Strauss Group Ltd.
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Operator: Ladies and gentlemen, thank you for standing by. Welcome to Strauss Group's Fourth Quarter and Full Year 2016 Results Conference Call. All participants are at present in listen-only mode. Following Management's formal presentation, instructions will be given for the question-and-answer session. For Operator assistance during the conference, please press star-zero. As a reminder, this conference is being recorded Tuesday, March 28th, 2017. I would like to remind everyone that the conference call may contain projections or other forward-looking statements regarding future events, or the future performance of the company. These statements are only predictions and may change as the time passes. Strauss does not assume any obligation to update the information. Actual events or results may differ materially from those projected, including as a result of changing industry and market trends, reduced demand for our products, the timely development of our new products and their adoption by the market, increased competition in the industry, and price reductions, as well as due to risks identified in the documents filed by the company with the ISA. With us on line today are Mr. Gadi Lesin, President and CEO of Strauss Group, and Mr. Shahar Florence, the CFO. Mr. Lesin, please go ahead.

Gadi Lesin: Thank you. Good afternoon, and good morning to everyone, and thank you for joining us this conference call to discuss the results of the fourth quarter and full year of 2016 for Strauss Group. With me today are Shahar Florence, group CFO, Tomer Harpaz, CEO Strauss Coffee, and

Daniella Finn, Investor Relations. You should all now have our presentation, which we published earlier today Moving to slide number 5. 2016 was a very strong year for Strauss Group. We grew sales organically, excluding FX, by 6.2%, to just over 7.9 billion shekels. In a global context, where food and beverage companies are struggling to grow their top line, this is no doubt a fantastic achievement. The trend in our margins were positive across the board, even given the negative fourth quarter effect due to the recall in Sabra, with gross operating and net margin expanding. Our net income for 2016 was 335 million shekel, up 14% versus last year, and operating cash flow grew approximately 75%, to 610 million shekels. Before we dive into the results, I would like to say that I'm extremely excited about the deal announced today, whereby Strauss Coffee acquired a 25.1% take of TPG for 257 million euros. This is a significant strategic deal for both Strauss Group and Strauss Coffee, and Shahar and Tomer will discuss the strategic and the financial rationale of the deal shortly. But before, I would like to hand over the call to Shahar Florence, our CFO to discuss the financial results in more details. Shahar, please.

