CaesarStone Sdot-Yam Ltd.
Form 20-F
March 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report…………………………………

Commission File Number 001-35464

CAESARSTONE SDOT-YAM LTD.
(Exact Name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

Kibbutz Sdot-Yam
MP Menashe, 3780400
Israel
(Address of principal executive offices)

Yosef Shiran
Chief Executive Officer
Caesarstone Sdot-Yam Ltd.
MP Menashe, 3780400
Israel
Telephone: +972 (4) 636-4555
Facsimile: +972 (4) 636-4400
(Name, telephone, email and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Act of 1933:

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 0.04 per share	The NASDAQ Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2015: 35,294,755 ordinary shares, NIS 0.04 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter), and (2) has been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes o No x

PRELIMINARY NOTES

Introduction

As used herein, and unless the context suggests otherwise, the terms “Caesarstone,” “Company,” “we,” “us” or “ours” refer to Caesarstone Sdot-Yam Ltd. and its consolidated subsidiaries. In this document, references to “NIS” or “shekels” are to New Israeli Shekels, and references to “dollars,” “USD” or “$” refer to U.S. dollars.

Our reporting currency is the U.S. dollar. Our functional currency through June 30, 2012 was the NIS. For the periods in which our functional currency was the NIS, our consolidated financial statements were translated into U.S. dollars using the current rate method as follows: assets and liabilities were reflected using the exchange rate at the balance sheet date; revenues and expenses were reflected at the average exchange rate for the relevant period; and equity accounts were reflected using the exchange rate at the relevant transaction date. Translation gains and losses were reported as a component of shareholders’ equity. Starting on July 1, 2012, our functional currency became the U.S. dollar. The functional currency of each of our non-U.S. subsidiaries is the local currency in which it operates. These subsidiaries’ financial statements are translated into the U.S. dollar, the parent company’s functional currency, using the current rate method.

Other financial data appearing in this annual report that is not included in our consolidated financial statements and that relate to transactions that occurred prior to December 31, 2015 are reflected using the exchange rate on the relevant transaction date. With respect to all future transactions, U.S. dollar translations of NIS amounts presented in this annual report are translated at the rate of $1.00 = NIS 3.902, the representative exchange rate published by the Bank of Israel as of December 31, 2015.

Market and Industry Data and Forecasts

This annual report includes data, forecasts and information obtained from industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management’s knowledge of the industry and independent sources. Forecasts and other metrics included in this annual report to describe the countertop industry are inherently uncertain and speculative in nature and actual results for any period may materially differ. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented herein, estimates and forecasts involve uncertainties and risks and are subject to change based on various factors, including those discussed under the headings “—Forward-Looking Statements” and “ITEM 3: Key Information—Risk Factors” in this annual report.

Unless otherwise noted in this annual report, Freedonia Custom Research, Inc. (“Freedonia”) is the source for third-party industry data and forecasts. The Freedonia Report, dated February 19, 2015, represents data, research opinion or viewpoints developed independently on our behalf and does not constitute a specific guide to action. In preparing the report, Freedonia used various sources, including publically available third-party financial statements; government statistical reports; press releases; industry magazines; and interviews with manufacturers of related products (including us), manufacturers of competitive products, distributors of related products, and government and trade associations. Growth rates in the Freedonia Report are based on many variables, such as currency exchange rates, raw material costs and pricing of competitive products, and such variables are subject to wide fluctuations over time. The Freedonia Report speaks as of its final publication date (and not as of the date of this filing), and the opinions and forecasts expressed in the Freedonia Report are subject to change by Freedonia without notice. We have inquired of Freedonia, and been informed that as of the date of this filing, there has been no change in the Freedonia Report, and Freedonia has not reviewed such report from the date of its publication by Freedonia.

Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects, “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions that convey unc future events or outcomes and the negatives of those terms. These statements may be found in several sections of this annual report on Form 20-F, including, but not limited to “ITEM 3: Key Information—Risk Factors,” “ITEM 4: Information on Caesarstone,” “ITEM 5: Operating and Financial Review and Prospects,” “ITEM 10: Additional Information—Taxation—United States Federal Income Taxation—Passive foreign investment company considerations.” These statements include, but are not limited to, statements regarding:

- our ability to respond to new market developments;
- our intent to penetrate further our existing markets and penetrate new markets;
- our belief in the sufficiency of our cash flows to meet our needs for the next year;
- our plans to invest in developing, manufacturing and offering innovative products;
- our plans to establish a second manufacturing facility in the State of Georgia and install production lines in addition to the existing two production lines, a process toward which we have already taken initial steps;
- our plans to invest in the promotion and strengthening of our brand;
- our plans to invest in research and development for the development of new quartz products;
- our ability to increase quartz’s penetration in our existing markets and new markets;
- our ability to successfully compete with other quartz surfaces manufacturers, suppliers and distributors, and with suppliers and distributors of other materials used in countertops;
- our ability to acquire third-party distributors, manufacturers of quartz surfaces products or other products and raw material suppliers;
- our plans to continue our international presence;
- our expectations regarding future prices of quartz, polyester and pigments;
- future foreign exchange rates, particularly the NIS, Australian dollar, Canadian dollar and the euro;
- our expectations regarding our future product mix;
- our expectations regarding the outcome of litigation or other legal proceedings in which we are involved, and our ability to use our insurance policy to cover damages; and
- our expectations regarding regulatory matters applicable to us.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties, including those described in “ITEM 3.D. Key Information—Risk Factors.”

You should not put undue reliance on any forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors described in this annual report, including factors beyond our ability to control or predict. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this annual report, to conform these statements to actual results or to changes in our expectations.

TABLE OF CONTENTS

PART I

ITEM 1: Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2: Offer Statistics and Expected Timetable

Not applicable.

ITEM 3: Key Information

A. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with "ITEM 5: Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. The consolidated income statement data for the years ended December 31, 2015, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015 and 2014 are derived from our audited consolidated financial statements included in "ITEM 18: Financial Statements," which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The consolidated income statement data for the years ended December 31, 2012 and 2011 and the consolidated balance sheet data as of December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements which are not included in this annual report. The information presented below under the caption "Other Financial Data" and "Dividends declared per share" contains information that is not derived from our financial statements.

	2015	2014	2013	2012	2011
Consolidated Income Statement Data:					
Revenues	$499,515	$447,402	$356,554	$296,564	$259,671
Cost of revenues	299,290	257,751	194,436	169,169	155,377
Gross profit	200,225	189,651	162,118	127,395	104,294
Operating expenses:					
Research and development, net (1)	3,052	2,628	2,002	2,100	2,487
Marketing and selling	59,521	55,870	51,209	46,911	34,043
General and administrative	36,612	36,111	32,904	28,423	30,018
Legal settlements and loss contingencies, net	4,654	-	-	-	-
Total operating expenses	103,839	94,609	86,115	77,434	66,548
Operating income	96,386	95,042	76,003	49,961	37,746
Finance expenses, net	3,085	1,045	1,314	2,773	4,775
Income before taxes on income	93,301	93,997	74,689	47,188	32,971
Taxes on income	13,843	13,738	10,336	6,821	3,600
Income after taxes on income	79,458	80,259	64,353	40,367	29,371
Equity in losses of affiliate (2)	—	—	—	—	67
Net income	$79,458	$80,259	$64,353	$40,367	$29,304
Net income attributable to non-controlling interest	1,692	1,820	1,009	735	252
Net income attributable to controlling interest	77,766	78,439	63,344	39,632	29,052
Dividend attributable to preferred shareholders	—	—	—	—	(8,376)
	77,766	78,439	63,344	39,632	20,676

Net income attributable to the Company's ordinary shareholders					
Basic net income per ordinary share	2.21	2.25	1.83	1.21	1.06
Diluted net income per ordinary share	2.19	2.22	1.80	1.21	1.06
Weighted average number of ordinary shares used in computing basic income per share	35,253	34,932	34,667	32,642	19,565
Weighted average number of ordinary shares used in computing diluted income per share	35,464	35,394	35,210	32,700	19,565
Dividends declared per share					
Shekels*	NIS —	NIS —	NIS —	NIS 3.78	NIS 0.50
Dollars*	$ —	$ 0.57	$ 0.58	$ 1.02	$ 0.14

