

The Finest CEElection 2020 Investor Conference

# KRKA, d. d., Novo mesto

David Bratož, Member of the Management Board  
Brane Kastelec, Finance Director  
Peter Skubic, Deputy Finance Director

6-7 Oktober 2020

# Krka Group Business Operations

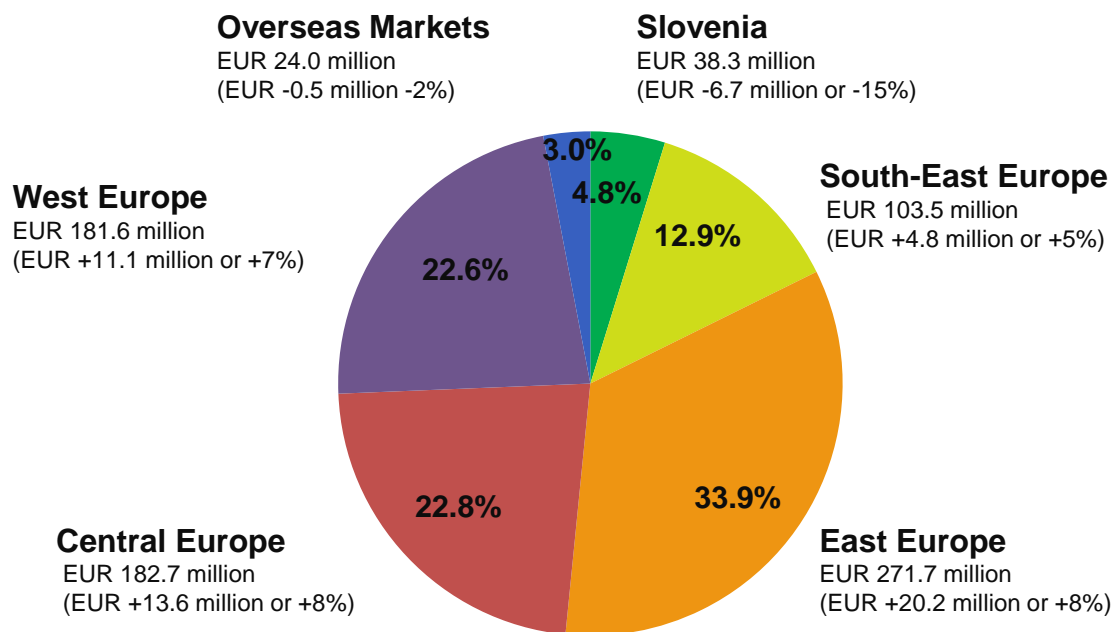
## *Key facts*

- ❖ Business operations in 1H2020 were marked by Covid-19 pandemic, with no major negative impact on the Krka Group operations.
  - ❖ **Krka Group ensured uninterrupted business operations and supply of medicines on global markets.**
  - ❖ Due to social distancing, we had to change our product promotion approach and our departments adjusted their workflow to the current situation by using e-technologies to a greater extent.
- 
- ❖ **Krka Group recorded highest half year sales in history.**
  - ❖ **Krka Group profitability elevated in 1H2020 and will gradually return to target levels.**
  - ❖ **Gross profit increased by 11%, EBITDA higher by 30%.**
  - ❖ Business results heavily impacted by FX fluctuations (especially RUB).
  - ❖ Lower than projected 1H2020 CAPEX due to Covid-19 impact, CAPEX will be carried-out as much as possible.
  - ❖ We registered 4 new products in 13 dosages and forms and were granted additional MA in several markets.
  - ❖ Health resorts and tourist services heavily impacted due to government restrictions and lock-down, but recently lifted and supported by government introducing voucher system to boost local demand for tourist services.
  - ❖ **Vertically integrated business model has proved crucial advantage and remains our core strategic orientation.**

# Krka Group Sales by Regions

*Largest market Russian federation*

**First half 2020 sales: EUR 801.8 million  
of goods and services**



- ❖ Sales of goods and services in first half of 2020 was EUR 42.5 million or 6% higher as in the same period last year.
- ❖ Export of products represented 95% of sales.
- ❖ Largest market for Krka in first half of 2020 was **Russian federation**, where we sold EUR 180 million of goods and services, which is 8% increase compared to the same period last year.
- ❖ **Second largest market was Poland**, where we sold EUR 86 million of goods and services, which is 8% increase compared to the same period last year.
- ❖ **Third largest market was Germany**, where we sold EUR 48 million of goods and services, which is 18% increase compared to the same period last year.

# Krka Group Sales by Regions

*East Europe leading*

- ❖ **Sales in first half of the year were affected by Covid-19 pandemic.** Consequently we noticed increased demand for our products in the first quarter mainly due to increased stock up by distributors, pharmacies, hospitals and patients, which returned to estimated levels at the end of first quarter and during the second quarter.