Shahar Florence: Thank you, Gadi, good afternoon, everybody. As Gadi said, this is a great opportunity for us to announce the deal, but we want also to first summarize 2016 and the fourth quarter. 2016 was a very, very good year for Strauss Group. All the companies in the Group grew their sales and their profits, except Sabra, which we'll talk separately later on. We have finished the year with a very good operating cash flow and free cash flow, and reduced the leverage. So we started 2017 in a good point where we approach the deal that we will discuss in a few moments. I'm moving to slide number 9, you can see that despite of the market condition in all the food and beverage markets in the world, we managed to grow the company by almost 4% this year. And this is despite the fact that the foreign currencies are – worked against us in this aspect, and eroded the gross by about 176 million shekels, just because of the translation differences, mainly in the real and the – and ruble. So though, in the fourth quarter, the trend was reversed, and the fourth quarter those currencies became stronger versus the Israeli shekel. But as an average , over the year, we could have even grow faster if the currency stayed neutral. So – but anyway, 4% growth across the – across the portfolio, more than 6% if you look at it in constant currency base. And in the next slide, slide number 10, you can see Coffee growth 11.4% organically, 7% nominal. Strauss Israel, in a market that was pretty much flattish this year, grew almost between half a percentage. This comes with a very, very extensive innovation in the portfolio. We reduced prices in the market, and we managed to take market share from 11 – to 11.7%. Sabra and the Dips and Spreads segment went down about 4%, and 4.6 nominally. This happened mainly in the – or only in the fourth quarter. Sabra grew as well as Obela at the first three quarter, and we'll talk about the recall in a moment. Strauss Water, which command most of the so-called "Other" segment, which include in this aspect, the sales in Sabra and – sorry, Water and Max Brenner – we started to publish the numbers of our sales in China – I'll talk about it in a moment – but those numbers, mainly Strauss Water Israel, show you a growth of about 3.3%, this is in shekels. Max Brenner with the dollar devaluation versus the shekel eroded the sales in nominal value. If we are looking on the fourth quarter, in slide number 11, again, despite of the recall in Sabra, 7.2% growth, and 4.2% growth nominally. And you can see the – what I said before – all the companies in the portfolio grew their sales in this aspect, except of Sabra. And the growth went – you can show – you can see the growth in sales contribution into the profit. And in slide number 13, you can see a very nice growth in our profit, operational profit went up 12.8%, and excluding the FX, even almost 14 and a half percent, and not – not less important, profitability went up to 9.4%. The – in the fourth quarter, in slide number 14, we'll see the main differences were due to Sabra and the rest of the portfolio improve the performance. So, all in all, in slide number 15, you can see that all the arrows are green versus last year, starting from sales, going to the operational profit, and the cash flow and the free cash flow. Net that went down and thus the leverage went down as well, both in the GAAP and non-GAAP numbers. I'll move on to slide number 17, when – where you can see that the net profit improved as well as the profit per share. Talking about Strauss Israel in slide number 19. Top line grew despite of the softness in the market. 11.7% at the end of the year market share, versus 11% at the beginning of the year. A very large portion of the growth was achieved by new product and innovation, and the margins were improved a lot by efficiency. Again, that – though we raised the minimum salaries to our employee, we were chosen as the most preferred employers in Israel and we are very proud about this phenomenon. We think that those investment, both in the marketing, but also in our employees, will pay back, and the improvement in the competitive position in Israel will contribute also to the future profit. I'm moving to slide number 20, and for sure, the greatest stuff that we have towards 2017 is to deal with the Sabra market share and Sabra sales. We had announced in November last year that we had a recall. The recall, not only that we didn't sell for a week or so, we also took back some of the products, and we later on invested a lot in the marketing, in order to regain market shares and quantities. Looking on the market share right now, we started the fourth quarter with something like 54% market share in hummus and 27% in the total fresh Dips and Spreads. We went down to almost 50% market share just after the recall. I'm glad to say that these days, in the last weeks of March, we are already back in 60% market share, and the sales are catching back. But we do not intend to stop where we – in the level of sales that we had in the third quarter. We intend to invest in this market, regain the consumer trust, and go back to decent growth. And this is, again, the most important challenge that we have to face into 2017. So, going back to the numbers, slide number 21, you can see that in the yearly numbers, profits went down 37%, mainly due to the loss that you can see in slide number 22, loss that was due to the fact that we had to take back lot of product, we had to invest a lot in marketing. And it was offset by the insurance proceeds that we got. We still anticipate a few million dollars for the next quarter, but most of the insurance that we had is already recorded in the fourth quarter. Strauss Water. As you remember, we do not consolidate the activities in China, so the numbers that you see is mainly the operation in Israel, and small numbers for the operations in the UK. So the growth is mainly attributed to the Israeli market, but we also published the numbers of the Chinese operation. This business is almost at the 100-million dollars turnover, with a growth of about 30% year over year profitable, you can see also the profit in the – equity profit that we have in the IFRS report, and we intend to publish those numbers now every quarter, so you can follow the achievements in – in China. Another deal that we had announced in the end of Q4 is the acquisition of the minority stock in Strauss Water, about 12%, we paid over 50 million shekels for the acquisition. We're happy that partners that works with us can make their exits. And I think that as a company that is based on relation with its partners, this is a good sign for people that can make a profit with us, and for us, will give all the flexibility that we need in order to take Strauss Water into the – into the future. Last but not least – we changed the order this quarter, just that we can start now with Coffee and move on to the deal that we announced. The last quarter, we showed over 20% growth nominally, 7% in the year. The strength of the currencies, again, mainly the ruble and the real contributed, but not all of the growth, and a big part of it came from regaining market shares and quantities. In Brazil, we grew 30% in the quarter and 22% in the year. And we are very pleased with the performance that we had. We are now a clear market leader with over 24% market share. Another deal that we announced, and Tomer will elaborate in a moment, is the acquisition of the freeze-dried factory in Germany, that most of its sales, or most of its production, are used in our operation in Russia. So going back to the numbers, at slide number 25, again, 11% organic growth in the year, 7% nominally. In the quarter where the currencies gave us a backwind, 21% growth nominally, and 14% organically. And those – growth in sales contributed to the profit, over, or almost 34% improvement in the profits, in the operational profits in the quarter. And you can see in the next slide the nice performance of Três Corações, both on a yearly base and on the quarterly base. And with that, I want to hand over back to Gadi and Tomer, that is with us, CEO of Strauss Coffee, to talk about the deal that we announced in the morning.

