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## Caesarstone

*"...Then mount four rows of precious stones on it. The first row shall be carnelian, chrysolite and beryl; the second row shall be turquoise, lapis lazuli and emerald; the third row shall be jacinth, agate and amethyst; the fourth row shall be topaz, onyx and jasper. Mount them in gold filigree settings. There are to be twelve stones, one for each of the names of the sons of Israel, each engraved like a seal with the name of one of the twelve tribes..."*

Exodus 28

## Introduction

Caesarstone, based in Kibbutz Sdot Yam, in the center of Israel, is a leading manufacturer of high quality engineered quartz surfaces, available in many different designs, textures, colors and styles. Established in 1987, the company is a pioneer in the relatively new and quickly growing engineered quartz segment of the global countertop market.

Caesarstone manufactures engineered quartz slabs at two locations in Israel: Kibbutz Sdot Yam and the Bar Lev Industrial Zone near Karmiel. Their four different designs are sold in 48 countries worldwide and offer consumers a more qualitative alternative to granite and other surfaces. Common uses of Caesarstone's products include kitchen countertops and vanity tops, as well as other interior surfaces with both residential and commercial applications.

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Udi Aharoni from the Eli Hurvitz Institute for Strategic Management, the Coller School Management, Tel Aviv University, prepared this case with the assistance of Erez Cohn, Shira Lifshiz and Nikki Avershal as the basis for the 2013 Sofaer International Case Competition. The case does not intend to illustrate effective or ineffective handling of business processes or decisions.

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In 2012 Caesarstone's revenues, \$296.6m, showed an increase of 14.2% from 2011, continuing the compound annual growth rate (GAGR) of 18.7% from 2007 to 2012, even during the cycle of challenging global economic conditions. 2012 adjusted EBITDA was \$69.4m, an increase of 18.2% over the \$58.8m of the previous year.

Caesarstone has been traded on the NASDAQ exchange since March 2012 with a market cap of \$850m (Mid-March 2013).

The management team has high hopes for continued growth and the company aims to become a major player in the countertop segment and surfaces industry within the next five years and to be a world leader in the surfaces industry in the long run.

## **The Surfaces Industry: Countertops, Walls, and Flooring**

The surfaces industry combines three major segments: countertops, walls and flooring. The industry serves both commercial and residential consumers and reacts in tandem with the global building market, both in the construction of new property and the renovation of existing property. While there are large companies that span multiple sectors within each segment, because of the many different types of raw materials, applications and end-consumer preferences, each market is quite fragmented. (Exhibit 1)

### **The Countertop Segment**

Food is sustenance and the heart of any home is in its kitchen. Countertops are an increasingly important design element of the kitchen and an essential intensively used tool. The surfaces on which food is prepared must be strong, durable, clean, aesthetically pleasing and long lasting. Demand for countertops is principally dominated by the renovation and remodeling of existing properties and the construction of new properties, and in 2010, the vast majority of countertops were installed in residential settings. Fluctuations in national and local economic conditions as well as unemployment levels and demographic shifts influence sales and growth within the countertop global market. In 2012 the countertop industry reached \$74bn in sales to end consumers based on average install price which includes installation and other related costs, or in manufacturers' sales of approximately \$30bn.

On a global scale, according to revenues, the largest markets are Asia/Pacific, North America and Western Europe, each representing between \$17.0bn and \$20.1bn in 2012. The market is extremely fragmented and only a few companies have a hold globally. End consumers have extensive options for countertop solutions and prices for countertops range anywhere from \$12 to \$200 per square foot (\$120 to \$2,000 per square meter), depending on the brand, type of material and the fabrication and installation costs, methods and processes. The value proposition to customers and the associated prices are segmented by: price sensitivity, value-for-money (VFM) and premium. The common market predictions are that the engineered quartz segment will experience the largest growth over the next five years. Even though the entirety of current engineered quartz products fall under the VFM and premium categories, it is anticipated that as the quartz segment grows, quartz surfaces will fall into all the price categories, including VFM and price sensitivity.

At the same time, natural stones (including granite and marble) are also anticipated to grow in the future, but at a lower rate than the quartz segment. In 2012 global sales of countertops included 27% granite, 25% solid surfaces, 16% laminate, 8% engineered quartz, 2% marble and 22% of other materials. (Exhibits 2-5)

## The Wall Cladding Segment

World demand for wall cladding is expected to rise 4.8% annually through 2015, reaching \$87bn in consumer prices, the pace of growth being similar for both residential and nonresidential applications.

Residential demand for siding will remain strong in developing countries as personal disposable income levels rise and construction practices improve, increasing the number of buildings using siding. Nonresidential demand for siding will grow most rapidly in the developing Asia/Pacific and Africa/Mideast regions, where real GDP is expected to rise at rates above the global average, fueling building construction spending. In the North American market, demand is expected to rise quickly as the US housing sectors recover from the 2005-2010 market collapse.

Masonry and concrete products will account for nearly three-quarters of sales through 2015. Global demand for these products is expected to grow almost 5% per year, fueled by recoveries in the housing sectors of the United States and Western Europe. Brick and tile products will enjoy above-average sales growth in China, India and the Africa/Mideast region. Between 2010 and 2015, demand for fiber cement siding will grow most rapidly, taking market share from competitive products. Japan will continue to be the leading national market for fiber cement siding, but gains for other materials will also be boosted by strong growth in China and India. Sales of vinyl siding are expected to increase rapidly because of higher levels of US demand, but vinyl siding will remain a niche product outside North America, accounting for only a small portion of demand. (Exhibit 6)

## The Flooring Segment

World demand for flooring is expected to rise 5% annually through 2016 to 18.6bn square meters. These improvements can be seen as a rebound from the 2008 global economic crisis and the rise in demand in developed areas in parallel with the rebound of the global construction market. The industry's global revenues are expected to grow to more than \$270bn in 2016 in consumer prices with most relevant applications in homes with growing per capita income and in showrooms that support rising motor vehicle production. The flooring industry is comprised of materials such as ceramic, laminate, wood, carpeting and natural stones. The popularity of materials changes geographically, but it is predicted that non-resilient materials will see the greatest demands in the coming years. (Exhibit 7)

## Materials

The countertop market is composed of various types and styles of materials. Raw material options in the countertop industry range from tiling, cast-in-place concrete and stainless steel to natural options like granite, marble and wood, to laminate and paper composite to innovations in solid surfaces, engineered quartz and terrazo. The following are the most popular raw materials currently available on the market. (Exhibit 8)

### Granite

One of the traditional materials used as countertops is granite, which is very hard and durable and is resistant to damage from heat, stains, and scratches. It is widely available across the world and the diversity of the stone creates opportunities for purchase across

various price points. Each slab is unique, and comes in a range of almost 3,000 colors. Granite accounts for 27% of the global countertop industry.

