

Delta Galil Industries Ltd.¹

Monitoring Report | January 2023

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel. The binding version is the one in the original language.

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Delta Galil Industries Ltd.

Series Rating	Aa3.il	Rating outlook: Stable
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Midroog raises the rating of bonds (series A and F) issued by Delta Galil Industries Ltd. (hereinafter: the "Delta" and/or the "Company") from A1.il to Aa3.il and changes the rating outlook from positive to stable.

The bonds in circulation rated by Midroog:

Bond series	Security number	Rating	Rating outlook	Final maturity date
A	6270144	Aa3.il	Stable	August 31, 2028
F	6270193	Aa3.il	Stable	December 31, 2026

Summary of Rating Rationale

The raising of the rating, following the outlook being set as positive in the previous monitoring date, is supported by the ongoing improvement in the Company's financial positioning with the increase in revenues and in the EBITDA base over the past years, along with fast coverage ratios: gross debt to EBITDA ranging around 2.0-2.5, and operating profit to financing expenses ranging around 4.5-5.0. The Company presents a high revenue turnover of about \$2.0 billion, substantial market shares and a step up in the scope of the operating profit to about \$175-185 million in Midroog's forecast for 2022-2023, compared to about \$116 million on average in 2021-2019, and this while accumulating a significant capital cushion.

The Company operates in the global apparel market, considered by Midroog to be characterized by a high business risk that adversely affects the Company's rating, due to intense competition and persistent price pressures. Moody's set a negative outlook for the apparel industries in Europe and the U.S. in May 2022² and in November 2022 ratified the negative outlook³, following the effect of inflation on disposable income, purchasing power and demand from customers. Some of the companies in the industry currently have excess inventory, which may lead to an increase in sale campaigns and erosion in their profitability.

Delta enjoys a strong business profile based on a significant scope of operations, leading customers in the industry in a wide range of decentralized market segments, a wide geographical market spread, varied distribution channels, diversification of brands, and business

² Europe: [Moody's - Outlook changed to negative as inflation, slower growth curb consumer sentiment](#)
USA: [Moody's - Going negative as inflation, geopolitical risks, falling demand point to profit declines](#)

³ Europe: [Moody's - Outlook remains negative with 2023 growth off much lower than 2022](#)
USA: [Moody's - Lowering our 2022 forecast, maintaining negative outlook](#)

ties of more than 10 years with most of its principal customers. The majority of the Company's revenues derive from the intimate apparel, socks, pajamas and leisure and comfort wear categories, which enjoy relatively stable demand and are growing at faster rates than the industry average, although being in a very competitive category. The Company's products are characterized as multi-seasonal wear, which are less exposed to fashion changes or fluctuations in the global economy. The Company's longstanding presence in the global apparel market, high technological capabilities and established distribution chain contribute positively to Delta's standing in the global apparel market. On the other hand, the Company is exposed to price pressures in the competitive wholesale market, in which it has significant activity (excluding the private labels segment).

In recent years, the Company has been working to expand the number of brands it owns (under the brands segment), which was reflected in the signing of new license agreements in the last two years, such as adidas, Wolford and Polo Ralph Lauren, and in the years before that with the purchase of the Eminence group. In our opinion, this strategy testifies to the establishment of Delta's business position in the global apparel industry and moderates to some extent the business risk inherent in its exposure to dominant customers in the private label sector and the limited price flexibility vis-à-vis these customers, a risk that remains material in its activity.

2022 was characterized by adverse effects to the supply chain, high shipping costs and a continued increase in the rate of inflation in Europe and the U.S. In our estimation, 2023 will be affected by the continued rise in inflation, a decrease in disposable income and a decrease in demand with the implementation of a decision to reduce inventory mainly by Walmart and Nike.

According to Midroog's base scenario, in the whole of 2022 the Company will record revenues of approximately \$2,000-2,050 million (an increase of approximately 4% compared to 2021), and in 2023 revenues in a similar range. We assume a certain erosion in the rate of operating profit in 2022-2023 compared to 2021, so that it will be in the range of 8.5%-9.2%, compared to 9.7% in 2021 which was an exceptionally good year, although still noticeable compared to an average of 6.4% in 2019, 2020, 2022. In our estimation, 2022 was affected by a change in the mix of the products sold (to key customers such as Nike and Walmart there was an increase in sales in 2022), the streamlining of the factories and the reorganization that was carried out, but in 2023 a certain decrease in revenues is expected in some segments due to the reduction/postponement of orders from the major customers in the private label segment due to a reduction in inventories, which will result in reduced production in the factories manufacturing the private label, and therefore to a lower efficiency in these factories. It should be noted that in 2023 we assume a decrease in shipping costs as well as a decrease in the costs of raw materials, which increased significantly following the coronavirus crisis, but in our estimation the Company will not return to the profitability rate recorded in 2021.

