

MIRA INFORM REPORT

Report No. :	539026
Report Date :	15.11.2018

IDENTIFICATION DETAILS

Name :	SANO BRUNOS ENTERPRISES LTD.
Registered Office :	P.O. Box 7250 10 Hacharash Street Industrial Zone B Neve Neeman Hod Hasharon 4524083
Country :	Israel
Financials (as on) :	30.06.2018
Date of Incorporation :	26.10.1965
Legal Form :	Public Limited Company
Line of Business :	Developers, manufacturers, exporters, distributors and marketers of consumer "Non-Food" products.
No. of Employees :	1659 Employees Serving SANO Group (2017)

RATING & COMMENTS

(Mira Inform has adopted New Rating mechanism w.e.f. 23rd January 2017)

MIRA's Rating :	A
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Credit Rating	Explanation	Rating Comments
A	Acceptable Risk	Business dealings permissible with moderate risk of default

Status :	Satisfactory
Payment Behaviour :	No Complaints
Litigation :	Clear

NOTES :

Any query related to this report can be made on e-mail : infodept@mirainform.com while quoting report number, name and date.

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ECGC Country Risk Classification List

Country Name	Previous Rating (30.06.2018)	Current Rating (30.09.2018)
Israel	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

ISRAEL - ECONOMIC OVERVIEW

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are offset by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East insulated the economy from spillover effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.8% per year during the period 2014-17. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers kept food prices high in 2016. Private consumption is expected to drive growth through 2018, with consumers benefitting from low inflation and a strong currency.

In the long term, Israel faces structural issues including low labor participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

Source : CIA

COMPANY NAME AND ADDRESS

SANO-BRUNO'S ENTERPRISES LTD.

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Industrial Zone B Neve Neeman
HOD HASHARON 4524083 ISRAEL

HISTORY & LEGAL FORMATION

Originally incorporated as a private limited company, as per file No. 51-046190-8 on the 26.10.1965.

Converted into a public limited company and registered as such as per file No. 52-003298-8 on the 18.02.1982 and in parallel published a prospectus offering shares to the public.

Originally registered under the name of BRUNO'S ENTERPRISES LTD., which changed to the present one on the 04.04.1982.

SHARE CAPITAL

Authorized share capital NIS 13,000,000.00, divided into -
13,000,000 ordinary shares of NIS 1.00 each,
of which 12,288,000 shares amounting to NIS 12,288,000.00 were issued.

SHAREHOLDERS

1. The Estate of the Late Bruno Landesberg, 33.63%,
2. Alexander Landesberg, 31.01%,
3. Ms. Aya Shachar, 12.89%,
4. THE SOUTHERN MARKETING COMPANY LTD., 8.53%, a subsidiary,
5. Shares are also traded on the Tel Aviv Stock Exchange.

In October 2017, Bruno Landesberg, founder of SANO-BRUNO'S ENTERPRISES passed away (at the age of 93). As of yet, his estate has not been passed to his heirs.

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DIRECTORS

1. Isaac Zinger, Chairman,
2. Alexander Landesberg, Vice Chairman,
3. Yehuda Nasradishi,
4. Ms. Zviya Gross,
5. Ms. Nurit Shnit,
6. Relly Shavit,
7. Eliezer Carmel.

GENERAL MANAGER

Yuval Landesberg.

BUSINESS

Developers, manufacturers, exporters, distributors and marketers of consumer "Non-Food" products. Manufacturing over 450 products.

Subject, itself and through subsidiaries, deals in 4 main categories:

1. Detergents, cleaning and household products: air purifiers, insecticides, cleansers, polishing wax laminates, etc. This segment comprised 45% of Group's sales in 2017 (42.6% in 2016).
2. Home paper products: diapers, toilet paper, tissues, etc. This segment comprised 17.2% of Group's sales in 2017 (17.1% in 2016).
3. Toiletries & Cosmetics -via COSMOPHARM: soaps (brands "Crema", "Keff", "Neca"), deodorants, toothpaste ("Orbitol"), wet-towels, body care ("Careline"), hair products "Natural Formula", sun creams "Skin Guard", etc. This segment comprised 25% of Group's sales in 2017 (24.9% in 2016).
4. Other complementary products: packaging products, litter bags, sanitary products, kitchen accessories, chemicals, etc. This segment comprised 12.8% of Group's sales in 2017 (15.4% in 2016).