## **Solid Surfaces**

Solid surfaces are materials composed of an acrylic polymer and alumina trihydrate (ATH). The solid surfaces are thermoformed by heating the material to 150 degrees Celsius, allowing unique shapes to be created. Its primary uses are in kitchen countertops, bathroom vanity tops, and wall cladding in showers. It is primarily sold under brand names such as Corian (DuPont), Meganite, Marian (Polylac Holland BV), LG, Staron (Samsung). The solid surfaces come in several thicknesses, are durable and resist water damage. Nicks and scratches can be buffed out by carpenters. They are extremely versatile and are available in a variety of colors and patterns, more than one thickness and with some that emulate the look of natural stone. Solid surface countertops are priced slightly lower than quartz surfaces and account for approximately 25% of the global countertop market.

## **Laminate**

Laminate is a cost-effective countertop option that makes up approximately 16% of the global countertop market. Made from a sturdy particleboard core, with layers of tough bonded plastic laminate is durable and long-lasting if cared for properly. Laminate is very susceptible to damage from heat, water and discoloration. It can be designed to mimic real wood, metals and other materials in hundreds of colors and textures.

## **Engineered Quartz**

Engineered quartz is strong, durable, designer-friendly, versatile and low maintenance, making it an ideal material for the kitchen, with other relevant applications in vanities, flooring, stairs and walls. The product is composed of approximately 93% quartz particles and 7% binding resins and additives. Consumer Reports Magazine, a leader in third-party product reviews, has given engineered quartz the highest overall score in the countertops material segment.

Quartz as a raw material is crystallized silicon dioxide ( $\text{SiO}_2$ ), usually white or transparent in color, or in various other shades if during formation it came into contact with natural impurities. It is found either in a pure state or present in other compounds. Because of its hardness and resistance to acids, it is used to make a large variety of products, outside the realm of engineered surfaces.

Quartz surfacing is gradually taking the place of granite and other materials, as it is easier to maintain and clean, and is highly resistant to scratch and wear over time. With design and color options more extensive than granite, and easy maintenance of its no-seal-needed scratch resistant surfaces, the product offers a unique feel, closely resembling natural stone and ideal for withstanding daily kitchen wear and tear.

The engineered quartz sector of the countertop market is highly fragmented. Usually, engineered quartz slabs are sold to fabricators either directly or through distributors, who are then hired by contractors, developers and end consumers to incorporate the products within their projects. In the engineered quartz sector of the countertop industry there is very little vertical integration and few manufacturers controlling their own distribution channels, fabrication facilities or pursuing a global branding strategy. From 1999 to 2012 the

engineered quartz segment saw a CAGR of 15.8% while the global countertop industry as a whole only saw a 4.4% CAGR over the same time. In 2012, engineered quartz had an 8.2% market share in the countertop segment by sales (up from 2.1% in 1999) but only 5% by volume.

## **Marble**

Marble is a high-maintenance material, requiring constant attention. It is prone to scratches and stains and the porous stone must be professionally sealed to avoid the growth of bacteria. While more expensive than laminate finishes, marble price points vary and certain types can be more affordable than a quartz or granite option. However, there are also unique and rare types that are sold at the top end of the market. Total marble sales account for approximately 2% of sales in the countertop industry.

## **Additional Materials**

Additional materials in the countertop industry include recycled composites made of glass or paper, ceramic tiling, and cast-in-place concrete, stainless steel and wood. Stainless steel is resistant to heat and staining and very durable. While a more expensive option, it provides a clean and sophisticated workspace that can be custom built to any space and offers design versatility with supplemental features like backsplash and sink additions.

Wooden countertops, most often crafted from woods such as maple and oak, are easy to clean and can be sanded and resealed as needed. Giving a natural look, wooden countertops must be carefully maintained in order to retain their warm look.

## **Newcomer—Ceramic Surfaces**

Recently certain manufacturers have started to introduce large surfaces made of ceramics, which serve as countertops as well as the traditional ceramic applications. While this product is in its embryonic stage, it has technical advantages and allows for vast design options.

## **The Competition in the Quartz Surfaces Industry**

Quartz surfaces are competing successfully in the countertop industry with traditional materials like granite and laminate. This material conversion trend is expected to continue in the future.

The engineered quartz sector is highly fragmented and plays host to a number of global and regional competitors. All products are manufactured to reach their users in a similar manner—slab surfaces ready to process, usually with an option of more than one thickness.

Lower-cost manufacturing solutions of inferior quality from Asia present a potential threat to the industry as their pricing can vary and be even 40% cheaper when sold to very large scale projects. Another foreseeable threat is consolidation to achieve greater and more competitive economies of scale as the engineered quartz surfaces market grows larger and the material becomes more popular globally. The main competitors in the industry include Cosentino (Silestone), Cambria and Vicostone. Some of these direct competitors produce additional surface material solutions like solid surfaces, marble or granite.

Caesarstone and Silestone are the only brands which operate globally. Caesarstone is a strong leading brand, highly regarded for its quality, design, innovation and service. (Exhibit 9)

## Caesarstone

### Overview

Established in 1987, Caesarstone pioneered in putting innovative, engineered quartz surfaces onto the market. The company has expanded from sales in the Israeli market to sales in over 48 countries across the globe and has the capability for further global expansion. (Exhibit 10)

### History

During the 1980s Kibbutz Sdot Yam was in dire financial straits. Debts skyrocketed and residents were abandoning the communal structure for greater economic opportunities outside the kibbutz. Amos Amir, who during the 1970s was CEO of Caesaria Marble, a local tile manufacturer, conceived of the idea of Caesarstone as a replacement for the kibbutz's terrazo tile factory, for which he felt there was little demand. The plant in Sdot Yam was established with one line in 1987 and the second line was added in 2002. The second plant in Israel, at the Bar Lev Industrial Zone near Karmiel, was established in 2005. A second line was added in 2007 and a third line is expected to be operational by the end of 2013 (giving the company a total of five lines). In 2006, TENE Investment Funds injected \$25m into Caesarstone in exchange for a 21.7% stake in the company<sup>1</sup>.

### Products

Caesarstone's engineered quartz slabs for kitchen and residential countertops are divided into four design collections. Each collection regularly offers new designs.