	At December 31, 2015	2014	2013	2012	2011
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short term bank deposits	$62,807	$54,327	$92,248	$72,733	$11,950
Working capital (3)	168,841	124,306	145,702	117,712	28,592
Total assets	529,742	439,000	377,556	321,049	246,317
Total liabilities	120,680	109,274	104,333	90,026	103,661
Redeemable non-controlling interest	8,841	8,715	7,624	7,106	6,205
Shareholders' equity	400,221	321,011	265,599	223,917	136,451

	Year ended December 31, 2015	2014	2013	2012	2011
	(in thousands)				
Other Financial Data:					
Adjusted EBIDTA (4)	$125,667	$116,553	$91,711	$69,445	$58,774
Adjusted net income attributable to controlling interest (4)	83,682	82,498	63,959	44,008	34,765
Capital expenditures	76,495	86,373	27,372	13,481	8,785
Depreciation and amortization	22,334	17,176	14,994	14,368	14,615

* Prior to 2012, the Company declared and paid its dividends in NIS. Conversion to U.S. dollar appears herein for reporting purposes. Starting in 2013, dividends were declared and paid in U.S. dollar. Therefore, no conversion is required.

(1) Research and development expenses are presented net of grants that we received from the Office of the Chief Scientist ("OCS") of the Ministry of Economy and Industry of the State of Israel between 2009 and 2013.

(2) Reflects our proportionate share of the net loss of our U.S. distributor, Caesarstone USA, Inc. ("Caesarstone USA"), in which we acquired a 25% equity interest on January 29, 2007. We accounted for our investment using the equity method. In 2011, the amount represents a loss through May 18, 2011, the date on which we acquired the remaining 75% equity interest in Caesarstone USA and began to consolidate its results of operations.

(3) Working capital is defined as total current assets minus total current liabilities.

(4) The tables below reconcile net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest for the periods presented and are unaudited.

We use certain non-GAAP financial measures to evaluate our performance in conjunction with other performance metrics. The following are examples of how we use such non-GAAP measures:

- Our annual budget is based in part on these non-GAAP measures.
- Our management and board of directors use these non-GAAP measures to evaluate our operational performance and to compare it against work plan and budget.

Our non-GAAP financial measures, Adjusted EBITDA and adjusted net income attributable to controlling interest, have no standardized meaning and accordingly have limitations in their usefulness to investors. We provide such non-GAAP data because management believes that such data provide useful information to investors. However, investors are cautioned that, unlike financial measures prepared in accordance with U.S. GAAP, non-GAAP measures may not be comparable with similar measures used by other companies. These non-GAAP financial measures are presented solely to permit investors to more fully understand how management and our board assesses our performance. The limitations of these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without reflecting all events during a period and may not provide a comparable view of our performance to other companies in our industry.

Investors should consider non-GAAP financial measures in addition to, and not as replacements for, or superior to, measures of financial performance prepared in accordance with GAAP.

In arriving at our presentation of non-GAAP financial measures, we exclude items that either have a non-recurring impact on our income statement or which, in the judgment of our management, are items that, either as a result of their nature or size, could, were they not singled out, potentially cause investors to extrapolate future performance from an improper base. In addition, we also exclude share-based compensation expenses to facilitate a better understanding of our operating performance, since these expenses are non-cash and accordingly do not affect our business operations. While not all inclusive, examples of these items include:

- amortization of purchased intangible assets;
- legal settlements (both gain or loss) and loss contingencies, due to the difficulty in predicting future events, their timing and size;
- material items related to business combination activities important to understanding our on-going performance;
- excess cost of acquired inventory;
- expenses related to our share based compensation;
- significant one-time offering costs;
- material tax and other awards or settlements, both amounts paid and received; and
- tax effects of the foregoing items.