Having some 5,000 local clients (retailers), which comprised 83% of Group's 2017 sales, as well as some 7,000 distribution pints to the institutional market (17% of Group's sales in 2017). Sales are to all supermarket chains, drugstores and pharmacies, groceries, etc. Retail sector (main clients): SHUFERSAL BITAN WINS, and many more.

Also manufacture paper products for SHUFERSAL (local largest supermarket chain) for the chain's private label paper goods.

8% of Group's sales in 2017 were export. Marketing of subject's products (via Romanian subsidiary) in Romania, Ukraine, Eastern Europe and in Cyprus.

Among local suppliers: COHEN PLAST, CHEMIART, ELIDAN PLASTICS, CENTIMPORT MARKETING, CANIEL INDUSTRIES, SANWA, OFERTEX INDUSTRIES, BUCHWALTER DISPLAY & STORAGE, NOAM URIM,

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ARCHEM, INFOGRAF, GLIL ON (OTGAL), AMIT TRADING S.G., OMEGA PAPER INDUSTRIES, COMTRANS-TECH, TOP PLAST 2002, PACK LINE, WINPAC TRADE, etc.

Advertising agencies: BROCKNER-NETA-YAAR, GLICKMAN-NETLER-SAMSONOV, DRORI-SHLOMI.

Operating from offices, warehouses and plant on an owned area of 60,000 sq. meters (25,000 sq. meters built), in 10 Hacharash Street, Neve Neeman B' Industrial Zone, Hod Hasharon (premises expands to 8 Hacharash Street). SANO Group also operating from:

1. Paper production plant in Kibbutz Snir (rented, 7,000, sq. meters built on a plot of 20,000 sq. meters)
2. 2 plants in the Industrial Zone, Netanya (owned, 4,000 built sq. meters on a plot of 10,000 sq. meters)
3. Distribution center in Lev Haaretz Compound, Kfar Kassem (rented, 5,500 sq. meters)
4. Logistics center and a plant in Emek Hefer Industrial Park (owned, 10,000 built sq. meters on a plot of 37,000 sq. meters).

The Group also operates from distribution center (owned), on an area of 93,000 sq. meters in Romania (10,000 sq. meters built).

Website: www.sano.co.il

Having 1,659 employees serving SANO Group, including 623 part-time employees, as of end of 2017 (had 1,615 employees serving SANO Group, including 603 part-time employees, as of end of 2016).

FINANCIALS

MEANS

Consolidated B/S shows:

	<u>NIS (thousands)</u>	
	<u>31.12.2017</u>	<u>30.06.2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	331,849	298,052
Customers	360,651	393,448
Other debtors	15,579	21,635
Stock	<u>157,342</u>	<u>191,392</u>
	865,421	904,527
Non-current assets:		
Fixed assets (net)	357,766	388,322
Good will and intangible assets (net)	64,480	63,204
Other assets	<u>41,270</u>	<u>60,588</u>
	<u>463,516</u>	<u>512,114</u>
	<u>1,328,937</u>	<u>1,416,641</u>
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LIABILITIES

Current liabilities	276,797	285,988
Non-current liabilities	19,456	19,915
Equity	<u>1,032,684</u>	<u>1,110,738</u>
	<u>1,328,937</u>	<u>1,416,641</u>

Current market value US\$ 611.4 million.

Subject and subsidiaries registered several charges and guarantees on their assets in favor of local banks, for securing the subsidiaries' liabilities.