#### *Classico*

Representing the substantial majority of sales, the Classico collection is Caesarstone's first and largest collection, initially released in 1987. It offers customers 70 different colors, with three different textures and three different thicknesses to choose from. The collection is continually being developed to keep abreast of industry trends, and responsive to the needs of architects and designers. The Super Natural design recently introduced by the company was a big success, allowing for higher margins, additional differentiation of the brand over competitors and promotion of the quartz category.

#### *Supremo*

The Supremo collection, supported by one of Caesarstone's patented manufacturing processes, was launched in 2010. This is one of Caesarstone's premium collections, offering

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<sup>1</sup>In April 2013 TENE sold its holdings for \$181m— a \$140m profit on its initial investment in 2006 and additional investment in 2009.

colorful surfaces that emulate natural stones. There are eight surface designs within the Supremo collection.

### ***Motivo***

The premium Motivo collection launched in 2009, adds a tactile element to quartz surfacing with innovative embossed designs. It offers endless patterns which can be adjusted to customers' demands, with all the different Caesarstone color options.

### ***Concetto***

The top item in Caesarstone's premium collection, Concetto features individually cut and bound semi-precious stones, in different colors and designs. Caesarstone originally launched the Concetto collection in 2003.

## **Production**

Most of the production lines are manufactured by Breton S.p.a., an Italian company and the leading manufacturer of production lines for manufacturing compound stone. It takes about two years to build a new factory from scratch with one line and an additional year to build an additional line. These factories cost an average of \$40m per line. Low quality manufacturers can build a factory at lower cost or with alternatives machines. It is estimated that globally there are approximately 40 active production lines, some not working at full capacity.

The quartz slabs are formed using compaction by vibrocompression vacuum processes with the Breton machinery. The process is as follows: Batches of high grade natural and synthetic raw materials are loaded into a mixing system that homogenizes them before sending them into molds. These molds calibrate the correct mass of the slab before they are transferred into the vibrocompression vacuum where the slab is compacted under 100 tons of pressure. After this process, the slabs, usually 300 cm X 150 cm, are moved to a kiln for curing. The slabs are then polished, after which they are checked, classified and stamped to meet quality control standards. Slabs are made on a per-order basis at the two Israeli plants with lead times (including shipment) of one to three months and are then distributed through direct or indirect sales models. Caesarstone buys most of its raw quartz from suppliers in neighboring Turkey. Quartz is durable, versatile and the second most abundant mineral in the world.

## **Marketing**

Caesarstone positions its engineered quartz surfaces as premium branded products in terms of their designs, quality and pricing. Through marketing, the company seeks to convey the products' ability to elevate the overall quality of an entire kitchen or other interior setting. Caesarstone's marketing strategy is to deliver this message every time that customers or end consumers come into contact with the brand. In addition they aim to communicate Caesarstone's position as a global leader in engineered quartz surface innovation and technology.

The company's "push-and-pull demand strategy" is to drive marketing and sales efforts through its distributors while creating demand for the products from fabricators and end

consumers. This strategy is believed to differentiate Caesarstone from its competitors in the engineered quartz sector.

Another reason the company focuses its marketing activities at the distributor level is to increase the global exposure of the brand while tailoring marketing activities to the individual needs, tastes and preferences of a particular country. Thus, marketing activities across the globe differ to promote sales among those who have the greatest influence on public perception in each market.

Caesarstone and its distributors implement a multi-channel marketing strategy in each territory and market not only to direct customers, but to the entire product supply chain, including fabricators, developers, contractors, kitchen retailers, builders, architects and designers. The company uses multiple marketing channels, including advertisements in home interior magazines and websites, the placement of display stands and sample books in kitchen retail stores and the company's strong website. Through the Caesarstone University program fabricators and stonemasons learn about the products, their capabilities and installation methods. As a result, markets benefit from highly trained fabricators and stonemasons with a comprehensive understanding of the Caesarstone products and the ability to install the products in a variety of applications.

The central marketing department in Caesarstone's Israel office develops marketing materials and most of the distributors use these materials in their local markets, which helps ensure the consistency of the Caesarstone brand globally. Distributors get marketing materials, such as product brochures, promotional packages, print and online advertising materials, sample books, exhibition infrastructure, signage, stationary and display stands, which provide them with significant flexibility to choose the best marketing strategy to implement in a particular territory.

Local marketing departments in Australia and in the United States develop their own marketing materials, in addition to the pre-prepared marketing materials, because of the size and particular characteristics of these territories. In 2012, Caesarstone spent \$14.9m on advertising.

A global company website serves as the website for all distributors. Certain third-party distributors and subsidiaries maintain their own websites, which conform to the brand guidelines and link to the main website. The websites enable fabricators and end consumers to view currently available designs, photo galleries of product installations in a wide range of settings and read product success stories, which feature high profile individuals and designers using and loving Caesarstone products. They also seek to attract positive attention to the brand and products through a range of other methods, such as home design shows, design competitions and the use of products in high profile projects and iconic buildings.

## **Marketing Channels**

There are many players in the global countertop industry value chain, including manufactures, distributors, fabricators, retailers, architects and commercial and residential end users. Each company within the industry has a different model that outlines how they reach their consumers through direct or indirect channels and how the various players are involved in those processes. Caesarstone, a global leader in its segment, employs direct and indirect marketing and sales channels to optimize expansion globally through its value chain.

## Direct Sales

Caesarstone's direct sales model has proven itself successful in establishing the brand worldwide and direct sales make up 85% of its total revenues. Caesarstone currently has direct sales channels in its largest markets: Australia, Israel, Canada, the United States and Singapore. Sales in Australia, the United States, Canada and Israel accounted for 30%, 29%, 14% and 12% of revenues, respectively.

Direct sales channels allow Caesarstone to maintain greater control over the entire sales channel within a particular market. With this control, Caesarstone gains greater insight into market trends, has more direct communication for sales promotion, marketing and feedback from end users, and greater control over inventory management.

Through the Australian subsidiary, formerly a distributor, Caesarstone has established a distribution network with locations in major urban centers. The company's warehouses maintain inventories of their products throughout the country and are connected to the Australian subsidiary's sales department. Caesarstone supplies its products to stonemasons who then sell them to contractors, developers, and builders that are advised by architects and designers to use Caesarstone products in their projects. In the Australian market, products are sold directly to approximately 750 fabricators throughout the country.

In Israel, where Caesarstone's headquarters and factories are located, products are distributed directly to local distributors who sell to fabricators. This model minimizes the financial exposure to customers while providing significant depth and coverage in the Israeli market. Although products are sold to distributors, Caesarstone still considers it a direct market because of the marketing it does in this market and the warranty provided to end customers specifically in this market. Additionally, fabricators in this market participate in technical instruction programs as well as sales and marketing activities.