In Midroog's estimation, the funds from operations (FFO) will amount to \$195-210 million in 2022-2023 (compared to about \$214 million in the 12 months ending on September 30, 2022). In our estimation, a dividend will be distributed in the amount of about \$25-35 million in 2023, and the annual free cash flow (FCF) will be in the range of \$65-75 million in 2023. In the 12

months ending on September 30, 2022, the Company presented a negative free cash flow (FCF) of approximately \$150 million and this in view of negative changes in working capital in the amount of approximately \$195 million. The increase in working capital in the period was mainly due to an increase in the level of inventory in view of the prolonging of the delivery times of the goods due to problems in the supply chain, a decrease in the days purchasing outstanding and in light of the Company's stocking up. In our estimation, the increase in working capital will be moderated in the short-medium term. These resulted in an increase in the financial debt so that it amounted to a total of about \$660 million on September 30, 2022, compared to a total of about \$530 million as of December 31, 2021 (including about \$210 million of liabilities for leases). In Midroog's estimation, in 2023 there will be a decrease in the scope of the gross financial debt as a result of the positive current flow that the Company will record in 2023 which will be used to repay debt. In our estimation, the gross debt at the end of 2023 will be in the range of \$520 -540 million.

In our estimation, the gross debt to EBITDA coverage ratio will be around 2.0 in 2022-2023 (on September 30, 2022, the ratio was 2.3 according to the EBITDA LTM calculation). We estimate that the ratio of operating profit to financing expenses will be in the range of 4.3-5 in 2022-2023, similar to a ratio of 4.6 on September 30, 2022 (LTM).

The Company's liquidity is good and is supported by liquidity balances of approximately \$170 million as of September 30, 2022 (including short-term deposits and restricted cash) as well as binding and undrawn credit facilities amounting to approximately \$145 million as of that date. Midroog assumes that over time some of the Company's cash is expected to be used for mergers and acquisitions in the medium to long term.

The Company has current maturities of bonds and long-term bank loans in the amount of approximately \$85 million in 2023. The Company maintains sufficient headroom from the financial covenants. The Company's financial policy has been proven over time to be stable and conservative, good adherence to forecasts and high transparency in its conduct, and it has previously demonstrated ability in merging and assimilating new companies, maintaining positive financial parameters, and resistance to financial crises. Midroog considers these characteristics as positive characteristics contributing to the Company's rating.

Rating Outlook

The stable outlook reflects Midroog's assessment, based on the baseline scenario, that the Company will show stability in its operating results and in the financial parameters, while maintaining the current coverage ratios.

Factors that could lead to a rating upgrade:

- Improvement in coverage ratios over time

Factors that could lead to a rating downgrade:

- Erosion in the Company's profitability rates over time
- Mergers and acquisitions that increase the level of business risk and/or the Company's leverage

Delta Galil Ltd. (Consolidated Statements) – Key Financial Indicators, in \$ millions

	1-9/2022	1-9/2021	FY 2021	FY 2020	FY 2019	FY 2018
Revenues	1,487	1,373	1,951	1,446	1,690	1,498
Operating profit margin (*)	8.4%	8.9%	9.7%	4.2%	5.8%	6.4%
Adjusted gross financial debt/ EBITDA	2.3	2.2	1.8	4.4	3.6	3.5
Operating profit/ financing expenses, net	4.5	4.1	5.1(**)	1.6	2.7	3.9
Equity/ total assets	35.4%	34.9%	36.6%	28.2%	31.9%	38.8%

(*) Operating profit before other income / expenses

(**) Financing expenses for 2021 include a one-time loss of \$5.0 million from early redemption of bonds

Diagram 1: Delta Galil Industries (Consolidated Statements) – Development of Revenues by Operating Segments, in \$ millions