Gadi Lesin: Thank you, Shahar. So, moving to slide number 13 – 30. After 8-1/2 years of partnering with TPG in the coffee business, TPG sought to realize its investment, as appropriate for a private equity company. As you know, Strauss has been a significant player in the coffee market for the past 50 years. This strategic acquisition reiterates our strong commitment to the coffee category, as a core business for Strauss, one of the fastest-growing categories in the food and beverage market. Owning 100% of the coffee business will enable us increase strategic and financial flexibility. The coffee market is attractive, resilient, and growing, healthy and safe. And with that, I would like to hand over to Tomer Harpaz, Strauss Coffee CEO, to discuss the deal. Tomer, please go ahead.

Tomer Harpaz: Thank you, Gadi. So, I'd like to point you to slide number 37 and take this opportunity to provide you with some insight into Strauss Coffee and its operation. What you can see, that is Strauss Coffee being one of the leading and most influential global coffee companies around. We employ about 7,500 employees, which are spread across 18 different locations worldwide. What you can see from our global scale is actually representation in some of the very key coffee – global coffee markets, most notably, probably, it is Brazil indeed, whereby Brazil represent the second largest global coffee, in terms of market size, where in Brazil we actually hold a leadership position via our partnership, Três Corações together with the Lima family. Brazil is representing not only very strong performance year to date, but also it seems that there is kind of consensus among research teams and analyst covering the sector that, looking forward, Brazil is expected to drive some, or probably the most significant part, of the global coffee growth going forward, and hopefully we will be able to maintain our leadership position in Brazil and to capture the opportunities that are attached to these specific geographies. On top of that, you can note that we are also present in some significant other markets in Eastern Europe. Poland, which is one of the top leading largest global coffee markets; Russia, which is the largest coffee market for freeze-dried coffee for instant coffee, converting still from tea consumption to coffee consumption, so we also see some opportunities over that front. And, of course, Israel. But what you can see over slide 37 is not just the market where we operate, also some key points in our portfolio where we run center of accidents. You can note that we are actually orchestrating our overall green coffee procurement, from Zug, from our Zug center, which is being run for 25 years now, with top professionals responsible for global procurement and the supply chain for our company. You may be aware of it in terms of green coffee sourcing, Strauss Coffee is probably the fifth- or sixth-largest global coffee company around, so that represents quite significant part of our coffee expertise and experience. On top of that, Shahar mentioned a recent acquisition in Germany. Perhaps it's important to know that this is a factory that we were running under what we were referring to as a user-frach agreement, which in some ways is very similar to a leasing agreement. So we've been running this factory for some years now, since 2012. And recently, we – once we were able to push all the operational KPIs to an extremely high global standard, we decided to actually exercise the option we've had, and actually to acquire the facility. This is an important milestone for Strauss Coffee. Because not only we're engaging some significant instant coffee market, as Shahar noted previously, also this factory is one of the most advanced factories worldwide. We consider freeze-dried in general, and more specifically, micro-grinding technology that we have now implemented in the facility, to be the most advanced coffee technologies available these days. So we're very happy to now have the access to unique technology, state-of-the-art technology, with which we are actually delivering high end and high quality coffees to our consumers worldwide. Shahar mentioned Russia, but not only Russia, also in some other market that will be able to benefit both from operational efficiencies but also from very high quality of products manufactured in Germany. So this is really Strauss Coffee in a nutshell. In the next slide, slide number 38, you can take a look at the track record of the last 12 years or so of financial performance. You can see that this is a company with a very nice, significant growth track record, which is quite embedded in its DNA. As you may note, 2016 was a record year, historical record, high record, year for the company, both in terms of sales, and also we were able to cross, eventually, the 100 million EBITDA target, so hopefully we're moving into a triple-digit new era. When it comes to Strauss Coffee, as mentioned previously by Shahar, we've also had quite a good fourth quarter in 2016, and we're hoping to continue this positive momentum that the company is going through. In slide number 39, you can see that a slogan that we use quite a lot in the coffee company, which is the future is here, just not very evenly distributed, in the sense that we are seeing some areas around the world when we are experiencing significant growth of what we are referring to as the global coffee culture emergence, whereby we see new generations of consumers, millennials, Y-generations, which are actually interacting with the category in a slightly different way. We see consumers in these locations, in these geographies, premiumizing their offering, we see a massive growth in coffee shops, in coffee shops being able to introduce to consumers a more advanced, greater variety, of cups of coffee. And these consumers experiencing coffee in a different ways, learning that coffee is all about origins, unique proposition, higher value added product – these consumers are actually looking to have