

27 March 2023

Dear Shareholders,

With the publication of the Turpaz group's results for 2022, I am pleased to share with you the company's impressive achievements in 2022, which are based on an integrated growth strategy whose goals include double-digit growth and improved geographic distribution, through organic growth and through mergers and acquisitions of companies and synergistic activities for the activities of the Turpaz group.

As you know, the company engages, directly and via subsidiaries in Israel, the USA, Poland, Belgium, Vietnam, Latvia and Romania, in the development, production, marketing and sales of fragrances used in the production of cosmetics, toiletries, personal care products and atmospheric products, taste (sweet and savory, natural and synthetic), spice mixes, functional solutions for the baking sector and special flours (gluten-free) used mainly in the production of food and beverages, unique intermediates for the pharmaceutical industry and unique raw materials for the agro and fine chemical industry, including unique natural products with high added value in particular from citrus fruits and aroma chemicals for the flavor and fragrance industry.

The Turpaz group produces a wide and diverse portfolio of products, the result of self-development. As of the publication date of the report, the group operates 13 production sites that include R&D centers, laboratories, sales, marketing and regulatory offices in Israel, USA, Poland, Belgium, Vietnam, Latvia and Romania. At the various production sites, the group develops, manufactures, markets and sells products to more than 2,000 customers in over 40 countries around the world, with approximately 75% of the group's sales being to customers outside of Israel and the Middle East.

I would like to thank the investors for their continued confidence in the company. The professional and experienced management team and myself together with all the employees of the Turpaz group, work tirelessly to guarantee quality and advanced products and service to our customers, whilst building a continuous advantage and expanding the geographic distribution of the Turpaz group.

### **The year 2022 and looking to the future**

The successful implementation of the Turpaz group's growth strategy resulted in the company recording record results in 2022. The company's revenues grew by **38.9%** compared to the corresponding period last year, and amounted to \$118.6 million, both as a result of acquisitions and as a result of organic growth at a rate of **9.9%** (excluding currency effect). The adjusted EBITDA increased by **31.2%** compared to the corresponding period last year and amounted to 26.9 million dollars, and the gross profit increased by **37.2%** compared to the corresponding period last year, and amounted to 47.7 million dollars, despite the increases in the prices of raw materials and shipping costs globally. The operating profit increased by 70.4% compared to the corresponding period last year and amounted to 27.3 million dollars compared to the corresponding period last year, and the net profit increased by 66.5% compared to the corresponding period last year and amounted to 21.3 million dollars (excluding one-time profit, the net profit increased to 15.2 million dollars).



We estimate that the growth trend in sales will continue in 2023 as well, and this despite inflationary effects, uncertainty in the markets and the increase in interest rates globally which are manifested, among other things, by companies' steps to reduce their inventories.

The solid capital structure of the Turpaz group, the low leverage, cash in hand as of December 31, 2022 in the amount of \$35.7 million, the cash flow from current operations, bank backing from leading financial institutions in Israel and the world, the strengthening of the management avenue and the improvement of administrative infrastructures, will enable the continued implementation of the group's integrated growth strategy, based on organic growth and synergistic mergers and acquisitions for the group's activities also in 2023.

During the year 2022, we continued the implementation of the integrated growth strategy, as part of which the group acquired five synergistic companies for its areas of activity with strategic goals in Israel and around the world. The purchases made include **the purchase of Lori in Latvia**, which is engaged in the production of perfume extracts and their marketing in Eastern Europe, **the acquisition of control of Balirom in Israel**, which operates in the field of flavor extracts, natural and synthetic and savory functional flavor mixtures, as well as in the field of functional and supplementary materials for the food industry, **the purchase of Pentaor in Israel**, which specializes in unique functional solutions for the baking sector, **the acquisition of Klabin in the USA**, which specializes in scent extracts, natural oil mixtures, applications and functional solutions for various industries, including cosmetics, toiletries, and **the acquisition of control of Aromatique Food in Romania**, which specializes in raw materials and savory functional flavor mixtures (SAVORY) for the food industry.

In September 2022, via Turpaz USA, a wholly owned subsidiary of the company, we purchased 81% of Klabin's issued share capital in exchange for a total of \$24.3 million, subject to adjustments according to Klabin's results in 2022. From the date of its purchase, and during the first quarter of 2023, Klabin focused on expanding production, and invested efforts in absorbing and consolidating the activity of Turpaz in the USA, into Klabin's activity, at its state-of-the-art production site in New Jersey, a consolidation that was completed in the first quarter of 2023. Klabin's activity in the fourth quarter of 2022 was also affected by reduced inventories at its customers as part of the trend to reduce inventories that characterizes the entire industry these days due to the increase in interest rates worldwide and the economic uncertainty in the markets, and therefore Klabin's EBITDA for 2022 was affected. In light of this, it was agreed between the parties that the purchase agreement will be updated in such a way that - (1) the balance of the issued share capital in Klabin (19%) will be transferred to Turpaz USA immediately, so that Turpaz now owns the full (100%) issued share capital and voting rights of Klabin; (2) The immediate consideration for the purchase (of 100% of Klabin shares) will be reduced to 22.4 3 million dollars with the sellers being entitled to an additional consideration (up to 3 million dollars) accordingly for Klabin's business results in the years 2023-2025.

The purchases made during the year 2022 were made with an emphasis and thought on expanding the geographical distribution of the group, building a continuous competitive advantage, leveraging synergies between the group's companies in sales (cross selling), procurement, development and meeting regulatory requirements that contribute to improving profitability and all this while maintaining strong cash flow and continued growth.



According to international publications that cover the industry, the global flavor and fragrance markets are expected to continue the growth trend that characterized the last few years and reach a total of 44.18 billion dollars in 2030<sup>1</sup>. I believe that this trend will open up the company to new opportunities and support its continued growth worldwide. Turpaz has acted and will continue to act constantly to develop and manufacture products in accordance with the demands of its customers and market trends.

In 2023, we will continue to implement the company's strategy based on organic growth alongside mergers and acquisitions, while ensuring quality and tailored service to our customers, developing new technologies and materials, constant operational efficiency, maintaining a good relationship with suppliers and accountability and transparency with all our shareholders.

In conclusion, I am happy to emphasize our strong cash flow and balance sheet as evidenced by the financial results for 2022, which allow Turpaz to finance and realize the company's strategy, which combines organic growth and acquisitions.

In addition and in accordance with company policy, we are happy to share with you the profits of the year 2022 in the amount of 4.96 cents per share (0.18 NIS per share).

I thank you again for your support and the trust you express in the company, its managers and employees.

Sincerely,  
Karen Cohen Khazon  
CEO and Chairman of the Board of Directors  
Turpaz Industries Ltd

**The information contained in this letter is not exhaustive of all the data about the company and its activities, and does not take the place of the data and information contained in the company's reports that are published according to law. In order to receive complete and comprehensive information about the company's situation, its business and its financial results, you should review its periodic and immediate reports, including the periodic report for 2022. The information included in this letter above, regarding the company's estimates regarding market growth and the company's continued growth, is considered forward-looking information, as defined in the Securities Law of 2018-1068, which is based on the company's estimates regarding global trends in relation to the flavor and fragrance market and the realization of which is not is certain and may change, among other things, due to external factors, including regulatory changes in the field of activity, changes in the company's business plan, as well as the occurrence of additional risk factors, including as detailed in section 1.30 of the periodic report for 2022, which are not under the control of the company and which may have a material effect on the company's estimates the aforementioned.**

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<sup>1</sup> <https://www.precedenceresearch.com/flavors-and-fragrances-market>