Strauss Group delivers NIS 2.17 billion in revenue in the first quarter of 2020, reflecting 8.1% growth excluding foreign currency effects[1]

Growth in shekels was 3.0% following erosion of income due to exchange rate volatility, notably the depreciation of the Brazilian real

Group CEO, **Giora Bardea**: Strauss Group delivered strong performance in the quarter, growing sales and maintaining profit stability, while, like the rest of the world, having to cope with the effects of COVID-19. The Group has focused its efforts on protecting its people's health, maintaining business continuity and stability and providing a response to demand, supported by financial management that will allow for flexibility and preparation for a new reality that will be accompanying us in coming months. The diversified structure of the Group's business promotes resilience but also creates challenges, including the impact volatile exchange rates and restarting businesses harmed by the pandemic. The Group continues to invest in its employees, to build closer relationships with suppliers and retailers, to invest in developing its brands and to reinforce its partnerships, while reviewing various business opportunities and making advance preparations for the challenges that lie ahead.

Strauss Group has wrapped up the first quarter of 2020, which was marked by conflicting effects as a result of the coronavirus pandemic. The company's income in the quarter was NIS 2.17 billion, reflecting organic growth – excluding foreign currency effects – of approximately 8.1% compared to the Group's income in the corresponding period last year and attesting to impressive growth in the demand for its products. However, the effect of changes in exchange rates, notably in the coffee company, eroded income so in shekels, quarterly growth was approximately 3.0%.

According to Strauss Group CEO **Giora Bardea**: "We are today announcing our results for the first quarter, part of which was impacted by the outbreak of COVID-19, impacts which will continue to accompany us at least until the end of the year. As a socially responsible business company, we first and foremost took steps to maintain our production activities, while granting uncompromising priority to the health and safety of our people and the safety of the products we manufacture.

"These times have uniquely enhanced the role of food in people's lives. The pandemic reminded everyone how vital it is to cultivate a local food industry that is connected to local agriculture, not only in Israel but everywhere in the world. These times emphasize the advantages of being close to your raw materials, and how crucial it is to maintain transportation and supply capabilities for raw materials and food to supermarkets and homes.

"In the first quarter we felt the impact of the coronavirus outbreak in our business in China during most of the period, whereas in other countries of operations the effect was mainly in March, but continued into April and May – months in which most of the countries in the world experienced extended lockdowns. Nevertheless, ultimately we are today announcing an excellent quarter that attests to the Group's business and financial robustness.

"The Group has assigned dedicated funds as part of its social plan to support those who faced the front line of this crisis, including the company's front line employees, helping suppliers and regularly supplying food packages to senior citizens and medical teams. These activities were implemented across a number of geographies. The key challenge now is to optimally manage the day after the crisis and to prepare for a potential second outbreak of the virus should it occur, in accordance with our strategy for the following years.

prioritizing activities in order to divert resources in response to social needs resulting from the COVID-19 crisis. At the moment, our major challenge is to optimally manage the exit from the crisis, and, as required,

[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.

to formulate an outline in preparation for a second wave should there be one, and, of course, adapt the Group's strategy to accommodate its continued activity in coming years."

Revenue growth is primarily the result of growth in Strauss's sales in Israel, as well as growth in Sabra's sales in the US in March; this sharp increase in sales had a significant effect on the entire quarter. However, several activities, such as sales to the institutional market and food services mainly by the coffee company and Strauss Israel and the closure of the Elite Café chain, had a negative effect on our results. The income of HSW in China dropped by 31.2% in the first quarter, while the income of the coffee business, notably in Brazil, was materially affected by negative translation differences – an effect that has continued, and even intensified, in the second quarter. Exchange rate differences throughout the entire quarter lowered the company's revenues by approximately NIS 100 million (of which approximately NIS 77 million are due to the depreciation of the Brazilian real against the shekel). This currency erosion is the main reason for the difference in sales growth in local currency and in shekels.

The Group's non-GAAP gross profit margin in the first quarter of 2020 was NIS 878 million, up 3.9% compared to the corresponding period last year, gross profit margin was 40.5%, an improvement compared to the gross profit margin in the corresponding period, which was 40.1%. The improvement is primarily the result of impressive growth in volumes sold in most of the company's areas of activity. The company's non-GAAP operating profit in the quarter was NIS 268 million, down by 0.5% compared to the corresponding period last year. The currency depreciation eroded NIS 8 million from the company's EBIT of these the BRL eroded NIS 5 million. The main reason for the drop is an increase in marketing and selling expenses and a drop in the profits of HSW in China as a result of COVID-19. Net profit attributable to the shareholders of the company was NIS 171 million – a decrease of 0.3% compared to the corresponding period last year – due to increased tax expenses.

