

# PRESS RELEASE

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## **SUCCESSFUL INTEGRATION OF ACQUISITIONS WITH FRUTAROM'S GLOBAL ACTIVITY LEADS FRUTAROM TO ANOTHER RECORD QUARTER:**

**RECORD SALES IN Q2: US\$168.6 M;**

**SHARP RISE IN GROSS MARGIN TO 39.6% 14.4%**

**GROWTH IN OPERATING MARGIN TO US\$24.9 M;**

**SHARP 30% RISE IN NET PROFIT TO US\$17.6M**

**EBITDA INCREASED BY 14% TO US\$32.5M AT 19.3%**

**EARNINGS PER SHARE REACHED US\$0.30**

**MAIN EFFECT OF STREAMLINING ACTIONS FOLLOWING ACQUISITIONS  
IN A YEARLY SCOPE OF US\$10 M WILL COME TO FRUITION  
IN H2 2013, AND MAINLY IN 2014**

**Frutarom Industries Ltd.**, a top-ten company in the Flavors and Fine Ingredients markets, reports record quarterly revenues for Q2 2013 and for H1 2013 in terms of sales, gross profit, operating profit, EBITDA, net profit and earnings per share. Company sales grew, reaching US\$168.6M, gross margin increased sharply to 39.6%, EBITDA and gross profit, net of one-time expenses, reached US\$33.9M and US\$19.1M, accordingly.

The eight acquisitions Frutarom made in 2011-2012 have already all been successfully integrated into Frutarom's global activity, contributing to both an increase in sales and improved profit. Following these acquisitions, Frutarom continues to realize the many cross-selling opportunities and enhanced technological capacities and to actualize the savings resulting from the integration of R&D, sales, marketing, operations and purchase infrastructures. Streamlining activities for integration of production sites and activities and transfer of other activities to countries where production costs are lower will bring about significant savings in a yearly scope of some US\$10 million. The impact of these activities will come to fruition during the second half of 2013 and mainly in 2014. Frutarom also



acts to strengthen its global purchase infrastructure, utilizing the significant added purchasing power acquired through its acquisitions and further expanding its pool of suppliers, with an emphasis on increased purchase in countries of origin for raw materials the Company uses in the development and manufacture of its products (especially natural raw materials). The global purchasing reinforcement is expected to further improve Frutarom's gross margins.

Frutarom continues to successfully implement its rapid and profitable growth strategy, which is expected to continue to be reflected in Frutarom's organic growth alongside focused performance of additional strategic acquisitions, accelerating its expansion in target markets with higher growth rates such as the emerging markets of China and South East Asia, Eastern Europe and Africa. Frutarom's sales in these strategic markets increased from 27% of total sales in 2010 to 36% in 2012. As part of its continued strategy for acceleration of expansion into target markets with higher growth rates, in May of this year Frutarom acquired the South African flavors company JannDeRee (Pty) Limited, which has a research and development site located adjacent to Frutarom South Africa's site. The growth trend in emerging markets has continued throughout the first half of 2013, and is expected to continue throughout the end of this year and into next year.

Frutarom continues to invest in achieving rapid growth of its Flavors activities in the United States, the largest market in the world for Flavors. Accelerated organic growth in Flavors continued in the American market over the first half of 2013, a trend which is expected to continue throughout the end of this year and into next year.

Frutarom reports continued growth in sales in the **second quarter** of 2013 of US\$168.6 million, a 2.3% increase compared with US\$164.8 million in Q2 2012. In the Flavors segment, Frutarom's most profitable activity, sales for the quarter reached US\$125.1 million, representing 74% of Frutarom's sales. In the **first half of 2013** Frutarom sales grew to US\$ 320.8 million, and sales in the Flavors segment grew, reaching US\$ 235.7 million.