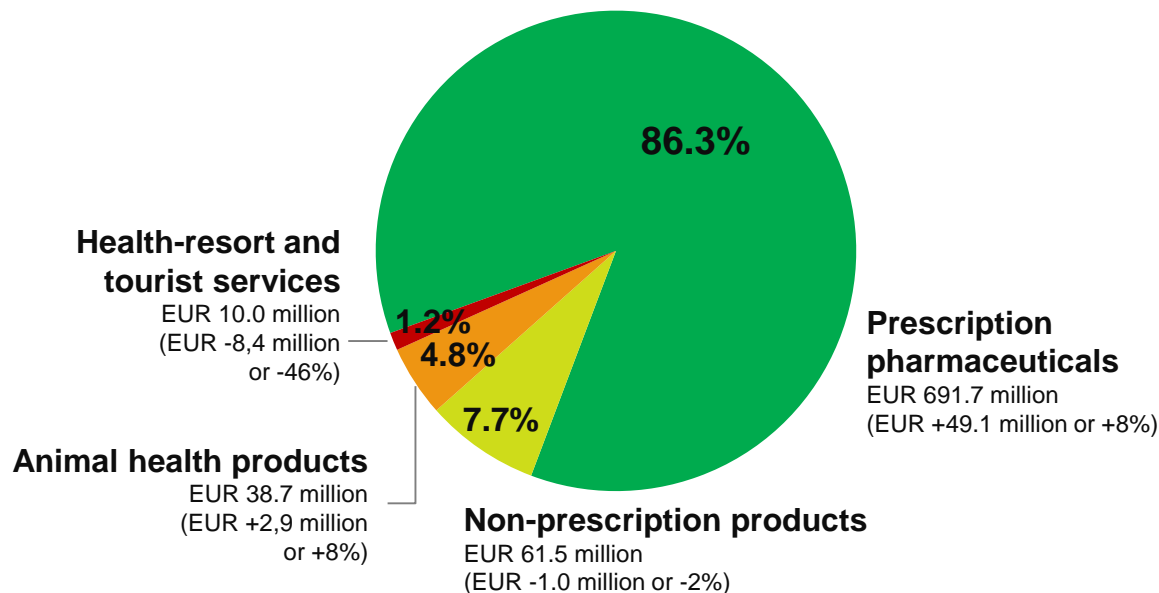
Region	1-6/2020	Share (%)	1-6/2019	Share (%)	YoY
Slovenia	38,347	4.8	45,000	5.9	-15%
South-East Europe	103,534	12.9	98,709	13.0	5%
East Europe	271,688	33.9	251,525	33.1	8%
Central Europe	182,675	22.8	169,108	22.3	8%
West Europe	181,572	22.6	170,443	22.5	7%
Overseas Markets	24,031	3.0	24,551	3.2	-2%
<b>Total</b>	<b>801,847</b>	<b>100.0</b>	<b>759,336</b>	<b>100.0</b>	<b>6%</b>

Sales by region in EUR thousand

# Krka Group Sales by Products and Service Groups

*Prescription pharmaceuticals key sales category*

**First half 2020 sales: EUR 801.8 million  
of goods and services**



- ❖ Krka's most important group of products in terms of sales value remain **prescription pharmaceuticals**.
- ❖ Highest absolute and relative sales growth of 49.1 million or 8% was achieved in prescription pharmaceuticals.
- ❖ Due to Covid-19 pandemic, sales of Health-resorts and touristic services were negatively impacted, yet improving lately.

# Krka Group Sales by Product and Service Groups

*Sales growth recorded in all major product groups except services and OTC*

Sales by products and groups	1-6/2020	Share (in %)	1-6/2019	Share (in %)	YoY
<b>Human health products</b>	753,174	94.0	705,099	92.9	<b>7%</b>
- Prescription pharmaceuticals	691,680	86.3	642,562	84.6	<b>8%</b>
- Non-prescription products	61,494	7.7	62,537	8.3	<b>-2%</b>
<b>Animal health products</b>	38,680	4.8	35,822	4.7	<b>8%</b>
<b>Health-resort and tourist services*</b>	9,993	1.2	18,415	2.4	<b>-46%</b>
<b>Total</b>	<b>801,847</b>	<b>100.0</b>	<b>759,336</b>	<b>100.0</b>	<b>6%</b>

Sales by products and groups in EUR thousand

\*Slovenian government imposed restrictions and lock-down during pandemic period

# Consolidated Income Statement of the Krka Group

*Profitability increased in challenging environment regardless of FX volatility*

	1-6/2020	Share (%)	1-6/2019	Share (%)	YoY
<b>Revenue</b>	<b>803,753</b>	<b>100</b>	<b>761,331</b>	<b>100</b>	<b>6%</b>
Costs of goods sold	320,824	40	327,566	43	-2%
<b>Gross profit</b>	<b>482,929</b>	<b>60</b>	<b>433,765</b>	<b>57</b>	<b>11%</b>
Other operating income	6,440	1	6,087	1	6%
Selling and distribution expenses	155,939	19	170,182	22	-8%
R&D expenses	73,846	9	74,515	10	-1%
General and administrative expenses	42,896	5	40,618	5	6%
<b>Operating profit</b>	<b>216,688</b>	<b>27</b>	<b>154,537</b>	<b>20</b>	<b>40%</b>
Net financial result	-26,413	-3	9,337	1	
<b>Profit before tax</b>	<b>190,275</b>	<b>24</b>	<b>163,874</b>	<b>22</b>	<b>16%</b>
Income tax	30,015	4	24,005	3	25%
<b>Net profit</b>	<b>160,260</b>	<b>20</b>	<b>139,869</b>	<b>18</b>	<b>15%</b>
<b>Basic earnings per share (in EUR)</b>	<b>5.12</b>		<b>4.46</b>		<b>15%</b>

in EUR thousand

# Krka Group Consolidated Statement of Financial Position

*Strong financial position without leverage burden*

	30.6.2020	share (%)	31.12.2019	share (%)	change 2020-2019	YoY
<b>ASSETS</b>	<b>2,312,193</b>	<b>100.0</b>	<b>2,184,618</b>	<b>100.0</b>	<b>127,575</b>	<b>6%</b>
Non-current assets	1,007,358	43.6	1,041,833	47.7	-34,475	-3%
Current assets	1,304,835	56.4	1,142,785	52.3	162,050	14%
out of which:						
inventories	454,449	19.7	421,578	19.3	32,871	8%
trade receivables	408,359	17.7	434,695	19.9	-26,336	-6%
<b>LIABILITIES</b>	<b>2,312,193</b>	<b>100.0</b>	<b>2,184,618</b>	<b>100.0</b>	<b>127,575</b>	<b>6%</b>
Equity	1,788,341	77.3	1,667,516	76.3	120,825	7%
Non-current liabilities	161,347	7.0	160,905	7.4	442	0%
Current liabilities	362,505	15.7	356,197	16.3	6,308	2%