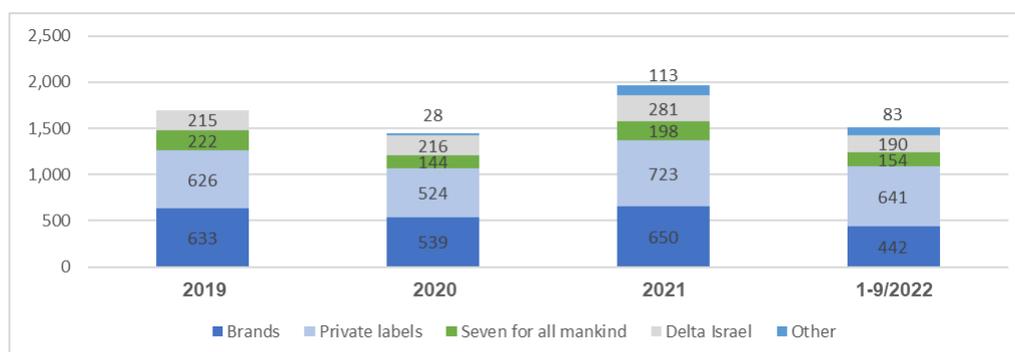
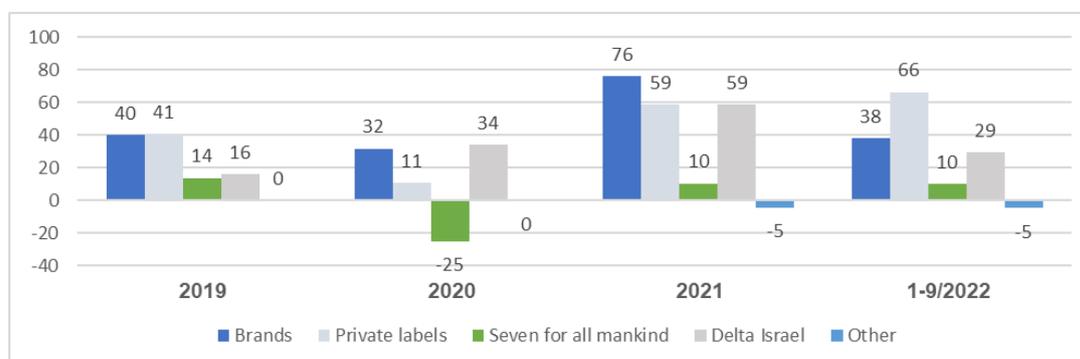


Diagram 1: Delta Galil Industries (Consolidated Statements) – Development of Operating Profit by Operating Segments, in \$ millions



Detailed Rating Considerations

High business risk and intense competition in the global apparel industry; Negative impact of inflation on purchasing power and demand from customers

The inherent risks to which the Company is exposed in the apparel industry include: relatively low entry barriers and a high number of strong and high-quality competitors, dependence on subcontractors, exposure to commodity prices and wages and their impact on profitability. Among the main trends in recent years in the industry one can note a shift to online purchases at the expense of some physical stores, a shift to smart production, based on the development of new and sophisticated fabrics and products, and the transfer of production to subcontractors in Turkey, Egypt and the Far East (China, Thailand, Sri Lanka, India, Bangladesh and more), along with the rising cost of wages in these countries.

The global apparel market includes companies engaged in the design, production, marketing and distribution of a variety of clothing, generally combined with manufacturing facilities in different countries around the world. The industry includes apparel manufacturing subcontractors, distribution and marketing companies, fashion firms owning fashion brands and retail chains, with most players operating in more than one segment. Midroog rates the business risk of the global apparel market at high, as a function of the attributes of the finished products and the operating segment along the industry value-chain. We estimate the sector to be moderately exposed to economic cycles, depending on the product category and demand. Competition in the sector is high and negatively affects the price flexibility of the companies competing in it. Midroog estimates that the distribution of risks along the industry value-chain is unbalanced and biased in favor of the large retail chains and brand-owning international fashion companies, at the expense of subcontractors and clothing manufacturers. The high penetration of online sales in the apparel industry, at a greater intensity than in other consumption sectors, heightens the competitive pressures, despite the volume of online shopping, out of total sales in the apparel industry, being still low but growing rapidly.