Caesarstone has recently established direct distribution channels in large urban centers in Canada, the United States and Singapore. These channels are complemented by exclusive sub-distributor arrangements in certain areas. Each of the warehouses maintains an inventory of Caesarstone products to serve the Caesarstone Canada and Caesarstone USA distribution channels. The products are sold to stonemasons that resell them to contractors, developers, and builders who are advised by architects and designers.

## Indirect Sales

In places where Caesarstone does not employ its direct sales model, it uses third-party distributors to distribute products on either an exclusive or non-exclusive basis, depending on the country or region, to the fabricators. As is the case in the direct sales model, fabricators then sell Caesarstone products to contractors, developers and builders. Generally, in the indirect sales model, one distributor serves an entire country or region. Today, Caesarstone sells its products to over 40 countries using third-party distributors. These types of sales, accounted for only 15% of revenues in 2012. Using this strategy, and making every effort to find and choose distributors with experience in the industry and pre-established relationships with local fabricators, stonemasons, builders and contractors, Caesarstone can quickly penetrate multiple new markets.

In order to promote the Caesarstone brand, the company operates closely with distributors, providing them with marketing materials and sometimes monetary assistance for marketing activities. Caesarstone executives also oversee and aid distributors in preparing and executing marketing strategies and business plans. These plans and materials help the

distributors to build stronger relationships with local builders, contractors, developers, architects and designers. Prices can vary greatly across global markets, depending on different parameters including type of economy (market or other), demand, competition, etc.

As part of the company's strategy, in 2008 there was a shift to the direct sales model in key markets as demonstrated by the acquisitions of the former Australian distributor in 2008, the joint venture with the Eastern Canada distributor in 2010, the acquisition of the business of the former Western Canada distributor, the acquisition of the remaining 75% equity interest in the US distributor and the acquisition of the business of the former Singaporean distributor in 2011. Acquiring these distributors gives Caesarstone a higher degree of control over sales operations, enabling faster penetration of new products and increased growth and margin profile. (Exhibits 11-13)

## **Customer Service**

Caesarstone focuses on providing outstanding customer service as a strong competitive differentiator and advantage. Relationships with customers are established and maintained through the coordinated efforts of sales, marketing, production and customer service personnel. In direct markets, all distributors are provided a limited direct manufacturing defect warranty. In all of the indirect markets, distributors are responsible for providing warranty coverage to end customers. The warranties vary in length from the three-year warranty provided in Europe, to the lifetime warranty provided in the United States. However, in most cases, a ten-year warranty is provided. Local distributors take care of warranty issues on their products, except in Israel where end consumers have the direct warranty for three years. Distributors receive training and knowledge in handling local warranty issues.

## **Research and Development**

The annual cost of the R&D team in Israel, which is comprised of 19 individuals, technologists, chemists and physicists and product designers, was \$2.1m—approximately 0.7% of annual revenues in 2012, not including governmental R&D funds support.

In order for Caesarstone to differentiate itself from its competitors, the strategic mission of the R&D team is to develop and maintain innovative and leading technologies and top quality designs, develop new and innovative products according to the marketing department's roadmap, increase the cost-effectiveness of manufacturing processes and raw materials, and generate and protect the company's intellectual property in order to enhance its position in the engineered quartz surface industry.

## **Innovation**

Although most of the manufacturers of engineered quartz products in the western world use Breton machinery, it is Caesarstone's technologies and know-how that give it competitive advantages and solidify its positioning as a leader in the growing engineered quartz sector of the countertop market. Fully automated and advanced technological capabilities increase efficiencies and unique technology supports each of the four product collections in various ways. Strong R&D capabilities with insights from the company's marketing team allows development of the innovative and superior products that the market demands in different shapes, colors, sizes and styles. For example, the Supremo collection introduced in July 2010

was the result of a new proprietary technology that allows for the creation of unique designs inspired by semi-precious natural stones.

## **Employees**

As of the end of 2012, Caesarstone had 883 employees, 536 of them in Israel, 180 in the United States, 85 in Australia, 60 in Canada and 22 in Asia. The increase in the global workforce by 237 employees in 2011 was largely due to the addition of 161 employees in the United States as a result of the Caesarstone USA acquisition and the expansion of direct distribution operations in Canada and Singapore, which added 32 and 19 employees, respectively. The increase in the global workforce by 45 employees in 2012 was largely due to expanded distribution operations in the United States, Canada and Australia, including a shift to direct distribution in the Mid-Atlantic and Midwestern regions of the United States and the West and South of Australia (all of which were served by sub-distributors in 2011). As the company's employees are dispersed globally the central Israeli office is challenged to constantly manage communications in order to support and control offices and subsidiaries worldwide. Currently, because of these advances, the human resources department is in the process of building a unified global HR infrastructure. (Exhibit 14)

## **Competitive Advantages**

Caesarstone had to develop several strengths across its value chain in order to create long-term competitive advantages: Its first competitive advantage is being a premium global brand with superior product characteristics. Its second competitive advantage is its global reach. Since its establishment in 1987 the company has grown to become the largest provider of engineered quartz materials in Australia, Canada, Israel, France and South Africa, with a significant market share in the United States and Singapore thanks to its unique marketing and sales efforts. The third competitive advantage is the company's proven ability to enter, develop and lead markets. In 1998 when Caesarstone entered the Australian market, the engineered quartz sector represented a minimal share of the overall countertop market. However, currently, engineered quartz represents approximately 35% of the Australian countertop market by volume, of which Caesarstone holds approximately 57%. The fourth competitive advantage is its strong global distribution platform with a sales strategy tailored to the nuances of each market. This includes product displays at over 10,000 locations in the United States, which is believed to be difficult for competitors to replicate. The fifth competitive advantage is superior manufacturing capabilities and strong R&D. Caesarstone has over 25 years of manufacturing experience combined with strong R&D capabilities. These five advantages combined with excellent financial results high above the market average, enable Caesarstone to continue building its global strategy and support future expansion of the company.

## **Strategy**

Caesarstone has defined guidelines to enhance its product brand and market share, build economies of scale in its business, and grow revenues and net income. It plans to do all this through expanded awareness of the company's premium brand, primarily through continued investment in product innovation supported by strong R&D initiatives and marketing activities. Additional guidelines include focusing on key markets, expanding global presence and pursuing selected acquisitions.

