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STRAUSS GROUP LTD.

Monitoring Report | May 2019

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel. The binding version is the one in the origin language.

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STRAUSS GROUP LTD.

Series Rating	Aa1.il	Outlook: Stable

Midroog upgrades the rating of the debentures (Series D and E) issued by Strauss Group Ltd. ("Strauss" or the "Company") from Aa2.il to Aa1.il and changes the rating outlook from positive to stable.

The outstanding debentures rated by Midroog:

Debenture series	Security ID	Rating	Rating outlook	Final maturity date
D	7460363	Aa1.il	Stable	March 31, 2023
E	7460389	Aa1.il	Stable	June 30, 2027

Summary of Rating Rationale

The rating was upgraded due to the Company's solid compliance with Midroog's base scenario with respect to operational performance and compliance with debt targets. Midroog foresees continued maintenance of parameters supporting the high rating, including a solid cash flow with EBITDA expected to range between NIS 950 and NIS 1,100 million, a stable operating profit margin expected to range between 8.4% and 9.7%, and an adjusted net debt to EBITDA ratio and adjusted net debt to FFO ratio within the range we stipulated, which are not to exceed 2.0x and 2.6x, respectively. We estimate that the visibility of the Company's revenues and profitability reflect solid maintenance of its standing in the Israeli economy and the continued solidification of its position as leader of the Brazilian coffee market, along with the recovery of the dips and spreads operation. The rating takes into account that the Company's performance remains exposed to significant volatility in its primary raw materials environment as well as the multi-currency environment in which it operates, with emphasis on the Brazilian real.

Strauss has a strong, leading position in the Israeli food market and a relatively sound business position in its international operations, primarily in the coffee segment, business diversity and a geographical spread, and a broad scope of operations with revenues of NIS 8.6 billion in 2018. The Company's position in the domestic market is supported by leading brands with significant market shares in all product categories in which the Company is active, and its internal growth is high, relative to the Israeli food industry, thanks to strong marketing innovation and strategic collaborations. Strauss's position in the domestic market is reflected in high, relatively stable profit margins in its activity segments in Israel. Accordingly, we define the risk profile of the local operation as relatively low. We have taken into account that the Company's profitability in 2018 was supported by relatively favorable raw material trade conditions, which compensated for the overall weaker price flexibility in the food industry in recent years in light of a challenging market since the social justice protest and the change in the food retail competitive map following Mega's collapse.

In the international coffee segment Strauss applied steps that strengthened its position by growing market share, particularly in the Brazilian coffee market, where it is a market leader. These effects on its financial results are only partially reflected and are offset by the weakness of the Brazilian real against the shekel. The international operation, which is primarily based on the coffee segment, is, in Midroog's estimate, characterized by a higher risk profile than the business in Israel, since it is subject to greater competition and the impact of volatility in coffee prices as well as foreign exchange exposure in the major countries of operations, particularly Brazil, which accounts for most of the international coffee business. The Company's profitability in the international coffee segment is moderate in relation to its profitability in the domestic market and more volatile.

Midroog's base scenario anticipates moderate annual growth of 1% to 3% in the Company's total revenue, based on low growth in the domestic operation and a higher growth rate in the international business. Although the Company's profitability is not conspicuously favorable in relation to the rating, it is conspicuous in its stability, with operating profit ranging between 8.4% and 9.7% in the past three years, and we expect the operating profit to remain at the upper limit of this range in light of the low raw material price environment, which, according to World Bank estimates, is not expected to rise significantly before the end of 2019[1].

The Company's financial profile is not conspicuously favorable for the current rating. Although Midroog takes a positive view of the downward trend in the Company's financial debt following completion of the TPG transaction, as reflected in the decrease in net debt to net capital ratio, down from 60% on March 31, 2017 to 44% on December 31, 2018, we do not assume a further significant decrease in debt in view of a moderate free cash flow, which is also the result of the scale of the Company's dividend distributions. We expect that the Company's coverage ratios will reflect stability or a slight improvement on the path to recovery they have followed since they were slowed in 2017, when the Company acquired the non-controlling interest in the subsidiary, Strauss Coffee. Accordingly, we expect that at the end of 2019 the ratios will range between 1.7x and 2.0x adjusted net debt to EBITDA, and between 2.3x and 2.6x adjusted net debt to FFO. The rating is supported by favorable liquidity and financial flexibility in light of a significant liquid balance, positive FCF in the next 12 months ranging between NIS 50 million and NIS 100 million, and solid sources of finance.