According to Moody's forecast⁴, the apparel industry in Europe has a negative outlook. In Moody's estimation, the inflation rate will still be relatively high in 2023, while on the other hand, the wages of workers in many countries do not increase at the same rate as inflation, which reduces the people's disposable income and erodes purchasing power, so that they divert disposable income at a higher rate in favor of savings at the expense of purchases of goods. Moody's estimates, if this trend continues, that the companies' revenues will continue to grow in 2023, although at a lower rate than in previous years, and the growth will be based mainly on price increases instead of an increase in the volume of quantities sold. Among the retail industries, the apparel industry is expected to be most significantly affected by the downward trend in demand due to inflation. Clothing companies are still coping with high transportation and logistics costs, although there has been a significant decrease in costs compared to the peak recorded in 2021 following the coronavirus crisis. Furthermore, the increase in raw material costs and the strengthening of the dollar compared to the euro may adversely affect the

⁴ [Moody's – Outlook remains negative with 2023 growth off much lower than 2022.](#)

profitability of European retailers in 2023. In addition, many companies hold high inventory levels following the sudden release of problems in the supply chain, which may lead to an increase in sales and erosion in their profitability. Moody's estimates that the EBITDA in 2023 in the apparel industry in Europe will grow at a rate of 7%. Growth will be higher in companies selling premium apparel products, such as Burberry and Golden Goose.

According to Moody's forecast⁵, the apparel industry in the U.S. also has a negative outlook, when it is affected by factors similar to those affecting the apparel industry in Europe – the effect of inflation on disposable income and customer demand and high inventory levels at retailers. According to Moody's, sales in 2023 will grow at a rate of 1%-3% and operating profit will grow at a rate of 2%-4%, while improving profitability rates in 2023. Despite the assessment of an improvement in profitability in 2023 compared to 2022, Moody's left the outlook negative due to the uncertainty of the increase in unemployment and the effect of interest rate increases on inflation.

It should be noted that the bulk of Delta's revenue comes from the intimate apparel, socks, pajamas and comfort and leisure wear categories, which have relatively stable demand, and are growing at a higher rate than the industry average, although they are in a very competitive category. The Company's products are characterized as multi-seasonal products that are less exposed to fashion changes or fluctuations in the global economy.

One of the industry's notable characteristics is the expansion and growth of companies through the creation of synergy by means of mergers and acquisitions. Furthermore, the risks characterizing the apparel industry include various taxes and custom duties, a relatively extended period of time for cost adjustment, production diversification and fluctuations in exchange rates.

Continuous improvement in the Company's business position, with an emphasis on high technological capabilities and a decentralized and established distribution chain of business lines between different categories in the apparel industry, between geographic markets and between different distribution channels

Delta holds material operations along the entire value-chain in the apparel industry, including development, design, production, marketing, wholesaling and retailing to the end customer. The Company holds a dominant position in the undergarments category worldwide, with proven capabilities for technological innovation, conferring on the Company relative advantages in its main operating categories, particularly relatively profitable categories such as bras, pajamas, comfort products and sports socks. We consider the Company's capabilities in the leisure wear and sportswear segments to be a positive factor commensurate with the demand characteristics of the apparel industry. The Company has a variety of distribution channels, comprising mainly of wholesale distribution, but also extensive retail activity encompassing some 415 physical stores located mainly in shopping malls and commercial centers as well as a growing presence on digital platforms.

⁵ [Moody's – Lowering our 2022 forecast, maintaining negative outlook.](#)

In Midroog's estimation, Delta benefits from the spread of operations across diversified apparel categories, as well as the geographical distribution of revenues over several continents and countries. Its operations in the U.S. accounted in the first nine months of 2022 for 52% of the Company's total revenues, with the balance of revenues distributed between Europe (28%, including Germany), Israel (13%) and others. The Company owns manufacturing facilities in the Far East, Europe, Central America and the Middle East, and also manufactures in manufacturing facilities owned by subcontractors.

Over the past years the Company made several strategic acquisitions that have contributed to its business positioning and to increasing its scope of operations, first and foremost the acquisition of Eminence in July 2018, which operates in the field of branded undergarments for men, women and children; The acquisition of Bogart in July 2019, which significantly increased the Company's production operations and expanded its product line to also include bras and swimwear; The acquisition of Bare Necessities in October 2020 for the purpose of expanding its product line to include the sale of leading brands through a leading ecommerce platform in the U.S., currently carrying over 140 leading brands, with a view to also integrating in this sales channel the Company's brands in the coming years; The acquisition of Organic Basics in July 2022 – an online brand characterized by sustainability in undergarments and activewear.