## The Main Dilemma

Though Caesarstone revenues have increased dramatically in the last five years, from \$130m to \$300m, it is still a relatively small player in the global countertop sector. (Exhibits 15-17)

The company is considering several potential strategic directions in order to achieve its long-term goals to be a major player in the countertop and surfaces industry within the next five years and to be a world leader in the industry in the long run.

It could continue internal growth in the countertop sector only or develop capabilities in additional sectors too. It could add additional materials to its portfolio or it could concentrate only on engineered quartz. It could choose to grow through acquisitions or by organic growth. It could enter new markets or perhaps develop existing markets, or it could develop new innovative strategic directions.

The strategic and implementation plan for the next five years will determine the company's future and thus needs to be drawn up very carefully and precisely in order to achieve the company's long-term goals.

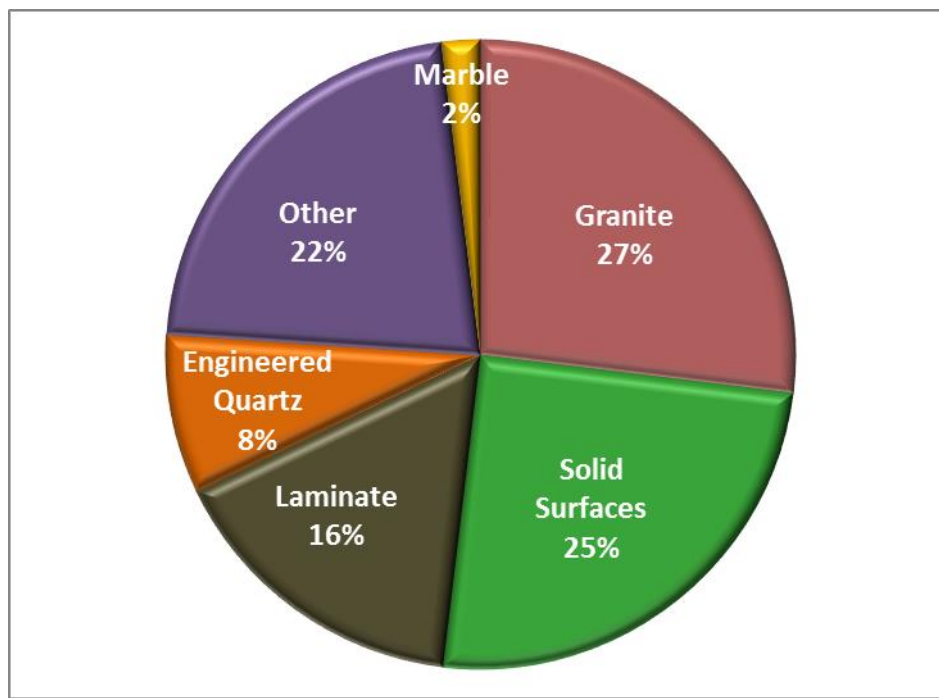
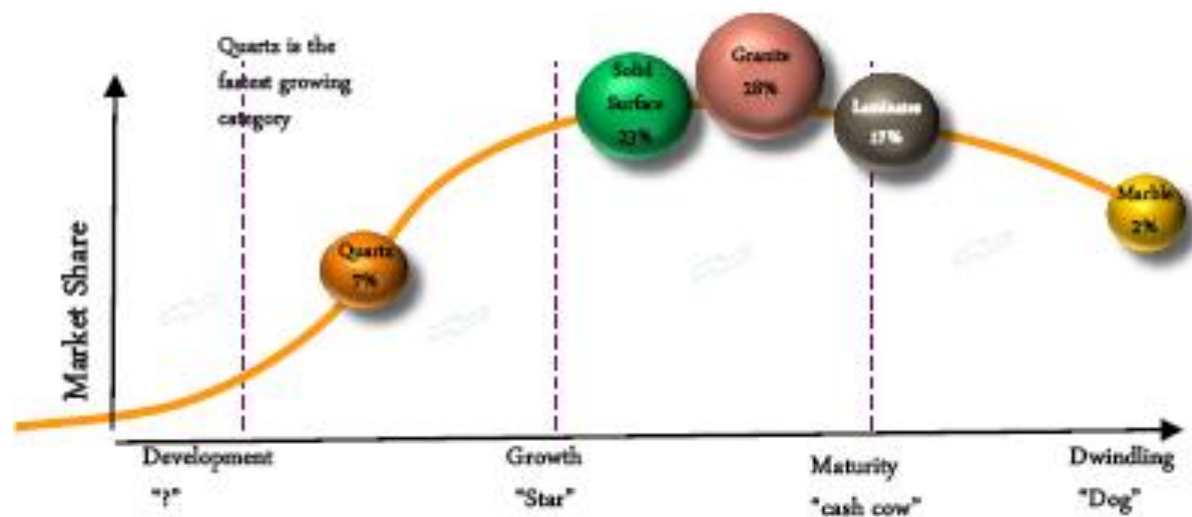
## Appendixes

<b>Key</b>				
<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Outstanding	Above Average	Average	Below Average	Poor
<b>N/A</b> - Not Applicable				
<b>INQUIRE</b> - Check with Fabricator for availability.				

	Ceramic Tile with Grout	Concrete (Cast-in-Place Sealed)	Granite (Sealed)	Laminate	Marble	Paper Composite	Solid Surface	Stainless Steel	Terrazzo	Quartz	Wood
<b>Appearance</b>											
Colors	5	5	5	5	4	2	5	2	4	4	3
Unique Pattern	5	5	5	2	5	2	2	1	5	2	5
Consistent Pattern	3	2	2	5	2	5	5	5	3	4	2
Seam Quality	N/A	5	3	2	2	3	5	5	3	4	3
One Piece Appearance	2	5	2	2	2	3	5	5	2	3	3
<b>Durability</b>											
Scratch Resistant	5	5	5	3	3	3	3	2	5	5	2
Stain Resistant	1	5	4	3	1	3	5	5	5	4	1
Chip Resistant	1	3	3	5	3	5	4	5	2	4	5
Heat Resistant	5	5	5	3	4	3	3	5	5	4	1
Household Chemical Resistant	5	5	2	3	3	INQUIRE	3	5	2	3	1
Easy to Maintain	2	3	4	4	2	4	4	4	3	5	2
Repair-ability	4	2	1	1	1	1	5	5	1	3	3
Non-Porous (Will not absorb moisture)	1	5	4	3	1	5	5	5	4	5	1
Renewable Surface	2	2	2	1	2	5	5	3	2	3	5
Requires Periodic Sealing	YES	YES	YES	NO	YES	YES	NO	NO	YES	NO	YES
<b>Options</b>											
Undermount Sink	YES	YES	YES	YES	YES	YES	YES	NO	YES	YES	YES
Seamed In Sink Option	NO	YES	NO	NO	NO	NO	YES	YES	NO	NO	NO
Cove (one piece backsplash)	YES	YES	NO	YES	NO	NO	YES	YES	NO	NO	NO
<b>Value</b>											
Price Range (Square Foot)	\$12 - \$40	\$80 - \$200	\$65 - \$100	\$8 - \$35	\$60 - \$90	\$70 - \$125	\$39 - \$70	\$80 - \$200	\$60 - \$100	\$69 - \$99	\$30 - \$150
Manufacturer Warranty	NO	INQUIRE	INQUIRE	YES	NO	YES	YES	NO	INQUIRE	YES	INQUIRE
NSF Certified*	NO	NO	NO	NO	NO	INQUIRE	YES	YES	INQUIRE	NO	NO