The Company's business and financial management has been, and remains, stable and conservative. The Company has demonstrated capabilities in merging and integrating acquired businesses, parameters which also positively affect the rating.

Factors that could lead to a rating downgrade

- Continuing downturn in adjusted net debt to EBITDA, above 2.0x[2]
- Significant impairment of the Company's business positioning or market share in key product categories
- Continuing erosion of the Company's profitability

[1] http://www.worldbank.org/en/research/commodity-markets

[2] Midroog does not anticipate a material impact on adjusted coverage ratios as a result of the adoption of IFRS 16, and application of the standard will not affect the rating.

Strauss Group Ltd. – Key Financial Indicators, Proportionate Consolidation (NIS millions) [1]:

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total revenue	8,577	8,492	7,943	7,642	8,140
Operating profit before other, excluding equity profits/ revenue (%)	9.7%	8.4%	9.1%	8.6%	8.6%
Adjusted net debt to net cap [2]	43.8%	49.8%	35.0%	40.0%	38.5%
Adjusted net debt to EBITDA [2]	1.8	2.2	1.5	1.8	1.9
Adjusted net debt to FFO [2]	2.3	3.0	2.4	2.1	2.6
Operating profit before other to financing expenses	5.9	4.8	5.2	4.3	5.0

[1] The above financial data are from the management non-GAAP reports and include the Company's share of jointly controlled entities, as opposed to the financial statements, which present jointly controlled entities in the equity method.
[2] Financial ratios include adjustments for (i) the discount of partners loans in a business partnership presented in the proportionate consolidation method in the dips and spreads operation; (ii) discount of the value of green coffee inventory intended for export purposes in the coffee operation in Brazil; (iii) lease adjustments according to Midroog's methodology for the adjustment of long-term operating leases.

Strauss Group Ltd. – Income and Operating Profit According to Operating Segments (NIS millions) [1]:

Income and Operating Profit	2018	2017	2016	2015	2014
Health & Wellness	2,177 229	2,068 222	1,957 213	1,898 188	1,974 203
Fun & Indulgence	1,099 114	1,063 106	1,006 101	968 93	998 112
Israel Coffee	737 119	704 104	673 87	647 84	689 101
International Coffee	3,214 299	3,396 289	3,000 272	2,785 184	3,136 247
International Dips & Spreads	759 49	692 19	717 48	752 80	683 75
Water [2]	591 65	541 36	496 15	-	-

[1] Financial data are presented in the proportionate consolidation method; i.e. including the Company's share of jointly controlled entities, according to the Company's non-GAAP reports.
[2] The water segment was formerly reported as part of the "Other Operations" segment.

Detailed Rating Considerations

Long-term strong, solid business positioning, supported by a broad, leading product portfolio in the domestic market and a leading position in the Brazilian coffee market

With significant revenue of NIS 8.6 billion in 2018[3], Strauss's business positioning is primarily supported by two broad, solid foundations: the food and coffee business in Israel (which has accounted for an average of 46% of the Company's revenue in the past three years), and the international coffee business (38%), which is spread across a number of international territories. The Company is characterized by diversity and a spread of categories in which it is active in Israel and worldwide, which

[3] The financial data in this report refer to the proportionally consolidated financial statements as specified above, and are based on the Group's non-GAAP reports, unless stated otherwise.