Strauss Israel

Strauss Israel's business in the first quarter was split between two periods: January-February, in which company sales grew substantially, and March, when extraordinary growth rates were recorded due to Passover and the coronavirus outbreak in Israel. The company applied significant operational measures to enable it to continue to manufacture enough food and deliver it to retailers before and during the lockdown, while granting top priority to the safety and hygiene of its people at the various sites, during their transportation to and from work and in the offices, as well as to the safety of the food it manufactures.

In the first quarter Strauss Israel's sales grew by 12.1% to NIS 983 million. With signs of the decision to impose a lockdown emerging in early March and the ensuing stocking up on food products, in addition to Passover sales, in March the company's sales grew by approximately 22.8% compared to the corresponding period last year. Sales grew across all categories and divisions. The nature of sales and the sales mix changed, such that there was an increase in sales by the food chains, supermarkets and neighborhood grocery stores, while in parallel impulse (on-the-go) consumption, mainly at convenience stores, and the away-from-home (AFH) market, particularly sales to the institutional market – restaurants, hotels, etc., decreased significantly. In 2019, total sales to the institutional and AFH markets accounted for less than 10% of the Group's sales turnover.

Sales of the Health & Wellness segment (which mainly includes the Dairy division and Fresh Foods) in the quarter amounted to NIS 617 million, reflecting 14.5% growth compared to the corresponding period last year. The Fun & Indulgence segment (which mainly includes the Confectionery and Salty Snacks divisions) grew 8.3% in the quarter, with sales amounting to NIS 366 million. Growth is the result of consumers stocking up in preparation for the lockdown as well as the timing of Passover.

Strauss Israel's gross profit in the quarter was NIS 396 million, reflecting 13.1% growth compared to the corresponding period last year, and the operating profit grew by 11.3% to NIS 124 million.

Strauss Coffee

Strauss Coffee's business in the first quarter was affected by different, opposing effects. Coffee sales in Israel in the first quarter amounted to NIS 235 million, up 6.1% compared to the corresponding period. Sales growth is the result of increased demand due to the impacts of COVID-19; however, this growth was offset by the discontinuation of sales to the institutional market (hotels, restaurants, etc.) and by the discontinuation of the operation of the Elite Café chain.

In the international coffee business there are opposite effects as well. For example, the company's share of sales in Brazil in local currency rose by 3.0% in the past quarter and amounted to NIS 343 million. The increase in local currency sales is the result of growth in volumes by the company, which is the leader of the coffee market in Brazil with a market share of approximately 28.2%. The company estimates that growth will continue and will intensify if the Mitsui transaction, signed during the first quarter, is approved. However, the economic situation in Brazil and the impacts of the global pandemic have led to significant erosion of the Brazilian Real against the shekel (an average of 18.5% in the quarter). This erosion has reduced the company's revenues by approximately NIS 77 million, meaning that in shekels, income in the quarter was 16.4% lower than in the corresponding period last year, and the company's EBIT by NIS 5 million.

The outbreak of COVID-19 in Brazil is expected to mainly affect business in the second quarter, as the pandemic reached the country relatively late compared to Israel and Europe. As at the middle of the second quarter, the devaluation of the real versus the shekel has continued and even intensified, and is presently approximately 31.1% compared to the average exchange rate in the second quarter of 2019, which is expected to have a greater impact on the company's second quarter results.

In February 2020 the Três Corações joint venture in Brazil[2] established a joint venture with Positive Brands, that manufactures and sells mainly dairy substitute products (plant-based, mainly cashews), with an investment of approximately BRL 39 million (for 50% participation in the JV).

In Russia, Ukraine and Poland sales growth in local currency was recorded, among other things as a result of the impacts of COVID-19, but in Romania and Serbia sales dropped due to intensified competition, which led to a decline in sales prices. Due to the effect of changes in the exchange rate of the shekel against the company's functional currencies in Eastern Europe, with the exception of Russia and Ukraine, in all countries the company recorded a drop in income in shekels compared to the corresponding period last year.

Sabra and Obela

The company's chilled dips and spreads business delivered 8.8% sales growth in local currency by Sabra, which is active in the US and Canada. The main reason for the increase is the rise in food consumption in the US in general, particularly plant-based products, among other things as a result of the effects of the COVID-19 pandemic in March. The company's sales in the first quarter amounted to NIS 355 million (reflecting 100%), but following the depreciation of the US dollar against the shekel by an average of 4.1% during the quarter, growth in shekels was approximately 4.4%.

Sabra's operating profit (reflecting 100%) amounted to NIS 39 million in the quarter compared to NIS 54 million in the corresponding period last year, following a sharp increase in one-time marketing expenses following the advertisement in the American Super Bowl, which took place in early February, as opposed to last year, when marketing expenses were mainly spent in the second half of the year. Obela, which is active in Australia, Mexico, New Zealand and Western Germany, recorded sales of NIS 40 million up 0.9% excluding foreign currency effects, compared to a drop of 9.7% in sales in shekels.

