	3.5
Richter Gedeon	2.8	2.6	2.4	12.3	10.6	9.5	19.0	15.8	13.7	20.2	17.1	14.1	1.9	1.7	1.6
Perrigo Company	3.0	3.0	2.9	38.0	13.1	12.7	neg.	14.3	13.7	neg.	16.0	14.9	2.0	1.9	1.8
Teva Pharma	2.1	2.4	2.4	9.9	8.9	9.1	16.3	8.5	8.1	11.1	5.0	4.9	0.6	0.4	0.4
Mylan	2.9	2.7	2.6	11.1	8.0	7.7	25.8	8.7	8.6	23.1	7.0	6.7	1.5	1.5	1.2
Hikma Pharma	2.0	2.0	1.9	8.1	8.2	7.4	13.4	11.6	10.3	19.9	14.3	11.6	1.4	1.2	1.2
Taro Pharma	4.3	4.5	n.a.	7.7	8.5	n.a.	8.0	8.9	n.a.	13.9	14.2	n.a.	2.1	1.6	n.a.
Dr. Reddy's Lab	3.0	2.5	2.2	16.8	11.2	9.4	32.0	16.5	13.4	34.2	18.7	15.0	3.2	2.6	2.3
Cipla	3.6	2.8	2.5	19.5	13.8	11.7	41.8	18.1	15.5	42.8	22.2	18.8	3.7	3.1	2.7
Krka	1.4	1.4	1.3	6.2	5.8	5.8	10.1	9.7	9.5	12.8	12.0	11.5	1.2	1.2	1.1
Median	2.9	2.6	2.4	12.3	10.6	9.5	22.4	14.3	13.6	21.6	16.0	14.5	2.0	1.7	1.7

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%	9.6%	4.1%	9.5%	2.8%	0.67	0.89	3.45	3.03
Richter Gedeon	22.6%	14.6%	14.5%	9.2%	7.8%	0.53	1.53	1.18	-0.73
Perrigo Company	7.9%	-0.5%	-26.3%	-21.3%	-11.1%	0.42	0.56	1.96	7.39
Teva Pharma	20.8%	12.6%	3.7%	5.1%	1.0%	0.27	4.70	3.00	7.00
Mylan	25.9%	11.2%	7.3%	6.6%	2.4%	0.33	0.00	2.69	4.59
Hikma Pharma	24.9%	15.0%	8.5%	6.8%	3.8%	0.45	2.40	1.80	1.30
Taro Pharma	55.1%	53.1%	44.1%	14.9%	13.7%	0.31	0.00	1.10	-3.39
Dr. Reddy's Lab	17.7%	9.3%	8.0%	9.2%	5.1%	0.64	0.86	1.82	1.47
Cipla	18.2%	8.5%	7.9%	8.6%	5.1%	0.64	0.33	1.70	0.92
Krka	22.3%	13.8%	11.1%	9.5%	7.3%	0.66	5.00	1.30	-0.11
Median	20.8%	11.2%	7.9%	8.6%	3.8%	0.45	0.86	1.82	1.47

# Historic Financial Data

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in EURm	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Assets</b>	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
<b>Equity</b>	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
<b>Provisions</b>	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
<b>in EURm</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
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
<b>Total Revenues</b>	<b>678.8</b>	<b>785.1</b>	<b>988.5</b>	<b>1,035.9</b>	<b>1,057.1</b>	<b>1,099.7</b>	<b>1,156.3</b>	<b>1,242.3</b>	<b>1,278.6</b>	<b>1,221.6</b>	<b>1,192.7</b>
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
<b>EBITDA</b>	<b>198.2</b>	<b>240.6</b>	<b>308.4</b>	<b>311.7</b>	<b>293.2</b>	<b>298.7</b>	<b>282.3</b>	<b>321.7</b>	<b>374.5</b>	<b>306.7</b>	<b>228.2</b>
<b>Operating income</b>	<b>150.5</b>	<b>183.6</b>	<b>236.8</b>	<b>235.0</b>	<b>211.5</b>	<b>211.6</b>	<b>192.3</b>	<b>227.6</b>	<b>277.0</b>	<b>199.4</b>	<b>122.4</b>
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	3.8	4.1	9.2	5.1	3.6	3.0	1.6	0.5	0.1	0.3	0.6
<b>EBT</b>	<b>148.8</b>	<b>174.9</b>	<b>205.6</b>	<b>224.3</b>	<b>211.4</b>	<b>200.0</b>	<b>190.5</b>	<b>201.3</b>	<b>175.3</b>	<b>180.7</b>	<b>116.3</b>
Total taxes	36.7	42.1	49.7	50.6	40.5	37.2	30.7	28.6	9.2	22.5	7.8
<b>Net profit / loss</b>	<b>112.1</b>	<b>132.9</b>	<b>155.9</b>	<b>173.7</b>	<b>170.9</b>	<b>162.7</b>	<b>159.8</b>	<b>172.8</b>	<b>166.2</b>	<b>158.2</b>	<b>108.5</b>
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
<b>CAPEX</b>	<b>-107.2</b>	<b>-113.0</b>	<b>-146.4</b>	<b>-90.3</b>	<b>-115.4</b>	<b>-109.7</b>	<b>-153.3</b>	<b>-157.3</b>	<b>-173.7</b>	<b>-95.9</b>	<b>-131.8</b>
<b>in EURm</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
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	39.2	44.7	25.8	45.7	58.9	71.4	121.1	463.5	2,082.4	604.3	193.7
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

Source: Annual and Interim reports

# 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)	5.2%
Addiko Bank (Fiduciary)	3.7%
Krka	2.0%

Source: KDD

## RESEARCH REPORT:

### Prepared by:

Sašo Stanovnik  
Head of Research

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20.11.2017 11:30

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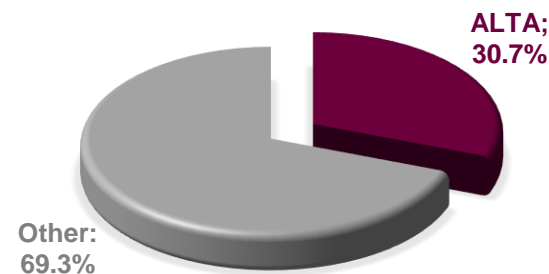
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- ✓ Our trading advantage is our execution of large trading blocks with low impact on the market.
- ✓ 38,300 brokerage clients with EUR 3.3 bn of assets.
- ✓ European Banking award: Best Broker & Best Asset Manager in 2015 and 2016.

### 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.**

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

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