

## Caesarstone Reports First Quarter 2012 Results

- **Revenues Increase 28.5% to \$67.3 million on Strong North America Performance**
- **Company Issues 2012 Full Year Guidance for Sales of \$292 to \$302 million and for Adjusted EBITDA of \$67 to \$70 million**

MP MENASHE, ISRAEL – May 8, 2012 – Caesarstone Sdot-Yam Ltd. (NASDAQ:CSTE), a manufacturer of high quality engineered quartz surfaces, today reported financial results for its first quarter, ended March 31, 2012. Pro forma results discussed below attempt to present results as if the acquisition of Caesarstone USA had been completed on January 1, 2011 to allow for comparability.

Revenues in the first quarter of fiscal 2012 increased by 28.5% to \$67.3 million compared to \$52.4 million in the same quarter in the prior year. This was driven predominantly by the contribution of its former distributor, Caesarstone USA, acquired in May 2011. Pro forma revenues for the quarter increased 11.7% compared to the prior year's first quarter, with rapid growth in the United States and Canada, up 22% and 69% respectively on that basis. This growth and growth in other regions was partially offset by a 10% decline in Israel against an unusually strong quarter last year. A table detailing regional revenue performance is included below.

Yosef Shiran, Chief Executive Officer, commented, "We are very pleased to report a strong first quarter and expect continued solid performance as the year progresses. Our strategy to shift to a direct distribution model in the United States, Canada and other regions around the world has accelerated our growth, enhanced our diversification, and increased the range and size of our opportunities. We are making investments, particularly in the United States, to rapidly build our brand and business and we remain very focused on continuing to execute well. We expect to drive value to our shareholders by leveraging these investments over time as we extend our global reputation for innovation, quality and service."

Gross margin in the first quarter increased to 41.8% compared to 38.2% in the prior year, driven primarily by the transition to direct distribution, which generally carries higher gross margins. To a lesser extent, the Company also achieved economies of scale over its fixed manufacturing expenses with increased production volume. The Company noted that adjusting for the impact of \$0.8 million of IPO bonus payments and a \$0.5 million charge for the excess cost of acquired inventory, this year's first quarter gross margin was 43.7%. Pro forma adjusted gross margin in the first quarter of last year was 42.6%.

Operating expenses in the first quarter increased to \$21.0 million, or 31.2% of revenues, compared to \$12.0 million, or 21.7% of revenues in the first quarter of 2011. Adjusting for the impact of \$1.1 million of IPO bonus payments and \$0.3 million of purchase price adjustment for Caesarstone USA, operating expenses in this year's first quarter were \$19.7 million, or 29.2% of revenues. The increase in adjusted expenses as a percent of sales versus prior year primarily reflects the shift to direct distribution in the United States and the Company's investment in developing that market. Pro forma adjusted operating expenses in the prior year's first quarter were \$18.0 million, or 29.8% of sales.

Adjusted EBITDA, which eliminates each of the above-mentioned non-recurring items as well as share-based compensation, was \$13.7 million, a margin of 20.3%, in the first quarter. This compares



to adjusted EBITDA of \$11.5 million, a margin of 22.0%, for the same quarter in the prior year. Pro forma adjusted EBITDA in the prior year's first quarter was \$12.3 million, a margin of 20.5%.

Foreign exchange fluctuation caused finance expenses in the first quarter to increase to \$1.4 million versus the year-ago quarter's level of \$0.4 million. Taxes in the first quarter of 2012 increased to \$0.8 million versus a credit of \$0.2 million in the same quarter of last year, which included a one-time tax credit adjustment of \$1.8 million related to a new tax benefit regulation in Israel.

The Company's reported GAAP net income for the first quarter of \$4.8 million, or \$0.18 per diluted share as compared to net income in the same quarter of the prior year of \$8.0 million, or \$0.29 per diluted share. The Company's share count in this year's first quarter was a weighted average of 27.5 million shares, reflecting the timing of its offering on March 21, 2012.

Adjusted net income for the quarter ended March 31, 2012 was \$7.4 million, or \$0.27 per diluted share as compared to adjusted net income for the quarter ended March 31, 2011 of \$8.5 million, or \$0.31 per diluted share. This reduction is entirely attributable to the \$2.1 million of increased finance and tax expenses.

The Company noted that its balance sheet as of March 31, 2012 was strong and reflected the receipt of proceeds from its initial public offering, completed on March 21, 2012.

