

Strauss Group announces results for the first quarter of 2019, with sales stable and profit margins rising

Sales in the quarter were NIS 2.1 billion, with a 0.1% drop in organic sales excluding foreign currency effects;

Operating profit rose 5.7% to NIS 269 million

Giora Bardea, Strauss Group President & CEO: “Strauss Group continues to deliver good results in the first quarter of 2019. Our product diversity and innovation, geographical spread and continuous efficiency enhancement processes have enabled the Group to post a significant improvement in profit margins, despite stability in overall Group sales. Our operations in most categories – Strauss Israel, Sabra-Obela and Strauss Water – delivered growth in sales volumes as well as profit margins. The joint venture in Brazil¹ experienced some weakness in the quarter, mainly as a result of foreign currency effects and the drop in green coffee prices.”

Strauss Group delivered sales of NIS 2.1 billion in the quarter, down approximately 2.8% compared to the corresponding period last year; however, in organic terms and excluding foreign currency effects, the decrease in sales amounted to 0.1%. As mentioned, the decrease is primarily due to the drop in revenue of the joint venture in Brazil¹.

Despite the stagnation in overall Group sales, in terms of profitability Strauss Group has delivered an especially successful quarter. Operating profit was approximately NIS 269 million, which constitutes 12.8% of sales and reflects an improvement of approximately 5.7% in EBIT compared to the first quarter of 2018. The main reason for the increase in the Group’s profit margin is a significant improvement in margins in the international dips and spreads business, particularly in the US, and in Strauss Water in Israel and China.

On the bottom line, the Group concluded the first quarter of 2019 with a net profit of NIS 172 million, an increase of approximately 16.8% over the corresponding period last year. The improvement in the net profit is the result of the increase in the operating profit margin, as well as a decrease in tax expenses compared to the first quarter of 2018.

¹ Três Corações (3C) – The Três Corações joint venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%). (Data reflect Strauss Coffee’s share (50%) unless expressly stated otherwise).

Strauss Israel delivered a solid quarter, with sales rising by approximately 1.3% to NIS 877 million. The company's activities in the quarter were mainly influenced by growth in sales of dairy products, such as the Danone Pro series, desserts led by Milky, energy bars and rice cakes under the Energy brand, Yad Mordechai honey, as well as Fun & Indulgence products. It is noted that in 2018 the figures for the first quarter also included sales data for the period preceding Passover. The Milky brand – which celebrates its 40th birthday this year – remained as strong as ever, with the brand retaining its market share in the dessert category despite the launch of a rival product.

Strauss Israel's gross profit margin in the quarter was approximately NIS 350 million – 39.9% of sales – an improvement of 2.6% over the corresponding period last year. Strauss Israel's operating profit margin rose 2.2% to NIS 112 million. The increase in the gross and operating profit margins is mainly the result of the great diversity in the company's product offering, which allows for a product mix that targets different, and new, customers. The impact is reflected, among other things, in Strauss's aggregate share of the Israeli food and beverage market, which, according to StoreNext's² figures for March 2019, was 12.2% compared to 11.9% in the corresponding period last year. It is noted that in the current quarter the Israeli food and beverage market dropped 0.6%.



Strauss Coffee had a challenging quarter with sales of NIS 894 million, reflecting a drop of 3.6% compared to the corresponding quarter last year excluding foreign currency effects. Translation differences into Shekels in 2019 had a negative impact on sales by the coffee company and

amounted to NIS 59 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 44 million. The decrease is primarily the result of a drop in the sales of the coffee company in Brazil, Três Corações – Brazil's largest coffee company and a joint venture equally owned by Strauss Group and São Miguel Holding Investimentos S.A. Sales in Brazil decreased mainly as a result of a reduction in sales prices following a drop in green coffee prices in the country. The decrease in sales in Brazil in local currency amounted to 4.1%. It is worth noting that Três Corações' market share grew significantly in the quarter to 28.1%, compared to 27.2% in the corresponding period last year (value market share, reflecting 100% of Três Corações' sales, according to A.C. Nielsen figures).

Coffee sales in Eastern Europe (Russia, Ukraine, Romania and Poland) also decreased in the first quarter of 2019. In total, the international coffee business decreased by 5.4% in the quarter in local currency. The coffee business in Israel grew 2.5% in the first quarter, mainly as a result of growth in the freeze-dried coffee category, which was relaunched in the quarter under the Platinum brand, as well as the espresso capsule category, which continued to grow.

² StoreNext is engaged in the measurement of the fast-moving consumer goods (FMCG) segment in the barcoded retail market (hereinafter: "StoreNext").



Strauss Water delivered an excellent first quarter, with a considerable improvement in its operations in Israel and China. The company's sales in the quarter amounted to approximately NIS 143 million, compared to NIS 135 million in the corresponding period in 2018. Increased sales of water bars coupled with growth in the customer base in Israel contributed to revenue growth of 6% compared to the corresponding period last year. In China, revenue growth in the first quarter of 2019 amounted to 28.8% in local currency and was mainly achieved by increasing the number of stores, particularly in the Qingdao area. During the quarter Tami4 launched its new water bar for the business sector, and the Maze water purifier won the Product of the Year award for 2019. Strauss Water's operating profit in the quarter was approximately NIS 16 million (including the profits of the joint venture in China), representing 11.4% of sales and constituting an increase of approximately 67.7% over the corresponding period in 2018.