Organic growth, strategic acquisitions, stabilization of prices of raw materials and improvements in product mix all led to a significant improvement in Frutarom's profit and margin. Frutarom is constantly working towards developing new, high margin natural products. Penetration of unique and innovative products in the Specialty Fine Ingredients segment, targeted both for the food industry and for the pharma/nutra and cosmetics industry, contributed to the improvement of the product mix and margin.

**Gross profit in Q2 2013** increased by 8.2%, reaching US\$66.9 million compared with US\$61.8 million in the same quarter in 2012. Gross margin increased sharply this quarter, reaching 39.6% of total sales compared with gross margin of 37.5% in Q2 2012. Gross margin net of the Trade & Marketing activity (not one of Frutarom's core activities) reached 40.4% compared with 38.5% in Q2 2012. Improved gross margin is the result, among other things, of actions Frutarom has taken for the development of new higher margin products and to the improvement in product mix. **Gross profit in H1 2013** increased by 6.3%, reaching US\$124 million, 38.7% of sales. Gross margin net of the Trade & Marketing activity reached 39.8% in H1 2013 compared with 37.9% in H1 2012.

**Operating profit in Q2 2013** reached US\$24.9 million, 14.8% of sales, a 14.4% growth compared with operating profit of US\$21.8 million, 13.2% of sales, in the same quarter last year. Operating profit



net of one-time expenses for reorganization (mainly for closing a plant in Northern Germany and transferring its activities to other more efficient production sites) increased in Q2 2013 by 21.6%, reaching US\$27.0 million, 16.0% of sales, compared with US\$22.2 million, 13.5% of sales, in the same period last year. **Operating profit in H1** increased by 10.6% reaching US\$43.8 million, 13.7% of sales, compared with US\$39.6 million, 12.5% of sales, during the same period last year. Net of the one-time expenses, operating profit in H1 of 2013 increased by 15.6%, to US\$46 million, 14.3% of sales.

**EBITDA in Q2 2013** came to US\$32.5 million, 19.3% of sales, an increase of 14% compared with EBITDA of US\$28.5 million, 17.3% of sales, for the same period last year. Frutarom's EBITDA in Q2 2013 net of one-time expenses for reorganization increased by 17.3% to US\$33.9 million, 20.1% of sales, compared with US\$28.9 million, 17.6% of sales, during the same period last year. Frutarom's **EBITDA in H1 2013** increased by 9.0%, reaching US\$58.3 million, 18.2% of total sales, compared with US\$53.5 million, 16.9% of sales, in H1 2012. Net of one-time expenses, the EBITDA in H1 2012 reached US\$58.3 million, 18.2% of sales, compared with US\$53.5 million, 16.9% of sales, for the same period last year. Net of one-time expenses Frutarom's EBITDA in H1 2013 came to US\$59.8 million (18.6% of sales), an 11.5% increase compared with the same period in 2012.

**Net profit for Q2 2013** increased by 30% reaching US\$17.6 million compared with US\$13.5 million for Q2 2012. Net profit net of the one-time expenses for reorganization rose by 37.7% reaching US\$19.1 million, 11.3% of total sales, compared with US\$13.9 million in Q2 2012, 8.4% of total sales, in the same quarter last year. **Net profit for H1 2013** came to US\$ 31.6 million, 9.9% of total sales, a 17% increase compared with net profit of US\$27 million, 8.6% of total sales, for H1 2012. Net of one-time expenses, net profit in H1 2013 came to US\$33.2 million, a 24.4% increase compared with the same period last year.

**Earnings per share in Q2 2013** reached US\$0.30 per share, compared with US\$0.23 per share in Q2 2012. Earnings per share net of one-time expenses reached US\$0.33 per share, compared with US\$ 0.24 last year. **Earnings per share in H1 2013** reached US\$0.54 per share, compared with US\$0.47 per share in H1 2012. Net of the one-time expenses, earnings per share in H1 2013 reached US\$ 0.57 per share, compared with US\$ 0.46 per share during H1 last year.

Frutarom's equity as of June 30, 2013 totaled US\$466.9 million, 60.1% of the balance sheet, compared with US\$412.9 million, 54.7% of the total balance sheet, at the end of the same quarter last year.