positively impacts the rating. The Company's business positioning is supported by the fact that it is the second-largest food company in Israel, with a market share of 11.7% of the domestic food and beverage market in 2018 (11.5% and 11.6% in 2017 and 2016, respectively)[4], and leading market shares in most product categories in which it is active. The domestic food market is a mature market, which, in recent years, has been marked by a moderate growth rate in terms of sales, reflecting very low growth in volumes along with stagnation in sales prices, with the product mix contributing to sales to a certain extent. Nevertheless, in 2018 the domestic food market delivered relatively high growth of 4.0%, after growing only 1.1% on average in the years 2015-2017[5]. The Company has outpaced market growth in recent years, with an increase of 4.6% in the business of the food and coffee segments in Israel in 2018 further to 5.5% growth in 2017. The Company's leading business position in the domestic market is supported by a broad, diverse brand portfolio in the food, dairy, and coffee categories, which forms a stable basis that supports visibility of the Company's revenue and cash flows. Collaborations with international food manufacturers (such as Danone and PepsiCo), coupled with marketing innovation and new product development in alignment with world trends, support the Company's market shares and growth and form a solid foundation for the ability to contend and adapt to trends and changes in consumer tastes. Midroog estimates that Strauss's business position in Israel grants it the tools to handle the competition in the industry relatively well.

The linchpin of the Company's international operations is the coffee business, where Strauss is dominant mainly in Brazil (which accounted for around 61% of the income of the international coffee segment in 2018), along with operations in Russia and Ukraine (18% of the income of the international coffee segment in 2018) and other countries in Eastern Europe. The Company's business position in the international coffee segment is supported by significant market share in key markets, particularly in Brazil, where the Company is leader with a 27% share of the entire Brazilian coffee market.

Strong business track record and stable demand mitigate the risks inherent in the international coffee business

In Midroog's estimate, the Company's business risk in the international coffee segment is high compared to the risk profile of its operation in Israel, in light of relatively high exposure to exogenic factors – coffee commodity prices, exchange rates and volatile economies, and, in particular, exposure to the economies of Brazil (Ba2, stable outlook) and Russia (Baa3, stable outlook). In contrast, we define the demand for coffee as relatively solid, which has a moderating effect on macroeconomic shocks in emerging economies. Strauss Coffee's activity in Brazil has delivered organic growth in constant currency terms even in years when the Brazilian economy experienced a recession thanks to

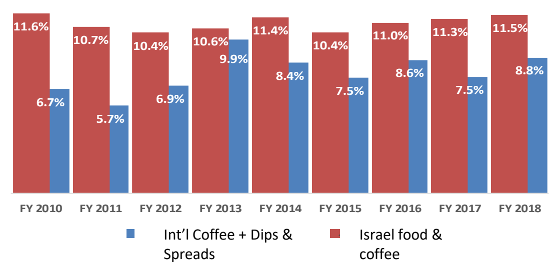
[4] According to StoreNext figures – market share in sales value terms, from the 2018 summary.
[5] According to StoreNext figures – from the 2015-2018 summaries.

relatively solid demand that allowed the Company to adjust its sales prices for inflationary pressure. Furthermore, throughout the years Strauss Coffee has increased its market shares in key countries of operations through the acquisition of local coffee brands and entering into new coffee categories. Thus, whereas in 2015-2017 the Brazilian economy experienced 2% average negative real growth, Strauss Coffee's sales in Brazil grew by a yearly average of 17% in the same period. These positive trends helped mitigate the impacts of the real-shekel exchange rate, which in 2018 negatively impacted revenue, with translation differences amounting to NIS 256 million.

Low profitability relative to the rating, negatively impacted by the international operation and supported by strength and stability in the domestic market

Midroog's base scenario assumes moderate growth (0.5%-2.5%) in the Company's domestic market sales, and higher growth (3.0%-5.0%) in the international coffee business. Midroog's estimate with regard to sales growth is to a certain extent exposed to foreign exchange trends. All of the foregoing lead to growth in the Company's overall revenue within a range of 1.0%-3.0%. The Company's profitability is to a considerable extent influenced by exogenic parameters, particularly coffee prices and foreign exchange volatility. At the same time, the Company has maintained overall low volatility in its profitability throughout the years, a positive factor for the rating. In 2018, the Company's operating profit margin before other income/expenses was 9.7% and was adversely impacted by negative translation differences of NIS 25 million, the result of the appreciation of the shekel against the Company's functional currencies, with emphasis on the Brazilian real (excluding the negative translation differences impact, the Group's operating profit margin in 2018 was 10.0%, higher than the three-year average of 9.1%).