Strauss Water

In the first quarter of 2020 sales by Strauss Water (which mainly include sales by Strauss Water Israel) amounted to NIS 144 million, an increase of 0.4% despite the effects of COVID-19, which led to a drop in sales of new machines, mainly during March. Strauss Water's operating profit was NIS 15 million in the quarter compared to NIS 16 million in the corresponding period last year, mainly as a result of additional costs related to the coronavirus outbreak, as well as a drop in the profits of Strauss Water in China.

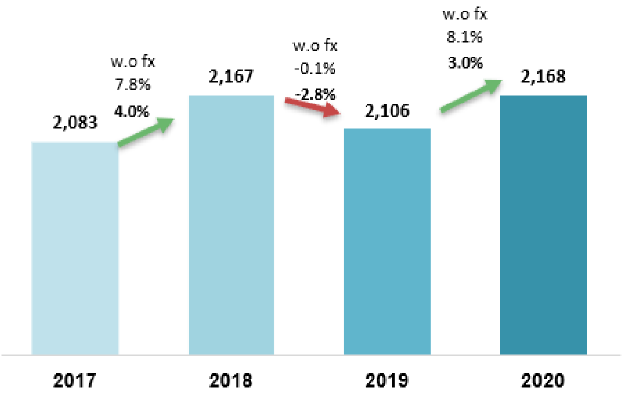
The company's operation in China through the joint venture with Chinese household appliance giant Haier, Haier Strauss Water (HSW), was materially affected by COVID-19, which shut down a significant part of business operations in China for the entire first quarter. The company's sales in the quarter (reflecting 100%) were NIS 106 million compared to sales of NIS 155 million in the corresponding period – a decrease of

[2] 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).

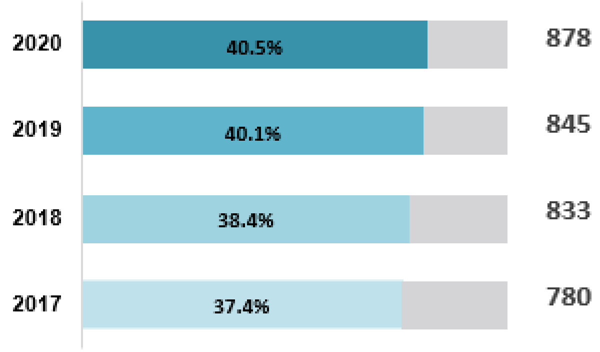
31.2%; however, as a result of the impact of the shekel/yuan exchange rate, in local currency the decrease was 26.4%. The company took advantage of the crisis to further strnegthen its online sales operation in China, with ecommerce sales offsetting the negative impact of the shutdown of sales centers in China during most of the first quarter. As a result of these efforts, the company's online market share positioning rose to first place.

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

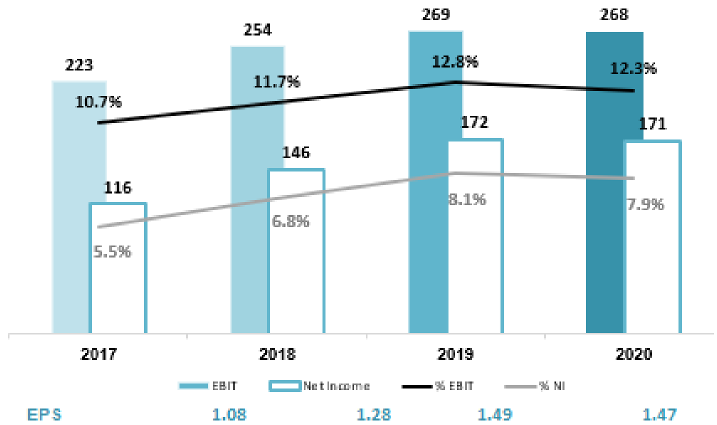
Net sales



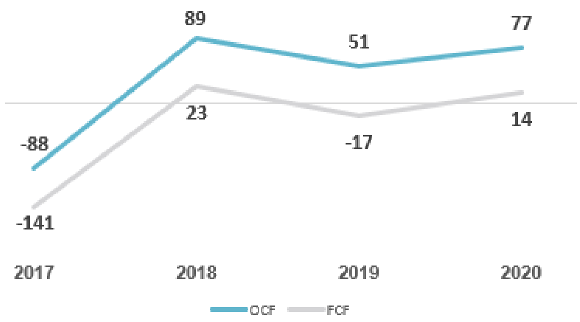
Gross profit and gross profit margin



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.

