

# CSTE Earnings Call Transcript

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**Quarter: 3**

Operator: Greetings, and welcome to the Caesarstone Third Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brad Cray of ICR. Thank you, and you may begin.

Brad Cray: Thank you, operator, and good morning to everyone on the line. I am joined by Yos Shiran, Caesarstone's Chief Executive Officer; and Nahum Trost, Caesarstone's Chief Financial Officer. Certain statements in today's conference call and responses to various questions may constitute forward-looking statements. We caution you that such statements reflect only the company's current expectations and that actual events or results may differ materially. For more information, please refer to the risk factors contained in the company's most recent annual report on Form 20-F and subsequent filings with the SEC. In addition, on this call, the company will make reference to certain non-GAAP financial measures, including adjusted net loss income, adjusted net loss income per share, adjusted gross profit, adjusted EBITDA and constant currency. The reconciliation of these non-GAAP measures to the most directly comparable GAAP measures can be found in the company's third quarter 2025 earnings release, which is posted on the company's Investor Relations website. On today's call, Yos will discuss our business activity and Nahum will then cover additional details regarding financial results before we open the call for questions. Thank you. And I would now like to turn the call over to Yos. Please go ahead.

Yosef Shiran: Thank you, Brad, and good morning, everyone. Thank you for joining us to discuss our third quarter 2025 results. We are rapidly advancing the transformation of our business model to focus on innovation, product development and marketing, while we continue to be deeply involved in the production and quality control activities with our production business partners. We are investing in strengthening the Caesarstone brand, expanding our porcelain offering and enhancing our R&D; capabilities. As part of this strategic transformation and following careful evaluation, we have decided to move our production to our global manufacturing partners and close Bar-Lev manufacturing activity in order to further optimize our production footprint. This strategic action is intended to increase competitiveness, improve our profitability and cash flow, enhance service and drive additional cost savings. These actions are expected to generate annualized cash savings of approximately \$22 million and bring total savings since 2023 to over \$85 million. Since launching our transformation strategy in 2023, we have fundamentally reshaped Caesarstone. Currently, over 70% of our production is sourced through global partners. And upon completion of the Bar-Lev closure, we will reach 100% outsourced production, excluding porcelain, where we continue to operate and invest in our plant in India. These actions are necessary steps in reinforcing our competitive position and enabling a return to positive adjusted EBITDA in the third quarter of next year. But our transformation goes beyond manufacturing efficiency and cost savings. We are building a company focused on innovation, brand strength and customer value creation with a lighter capital production assets. In addition, our porcelain business represents an important growth factor. And in September, we signed a share purchase agreement to acquire the remaining shares of Lioli, bringing our ownership to 100%. This acquisition further strengthens our position in this expanding category and enables us to capture new market opportunities. To conclude, Caesarstone is a different company. We are more agile, more innovative and better positioned to scale efficiently as we move forward towards profitable growth over the long

term. I now turn the call over to Nahum to review our financial results.