In addition to the production and sale of the Company's own brands, the Company also develops, designs, manufactures and purchases from subcontractors products for private labels of some of the world's leading labels in the U.S. and Europe. The Company has several key customers in these operating segments, including Nike, Walmart, Target, Victoria's Secret, Calvin Klein and Primark. The Company's key customers include Nike, rated A1 by Moody's, as well as Walmart, rated Aa2 by Moody's, a rating that reflects its status as the largest retailer in the world. The Company's long-term relationships with its main customers and the increase in the variety of product categories vis-a-vis these customers are a factor that slightly mitigates the risk of concentration. We note that Delta has several factories around the world that give it a competitive advantage vis-à-vis its customers, with an emphasis on value-added products that are manufactured in accordance with the unique needs of certain customers, as well as with an emphasis on efficiency in managing the supply chain (just in time).

The Company's significant diversification of customers is such that in 2019-2022 there was no customer that accounted for more than 10% of total sales. In recent years, the Company has improved its position among customers, so that today it is a major supplier of its key customers such as Nike, Walmart and Skims in the categories in which it is active. The Company strives to establish competitive advantages, through the development of advanced products, through substantial investments in development and design and continuous improvement of operational capabilities, simultaneously with the implementation of a reorganization plan, the results of which the Company is enjoying.

Delta recorded in the first nine months of 2022 revenues amounting to about \$1.5 billion, compared to about \$1.4 billion in the corresponding period in 2021 (and increase of about 8.3% and about 11% in original currency, discounting the effect of the strengthening of the dollar). The most significant increase was recorded in the private label segment (from a total of about

\$519 million on January-September 2021 to a total of about \$641 million on January-September 2022), as a result of an increase in sales of intimate apparel and socks to customers in the U.S. and in Europe. In the Seven For All Mankind segment as well an increase was recorded from about \$136 million on January-September 2021 to a total of about \$154 million on January-September 2022, as a result of an increase in the sales of physical stores in the U.S. and in Europe, due to an increase in shopper movements following the recovery of tourism and also due to the fact that in 2021 some stores in Europe were closed during the closures.

According to Midroog's base scenario, in the whole of 2022 the Company will record revenues of approximately \$2,000-2,050 million, and in 2023 revenues in a similar range. In 2023 Midroog estimates stability in revenues in the brands segment compared to 2022 – the Company signed a license agreement for a new brand – Polo Ralph Lauren – and an increase in sales of the adidas and Welford brands is expected (both license agreements were signed in 2021). On the other hand, the existing brands in this segment are expected to decrease in 2023, mainly due to a decrease in sales to retail customers, many of whom have excess inventory.

Significant improvement in the Company's operating profit rates over the years in the various operating segments; An operating profit of about 9% is expected in the forecast years

Delta recorded in the first nine months of 2022 a decrease in the operating margin (about 8.4% before other expenses/ income) compared to the corresponding period last year (about 8.9%). The decrease occurred mainly as a result of the increase in the cost of raw materials and shipping in all operating segments, as a result of a change in the mix of sales channels (a decrease in internet sales compared to an increase in physical store sales which are characterized by higher marketing and sales expenses) and also as a result of negative effects of the exchange rate. However, one can see that the Company records an improvement in operating profit against an average operating profit of approximately 6.7% in 2019-2021, and this is mainly due to the increase in the scope of activity and the streamlining of the factories, among other things as a result of the reorganization plans carried out by the Company.

The Company's profitability is exposed to volatility as a result of changes in the New Israel shekel euro exchange rate as well as the exchange rate of the Chinese yuan against the US dollar, which are partially hedged by the Company.

Starting the second quarter of 2020, the Company began implementing a significant reorganization plan with the aim of improving operating profit in all segments. The plan included, among other things, the scaling back of production operations and the transfer of some production activities to operating regions characterized by lower wage costs, as well as a reduction in overheads of the Company's headquarters. Concurrently, the Company is acting to improve the mix of products so that it is characterized by higher profitability, to strengthen online sales and to assimilate technological changes in the sale and development processes. The total cost of the plan was about \$39 million (\$35.6 million in cash and \$3.6 million not in cash due to depreciation of fixed assets). By September 30, 2022, the Company carried out

about \$36.2 million of the total plan. Furthermore, as part of the strategy for improving operational efficiency, in the second quarter of 2022 the Company decided on closing a factory belonging to the subsidiary, Bogart, in Shenzhen, China, and on the transfer of the production activity to a new factory, which it inaugurated in July 2022 in Vietnam.

According to Midroog's base scenario, the Company's operating profit rate (before other income/expenses) is expected to be in the range of 8.5%-9.2% in 2022-2023. In 2023, a decrease in shipping costs and raw material costs, a certain change in the mix of products sold and the Company's streamlining as mentioned above are expected, and the rate of operating profit that will be recorded in our estimation is still high compared to previous years.