similar cups also at home. And, obviously, that is a trend which is extremely relevant for us. We see this movement, which is taking place quite significantly at some parts of the world, but as noted, the future is already here, not very evenly distributed, and we are looking to see similar growth, or similar consumer perspective development of the category, also in the markets where we currently operate. One notable example, for example, is the world of single portion, where we see that in advanced markets like North America, Western Europe, we see single portion penetration to household of about 40 to 50 and even 60% in France. In most of our geographies, we still see that single portion is in its early days. You can see that in Brazil, when we are very active, dominant single portion player, as it was mentioned earlier, still, the household penetration in Brazil is only 4%. Also in some of our Eastern European markets, it's very early days for single portion penetration, and therefore we're hoping this is just an icon for the growth of the coffee culture. We are hoping to see more premiumization, and a different kind of consumer interaction with the category going forward, and with this regard, we are hoping to – to be well positioned, as we are in our markets, to capture on this future opportunity. I think that also, coming back to the transaction we've announced, this transaction which is now turning 100% of the shareholders of a strategic nature. Meaning that this goes hand in hand with our overall philosophy and our overall perspective over the category, which is a long-term significant growth and premiumization. If you move forward to slide number 40, you can see in – the very essence of this strategic notion driving our strategic direction, which is actually the understanding that today, in the world of coffee, we see two different competitive arenas. We see that what we're referring to as the more traditional, which is still the most significant, it's the core side of the business. These are products on the more traditional side. We're looking into R&G, we're looking into instant coffee. Whereas what we see that is growing quite significantly and is changing the balance of the overall global category, is what we are referring to as new value propositions, meaning mainly pods, or, micro-grinded, cold brew offering, more advanced related – products related to what I've just shared with you around the growth of the coffee culture, the essence of our strategy is to actually manage this transition, whereby we understand that at the core traditional part of the business, the name of the game, or the key success factor, is change, to some extent. And we are making significant investment, investment in the factory in Germany is one out of many, in order to be able to win the traditional part of the business. Here we're looking into significant investment in supply chain, in operational excellence, in taking some cost out of our operation, in having a much more data-driven sales force, being much more granular in the way we execute sales and the way we arrive to the market. And data, actually the fundamental, or the traditional part of the business, looking into the more innovative side of coffee, which we are expecting to see growing in our categories, we're also investing in new value proposition, in single portion, in new elements, and we're doing that under the same brands that we are using today, in all of our markets, where we typically hold between the first three positions in every market where we play. So we are taking our brands that are currently very dominant in the traditional arena of the coffee – of the world of coffee, and taking them also to engage with new value proposition, more advanced proposition, and going forward. We believe that managing this transition successfully, having the right capabilities in the company, the right technologies, the right capabilities from HR perspective, and also the right infrastructure, that will provide us to leverage on our what is today a very good positioning, of Strauss Coffee globally, to capture the great opportunity that we foresee in the coffee category going forward. In slide 41, you can see slightly more detailed manifestation of the general approach I just shared with you. You can see that in the center, we are looking to enhance the consumer experience by actually promoting, wherever we can, the notion of coffee culture being manifested in one, single portion offering, which we already start engaging with in Brazil, in some other countries. Second, the world of digital, which has become core to our activity, the world of digital, we're looking to develop our brands, and increase the consumer awareness, the dialogue with consumers. But also we just started in 2016 to sell via e-commerce direct to consumers, and it's very embryonic activity in our company, but still growing quite nicely. And I have to say that for its initial early days, I'm very pleased with the performance we have demonstrated in 2016 with this regard, and going forward, we're looking to increase the share of our sales coming from direct sales to consumers. Certainly, tech-driven innovation, mentioning again the factory in Germany, and some other activities that we're taking in order to promote new value-added products, and to bring to consumers better coffees, more advanced products, fresher, tastier, and so on and so forth. And what you can see in the different circles are actually different real project, major initiatives – I won't take you one by one – all connected to this theme of managing the transition. Investing in the supply chain, operational efficiencies, taking costs up from the traditional side and taking our brands with new innovative products into the new arena, which we believe will become more and more dominant in our market going forward. So that's in a nutshell, Strauss Coffee, where we are today, and where we're looking to drive business in the future. Hand over back to Shahar. Please.