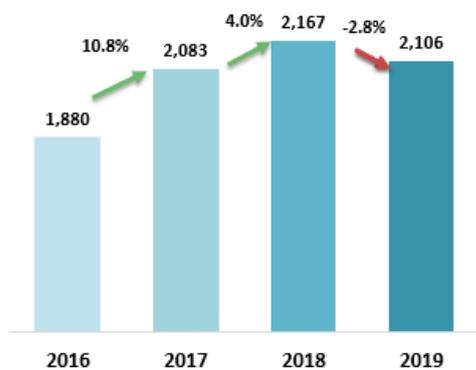
The International Dips and Spreads segment, which includes Sabra and Obela, delivered solid growth of 7.5% in the first quarter excluding foreign currency effects, raising revenue to NIS 192 million. The operating profit was approximately NIS 25 million – an increase of 118% compared to the corresponding period last year. In the US, Sabra achieved a record 61.3% market share in hummus. The company, which is active in the US and Canada, achieved approximately 6.5% sales growth in the quarter, mainly following the adjustment of prices in the North American market.

Obela's organic growth in the quarter was 15.8%, raising revenue to NIS 22 million. Growth primarily originated in the operation in Australia and New-Zealand. During the quarter a new manager was appointed for Obela's operations in Europe, with the aim of developing hummus's market share in Holland and Germany.

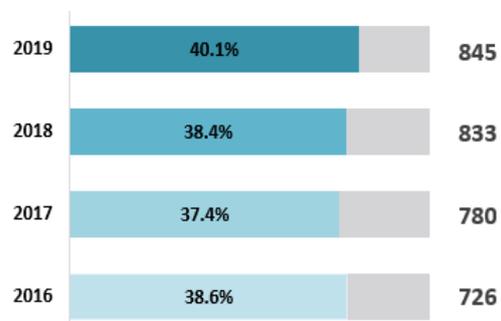
International Dips & Spreads figures reflect Strauss's 50% holding in Sabra and Obela.

Key financial data for the quarters ended March 31 – non-GAAP (NIS millions)*:

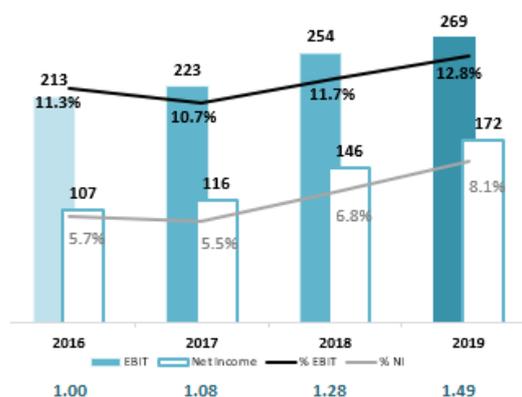
Net sales



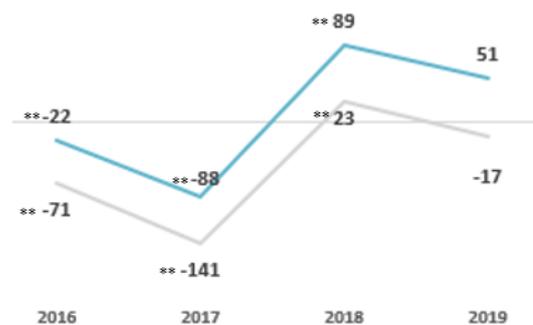
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow



* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

** Reclassified. For further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.

Non GAAP Figures ⁽¹⁾

First Quarter			
	2019	2018	Change
Total Group Sales (NIS mm)	2,106	2,167	-2.8%
Organic Sales Growth excluding FX			-0.1%
Gross Profit (NIS mm)	845	833	1.4%
Gross Margins (%)	40.1%	38.4%	+170 bps
EBITDA (NIS mm)	349	311	12.0%
EBITDA Margins (%)	16.6%	14.4%	+220 bps
EBIT (NIS mm)	269	254	5.7%
EBIT Margins (%)	12.8%	11.7%	+110 bps
Net Income Attributable to the Company's Shareholders (NIS mm)	172	146	16.8%
Net Income Margin Attributable to the Company's Shareholders (%)	8.1%	6.8%	+130 bps
EPS (NIS)	1.49	1.28	16.3%
Operating Cash Flow (NIS mm)	51	89 *	-42.7%
Capex (NIS mm) ⁽²⁾	-68	-66	3.0%
Net debt (NIS mm)	2,344	2,208 *	6.2%
Net debt / annual EBITDA	1.9x **	2.1x *	(0.2x)

(1) The data in this document are based on the company's non-GAAP figures, which include the proportionate consolidation of jointly controlled businesses (without implementation of IFRS 11) and do not include share-based payment, mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices and all adjustments necessary to delay recognition of gains and losses arising from commodity derivatives until the date when the inventory is sold to outside parties, other income and expenses, net, and the tax effect of excluding those items, unless stated otherwise.