REVENUES

Consolidated Statement of Income

	<u>NIS (thousands)</u>		
	<u>Year ended 31.12</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Sales	1,484,161	1,487,089	1,448,979
Gross profit	517,575	535,998	556,698
Operating income	167,153	216,128	216,477
Income before tax on income	158,361	212,164	201,123
Net income	<u>113,980</u>	<u>158,283</u>	<u>147,671</u>

Consolidated revenues for the first 6 months of 2018 were NIS 743,875,000 (a slight decrease compared to the parallel period in 2017), making a gross profit of NIS 286,017,000, an operating income of NIS 106,632,000, and a net income of NIS 78,980,000.

OTHER COMPANIES

Subject owns (100%, unless otherwise stated):

THE SOUTHERN MARKETING COMPANY LTD., distributors of the goods manufactured by subject and SANO Group.

SANO PROFESSIONAL LTD., distributors of SANO Group's products to the institutional market.

SNIR PAPER INDUSTRIES (1995) LTD., manufacturers of hygiene paper products. This company is 90.5% owner of ISRAPAPER PAPER INDUSTRIES LTD., which fully owns PANDA PAPER MILL (1997) LTD.

COSMOPHARM LTD., manufacturers, exporters and marketers of SANO Group's toiletries and cosmetics.

SANO INTERNATIONAL LTD., exporting arm of SANO, holding 4 foreign subsidiaries (Central and Eastern Europe).

E.U.T.E. 2007 LTD., 70%, holds 100% in ISO TRADE UKRAINE, in the Ukraine.

SOCAM 2008 LTD.

SOLIST INVESTMENTS LTD., 25.1%, holds 25.1% in CHEMI SAN.

CHEMI SAN LTD. (formerly SANO INTERTRANS LTD.), 86.8% (including a/m SOLIST's holdings), traders, importers and marketers of raw materials, mainly in the chemical field for the local industry. Fully owns SANO INTERTRANS ROMANIA LTD., 61.24% of DELEK - SAN RECYCLING LTD., recyclers (operating a recycling plant), exporters and markets (of recycled products) of solvents and saturated industrial currents. Fully owns CHEMI SAN TRADE (2017) LTD.

SANO ROMANIA IMPEX COM. S.R.L., Romania.

SANO REAL ESTATE LTD.

Also holding (among other non-core holdings) 2.1% of B. GAON HOLDINGS LTD., a holding company traded on the Tel Aviv Stock Exchange and 5% of TAMIR MANUFACTURER RECYCLING CORP IN ISRAEL.

BANKERS

Bank Leumi Le'Israel Ltd., Principal Branch Tel Aviv (No. 800), Tel Aviv.

Bank Hapoalim Ltd., Petach Tikva Business Branch (No. 61), Petach Tikva.

CHARACTER AND REPUTATION

As of end of 2017, there are several motions for class action lawsuits, against subject alone and sometimes as part of several defendants, which subject estimates that chances of approval are lower than 50%.

In other previous motions, some ended in compromises (relatively insignificant in term of the compensations), and some not approved. Legal matters against subject are also insignificant.

Apart from the above, nothing unfavorable learned in the legal aspect

Subject is one of the largest "non-food" suppliers in Israel. It was ranked 8th among the leading FMCG suppliers list for 2017, 2016 and 2015, with 2.8% market share in these years in local FMCG bar-coded market. In 2017, SANO had 18% market share in toiletries & cosmetics (same in 2016), 37% in cleaning products (36% in 2016) and 14% market share in paper products (same as in 2016).

Subject is one of the largest advertisers in the local market (ranked 14th in 2016). According to surveys, expenditure on advertising in 2016 stood on NIS 44.1 million, a 3% decrease from 2015 (in real numbers).

Subject complies with the TI 2000 & ISO 9001 standards.

Cosmetics and toiletries are handled by subject's subsidiary, COSMOPHARM.

The body lotion market is estimated at NIS 100 million per year. Local hair care products market is valued at NIS 400 million per year, and subject's "Careline" brand had estimated market share of 18% (2011). In the sun creams segment, "Natural Guard" brand had 25% market share (2010). In the deodorants segment, estimated market share was 4% (in 2010, total market value over NIS 160 million per annum).