Shahar Florence: Tomer, thank you very much. And now, after we have given some details about the coffee, and Strauss Coffee, and the potential that we see in this market segment, as one of the fastest-growing segment in the food arena, a huge market and a huge potential for – for Strauss Coffee and for Strauss Group. Few words about the transactions – transaction. As we announced, we – Strauss Coffee – sorry, Strauss Coffee has acquired the shares that it issued to TPG back in 2008, 25.1% of the company shares. We will pay 257 million euros. Out of them we already paid 172 yesterday, and additional 85 million euros will be paid till August 15. We had financed the payment by the cash excess that we had in Strauss Coffee, and additional leverage of about 435 million shekel that we borrowed on a short-term base. We will replace this loan very, very soon, to a long-term financing, and we'll probably do – we'll probably do it in the next few days and we'll announce on it. And the next – and the other 85 million shekels – sorry, euros – will be financed either by loans or equity from Strauss Group that will finance this amount, either by that or by equity, we should consider the financing later on. The company can finance it with few debt and have all the ability to do so, but we have our certain risk profile that we want to keep, and for sure we'll consider our moves in the future. Anyway, we intend to reduce the leverage back to the numbers, or to the ratios, that we had at – in the end of 2016, and I noted it before – we ended 2016 with one of the lowest level of debt we had in the last decade, and for sure, in the lowest debt to EBITDA ratio. We – probably, after the deal, the leverage will be increased from about 1.5 times that to EBITDA to about 2.2. But again, we have all the intentions to reduce this leverage in the next two to three years. I'm moving back to slide number 43. We tried to explain how accretive this deal for Strauss Group. Since we are not – we do not give forecast, we try to explain how the Group would have looked like if we did the transaction – the same transaction, with the same performance, both across Group Other segments and Strauss Coffee with the same performance as in 2016, without any – synergies or soft elements, just the same number, the same deal with the expected financing expenses, and how would 2016 would look like if we had done this deal at the beginning of the year. So obviously, sales and EBIT will not be changed, because anyway, we consolidate 100% of the numbers of Strauss Coffee. But, the net profit, and of course, in the end of the day, the cash flows to the shareholders would have increased by almost 16%. That means that the contribution of the deal is – was almost 16% over 2016 numbers. Now, even if we will – and again, we still haven't decided yet – but even if we will issue some equity, then at least the contribution will be at the range of 10% for the net profit of the company. Yet, on the other hand, the immediate debt will be about 2.1 million shekels, up from about 1.5. But again, as I said, in the next few years, we'll take it down. So just to – just as a trial to explain the accretiveness of the deal for Strauss Group, we've done this exercise. Of course, it's not something that will – can be taken as a – as a guidance to '17, but it shows you the order of magnitude. Now, if we'll compare this deal to previous deals in the coffee segment, you can see in slide number 45, we are somewhere in the middle of this table, the deal, as Tomer said, the EBITDA of the company just crossed the 100 million euros, so it's actually a quarter of those EBITDA, it's about 25 million euros that were bought for 257 million euros, so it's about a multiplier of 10 over EBITDA, which puts us somewhere in the middle of this table. This is the reason we think it's a very good deal for us, as well to the sellers. And I think this is an opportunity for us to thanks – to thank TPG for the last 8 years. We had our own ups and downs, but I think in the recent few years, we have sat all to – around the same table, trying to reach the same target, which is improving the coffee company performance, and I think we've done it pretty good over the last few years. So just to summarize this call before I'm handing over to you for questions, we're summarizing 2016, very, very good year for most of the companies in Strauss Group, starting with Strauss Israel, with 3-1/2% growth, and very nice improvement to the EBIT. Strauss Coffee, with 11% growth organically and 7% nominally, and you've seen the numbers in euro, which were, of course, even better, with nice improvement both in sales profit and market share. Strauss Water – Strauss Water in Israel grew the sales, and this business model, where your installed base is growing, the profits are going up even faster, just because of the razor and blades – business model. Obela, which both in Australia is growing very, very nice. We announced in the end of last quarter also a small acquisition in Western Europe as a penetration to new geographies, still a small operation, but we hope it will grow in the same profile as Sabra had at the first years of the operation in the US. And last, the big challenge that we have in Sabra in order to regain the consumer trust, going back to the growth that we were used to, Sabra was the only negative sign that we showed over the year and in the last quarter, and for sure this is one thing that we have to correct toward 2017. So, with that, I want to hand over back to you, and we'll be more than happy to answer any question you might have.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question-and-answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by while we poll for your questions. *[pause]* The first question is by Tavy Rosner of Barclays. Please go ahead.