in EUR thousand



# Krka Group Operating Results

*Margins remain elevated above target range levels*

	1-6/2020	1-6/2019	YoY (%)
<b>Gross profit</b>	<b>482,929</b>	<b>433,765</b>	<b>11%</b>
Gross profit margin	60.1%	57.0%	
<b>EBITDA</b>	<b>272,925</b>	<b>209,688</b>	<b>30%</b>
EBITDA margin	34.0%	27.5%	
<b>EBIT</b>	<b>216,688</b>	<b>154,537</b>	<b>40%</b>
EBIT margin	27.0%	20.3%	
<b>Net profit</b>	<b>160,260</b>	<b>139,909</b>	<b>15%</b>
Net profit margin	19.9%	18.4%	
<b>(ROE) - annualised</b>	<b>18.5%</b>	<b>17.3%</b>	
<b>(ROA) - annualised</b>	<b>14.3%</b>	<b>13.4%</b>	

in EUR thousand

STRATEGIC OBJECTIVES



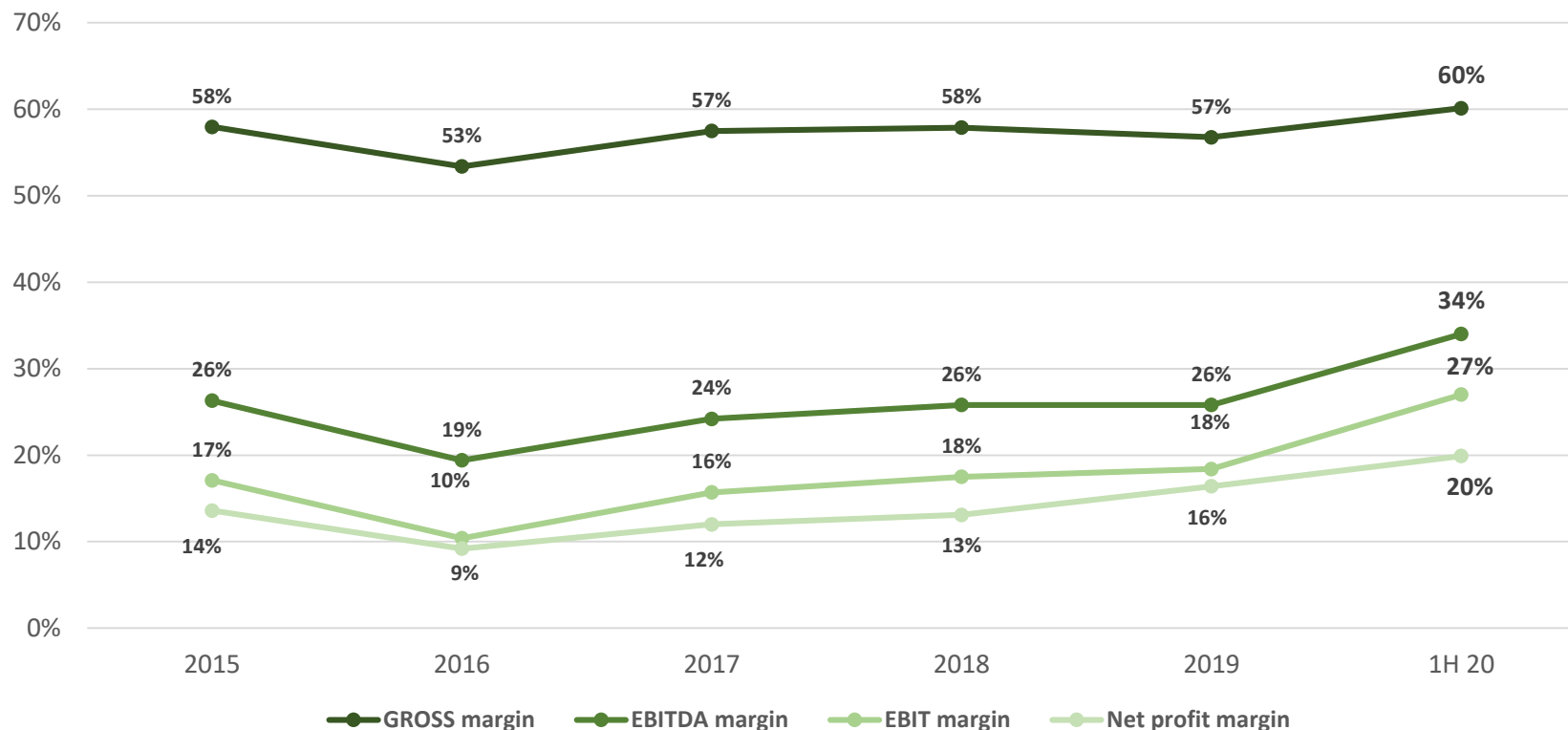
EBITDA margin 21% - 25%



ROE 9% - 12%

# Margins Development

*Steady and long-term growth*



**STRATEGIC OBJECTIVES:** growth in terms of sales volume and value at an average of at least 5% annually, EBITDA margin between 21% and 25%, ROE (net profit/average shareholders' equity in the year) between 9% and 12%, and investments at €134 million annually. Up to 10% of sales is to be earmarked for research and development.

# FX Risk Implications

*Adverse impact of FX volatility*



- ❖ **Due to Covid-19 pandemic we faced increased market FX volatility.** Negative impact of pandemic was seen in crude oil markets, which impacted Russian rouble negatively.
- ❖ In the first half of 2020, Russian rouble depreciated for 12.1% compared to EUR. The average value of Russian rouble was 3.8% lower in first half of 2020 compared to the same period last year.
- ❖ Krka Group realized negative FX impact, due to Russian rouble depreciation, which was partly mitigated due to derivatives in place.
- ❖ Most currencies depreciated already in first quarter of 2020. In the second quarter Russian rouble appreciated as well as some other currency pairs like: PLN, LEI, HRK, HUF, CZK compared to EUR.
- ❖ As regards to American dollar, Krka Group has a short position, due to surplus of obligations in USD. Impact of EUR/USD changes is partially hedged with derivatives.
- ❖ **Net financial position for first half of 2020 taking into account net FX differences,** incomes and expenses from derivatives, net interest income and expenses, and other financial income and expenses results in **minus EUR 26.4 million.**