### Exhibit 1: Surface Comparison

Source: <http://solidsurface.com/ideas-guides/materials>

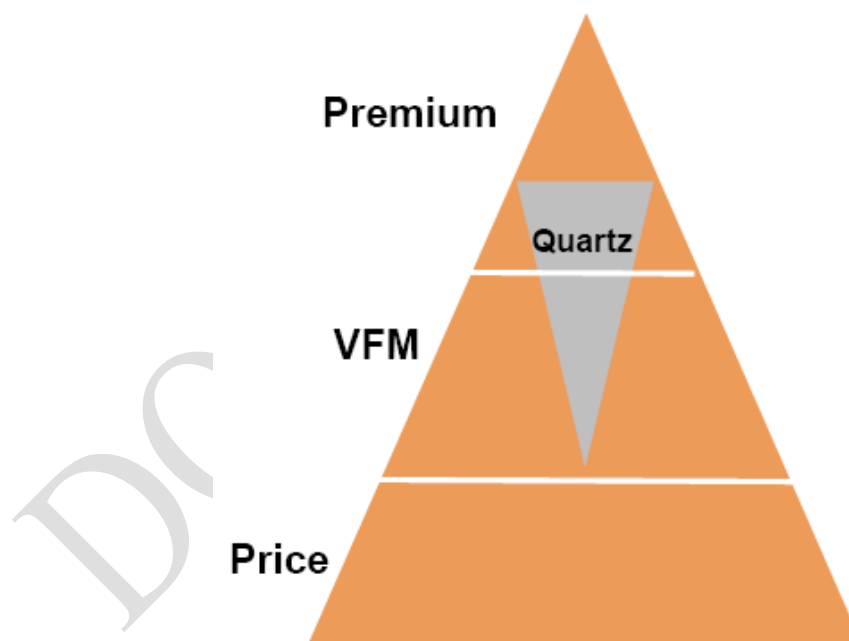
**Exhibit 2: Global Countertop Market Material Segmentation, 2012****Exhibit 3: Material Stage of Life Cycle in Countertop Market**

Source: Company data

**Exhibit 4: Global Countertop Demand by Region, million US \$**

	2009	2010	2011	2012
<b>North America</b>	16,000	16,200	16,900	17,500
<b>Western Europe</b>	16,500	16,300	16,900	17,000
<b>Eastern Europe</b>	2,900	2,970	3,110	3,260
<b>Asia/Pacific</b>	16,800	17,600	19,100	20,100
<b>Latin America</b>	5,000	5,470	5,890	6,040
<b>Africa/Middle East</b>	7,800	8,230	8,500	8,800
<b>Australia</b>	1,170	1,230	1,260	1,290
<b>Total</b>	66,170	68,000	71,660	73,990

Source: General market data

**Exhibit 5: Current Location of Quartz in the Countertop Market, 2012**

Source: Team analysis

**Exhibit 6: World Cladding Market**

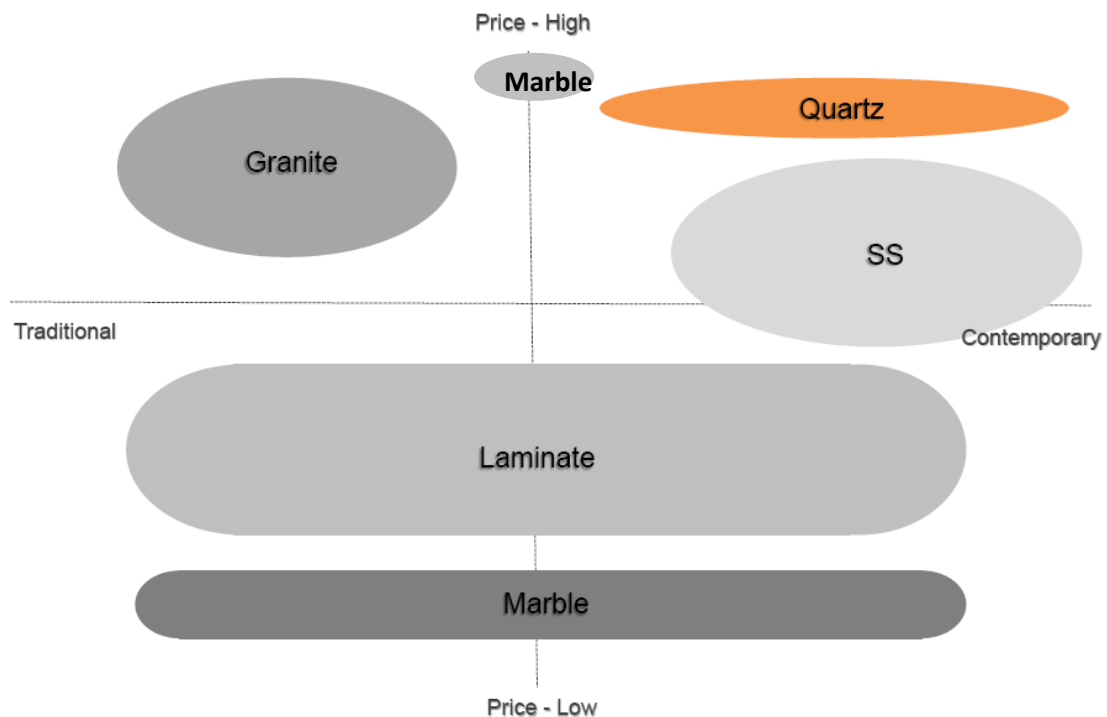
	2005	2010	2015 (est.)
<b>North America</b>	29%	18%	21%
<b>Western Europe</b>	17%	14%	13%
<b>Asia/Pacific</b>	40%	49%	49%
<b>Other Regions</b>	9%	19%	18%
<b>Total (Bn sq Meters)</b>	4,326	4,184	5,295

Source: Freedonia Group Inc.