### **Guidance**

The Company also today issued its initial 2012 full Year Guidance for Sales and Adjusted EBITDA. The Company expects to report sales in the range of \$292 million to \$302 million and to report Adjusted EBITDA in the range of \$67 million to \$70 million

### **Conference Call Details**

Yosef Shiran, the Company's Chief Executive Officer, and Yair Averbuch, the Company's Chief Financial Officer, will host a conference call today, Tuesday May 8th, 2012, at 8:00 a.m. ET to discuss the results of the first quarter ended March 31, 2012, followed by a question and answer session for the investment community. A live webcast of the call can be accessed at [www.viavid.com](http://www.viavid.com) in the events section. To access in the call, dial toll-free 1-888-430-8685 or +1-719-457-2620 (international). The pass code is 9384742.

To listen to a telephonic replay of the conference call, dial toll-free 1-877-870-5176 or +1-858-384-5517 (international) and enter pass code 9384742. The replay will be available beginning at 11:00 a.m. ET on Tuesday, May 8, 2012 and will last through 11:59 PM ET May 22, 2012.

### **About Caesarstone**

Caesarstone manufactures high quality engineered quartz surfaces, which are used in both residential and commercial buildings as countertops, vanities, wall cladding, floors and other types of interior surfaces. The wide variety of colors, styles, designs and textures of Caesarstone® products, along with Caesarstone's inherent characteristics such as hardness, non-porous, scratch and stain resistance and durability, provide consumers with excellent surfaces for their internal spaces which are highly competitive to granite, manufactured solid surfaces and laminate, as well as to other engineered quartz surfaces. Caesarstone's four collections of products – Classico, Supremo, Motivo



and Concetto – are available in over 40 countries around the world. For more information about the Company, please visit our website [www.caesarstone.com](http://www.caesarstone.com).

### **Non-GAAP Financial Measures**

The non-GAAP measures presented by the Company should be considered in addition to, and not as a substitute for, comparable GAAP measures. A reconciliation of GAAP net income to adjusted net income is provided below. The Company provides these non-GAAP financial measures because it believes that they present a better measure of the Company's core business and management uses the non-GAAP measures internally to evaluate the Company's ongoing performance. Accordingly, the Company believes that they are useful to investors in enhancing an understanding of the Company's operating performance.

### **Forward-Looking Statements**

Information provided in this press release may contain statements relating to current expectations, estimates, forecasts and projections about future events that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally relate to the Company's plans, objectives and expectations for future operations. These forward-looking statements are based upon management's current estimates and projections of future results or trends. Actual results may differ materially from those projected as a result of certain risks and uncertainties. These factors include, but are not limited to: the strength of the home renovation and construction sectors; economic conditions within any of our key existing markets; actions by our competitors; changes in raw material prices, particularly polymer resins and pigments; unpredictability of seasonal fluctuations in revenues; the outcome of silicosis claims and the claim by our former quartz processor; fluctuations in currency exchange rates; delays in manufacturer if our suppliers are unable to supply raw materials ; and other factors discussed under the heading "Risk Factors" in the final prospectus for our initial public offering filed with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

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**Caesarstone Sdot-Yam Ltd. and its subsidiaries**  
**Consolidated balance sheets**

U.S. dollars in thousands	As of	
	December 31, 2011	March 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,950	\$ 74,502
Trade receivables	36,798	42,130
Other accounts receivable and prepaid expenses	13,474	26,399
Inventories	48,085	53,900
Total current assets	110,307	196,931
LONG-TERM INVESTMENTS:		
Severance pay fund	2,942	3,067
Long-term deposits	343	318
Total long-term investments	3,285	3,385
PROPERTY, PLANT AND EQUIPMENT, NET	69,657	72,548
OTHER ASSETS	20,626	19,778
GOODWILL	42,442	43,027
Total assets	\$ 246,317	\$ 335,669
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	\$ 3,866	\$ 3,860
Current maturities of long-term loans	12,541	12,037
Trade payables	30,838	35,390
Account payables to related parties	5,437	34,850
Accrued expenses and other liabilities	29,033	30,819
Total current liabilities	81,715	116,956
LONG-TERM LIABILITIES:		
Long-term loans	5,405	2,767
Long-term loan from related party	1,820	1,879
Capital leases	71	39
Accrued severance pay	3,584	3,755
Long-term warranty provision	1,439	1,492
Deferred tax liabilities, net	8,248	7,517
Share-based payment in subsidiary	1,379	-
Total long-term liabilities	21,946	17,449
REDEEMABLE NON-CONTROLLING INTEREST	6,205	6,486
COMMITMENTS AND CONTINGENT LIABILITIES		
EQUITY:		
Share capital -		
Ordinary shares	192	360
Cumulative preferred shares	86	-
Additional paid-in capital	55,338	132,730
Accumulated other comprehensive income	6,306	7,555
Foreign currency translation adjustments – Company	7,376	9,340
Retained earnings	67,153	44,793
Total equity	136,451	194,778
Total liabilities and equity	\$ 246,317	\$ 335,669