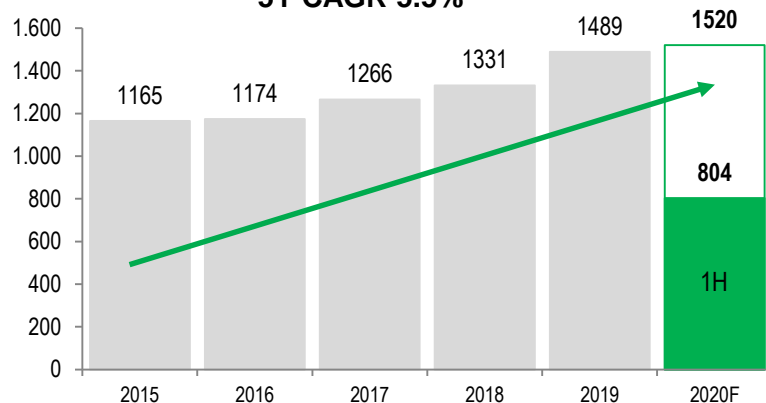
# Performance Indicators

*Sales, EBITDA, EBIT, Net income*

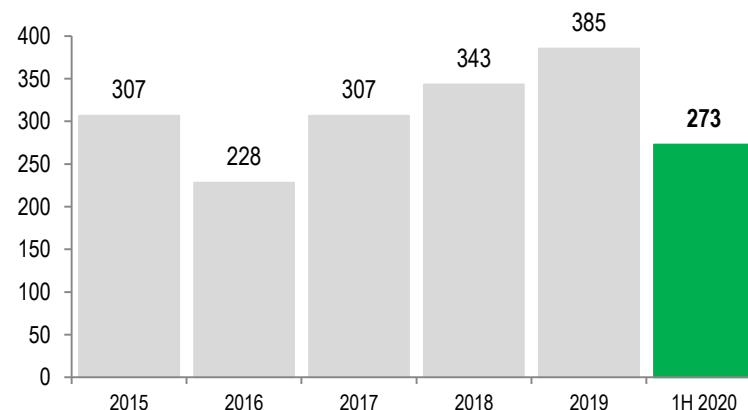


**Sales in € million**

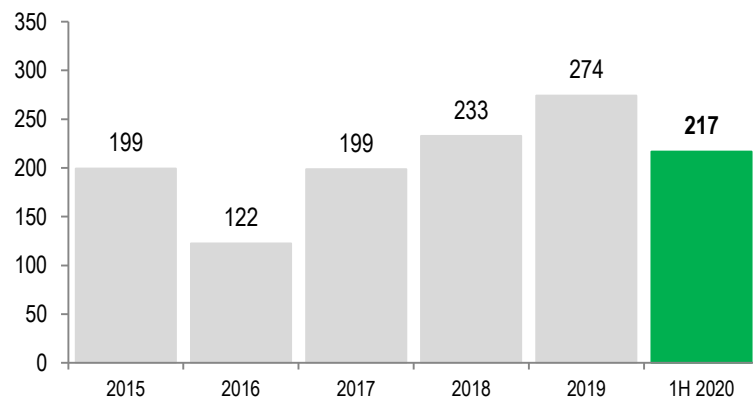
**5Y CAGR 5.5%**



**EBITDA in € million**

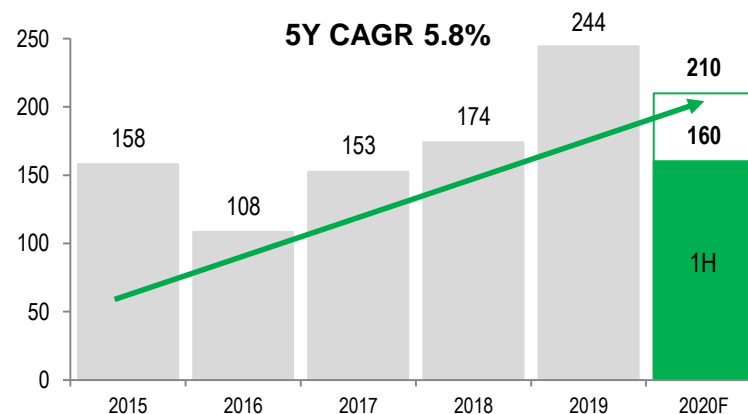


**EBIT in € million**



**Net income in € million**

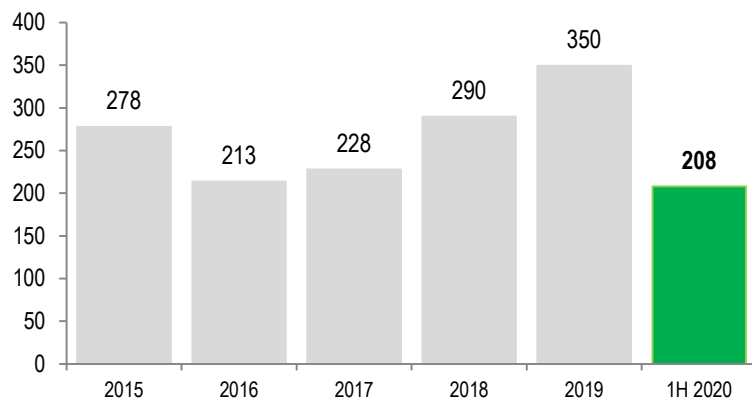
**5Y CAGR 5.8%**



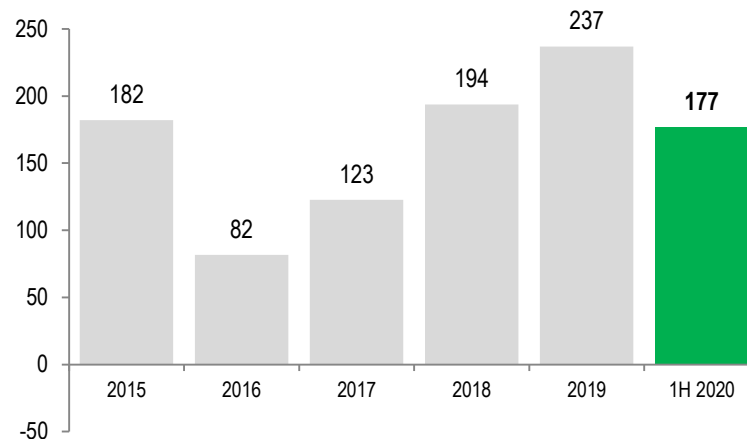
# Performance Indicators

## Cash flow generation & CAPEX

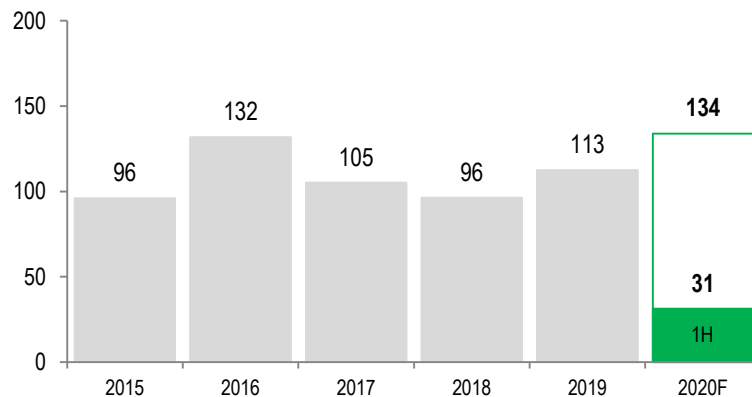
Cash flow from operations in € million



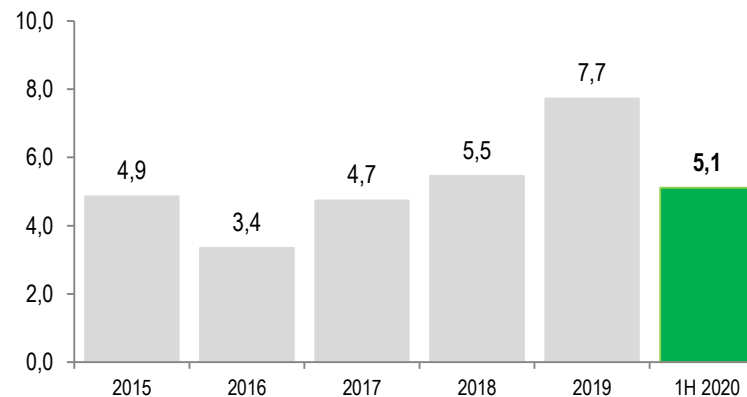
\*FCF € in million



CAPEX € in million



EPS



# Financials & Guidance

*Healthy financials, guidance reaffirmed*



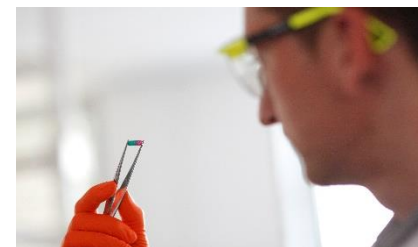
- ❖ **Management reaffirmed 2020 guidance of revenue and margins.**  
(Sales est.: €1,520 million and net profit est.: over €210 million).
  - ❖ **Long-term strategic objectives remain unchanged.**
- 
- ❖ Growth rate is reaching estimated levels.
  - ❖ Negative 1H2020 FX result mainly due to Russian rouble volatility.
  - ❖ **Margins resilient and above target levels; ability to deliver outweighed demand elasticity.**
  - ❖ Strong balance sheet, high cash level and liquidity; no debt.
  - ❖ **Strong generation of cash flow from operations and FCF.**
  - ❖ **Receivables collection unchanged;** no material credit events.
- 
- ❖ **AGM adopted proposed dividend pay-out (4,25 EUR per share).**
  - ❖ Maintaining long-term stable dividend policy and pay-out ratio.
  - ❖ **AGM authorised new 3-year share buy-back programme.**

# Research and Development

*Committed to continuous development*