Nahum Trost: Thank you, Yos, and good morning, everyone. Looking at our third quarter results. Global revenue was \$102.1 million compared to \$107.6 million in the prior year quarter. On a constant currency basis, third quarter revenue decreased by 5.7% year-over-year, primarily due to lower volumes, reflecting continued global economic headwinds and competitive pressures. We have seen revenue levels stabilize in recent quarters, which is encouraging. Breaking down our regional performance. In the U.S., sales were down 10.9% to \$46.7 million. The decline was driven by persistent softness in the market and competitive pressures. Canada sales decreased by 10.8% on a constant currency basis with similar market dynamics as the U.S. Australia improved this quarter with sales up 8.5% on a constant currency basis, our first year-over-year growth in this market since the silica ban implementation. This reflects early recovery and the successful launch of our zero silica collection. EMEA delivered strong performance with sales up 12.4% on a constant currency basis, driven by growth in both indirect distributor channel and our direct business. Our expanded presence in Germany contributed positively. Israel sales increased by 2.5% on a constant currency basis as market conditions continue normalizing. Now looking at our third quarter P&L; performance. Gross margin in the third quarter was 17.3% compared to 19.9% in the prior year quarter. The decline was primarily due to lower volumes and production, which resulted in lower fixed cost absorption and costs associated with ramping up new products. These factors were partially offset by benefits from the transfer of production to our global network. Operating expenses in the third quarter were \$33.7 million or 33% of revenue compared to \$25.4 million or 23.6% of revenue in the prior year quarter. Excluding legal settlements and loss contingencies and restructuring and impairment expenses, operating expenses were \$29.7 million or 29.1% of revenue compared to \$30.2 million or 28.1% in the prior year quarter. In absolute dollars, we reduced expenses by approximately \$0.5 million with the higher percentage primarily driven by lower revenues. Adjusted EBITDA in the third quarter was a loss of \$7.9 million compared to a loss of \$4.1 million in the prior year quarter. Finance expenses was \$1.8 million compared to finance income of \$0.3 million in the prior year quarter, primarily due to foreign currency exchange rate fluctuations. Adjusted diluted net loss per share for the third quarter was \$0.40 on 34.6 million shares compared to adjusted net loss per share of \$0.24 in the prior year quarter on 35 million shares. Turning to our cash and balance sheet. As of September 30, 2025, we had cash and short-term deposits of \$69.3 million and total debt to financial institutions of \$2.6 million for a net cash position of \$66.7 million. Now let me provide important context on several items. The Bar-Lev facility closure that Yos mentioned will generate significant onetime charges and ongoing savings. We expect noncash impairment expenses of \$40 million to \$45 million and cash costs of \$4 million to \$8 million beginning in the fourth quarter of 2025 and continuing through 2026. These estimates exclude a potential noncash write-down on the facility lease, which runs through 2032 and which we plan to sublease. Once fully implemented, we expect annualized cash savings of approximately \$22 million with additional potential savings from subleasing the facility. Combined with prior cost reductions, our total annualized savings will exceed \$85 million compared to 2022. Separately, with regard to our Richmond Hill site, discussions are progressing with a potential buyer to acquire the site at a price that is approximating its book value. Regarding U.S. tariffs. We continue to monitor the impact of existing and proposed U.S. tariffs affecting various countries and product categories that are currently in a wide range on the majority of imported products. Approximately 48% of our revenues during the first 9 months of 2025 were generated in the U.S. market, served by our global production network. We are in continuous dialogue with our manufacturing partners to optimize our supply chain and recently announced a price increase in the U.S. market in order to mitigate the increased cost of goods imported to the U.S. In addition to these tariffs on September 15, 2025, a petition was filed with ITC by a U.S. quartz manufacturer alleging serious injury caused to the entire U.S. domestic industry by imports of quartz surface products, seeking hard quartz of the quantity of court surfaces products that can be imported into the U.S. and/or tariffs of up to 50% on all quartz surfaces products that are imported into the U.S. from any country. Hundreds of objections were received to this petition by U.S. domestic businesses, including fabricators, and the process is in a very early stage. On legal proceedings, as of September 30, 2025, we had 514 lawsuits alleging silica related injuries. This included 43 in Israel, 151 in Australia and 320 claims in the U.S. We have recorded a \$46 million provision representing our best estimate of

probable losses with \$24.3 million in insurance receivables. In the U.S., during 2025, we won one case, which remains under appeal and settled another. In 2024, we received one adverse verdict, which is also currently under appeal. Remaining U.S. claims are in early stages, our loss is only reasonably possible. Given the complexity and the preliminary nature of these matters, we cannot reasonably estimate potential losses beyond our current provision. We and certain insurance carriers initiated proceedings in July 2025 regarding interpretation of our insurance coverage. These proceedings are in early stages. We are also encouraged by a recent legislative development in the U.S. In September, a bill titled the Protection of Lawful Commerce in Stone Slab Products Act was introduced in the House of Representatives. The proposed legislation aims to ensure that manufacturing and distributors are not held liable for injuries caused by unset fabrication or alteration performed by third parties. While it remains in early stages and there is no guarantee of adoption into law, we see this as a constructive step towards restoring fairness and balance across the stone product supply chain. Before we conclude, let me reinforce a few key points. Third quarter results reflect stabilizing trends in our top line compared to recent quarters. The structural transformation of our business is proceeding in line with our plan. Combined with over \$85 million in cost savings, we have fundamentally repositioned Caesarstone for a long-term growth, and we have a line of sight to reach positive adjusted EBITDA in the third quarter of 2026. With that, we are now ready to open the call for questions.

Operator: [Operator Instructions] There are no further questions. This concludes the question-and-answer session. I would like to turn the conference back over to Yos Shiran for any closing remarks.

Yosef Shiran: Thank you for your attention this morning. As we close out 2025 and move into 2026, our team remains focused on executing our transformation plan and positioning Caesarstone for sustainable, profitable growth. We appreciate your continued support and look forward to updating you on our progress next quarter.

Operator: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Thank you.