In 1999 SANO Group acquired SNIR PAPER INDUSTRIES (1995) LTD., the paper mills of Kibbutz Snir, in consideration of US\$ 300,000 and covering all the debts (estimated at NIS 9.5 million).

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In 2001 subject bought 74% of NIDIX MARKETING & DISTRIBUTION LTD., for a sum of NIS 4 million and later purchased remaining 26% of NIDIX.

In 2003 subject acquired 51% of NUR group of companies operating in the detergents field a sum of NIS 5.363 million. In 2004, subject acquired the remaining 49% in NUR and reached a 100% holding in both companies, for NIS 7.733 million.

In 2004 subject acquired 51% of ISRAPAPER PAPER INDUSTRIES LTD. from ADIGUR INVESTMENTS for NIS 2.839 million. In July 2005 subject realized its option for further 39%, for a sum of NIS 3.632 million.

SANO ROMANIA IMPEX COM was purchased in 2003 for NIS 97,000. This company distributes subject's products in Romania.

In 2006 subject established a subsidiary (51%) in Romania called ROM CAFÉ, to distribute coffee and accessories products in Romania and in the beginning of 2007 established E.U.T.E. subsidiary (60%) in the Ukraine for those goods. These companies also distribute SANO Group products in their countries.

In December 2007, subject acquired 60% of SANO's distribution company in Moldova (SANAVELES) and in early 2008, established with 3rd parties a marketing company in Cyprus (SANO CYPRUS) in which subject holds 60%. In February 2015 Group sold its holdings in SANAVELES.

In 2008 it established subsidiaries SANU HUNGARY (88%) and BSE BALTIC Latvia (60%) called. That comes on top of increased operations via Cypriot subsidiary. In April 2012 SANO Group started to operate in Bulgaria and in 2012 in Georgia (established with a local partner a new marketing company -60% / 40%- called INTER GBM LTD., or 'SANO GEORGIA'). In December 2014 subject acquired the remaining shares and reached full ownership in both companies.

In November 2009 subject signed an agreement for the purchase of the intellectual property (IP) of the personal care products, cosmetics, toiletries brands 'Careline', 'Neca', 'Natural Formula', 'Skin Guard', 'Adam' and 'Titanium', from ZOHAR COSMETICS (M.O.F) LTD., which is part of EMILIA Group, for NIS 85 million. EMILIA itself completed the acquisition of ZOHAR COSMETICS – then called CARELINE (PHARMAGIS) LTD., established in 1971, and its subsidiaries from PERRIGO ISRAEL Group in February 2010 (based on a deal signed in 2009). The first part of the transaction with ZOHAR COSMETICS took place in March 2010 and was finally completed in May 2012, when subject paid the reminder of the purchase sum (delay was due to several matters concerning the corresponding deal with PERRIGO). According to the agreement between EMILIA and subject, ZOHAR COSMETICS will continue to manufacture the said brands, including the main brand 'Careline' on a "private label" basis at their Yerucham plant for 5 years at least and sell them to subject. Distribution will continue to be via DANAGIS. Subject estimated the turnover of the brands acquired at NIS 240 million annually. In a report from October 2010 it was reported that Group intends to invest NIS 20 million in "Careline" brands.

In May 2011 subject's subsidiary completed the acquisition of PANDA PAPER MILL (1997) LTD. (paper rolls manufacturers) for NIS 2,250,000.

In July 2011 SANO Group signed two agreements, both with third parties, to establish 2 companies that will deal in distribution and sell of subject's goods, one in Poland (SAN PAUL, 70% by subject) and one in Armenia (BH CLEAN LLC, 60% by subject). In February 2017 subject sold its holdings in BH CLEAN (for an insignificant sum), which will still serves as SANO Group's distributor.

In July 2011 subject increased its holdings to 63.3% (from 50.1%) in SANO INTERTRANS (now CHEMI SAN LTD).