**Exhibit 7: World Flooring & Carpet Demand**

	2014 (est.)
<b>North America</b>	19%
<b>Western Europe</b>	16%
<b>Asia/Pacific</b>	47%
<b>Other Regions</b>	17%
<b>Total (Bn sq Meters)</b>	15,300

Source: Freedonia Group Inc.

**Exhibit 8: Countertop Market – Positioning by Materials**

Source: Team analysis

## Exhibit 9: Competitors

### Cosentino Group

The Cosentino Group, a family-owned business headquartered in Cantoria, is a Spanish multinational and world leader in the production and distribution of quartz surfaces and other natural stones. The company focuses on the design, production and distribution of architectural and decorative solutions for the home and public spaces.

Cosentino's activity covers the entire natural stone manufacturing process, from extraction and processing to the installation, for kitchen and bathroom worktops, cladding and other products.

Currently, the Spanish company has a large international presence, based on its establishment with commercial fixed assets in a dozen countries. It is the world's leading producer of quartz surfaces, distributing to over fifty countries. Nearly 70% of the Group's sales are generated in international markets. In terms of financial forecasts for 2012, the company expects the figure of 420 million euros in total sales, of which 83% will be in international business.

### Silestone

Silestone, a subsidiary company of Cosentino specializing in quartz surfaces, currently operates in the USA, Latin America, Europe, Australia and Asia. Silestone stresses the value of the bacteriostatic protection of its product, and offers the product in over 60 quartz colours for countertops, two textures and several different formats. It is estimated that the company has eleven production lines, not all fully active.

Other brands by Cosentino:

**Scalea**—includes various collections of local and imported marble as well as slate, basalt, Brazilian granite, travertine etc. Scalea is distributed across the globe and used for airports, shopping malls, exhibition palaces, residential buildings, private houses, hotels, etc.

**Sensa**—Cosentino's brand of granite with unique stain resistance.

**Prexury**—a new series of quartz surfaces with semi-precious stones and other natural materials, such as petrified wood and rare fossils.

**Eco**—a new surface product manufactured from 75% of recycled materials such as mirrors, glass, porcelain, earthenware and vitrified ash and 25% of natural stones.

### Çimstone

Çimstone is a daughter company of the AKG Group, a Turkish producer of construction materials and an investor in the construction sector. This sole producer of quartz-based composite stone in Turkey has maintained its production facility and management headquarters in Izmir since 1996. It has regional offices in Istanbul, Ankara and Northampton England as well as solution partners spread country-wide and located in four continents. Its quartz surfaces are designed for applications in various areas from countertops to flooring.

## Dupont

DuPont, a \$38.7bn (2011) company headquartered in Wilmington, Delaware, employs more than 60,000 people worldwide. Its product offerings serve markets as diverse as agriculture, nutrition, electronics and communications, safety and protection, home and construction, transportation and apparel.

***Corian by DuPont***—the company first offered its Corian solid surfaces in the 1960s and now manufacture this product worldwide, claiming that it can be shipped no more than 500 miles from production to client. Corian, which is available in a vast range of patterns and tones, as well as custom-designed colors, can be found in bathrooms and kitchens, hospitals, restaurants and public spaces. Corian's yearly estimated revenue is \$500m.

***Zodiaq by Dupont***—a quartz surface that is manufactured in DuPont's Granirex plant in Thetford Mines, Canada. It is most often used for kitchen countertops but also for walls in residential and commercial interiors.

## Vicostone

Established in December 2002 in Hanoi, Vietnam, Vicostone defines itself as one of the pioneering companies in the field of engineered stones in Asia, with a global network of distributors. The company invested in three production lines of compound stones utilizing the Breton technology.

Vicostone offers two major product lines—quartz surfaces and ECO surfaces. In addition to providing slabs Vicostone also produces products such as kitchen countertops, dressing tables, counter desks, stairs, and other cut to size applications for its many customers.

## Cambria

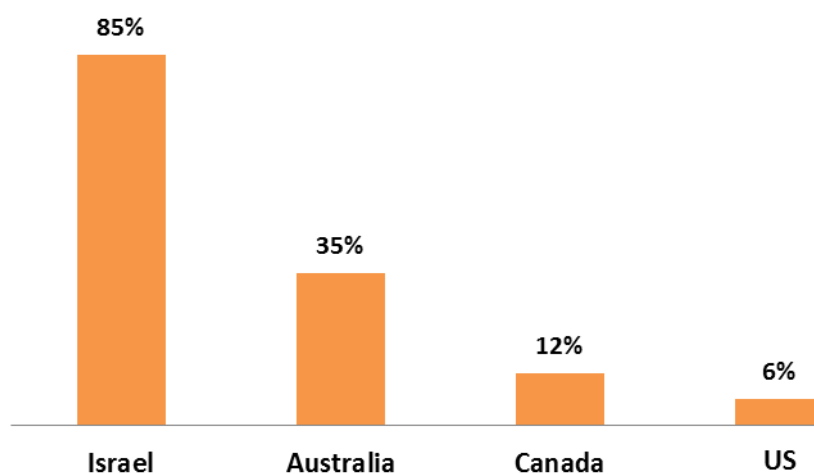
A sole producer of engineered quartz surfaces in the United States, with over 800 employees headquartered in Eden Prairie, Minnesota, Cambria owns additional manufacturing facilities in Charlotte, North Carolina, Wisconsin, Illinois, Indiana, and Ontario, Canada. The company operates with a nation-wide network of fabricators. It is a subsidiary of Davisco Foods International, which is privately held and owned by the Davis family.