Strauss Group: Operating Profit/Expenses (%) – Israel Operation v. International Operation (Proportionate Consolidation)



The Company's profit margins in the domestic market (which includes the Health & Wellness, Fun & Indulgence and Israel Coffee segments) are high and characterized by high stability in the long term, as reflected in the operating profit margin, which ranged between 11.0% and 11.5% in the past three years, despite changes in the prices of various inputs such as coffee, milk and the minimum wage. Midroog estimates that the Company's profit margins in the domestic market are grounded in strong brands that are supported by significant investments in marketing, innovation and advertising, and economies of scale, and also reflect the Company's ongoing efficiency enhancement and cost saving efforts. In the past two years, the Company's profit margins in the domestic market have benefited from a downward trend in key raw material costs, particularly sugar and cocoa, compared to 2016, as well through curbing sales campaigns in some categories. At the same time, however, Midroog estimates that the Company's price flexibility has eroded over the past few years in the face of growing competition in the food market coupled with competitive imports, private labels of large chains, Food Law regulation and increased consumer price sensitivity. These factors are partially moderated by consumer trends in some product categories, including the growing demand for premium and health products.

Profits margins in the international coffee business (around 37% of revenue and 35% of EBIT in 2018) are lower and volatile compared to the operation in Israel, as reflected in the operating profit margin, which in recent years has been within a broad range of 6.6%-10.0% following higher exposure to exchange rates and coffee prices. The Company partially hedges coffee commodities, which has a moderating effect on volatility in the short term.

Midroog's base scenario assumes an operating profit margin of 8.4%-9.7%, with stable profit margins in the Company's segments operating in the domestic market and relative stability in profit margins in the international coffee segment in relation to the average for the past three years. In the long term, the Company is exposed to a change in the trend of raw material prices in the coffee segment (Arabica and Robusta), competitive pressure and a certain exposure to foreign exchange volatility. We assume that in light of the current raw material price environment, in the future the Company's profit margins will erode slightly as a result of rising input prices.

Despite a strong, stable operating cash flow, the Company is not expected to generate significant free cash flow and reduce debt, which is detrimental for the financial profile to a certain extent

According to MIdroog's base scenario, in 2019 the Company is expected to register EBITDA ranging between NIS 950 million and NIS 1,100 million, and FFO ranging between NIS 700 million and NIS 850 million. Midroog estimates the Company's annual investments at NIS 300 million to NIS 400 million, a decrease compared to prior years, which were marked by a number of significant investments, among others the construction of the Company's logistics center in Shoham and the acquisition of a coffee manufacturing facility in Germany. Midroog assumes that dividend distributions to shareholders will remain on the current level and range between NIS 200 million to NIS 250 million p.a. Midroog's base scenario assumes stability in debt levels, with forecasts for relatively low FCF of up to NIS 100 million in 2019. In the medium term, FCF may be impacted by growth investments through acquisitions and entry into new markets and product categories, in alignment with the Company's strategy, over several years.

The Company's coverage ratios are not favorable for the rating, and are likely to encompass a relatively broad range, mainly as a result of foreign currency effects on operating cash flow. According to

Midroog's base scenario, adjusted net debt to EBITDA and adjusted net debt to FFO will range between 1.7x and 2.0x, and 2.3x and 2.6x (in 2018, these debt coverage ratios were 1.8x and 2.3x, respectively). The interest coverage ratio (operating profit before other income/expenses to financing expenses) in 2018 was 5.9x and is expected to range between 5.5x and 7.0x according to Midroog's base scenario. The Company is moderately leveraged and equity cushions are adequate, as derived from an adjusted net debt to net capital ratio of 44% on December 31, 2018. Midroog assumes a certain improvement in the leverage ratio, to a level of 41%.

Midroog anticipates that the application of IFRS 16 commencing on January 1, 2019 will lead to an immaterial increase in the net debt to net capital ratio and in the adjusted net debt to adjusted EBITDA ratio, which will not affect the rating.