(2) Investments include the acquisition of fixed assets and investment in intangible assets.

* Reclassified. For further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.

** EBITDA for the 12 months ended March 31, 2019 was adjusted to reflect the effects of IFRS 16, Leases.

Note: Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

Non GAAP Figures ⁽¹⁾

	First Quarter							
	Sales (NIS mm)	Sales Growth vs. Last Year	Organic Sales Growth excluding FX	EBIT (NIS mm)	NIS Change in EBIT	% Change in EBIT	EBIT margins	Change in EBIT margins vs. 2018
Sales and EBIT by Operating Segments and Activities								
Strauss Israel:								
Health & Wellness	538	1.3%	1.3%	55	1	1.8%	10.3%	+10 bps
Fun & Indulgence ⁽²⁾	339	1.3%	1.3%	57	2	2.6%	16.6%	+20 bps
Total Strauss Israel	877	1.3%	1.3%	112	3	2.2%	12.7%	+10 bps
Strauss Coffee:								
Coffee Israel	222	2.5%	2.5%	58	17	39.8%	26.0%	+700 bps
International Coffee ⁽²⁾	672	-12.7%	-5.4%	54	-24	-30.0%	8.1%	-200 bps
Total Strauss Coffee	894	-9.4%	-3.7%	112	-7	-5.7%	12.5%	+50 bps
International Dips & Spreads:								
Sabra (50%) ⁽²⁾	170	5.8%	6.5%	27	13	90.8%	16.0%	+710 bps
Obela (50%) ⁽²⁾	22	11.6%	15.8%	-2	1	19.3%	NM	NM
Total International Dips & Spreads	192	6.5%	7.5%	25	14	118.0%	13.0%	+670 bps
Strauss Water (2)	143	6.0%	6.0%	16	6	67.7%	11.4%	+420 bps
Other	0	NM	NM	4	-1	-21.6%	NM	NM
Total Group	2,106	-2.8%	-0.1%	269	15	5.7%	12.8%	+110 bps

- (1) The data in this document are based on the company's non-GAAP figures, which include the proportionate consolidation of jointly controlled businesses (without implementation of IFRS 11) and do not include share-based payment, mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices and all adjustments necessary to delay recognition of gains and losses arising from commodity derivatives until the date when the inventory is sold to outside parties, other income and expenses, net, and the tax effect of excluding those items, unless stated otherwise.
- (2) Fun & Indulgence figures include Strauss's 50% share in the salty snacks business. International Coffee figures include Strauss's 50% share in the Três Corações joint venture (3C) – Brazil – a company jointly held by the Group (50%) and by the local São Miguel Group (50%). International Dips & Spreads figures reflect Strauss's 50% share in Sabra and Obela. Strauss Water EBIT figures include Strauss's share in the joint venture in China, Haier Strauss Water (HSW) (49%).

Note: Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands. Total figures for International Dips & Spreads were calculated on the basis of the exact figures for Sabra and Obela in NIS thousands.

Condensed financial accounting (GAAP)			
First Quarter			
	2019	2018	Change
Sales	1,430	1,446	-1.1%
Cost of sales excluding impact of commodity hedges	830	856	-3.0%
Adjustments for commodity hedges	13	-11	
Cost of sales	843	845	-0.2%
Gross profit	587	601	-2.3%
% of sales	41.1%	41.6%	
Selling and marketing expenses	314	315	-0.6%
General and administrative expenses	99	95	3.9%
Total expenses	413	410	
Share of profit of equity-accounted investees	68	58	16.2%
Operating profit before other expenses	242	249	-2.4%
% of sales	17.0%	17.2%	
Other income (expenses), net	-1	2	
Operating profit after other expenses	241	251	-3.6%
Financing expenses, net	-27	-16	67.6%
Income before taxes on income	214	235	-8.4%
Taxes on income	-46	-67	-30.3%
Effective tax rate	21.6%	28.3%	
Income for the period	168	168	0.3%
Attributable to the Company's shareholders	156	153	1.9%
Attributable to non-controlling interests	12	15	-17.1%

Note: Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

Investor Conference Calls

Strauss Group will host an investor conference at the offices of the Company in Petach Tikva on Monday, May 20, 2019 at 14:00 (Israel time) to review the Financial Statements of the Company for the first quarter of 2019.

Investors can listen to the conference in Hebrew by dialing 03-918-0685:

Strauss Group will also host an investor conference call in English on Monday, May 20, 2019 at 15:30 Israel time (13:30 UK, 08:30 EST) to review the Financial Statements of the Company for the first quarter of 2019.

To participate in the conference in English, please call one of the following numbers as appropriate:

From the UK: 0-800-917-5108

From the US: 1-888-407-2553

From Israel: 03-918-0644

The Financial Statements for the first quarter of 2019 and Investors Presentation are posted on the Group's Investor Relations website at:

<http://ir.strauss-group.com/phoenix.zhtml?c=92539&p=irol-irhome>

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