## Caesarstone Sdot-Yam Ltd. and its subsidiaries

### Consolidated statements of income

U.S. dollars in thousands	Three months ended March	
	2011	2012
Revenues	\$ 52,394	\$ 67,346
Cost of revenues	32,358	39,195
Gross profit	20,036	28,151
Operating expenses:		
Research and development, net	637	737
Marketing and selling	5,480	11,894
General and administrative	5,837	8,359
Total operating expenses	11,954	20,990
Operating income	8,082	7,161
Finance expenses, net	263	1,455
Income before taxes on income	7,819	5,706
Taxes on income	(168)	755
Income after taxes on income	7,987	4,951
Equity in losses of affiliate, net	(83)	-
Net income	7,904	4,951
Net loss (income) attributable to non-controlling interest	62	(129)
Net income attributable to controlling interest	7,966	4,822
Dividends attributable to preferred shareholders	2,303	-
Net income attributable to the Company's ordinary shareholders	\$ 5,663	\$ 4,822
Diluted net income per share of ordinary shares	\$ 0.29	\$ 0.18
Weighted average number of ordinary shares used in computing basic income per share	19,565,000	27,471,052
Weighted average number of ordinary shares used in computing diluted income per share	19,565,000	27,480,484

**Caesarstone Sdot-Yam Ltd. and its subsidiaries**  
**Consolidated statements of cash flows**

U.S. dollars in thousands	Three months ended March	
	2011	2012
<u>Cash flows from operating activities:</u>		
Net income	\$ 7,904	\$ 4,951
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,857	3,589
Equity-based compensation expense	-	908
Accrued severance pay, net	(33)	28
Changes in deferred tax, net	(1,770)	(651)
Equity in loss of affiliate, net	83	-
Capital losses	35	-
Foreign exchange remeasurement gains	(418)	(167)
Increase in trade receivables including receivable from related party	(3,947)	(4,520)
Increase in other accounts receivable and prepaid expenses	(562)	(3,147)
Increase in inventories	(3,927)	(5,090)
Increase in trade payables	669	2,418
Increase in warranty provision	20	25
Increase (decrease) in accrued expenses and other liabilities including related parties	(515)	3,529
Net cash provided by operating activities	396	1,873
<u>Cash flows from investing activities:</u>		
Acquisition of the business of Prema Asia Marketing PTE Ltd.	-	(150)
Purchase of property, plant and equipment	(1,246)	(624)
Decrease (increase) in long-term deposits	(12)	19
Net cash used in investing activities	(1,258)	(755)
<u>Cash flows from financing activities:</u>		
Dividend paid	(3,313)	-
Receipt from issue of shares	-	68,498
Repayment of long-term loans	(3,387)	(3,465)
Short-term bank credit and loans, net	(8,335)	(100)
Expenses related to IPO	-	(1,582)
Net cash provided by (used in) financing activities	(15,035)	63,351
Effect of exchange rate differences on cash and cash equivalents	2,875	(1,917)
Increase (decrease) in cash and cash equivalents	(13,022)	62,552
Cash and cash equivalents at beginning of year	43,737	11,950
Cash and cash equivalents at end of year	30,715	74,502
<u>non - cash investing and financing activities:</u>		
Declared dividend	-	27,182
Purchase of fixed assets with credit from suppliers	1,558	2,986
Receipt from issue of shares	-	(10,275)
IPO deferred expenses	-	1,722