**Ori Yehudai, Frutarom's President and CEO**, commented: "We are pleased with the second quarter and first half year results, which reflect the successful implementation of our rapid and profitable growth strategy. For years Frutarom has been successfully implementing its profitable organic growth strategy alongside acquisitions and successful utilization of the synergies resulting from these. All the acquisitions made in 2011 and 2012 have contributed to the increase in sales and significant improvement in profit. Our successful identification of the right companies and pinpointing of the growing markets, recognition and assimilation of leading innovative technologies, recruitment of the leading managers in the acquired companies and connecting them to Frutarom's management team and taking advantage of business opportunities, while performing acquisitions at attractive prices – all



these strengthen our excellent growth platform and allow us to exploit the economy of scale we have achieved.

“It is our intention to continue to invest in expanding our activities and our market share in emerging markets, where we are successful in growing at a rate higher than market growth. Organic growth combined with the acquisitions have strengthened our presence in strategic markets, particularly in North America, Asia, Latin America and Africa, which today are considered the fastest growing food markets in the world. We will continue to invest great resources in accelerating growth in these markets, including by identifying and performing acquisitions, in order to utilize their great potential.

“The results of the quarter reflect another quantum leap in our operations - the significant improvement in the Company’s profitability is the result of the successful combination of organic growth with maximal utilization of business synergies, the many cross selling opportunities and of achieving cost savings. Improved gross margins this quarter are also the result of our launching innovative natural products with higher margins which contribute to an improved product mix. We are expanding our natural product offering with a special emphasis on natural foods and health foods, which have an increasing demand and higher margins.

“We continue to implement our projects for integration of production sites, transfer of activities to lower cost countries and improving supply chain and logistics. These projects will bring about significant savings in a yearly scope of US\$10 million, which will begin to come to fruition starting in the second half of 2013 and mainly in 2014. In addition, we continue to strengthen our global purchasing infrastructure. The result of all of these actions will be continued strengthening of Frutarom’s competitiveness, while improving its cost structure and maximally utilizing all its sites throughout the world.

Frutarom today has strong infrastructures for continued growth and improved margins despite a challenging market conditions. Continued growth, stabilization of prices of the raw materials Frutarom uses in the manufacture of its products, together with the contribution of the successful integration of our latest acquisitions, continual streamlining and improvement of our cost structure, while maximally utilizing our sites throughout the world and strengthening our global purchase infrastructure will bring about improved future margins. Our capital structure and net debt level, which stands at US\$131.3 million, supported by our strong cash flow, will allow us to successfully continue to realize our rapid and profitable growth strategy”.

#### **About Frutarom**

**Frutarom** is a global company operating in the global flavor and fine ingredients markets. Frutarom has significant production and development centers in three continents and it markets and sells over 30,000 products in five continents to over 14,000 customers in more than 140 countries. Frutarom’s products are intended mainly for the food, beverage, flavor, fragrance, pharmaceutical, nutraceutical, health food, functional food, food additives and cosmetic industries.

Frutarom, which employs approximately 2,080 people worldwide, has 2 main activities:

- The Flavors Segment, which develops, produces and markets flavor compounds and food systems.
- The Fine Ingredients Segment, which develops, produces and markets natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, citrus products and aroma chemicals.

Frutarom’s products are produced in its plants in the US, UK, Switzerland, Germany, Slovenia, Italy, Israel, China, Turkey, Brazil and South Africa. The Company’s global marketing organization includes branches in Israel, the US, UK, Switzerland, Germany, Belgium, the Netherlands, Denmark, France, Italy, Hungary, Romania, Russia, Ukraine, Poland, Kazakhstan, Belarus, Turkey, Brazil, Mexico, Costa Rica, China, Japan, Hong Kong, India, and Indonesia. The Company also works through local agents and distributors worldwide.

For further information, visit our website: [www.frutarom.com](http://www.frutarom.com).