In the first half of 2020, we obtained marketing authorisations for **4 new products** in 13 dosage forms and strengths:

- ❖ **Xerdoxo (rivaroxaban)** film-coated tablets in four strengths is used concomitantly with other medicines for prevention of atherothrombotic events in adults with cardiovascular diseases;
- ❖ **Olsitri (olmesartan/amlodipine/hydrochlorothiazide)** extended the range of cardiovascular medicines. This single-pill combination medicine is indicated for lowering high blood pressure in patients with resistant hypertension and is available in five strengths. We are entering the market as the first generic pharmaceutical company after the patent expires;
- ❖ **Erlotinib Krka (erlotinib)** an oncology pharmaceutical as film-coated tablets in three strengths is indicated for the treatment of patients with metastatic non-small cell lung cancer and in combination with another medication for the treatment of pancreatic cancer;
- ❖ New formulation of **B-complex (thiamine/riboflavin/pyridoxine/cyanocobalamin/calcium pantothenate/nicotinamide)** film-coated tablets is indicated for prevention and treatment of hypovitaminosis B, avitaminosis B, increased body demand, malabsorption, and various other severe forms of vitamin B deficiency.



# Investments

*Increasing and technologically advancing production and development, providing quality assurance*

In the first half of 2020, **the Krka Group allocated EUR 31.3 million** to investments.

Our investments in the first half of 2020 lagged behind the plan due to the coronavirus pandemic impact on construction industry. We will nevertheless endeavour to meet the investment plan to the largest possible extent by the end of the year.