	Year ended December 31,				
	2015	2014	2013	2012	2011
			(in thousands)		
Reconciliation of Net Income to Adjusted EBIDTA:					
Net income	$79,458	$80,259	$64,353	$40,367	$29,304
Finance expenses, net	3,085	1,045	1,314	2,773	4,775
Taxes on income	13,843	13,738	10,336	6,821	3,600
Depreciation and amortization	22,334	17,176	14,994	14,368	14,615
Legal settlements and loss contingencies, net (a)	4,654	—	—	—	—
Equity in losses of affiliate, net(b)	—	—	—	—	67
Excess cost of acquired inventory(c)	__	231	188	885	4,021
Share-based compensation expense(d)	2,293	2,642	2,514	3,007	1,259
Inventory–change of estimate (e)	—	—	(3,458)	—	—
Follow–on expenses (f)	—	657	1,470	—	—
IPO bonus(g)	—	—	—	1,970	—
Caesarstone USA contingent consideration adjustment(h)	—	—	—	255	—
Litigation gain(i)	—	—	—	(1,001)	(1,783)
Provision for employee fringe benefits (j)	—	939	—	—	—
Settlement with tax authorities (k)	—	(134)	—	—	—
Microgil loan and inventory write down(l)	—	—	—	—	2,916
Adjusted EBITDA	$125,667	$116,553	$91,711	$69,445	$58,774

(a) Consists of legal settlements expenses and loss contingencies, net, related to individual silicosis claims.

(b) Consists of our portion of the results of operations of Caesarstone USA prior to its acquisition by us in May 2011.

(c) Consists of charges to cost of goods sold for the difference between the higher carrying cost of the inventory of two of our subsidiaries, Caesarstone USA's inventory at the time of its acquisition and inventory that was purchased from its sub-distributors, and Caesarstone Australia Pty Limited's inventory that was purchased from its distributor, and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory from Caesarstone USA was sold in 2011, and the majority of the inventory purchased from the Australian distributor was sold in 2012.

(d) Share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer, as well as changes in the value of share-based rights granted in March 2008 to the former chief executive officer of Caesarstone Australia Pty Limited. In 2012, share-based compensation consisted primarily of expenses related to stock options granted to our employees as well as changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer. In 2013, share-based compensation consisted of expenses related to stock options granted to our employees. In 2014, share-based compensation consists of expenses related to stock options granted to our employees as well as expenses related to share-based bonus rights granted during 2014. In 2015, share-based compensation consists of expenses related to stock options and restricted stock units granted to our employees as well as expenses related to share-based bonus rights granted during 2014.

(e) Relates to a change in estimate for the value of inventory following the implementation of our new ERP system in April 2013.

(f) In 2013, follow-on expenses consist of direct expenses related to a follow-on offering that closed in April 2013, including a bonus paid by our former shareholder, Tene Investment Fund ("Tene"), to certain of our employees that under U.S. GAAP we are required to expense against paid-in capital. In 2014, follow-on expenses consist of direct expenses related to a follow-on offering that closed in June 2014.

(g) Consists of the payment of $1.72 million to certain of our employees and $0.25 million to our chairman of the board of directors for their contribution to the completion of our initial public offering ("IPO").

(h) Relates to the change in fair value of the contingent consideration that was part of the consideration transferred in connection with the acquisition of Caesarstone USA.

(i) In 2011, litigation gain consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited. In 2012, litigation gain resulted from a settlement agreement with the former chief executive officer of Caesarstone Australia Pty Limited related to litigation that had been commenced in 2010. Pursuant to the settlement, he transferred to us the ownership of all his shares in Caesarstone Australia Pty Limited received in connection with his employment. We did not make any payments in connection with such transfer or other payments to the former chief executive officer. As a result of the settlement, we reversed the liability provision in connection with the litigation and the adjustment is presented net of the related litigation expenses incurred in connection with the settlement.

(j) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israel Tax Authority and with the Israeli National Insurance Institute ("NII").

(k) Relates to a refund of Israeli value added tax ("VAT") associated with a bad debt from 2007.

(l) Relates to our writing down to zero the cost of inventory provided to Microgil Agricultural Cooperative Society Ltd. ("Microgil"), our former third-party quartz processor in Israel, in 2011 in the amount of $1.8 million and our writing down to zero our $1.1 million loan to Microgil, in each case, in connection with a dispute. See "ITEM 8: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings".

	Year ended December 31,				
	2015	2014	2013	2012	2011
			(in thousands)		
Reconciliation of Net Income Attributable to Controlling Interest to Adjusted Net Income Attributable to Controlling Interest:					
Net income attributable to controlling interest	$77,766	$78,439	$63,344	$39,632	$29,052
Legal settlements and loss contingencies, net (a)	4,654	—	—		