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In January 2012 subject sold its holdings (50.1%) in UP TOTAL CORP. LTD. (acquired in 2008), which operated in the food sector and fully owns MANA Y.A. LTD. and RESOURCES Y.A. LTD., for NIS 3.2 million.

In April 2015 SANO INTERTRANS acquired the remaining 50% of DELEK SAN RECYCLING LTD., engaged in recycling of chemicals saturated industrial currents, for NIS 4.8 million and reached full ownership. DELEK SAN erected a recycling plant in Dimona and expected to have an annual turnover of NIS 150 million.

In the 2nd half of 2016 local FIMI FUND signed an investment agreement with SANO, according to which FIMI will invest up to NIS 100 million in DELEK SAN, in consideration of 38.7% - 100% depending on the eventual investment and DELEK SAN performance. Deal completed December 2016.

In November 2017 subject reported it signed an agreement for the acquisition of 4 plots on an area of 46,000 sq. meters for NIS 110.5 million. Subject intends to erect a logistics project on the premises.

In June 2018 it was reported that subject will start marketing 10 toiletries & cosmetics products to the US market via AMAZON.

According to StoreNext Market Research survey (based on circa 80% of the sales in the local FMCG bar-coded market), in 2017 the FMCG market summed up to NIS 41.6 billion, with 1.5% increase in sales in terms of price, sided by a 0.9% increase in real terms (the prices index rose by 0.6%). That comes after a freeze in 2016 from 2015 and mild increases in sales in 2015 and 2014, compared to the previous year.

Food products sales in 2017 witnessed 1.9% rise in money terms from 2016 and totaled NIS 31.2 billion (after 0.8% decrease in 2016), beverages sales rose by mere 0.3% summing at NIS 4.5 billion (rose 1.5% in 2016), personal care goods dropped by 0.6% with sales of NIS 2.7 billion (marked similar decrease in 2016), while sales of home care goods totaled NIS 3.2 billion, representing 1.2% rise from 2016 (after minor decrease in 2016).

2017 data in the food and beverages alone, points on 1.7% rise sales from 2016, to total of NIS 35.7 billion, though estimated to be most from price rise, not quantity, taking into account the population growth, so in practice point on stagnation in the market.

The local cleaning and detergents market is estimated at NIS 350 million. The market is mainly combined from toilet cleaning products (over 30%), floor cleaning products (over 20%) and bleaching products (around 20%). Most of the market (80-85%) is controlled by local manufacturers (large part by international brands such as subject) and the rest from import. Some 65% of sales are to the large marketing chains.

According to the Central Bureau of Statistics (CBS), sales for export from local manufacture of soaps and detergents, cleaning preparations, perfumes and toilet preparations in 2016 summed up to US\$ 568.7 million (US\$ 547.6 million in 2015, US\$ 611.5 million in 2014, US\$ 654.1 million in 2013). Export of such products show a 9% increase in the first 4 months of 2017 compared to the parallel period in 2016.

The local hair care products market is valued at NIS 400 million per year, and Shampoo market is valued at NIS 251 million.

According to a report from November 2016, the local cosmetics and personal care market is valued at NIS 6 billion.

In addition, local cosmetics industry sales for export are valued at further NIS 1 billion. 60% of the sales are of body care and make-up, the rest are perfumes.

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Total sales by local cosmetics manufacturers is valued at US\$ 1 billion (2015), of which 40% were for export, mainly to the USA and EU. About 60% of the sales are of body care and make-up, the rest are perfumes, manufactured by some 10 large plants, 30 medium-size and few tens of smaller plants. There are some 7,000 employees in the local cosmetic segment.

SUMMARY

Good for trade engagements.

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FOREIGN EXCHANGE RATES

Currency	Unit	Indian Rupees
US Dollar	1	INR 72.10
UK Pound	1	INR 93.70
Euro	1	INR 81.44
ILS	1	INR 19.51

Note : Above are approximate rates obtained from sources believed to be correct

INFORMATION DETAILS

Analysis Done by :	PRI
Report Prepared by :	POJ

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RATING EXPLANATIONS

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)