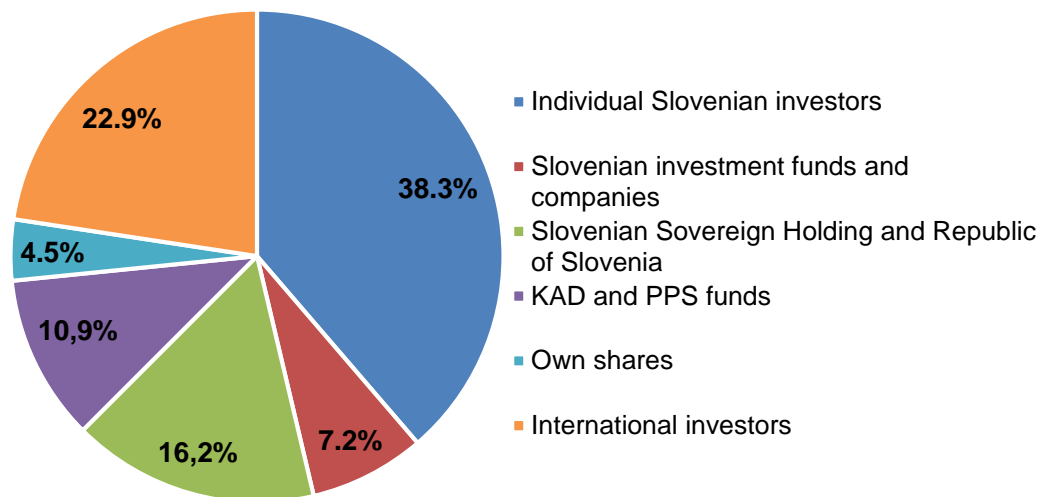
- ❖ Notal 2, the state-of-the-art facility for manufacturing solid dosage forms where we are investing into additional technological equipment. We started equipping a new packaging facility in 2019, and this year we continue setting it up. The investment was estimated at €41 million. When technologically equipped, its full manufacturing capacity will reach 5 billion tablets and 8 billion packagings per year.
- ❖ The Krka-Rus plant manufactures 80% of products intended for the Russian market, giving us the status of a domestic producer in the Russian Federation. In the next few years, we plan to increase production and laboratory capacities. The investment was estimated at €33 million.
- ❖ In Krško (Slovenia), construction of a new warehouse for raw materials started in June 2019. Storage will be arranged in compliance with the guidelines of the Technical Rules for Hazardous Substances (TRGS). Construction of the €8.2-million building has been completed. In June, we examined the building, and currently the procurement of equipment is in progress.
- ❖ At the end of 2017, we established a joint venture Ningbo Krka Menovo with a local partner Menovo in the city of Ningbo, China. In 2019, we further equipped the rooms with manufacturing and laboratory-and-control equipment and started manufacturing several products for markets outside China. The procurement of equipment continues in 2020.



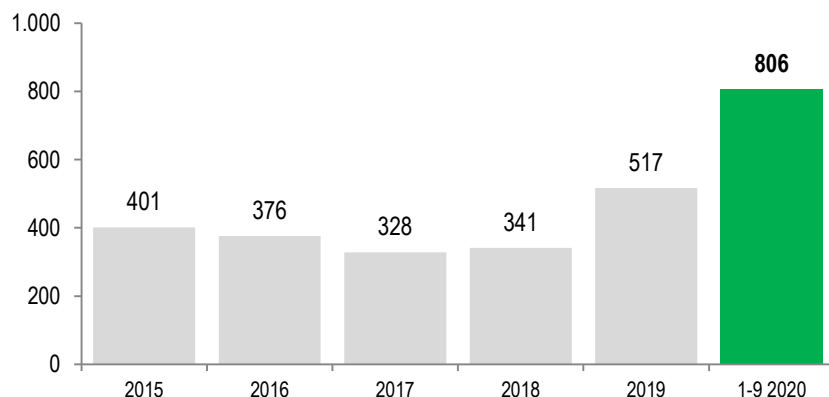


# Share Information and Shareholders Structure

*Stable shareholders structure*



**Average daily volume KRKG (€'000)**



**Ten largest shareholders as of 30 September 2020**

Shareholder	Shares in equity (in %)
Kapitalska družba, d. d.	10.65
Slovenian Sovereign Holding	9.00
Republic of Slovenia	7.21
OTP BANK, D.D.*	4.64
ADDIKO BANK D.D. Pension Fund 1	3.65
CLEARSTREAM BANKING SA*	2.65
Luka Koper, d. d.	1.32
Zavarovalnica Triglav, d. d.	1.18
ADDIKO BANK D.D. Pension Fund 2	1.07
Smallcap World Fund Inc.	1.02
<b>Total</b>	<b>42.41</b>

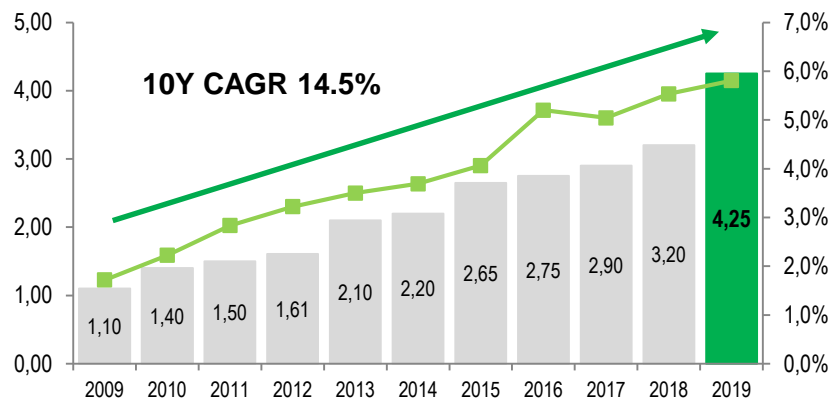
\* Fiduciary account

- ❖ As of 30 September 2020 Krka had 47,614 shareholders or 2.1% less than at the end of 2019.
- ❖ Stock price rose for 12.0% in first 9-months of the year on LJSE.
- ❖ Market maker in place since FEB 2019.