Non GAAP Figures [1]

First Quarter			
	2020	2019	Change
Total Group Sales (NIS mm)	2,168	2,106	3.0%
Organic Sales Growth excluding FX			8.1%
Gross Profit (NIS mm)	878	845	3.9%
Gross Margins (%)	40.5%	40.1%	+40 bps
EBITDA (NIS mm)	354	349	1.5%
EBITDA Margins (%)	16.3%	16.6%	-30 bps
EBIT (NIS mm)	268	269	-0.5%
EBIT Margins (%)	12.3%	12.8%	-50 bps
Net Income Attributable to the Company's Shareholders (NIS mm)	171	172	-0.3%
Net Income Margin (Attributable to the Company's Shareholders) (%)	7.9%	8.1%	-20 bps
EPS (NIS)	1.47	1.49	-0.8%
Operating Cash Flow (NIS mm)	77	51	51.0%
Capex (NIS mm) [2]	-63	-68	-7.4%
Net debt (NIS mm)	2,017	2,344	-14.0%
Net debt / annual EBITDA	1.6x	1.9x	(0.3x)

(1) The data in this document are based on the company's non-GAAP figures, which include the proportionate consolidation of jointly controlled businesses 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.

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]

Sales and EBIT by Operating Segments and Activities	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. 2019
Strauss Israel:								
Health & Wellness	617	14.5%	14.5%	66	11	19.9%	10.7%	+40 bps
Fun & Indulgence [2]	366	8.3%	8.3%	58	1	2.8%	15.8%	-80 bps
Total Strauss Israel	**983**	**12.1%**	**12.1%**	**124**	**12**	**11.3%**	**12.6%**	**-10 bps**
Strauss Coffee:								
Israel Coffee	235	6.1%	6.1%	61	3	5.4%	25.8%	-20 bps
International Coffee [2]	609	-9.4%	4.6%	46	-8	-14.1%	7.7%	-40 bps
Total Strauss Coffee	**844**	**-5.6%**	**5.0%**	**107**	**-5**	**-4.0%**	**12.7%**	**+20 bps**
International Dips & Spreads:								
Sabra (50%) [2]	177	4.4%	8.8%	20	-8	-28.0%	11.0%	-500 bps
Obela (50%) [2]	20	-9.7%	0.9%	-2	1	35.3%	NM	NM
Total International Dips & Spreads	**197**	**2.8%**	**7.9%**	**18**	**-7**	**-27.6%**	**9.1%**	**-390 bps**
Strauss Water	**144**	**0.4%**	**0.5%**	**15**	**-1**	**-9.3%**	**10.3%**	**-110 bps**
Other [2][3]	**0**	**NM**	**NM**	**4**	**0**	**-22.5%**	**NM**	**NM**
Total Group	**2,168**	**3.0%**	**8.1%**	**268**	**-1**	**-0.5%**	**12.3%**	**-50 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 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 Haier Strauss Water (HSW) in China (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			
	2020	2019	Change
Sales	1,545	1,430	8.0%
Cost of sales excluding impact of commodity hedges	896	830	7.9%
Adjustments for commodity hedges	14	13	
Cost of sales	910	843	7.9%
Gross profit	**635**	**587**	**8.2%**
% of sales	41.1%	41.1%	
Selling and marketing expenses	336	314	7.2%
General and administrative expenses	108	99	9.9%
Total expenses	**444**	**413**	**7.8%**
Share of profit of equity-accounted investees	48	68	-28.9%
Operating profit before other expenses	**239**	**242**	**-1.6%**
% of sales	15.4%	17.0%	
Other income (expenses), net	-1	-1	
Operating profit after other expenses	**238**	**241**	**-1.3%**
Financing expenses, net	-10	-27	-61.1%
Income before taxes on income	**228**	**214**	**6.0%**
Taxes on income	-57	-46	23.3%
Effective tax rate	25.1%	21.6%	
Income for the period	**171**	**168**	**1.3%**
Attributable to the Company's shareholders	**156**	**156**	**-0.4%**
Attributable to non-controlling interests	15	12	23.5%

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

Conference Call

Strauss Group will host a conference call in Hebrew on Monday, May 25, 2020 at 14:00 (Israel time) with the participation of company management to review the financial statements of the company for the first quarter of 2020.

To participate in the conference call in Hebrew, dial 03-918-0609.

Strauss Group will also host a conference call in English on Monday, May 25, 2020 at 16:00 (Israel time) (14:00 UK, 09:00 EST) with the participation of company management to review the financial statements of the company for the first quarter of 2020.

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

UK: 0-800-917-9141
US: 1-866-860-9642
Israel: 03-918-0664

A recording of the calls will subsequently be available on the company's website at:

https://ir.strauss-group.com/company-presentations/conference-call-recordings/

The financial statements for the first quarter of 2020 and the presentation that will accompany the calls will be available prior to the conference calls on the following websites:

https://ir.strauss-group.com/company-presentations/quarterly-presentations/
https://ir.strauss-group.com/earning-releases/

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