Chris Reimer: Hi, this is Chris Reimer on for Tavy. Thank you for taking my question. You gave a lot of detail on the strategy for coffee. In the past, you had discussed a potential IPO. Is that completely off the table?

Shahar Florence: Yes. *[laughs]*

Chris Reimer: *[laughs]* Okay. Also –

Gadi Lesin: For the short term, the answer is yes. I mean, no.

Chris Reimer: Uh-huh.

Gadi Lesin: No plans. But as you know us very well, we are revisiting our strategy and taking the right – hopefully, the right decision for the business.

Chris Reimer: Okay. Also, regarding Sabra, can you give us a sense of what was the direct impact of the recall? And do you think it's damaged the Sabra brand over there?

Shahar Florence: About the direct and immediate influence, we published in the immediate report back in November 2016. We estimated the immediate and direct damage was about 5 million dollars our share. If I'll – now that we've published Q4, and I think we – by now we know also the indirect and the non-immediate damage, the additional damage was roughly of the same order of magnitude, about 5 million dollars. We think we had provided enough for all the negative consequences of the recall. Let me just remind all of us that in the recall, none of our product was found contaminated, and the authorities in the US sample ten thousands of packages, none of them was contaminated. The only contamination that we had is in the surrounding of the factory. But we didn't want to take the chance at that time, and we decided to do a voluntarily recall. Looking into 2017, as I said, we are back in the same market share, still the market is very soft in the hummus category. And yes, we have all the intention to invest enough, first of all, to prevent such cases in the future, we are working very close with the FDA to define the right protocols and the right procedures. We also invest a lot in marketing in order to bring back the consumer into the category and to have more household penetration in the US. I can't forecast this, not – now not because I don't want, and we don't give forecast, because this is something that is more, let's say, complex to forecast. But for sure, we have all the intention to go back to a positive growth, hopefully high single digit.