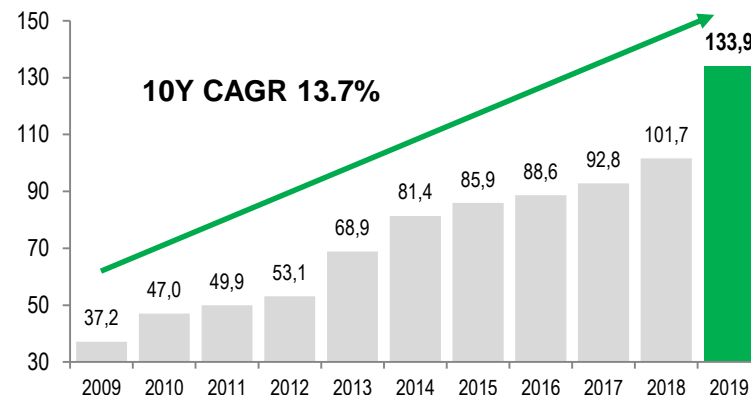
# Dividend Policy and Share Buyback

*Management committed to growth*

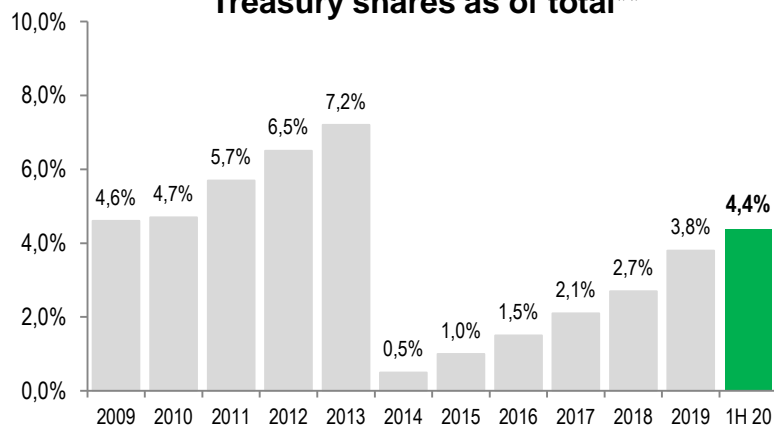
**DPS and dividend yield\* for the business year**



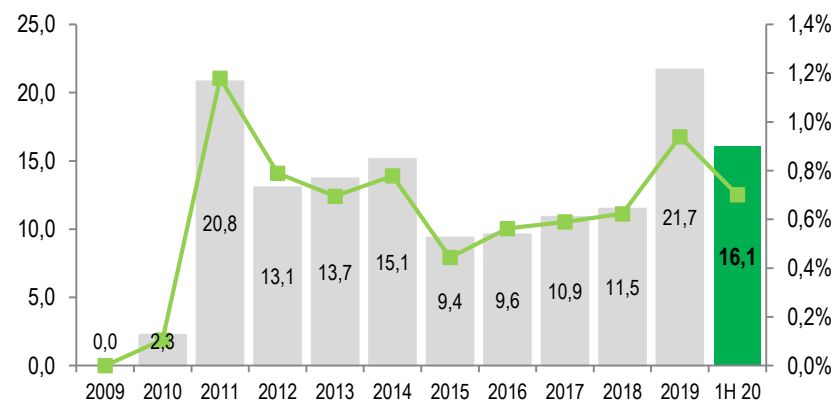
**Allocated for dividends, € million**



**Treasury shares as of total\*\***



**Allocated for treasury shares, € million and buyback yield\*\*\***



\*Dividend yield calculated: dividend paid for the business year / price at the beginning of the year of pay date

\*\*In compliance with the Resolution adopted at the 19th Annual General Meeting of 3 July 2014, Krka decreased its share capital by cancelling 2,632,672 treasury shares, or 7.431% of all issued shares

\*\*\*Share buy back yield calculated: cash allocated for treasury shares / market cap without treasury shares

# Our Key Comparative Strengths

*Foundation for success*



## Quality Assurance & Control

- Vertical integration
- High quality API & finished products
- Clinical trials
- Qualified expert personnel

## Marketing & Sales

- Almost 5000 highly educated and trained MR
- Flexibility and local presence in more than 70 countries
- In depth market specifics knowledge & brand awareness
- Innovative procedures for early market entry
- Broad portfolio of branded innovative generic products

## R&D

- Innovative generic producer
- R&D expenditures 10% of revenue per year
- 170 products in the pipeline
- Unique strengths & combinations, top notch dosage forms
- Successful product life-cycle upgrade
- CAPEX > EUR 130 million per year

## Financials

- Strategic objectives 5% revenue/output growth
- Generating strong CFFO & FCF
- Stable long-term dividend policy; pay-out ratio > 50%; high dividend yield > 5%
- Share buy-back programme