**Exhibit 10: Caesarstone—Presence in 48 Countries, 2012****Exhibit 11: Caesarstone Sales by Region, 1,000 \$US**

	2010	2011	2012
<b>Australia</b>	82,327	88,229	88,935
<b>USA</b>	30,916	59,735	86,759
<b>Canada</b>	13,668	29,695	40,322
<b>Israel</b>	31,707	38,592	36,373
<b>Europe</b>	24,022	22,880	20,749
<b>Other</b>	16,151	20,540	23,426
<b>Total</b>	198,791	259,671	296,564

Source: Company data

**Exhibit 12: Market Share of Quartz in the Countertop Sector by Volume in Key Markets, 2012**



Source: Company Data

**Exhibit 13: Caesarstone's Share of the Quartz Market by Volume in Key Markets, 2012**

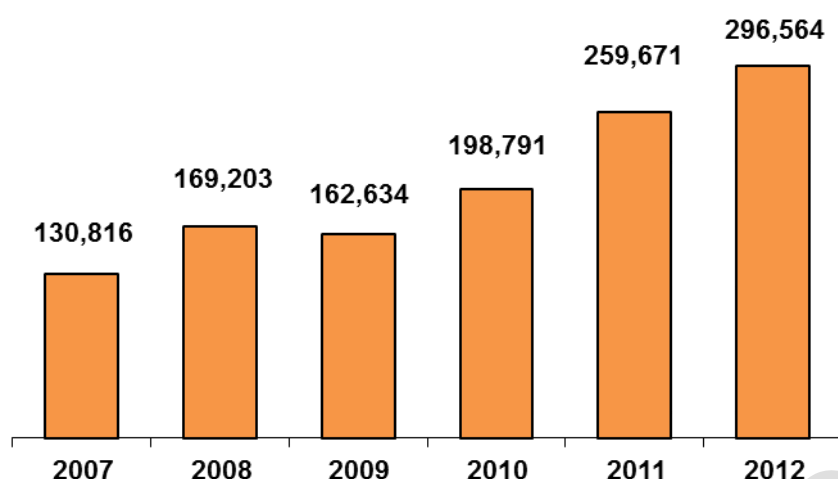


Source: Company Data

**Exhibit 14: Caesarstone Employees by Department, 2010–2012**

Department	2010	2011	2012
Manufacturing and operations	426	515	537
Research and development	19	18	12
Sales, marketing, service and support	100	218	259
Management and administration	56	87	75
Total	601	838	883

Source: Company data

**Exhibit 15: Caesarstone Revenues, 2007-2012, \$1,000 US**

Source: Company data

**Exhibit 16: Caesarstone Consolidated Statement of Income, \$1,000 US**

	31.12.2009	31.12.2010	31.12.2011	31.12.2012
<b>Revenues</b>	<b>162,634</b>	<b>198,791</b>	<b>259,671</b>	<b>296,564</b>
<b>Cost of revenues</b>	108,853	120,503	155,377	169,169
<b>Gross profit</b>	<b>53,781</b>	<b>78,288</b>	<b>104,294</b>	<b>127,395</b>
Operating expenses:				
Research and development*	1,964	2,273	2,487	2,100
Marketing and selling	12,960	16,048	34,043	46,911
General and administrative	18,729	20,896	30,018	28,423
<b>Total operating expenses</b>	<b>33,653</b>	<b>39,217</b>	<b>66,548</b>	<b>77,434</b>
<b>Operating income (loss)</b>	<b>20,128</b>	<b>39,071</b>	<b>37,746</b>	<b>49,961</b>
Finance expenses net	8,693	2,370	4,775	2,773
<b>Income before taxes on income</b>	<b>11,435</b>	<b>36,701</b>	<b>32,971</b>	<b>47,188</b>
Taxes on income	3,752	7,399	3,600	6,821
<b>Income after taxes on income</b>	<b>7,683</b>	<b>29,302</b>	<b>29,371</b>	<b>40,367</b>
Equity in losses of affiliate, net	293	296	67	
<b>Net income</b>	<b>7,390</b>	<b>29,006</b>	<b>29,304</b>	<b>40,367</b>

\* net of grants and participation in the amounts of \$167, \$211, \$310 for the years ended 2010, 2011, 2012, respectively

**Exhibit 17: Caesarstone Ltd. Balance Sheet, \$1,000 US**

	31.12.2010	31.12.2011	31.12.2012
<b>Current assets:</b>			
Cash and cash equivalents	43,737	11,950	29,033
Short-term bank deposit			43,700
Trade receivables*	22,221	36,798	44,066
Trade receivables from affiliates	9,856		
Other accounts receivable and prepaid expenses	8,341	13,474	16,238
Inventories	40,226	48,085	50,550
<b>Total current assets</b>	<b>124,381</b>	<b>110,307</b>	<b>183,587</b>
<b>Long-term investments and prepaid expenses</b>			
Investment in affiliates	5,482		
Severance pay funds	3,033	2,942	3,424
Loans to others	1,102		
Long-term deposits and prepaid expenses	125	343	1,198
<b>Total long-term investments</b>	<b>9,742</b>	<b>3,285</b>	<b>4,622</b>
Property, plant and equipment, net	<b>74,008</b>	<b>69,657</b>	<b>72,987</b>
Other assets	<b>5,251</b>	<b>20,626</b>	<b>16,898</b>
Goodwill	23,021	42,442	42,955
<b>Total assets</b>	<b>236,403</b>	<b>246,317</b>	<b>321,049</b>
<b>Current liabilities:</b>			
Short-term bank credit	8,454	3,866	5,248
Current maturities of long-term loans	13,532	12,541	5,500
Trade payables	28,893	30,838	36,925
Account payables to related parties	13,658	5,437	2,888
Accrued expenses and other liabilities	19,643	29,033	15,314
	<b>84,180</b>	<b>81,715</b>	<b>65,875</b>
<b>Long-term liabilities:</b>			
Long-term loans	18,063	5,405	
Long-term loan and financing leaseback from related party		1,820	12,188
Capital lease		71	2
Accrued severance pay	3,750	3,584	3,987
Long-term warranty provisioning	1,191	1,439	1,599
Deferred tax liabilities, net	6,884	8,248	6,375
Share based payment in subsidiary	1,382	1,379	
<b>Long-term liabilities</b>	<b>31,270</b>	<b>21,946</b>	<b>24,151</b>
<b>Redeemable non-controlling interest</b>	<b>5,662</b>	<b>6,205</b>	<b>7,106</b>
<b>Commitments and contingent liabilities</b>			
<b>Equity:</b>			
Ordinary and cumulative preferred shares	26	278	360
Additional paid in capital	55,590	55,338	135,437
Accumulated other comprehensive loss	(5,504)	6,306	8,517
Foreign currency translation adjustments	23,463	7,376	
Retained earnings	41,716	67,153	79,603
<b>Total equity</b>	<b>115,291</b>	<b>136,451</b>	<b>223,917</b>
<b>Total liabilities and shareholders' equity</b>	<b>236,403</b>	<b>246,317</b>	<b>321,049</b>
*net of allowance for doubtful accounts of \$331, \$739 and 1,127 at end of 2010, 2011 and 2012, respectively			

**Exhibit 18: Samples of Caesarstone Product Implementation**