Chris Reimer: Okay. Thank you very much.

Operator: The next question is by Michael Klahr of Citibank. Please go ahead.

Michael Klahr: Hi there, good afternoon. A couple of questions on the business, and then a couple on the – on the purchase of 25% of Strauss Coffee. Firstly, just following up on the last question, on Sabra. You're now in – we're now three quarter – almost through Q1. Are you still seeing a recovery in that business? Has it plateaued? Stabilized? I know it's difficult to give forecast, but we need – we need to model some numbers for 2017. If you could just give any more color three months into the quarter, almost through the first quarter.

Gadi Lesin: Yeah. So, Michael, as we said before, we are getting back the shares that – the market shares that we lost in the last few months, and we are, according to the IRI report, say that we are of course measuring, and watching very carefully every week, we are going back to the area of 60% share in the total hummus category in North America. And without repeating what Shahar said before, so, yes, we are investing a lot in marketing, a lot of promotion, and pushing very, very hard the top line, to see that we are going back, first of all, gaining the trust of our consumers, and after that, as we did since the beginning of the journey in the US, 12 years ago, to grow the category, we believe that we are in the right category with the right products and brand. And, you know, it goes without saying, we have the right leadership team over there, with a lot of experience, and bear in mind that it's a JV, so 50-50 with the PepsiCo. So with all the expertise and experience of Pepsi, and with the Strauss knowledge, knowhow and experience for the last 38 in the Cheese, Spread and Dips category, I really believe that we are doing all the efforts, and of course with the right motivation, to go back to the "business as usual" as we like to call it, by double-digit growth top line, and of course with the same reaction in the bottom line. It will take time, it will take time, but, we are very, very determined to continue the journey in the right way.

Shahar Florence: Michael, just not to leave you without numbers for the models. We don't give forecast, so, you know, the only thing that I can say is that we rely on the last week's numbers, which shows a few percentages, 2-3% growth. If you want to model it over the year, I think it will be conservative enough. But again, this is not a forecast. This is just based on the last IRI reports.

Michael Klahr: Okay, that's helpful. Now I'm just trying to understand whether Q4 was a low, or whether, you know, it was a new norm of – I think you've answered that.

Shahar Florence: No, no. Q4 is low. Q4 is low.

Michael Klahr: Okay. Just, moving on to the coffee business, and the margin improvement or EBIT margin across the business, which I – it looks like it's mainly coming from international and – and Israel. What do you – what's the outlook for margins in your – in your various geographies?

Shahar Florence: I'll let Tomer answer it. Just, I'll be the bad guy here and I will say that we don't give forecast and estimation. But Tomer surely will talk about the prices take that we did last year, and on the other hand, the coffee, green coffee.

Tomer Harpaz: Okay. So, first, I think that what I can certainly share with you, which is public, is the performance of Q4. In Q4, you see that we are actually on a positive momentum and a positive track of margin expansion. We are hoping to continue this trend, which is driven by the following reasons. First, as you know, we have actually suffered from some devaluation of local currencies. You know that to deal with that, we were had to push up and transfer actually the price to our consumers, so we had to raise, increase prices in some of our key geographies. That effort was actually quite successful, we were able to do so without losing share, and with gaining some additional volumes. And what we see now is also some of the spillover from previous price increase, we already increased prices in some of our geographies in 2017, since the beginning of the year. That is mainly in line with the commodity, the green coffee price, which is coming up. So that, on the hand – on the one hand, selling price increase, coupled with some significant effort, continuous effort, which we will continue to pursue, in actually increasing efficiencies. Across the organization and exploiting synergies between the different geographies, by, for example, a more centralized management of our supply chain, some synergies in route to market, and so on and so forth – by that, driving the top line via pricing on the one hand, and by continuously – and that's not something that we'll ever – we're going to have a rest about – continuously expanding the margin via efficiency measures – that all together, we are hoping to continuing the positive momentum we have experienced in 2016.