# Vertically Integrated Business Model

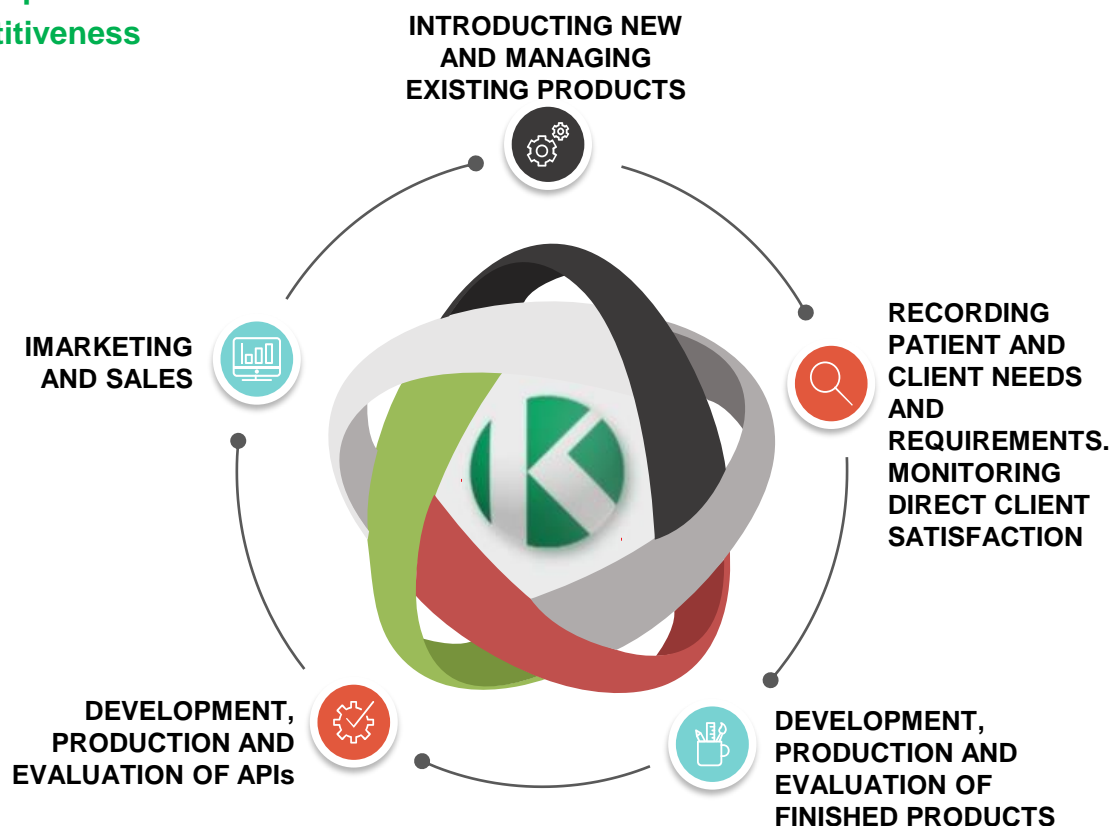
*Strategic comparative advantage*

**Benefiting from vertically integrated business** by employing our know-how, qualified expert personnel, and experience in vertical integration of quality assurance and control in all our operations.

**Flexibility, independence  
and competitiveness**

## Resources

- Human potential
- Research and technological capacities
- Intellectual capital
- Financial resources
- Incoming materials
- Environment and natural resources



## Generating value for stakeholders

- Quality, safe and efficient medicines based on innovative solutions
- Affordable treatment
- Investment in further development
- Stable dividend policy
- Safe and healthy work environment
- Opportunities for employment and developing of knowledge, skills, and talents
- Efficient management of natural resources
- Improvement of life in the community
- Purchase of materials and services

# Krka Group 2H2020 & Challenges

*Has Covid-19 changed business environment?*

- ❖ **Recent worldwide surge in new covid-19 cases still blocks our marketing and sales operations.**
  - ❖ **MR face to face visits to healthcare professionals, doctors, physicians, pharmacists still limited in certain areas.**
  - ❖ Remote access can not fully compensate for face to face visits, congresses, roundtables etc.
  - ❖ **Ease of patients access to doctors on primary and secondary level still effected by covid-19 restrictions.**
- 
- ❖ Long-term negative implications on general health of population (less medicines prescribed, lack of new treatment therapy starts, fewer preventive medical exams and check-ups).
  - ❖ Negative effect on OTC products sales.
  - ❖ Potential long-term negative implication of economic slow-down on government's healthcare budgets and drug reimbursements.
  - ❖ FX fluctuations remain one of key business risk during 2H2020.

**Krka Group is well prepared for the forthcoming period, in sound financial condition with wide range of high quality deliverable products and vigilant to exploit market opportunities, and cover potential drug shortages.**

The course of events related to spreading of infection, its aftermaths, and measures adopted by governments cannot be foreseen, so the Management Board of Krka closely follows the situation in the countries with our business operations.

# Disclaimer

The information, statements or data contained in this presentation has been prepared by Krka, tovarna zdravil, d. d., Novo mesto (hereinafter: the Company) and has been prepared solely for the purpose of informative presentation of the Company business operations. The presentation is not a summary or a compilation of all information relevant to any particular presentation issue. It is not purported to include every item, which may be of interest, nor does it purport to present full and complete disclosure with respect to the Company. The presentation should not be considered a comprehensive representation of the Company's performance.

The information and opinions contained in this presentation are provided as of the date of presentation and are subject to change, correction or completion without prior notice. None of the Company or any of its subsidiary or associated companies, or any of such legal entity's respective directors, officers, employees, or any other party undertakes, or is under any obligation to amend, correct or update this presentation or to provide any additional information that may arise in the future.

No reliance may be placed for any purposes whatsoever on the information contained in this document, or on its accuracy, promptness, correctness and completeness, or opinions contained in this document and no liability whatsoever is accepted for any such information or opinions or any use which may be made of them. The information contained in this document shall not constitute an invitation, an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any Company's shares securities in any jurisdiction. Except for the historical information contained, this presentation includes statements that are, or may be deemed to be, "forward-looking statements". These statements are based on currently available information, on current best estimates, and on assumptions believed to be reasonable. This information, these estimates and assumptions may prove to be incomplete or erroneous, and involve numerous risks and uncertainties, beyond the Company's control. Risks and uncertainties include, but are not limited to Company's ability to successfully implement adopted strategy, growth and expansion plans, Company's ability to obtain/maintain regulatory approvals, implement technological changes, fluctuation in earnings, foreign exchange rates changes, Company's ability to manage international operations and exports, its exposure to market risks as well as other risks. Hence, actual results may differ materially from those expressed or implied by such forward-looking statements. Investors/shareholders/public are hence cautioned not to place undue reliance on these statements/ details. Investment decisions should be made only after full review of entirety of official publicly available documents and information, and investors/shareholders/public are advised to conduct their own investigation and analysis before taking any action with regard to their own specific objectives.

The company and any other information sources for this document bear no responsibility for any damages or losses resulting from the use of information provided in the presentation. The Company undertakes no obligation to publicly update or revise any of the opinions or forward-looking statements expressed in this section, consequent to new information, future events or otherwise. No representation or warranty, express or implied, is provided in relation to the fairness, accuracy, correctness, completeness or reliability of the information, opinions or conclusions expressed herein.



*Living a healthy life.*