### Caesarstone Sdot-Yam Ltd. and its subsidiaries

U.S. dollars in thousands	Three months ended March 31,	
	2011	2012
<b>Reconciliation of Net Income to Adjusted EBITDA:</b>		
Net income	\$ 7,904	\$ 4,951
Finance expenses, net	263	1,455
Taxes on income	(168)	755
Depreciation and amortization	2,857	3,589
Equity in losses of affiliate, net (a)	83	-
Excess cost of acquired inventory (b)	-	469
Share-based compensation expense (c)	571	243
IPO bonus (d)	-	1,970
USQ purchase price adjustment (e)	-	255
Adjusted EBITDA	<u>\$ 11,510</u>	<u>\$ 13,687</u>

- (a) Consists of the Company's portion of the results of operations of Caesarstone USA prior to its acquisition by the Company in May 2011.
- (b) Consists of the difference between the standard cost of the Company's inventory and the higher carrying cost in two of the Company's subsidiaries: Caesarstone USA's inventory at the time of its acquisition and Caesarstone Australia's inventory that was bought from its distributor. These differences adversely impact our gross margins until such inventory is sold. The majority of the acquired inventory in Caesarstone USA was sold in 2011, while the acquired inventory in Caesarstone Australia is expected to be sold by the end of 2012.
- (c) In 2011, share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to the Company's Chief Executive Officer.  
In 2012, share-based compensation consists primarily of expenses related to the stock options granted to employees of the Company, as well as changes in the value of share-based rights granted in January 2009 to the Company's Chief Executive Officer.
- (d) Consists of the payment of \$1.7 million to certain of the Company's employees and \$0.25 million to the Company's Chairman for their contribution to the completion of the Company's IPO.
- (e) In May 2011, the Company acquired the remaining 75% equity interest in its U.S distributor, Caesarstone USA, in which it acquired a 25% interest in January 2007. The acquisition price was \$26.5 million and the majority of the amount was paid in 2011, while the balance of the purchase price was payable following the closing of the Company's IPO.

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**Caesarstone Sdot-Yam Ltd. and its subsidiaries**


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U.S. dollars in thousands	Three months ended	
	March 31,	
	2011	2012
<b>Reconciliation of Net Income Attributable to Controlling Interest to Adjusted Net Income:</b>		
Net income attributable to controlling interest	\$ 7,966	\$ 4,822
Excess cost of acquired inventory (a)	-	469
Share-based compensation expense (b)	571	243
IPO bonus (c)	-	1,970
USQ Purchase Price adjustment (d)	-	255
Total adjustments before tax	571	2,937
Less tax on above adjustments (e)	62	321
Total adjustments after tax	509	2,616
Adjusted net income attributable to controlling interest	8,475	7,438
Dividends attributable to preferred shareholders	2,435	-
Net income attributable to the Company's ordinary shareholders	<u>\$ 6,040</u>	<u>\$ 7,438</u>
Adjusted diluted EPS	<u>0.31</u>	<u>0.27</u>

- (a) Consists of the difference between the standard cost of the Company's inventory and the higher carrying cost in two of the Company's subsidiaries: Caesarstone USA's inventory at the time of its acquisition and Caesarstone Australia's inventory that was bought from its distributor. These differences adversely impact our gross margins until such inventory is sold. The majority of the acquired inventory in Caesarstone USA was sold in 2011, while the acquired inventory in Caesarstone Australia is expected to be sold by the end of 2012.
- (b) In 2011, share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to the Company's Chief Executive Officer.  
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- (c) Consists of the payment of \$1.7 million to certain of the Company's employees and \$0.25 million to the Company's Chairman for their contribution to the completion of the Company's IPO.
- (d) In May 2011, the Company acquired the remaining 75% equity interest in its U.S. distributor, Caesarstone USA, in which it acquired a 25% interest in January 2007. The acquisition price was \$26.5 million and the majority of the amount was paid in 2011, while the balance of the purchase price was payable following the closing of the Company's IPO.
- (e) Tax adjustments reflect the increase in taxes on income that would have been reflected in our consolidated income statements for the applicable period if the adjustments set forth in the table were not applied in computing net income. The tax effect is based on effective tax rate for 2011.

**Caesarstone Sdot-Yam Ltd. and its subsidiaries**  
**Geographic breakdown of revenues by region**

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<u>U.S. dollars in thousands</u>	<u>Three months ended March</u>	
	<u>2011</u>	<u>2012</u>
Australia	18,757	19,031
USA	7,472	18,774
Israel	10,314	9,265
Canada	5,196	8,797
Europe	5,697	5,725
Rest of World	4,958	5,754
	<u>\$ 52,394</u>	<u>\$ 67,346</u>