Shahar Florence: And Michael, just to add on it, from shekel perspective, just, let's remind ourselves that the rates in Q4 – sorry, over the average of '16 was still lower, even, than the '15, but at the beginning of '17, or at the end of '16, went up very nicely, you know, real came back from 4 to 3, the ruble from 60 to 50. So those tail winds, even not talking in percentage but in absolute terms, for sure will contribute to the profits in shekel terms.

Tomer Harpaz: Well, what we don't share usually is actually the gross margin, certainly not at Strauss Coffee different geographies. But over the longer run, which I'm not sure that that was exactly your question, but still, I will elaborate. Over the long run, in line with the strategic direction I just share with you, one of the main objectives is actually to improve the mix of higher value added products, which is typically manifested with higher gross margin related profile of category. So, should we be successful in implementing our strategy and our concrete plans, we should expect some gross margin expansion going forward. But that's on the mid- to long-run, where we're looking to have a much more significant share of our business coming from new value proposition, higher value added products, and so on and so forth.

Michael Klahr: Okay. Thank you, that's – that's helpful. And just moving on to the deal, and I've got two questions about that. Firstly, will the increased leverage impact the dividend payouts over the next couple of years in any way? That's my first question for Shahar.

Shahar Florence: Well, Michael, I hope I understood the question, and if not, correct me at the end. Yes, first of all, we borrowed the 135 million shekel right now. We intend to convert it into long-term, but, you know, it will be the same debt. The intention – and don't forget that we bought 25 million euros EBITDA, which is roughly the cash flows, and we are – we intend to use those cash flows in order to pay back the – the loans. And as we said, yes, the idea is to go back to the same ratios as we finished 2016, or approximately 1.5 times debt to EBITDA. And this is the – yes, this is the intention.

Michael Klahr: That will impact the dividend payout? The – ?

Shahar Florence: Ah. No. We're – look, on one hand, we don't have – a dividend policy. But on the other hand, we were very, very precise or consistent in the dividend payout in the past. We do not anticipate any change in this. For sure, the deal will not prevent us from paying dividends. On the contrary, when – if – and again, I still don't know. But if we even issued some share, we have all the intentions to keep the dividend per share, not just the dividend.

Michael Klahr: Okay, thanks. And just my last question, before handing it back. Do you – can we expect to see any changes in Strauss Coffee strategy, postbuyout of minority? i.e. does the deal allow Strauss Coffee to do something that it couldn't do in the past?

Tomer Harpaz: I will just say – hi, this is Tomer. I will just say that first, we are – we are happy that our strategy, the new strategic direction which we have introduced in the company very early – late 2014 – actually carried some fruits. So therefore, we are very determined to continue with exactly the same direction going forward. I would say, though, as you may realize, that this transaction now having only a single shareholder, provide the corporate with a greater flexibility in order to drive and expedite, actually, the implementation of this very strategy going forward. And that, obviously, we see some more operational flexibility, some potential future synergies, perhaps. But all in all, the direction will remain – which seems so far to be the right direction for the business – will remain the same. With just greater flexibility in terms of expediting or implementing the strategy going forward.

Michael Klahr: Okay. Very clear. Thank you.

Speaker: Thank you, Michael.

Operator: If there are additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. *[pause]* There are no further questions at this time. I would like to remind participants that a replay of this call will be available in 2 hours. In Israel, please call 03-925-5928. Internationally, call 972-392-55928. A replay of this call will be available on the company's website, at www.strauss-group.com. Mr. Lesin, would you like to make your concluding statement?

Gadi Lesin: Thank you. So just to summarize the call – we are very pleased with the overall trends in our business despite the bumps in the road. We are all very excited about the acquisition announcement – announced today, as we strongly believe in the strength and the resilience of the coffee business going forward. Strauss continues to implement its global growth strategy, and will continue to invest in innovation and efficiencies throughout the value chain, across the Group and its – and its geographic markets. Thank you all for joining us today, and we look forward to speaking with you next quarter.

Operator: Thank you. This concludes Strauss Group's fourth quarter 2016 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call.]