Reasonable liquidity profile supported by a liquid balance, forecasts for a positive FCF and strong financial flexibility, countered by relatively high maturity of obligations

The Company's liquidity is supported by a substantial liquid balance of NIS 687 million as at December 31, 2018 (on a proportionally consolidated basis). In addition, liquidity is supported by forecasts for FCF of NIS 50 million to NIS 100 million in the course of 2019, according to Midroog's base scenario. These sources are countered by material long-term debt maturities of NIS 350 million and NIS 475 million in 2019 and 2020, respectively. Midroog estimates that the Company's financial flexibility is high in light of sound financial strength and high diversity of sources of finance, as well as in view of its business positioning. The Company is well above the covenants with respect to its liabilities.

Other rating considerations

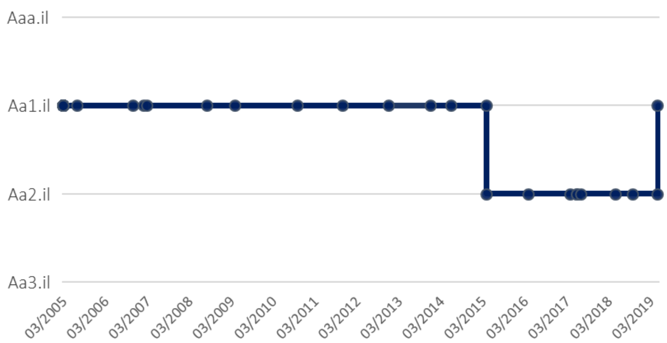
The Company's financial policy is conservative and consistent and supported by high quality management

The rating is supported by our recognition of the high level of business and financial management at Strauss Group, the Company's consistency with Midroog's forecasts over the years, conservative financial management with strong commitment to the rating level, and proven experience in the successful integration of acquired businesses as well as the establishment of joint ventures with strategic partners, including in new territories. Midroog estimates that in the short to medium term Strauss Group will focus on its continued solidification in territories and markets where it has been active to date, and that additional M&A will be accomplished judiciously and in alignment with Company strategy.

The Company's business position compared to other rated companies is favorable and was granted additional weight in the rating

Midroog's analysis attributes great weight to the Company's business standing in the Israeli economy and to its considerable market shares in the product markets in which it is active abroad, factors which, in Midroog's estimate, mitigate risk and support the Company's high rating over and above their reflection in the financial parameters analyzed by Midroog, as well as in relation to other rated companies.

Rating history



Related Reports

Strauss Group Ltd. – Related Reports

Rating of industrial manufacturing companies – Methodology Report, December 2015

Table of Affinities and holdings

Midroog Rating Scales and Definitions

The reports are published on the Midroog website at www.midroog.co.il

General Information

Date of rating report:	15.05.2019
Date of last revision of the rating:	28.10.2018
Date of first publication of the rating:	03.01.2005
Rating commissioned by:	Strauss Group Ltd.
Rating paid for by:	Strauss Group Ltd.

Information from the Issuer

Midroog relies in its ratings inter alia on information received from competent personnel at the issuer.

Long-Term Rating Scale

Aaa.il	Issuers or issues rated Aaa.il are those that, in Midroog judgment, have highest creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il are those that, in Midroog judgment, have very strong creditworthiness relative to other local issuers.
A.il	Issuers or issues rated A.il are those that, in Midroog judgment, have relatively high creditworthiness relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il are those that, in Midroog judgment, have relatively moderate credit risk relative to other local issuers, and could involve certain speculative characteristics.
Ba.il	Issuers or issues rated Ba.il are those that, in Midroog judgment, have relatively weak creditworthiness relative to other local issuers, and involve speculative characteristics.
B.il	Issuers or issues rated B.il are those that, in Midroog judgment, have relatively very weak creditworthiness relative to other local issuers, and involve significant speculative characteristics.
Caa.il	Issuers or issues rated Caa.il are those that, in Midroog judgment, have extremely weak creditworthiness relative to other local issuers, and involve very significant speculative characteristics.
Ca.il	Issuers or issues rated Ca.il are those that, in Midroog judgment, have extremely weak creditworthiness and very near default, with some prospect of recovery of principal and interest.
C.il	Issuers or issues rated C are those that, in Midroog judgment, have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier '1' indicates that the obligation ranks in the higher end of its rating category, which is denoted by letters. The modifier '2' indicates that it ranks in the middle of its rating category and the modifier '3' indicates that the obligation ranks in the lower end of that category, denoted by letters.