In our estimation, in the private label segment a decrease in operating margin is expected in 2023 compared to 2022 and an improvement compared to 2021. In our estimation, 2022 was positively affected by a change in the mix of products sold (key customers such as Nike, Skims and Walmart saw an increase in sales in 2022), the streamlining of factories and their transition to high utilization and the re-organization that was carried out, however, a decrease in revenues is expected due to the reduction/ postponement of orders from the major customers, which will result in reduced production in the factories, and therefore to a lower efficiency. In the brands segment, we expect an operating profit rate similar to the average rate in 2020-2022.

In the Seven For All Mankind segment, we expect an increase in the operating profit rate similar to the 2021-2022 average, while 2023 is expected to be positively affected by an improvement in the sector's expenses, among other things, a decrease in transportation costs. In the Delta Israel segment, we assume an increase in sales, both as a result of population growth and as a result of the opening of a website and new Victoria's Secret and Panta Rei stores in Israel. We assume an operating profit rate of around 15%-16%, similar to the rate in 2022 – a relatively high profitability rate in the industry. In our estimation, the others segment (including the Bare Necessities digital platform and the recently acquired Organic Basics) will continue to show revenue growth, but in the forecast years it will not yet reach operational balance.

Quick coverage ratios that are expected to be sustained throughout the forecast period

The EBITDA in the 12 months that ended on September 30, 2022 was about \$286 million, similar to the EBITDA recorded in 2021 and compared to about \$160 million on average in 2018-2020. According to Midroog's base scenario, the EBITDA will be in the range of \$270-280 million in each of the years 2022-2023. The base scenario relies on the following main assumptions: (1) An increase in sales of approximately 4% in 2022 and stability in sales in 2023; (2) A decrease in transportation costs in 2023; (3) Operating profit rates in 2022-2023 in the range of approximately 8.5%-9.2%; (4) An increase in interest expenses as a result of the increase in interest rates in the economy and an increase in debt in the course of 2022, which will be moderated in our estimation by a decrease in debt in the forecast years; (5) Capital investments similar to the last two years without assuming mergers and acquisitions; (6)

Dividend distribution of approximately 25% of the net profit. We do not assume an increase/decrease in working capital in the forecast year 2023.

In Midroog's estimation, the funds from operations (FFO) will amount to \$195-210 million in the years 2022-2023. The Company's Capex (including capital investments and lease payments) is in our estimation about \$105-115 million per year. Furthermore, in our estimation, there will be no substantial changes in working capital needs in 2023, and a dividend of approximately \$25-35 million will be distributed in 2023. All of these are expected to result in an annual free cash flow (FCF) in 2023 in the range of \$65-75 million. In Midroog's estimation, the cash in Delta's coffers is expected to be used, in part, for mergers and acquisitions in the medium term.

In 2021, there was a decrease in the scope of the adjusted gross financial debt and it amounted to approximately \$530 million (including approximately \$210 million in liabilities for leases), compared to approximately \$710 million in 2020. The main decrease was due to the use of the cash flow from current operations in 2021, from the issuance of 20% of Delta Israel shares and from early repayment of part of the bonds (about \$94 million). In the first 9 months of 2022, there was an increase in the scope of the financial debt, and it amounted to approximately \$660 million in September 30, 2022. The increase in debt mainly financed the negative changes in working capital, and primarily the increase in inventory in the amount of about \$143 million in the first 9 months of 2022 in view of problems in the supply chain which caused the Company to order excess inventory. In Midroog's estimation, in 2023 there will be a decrease in the scope of the gross financial debt as a result of the positive current flow that the Company will record in 2023 which will be used to repay debt. In our estimation, the gross debt at the end of 2023 will be in the range of \$520-540 million.

In our estimation, the gross debt to EBITDA coverage ratio will be around 2.0 in 2022-2023, similar to the ratio of 2.3 on September 30, 2022 (according to EBITDA LTM calculation). The ratio of operating profit to financing expenses will be in the range of 4.3-5 in 2022-2023, similar to the ratio of 4.6 on September 30, 2022 (LTM). We expect that there will be an increase in the ratio of equity to the balance sheet and it will be in the range of 37%-42% in 2022-2023, compared to about 35.4% on September 30, 2022.

Good liquidity, supported by cash balances and confirmed bank credit lines in substantial amounts; Conservative financial policy

The Company's liquidity is good and is supported by cash balances of approximately \$170 million as of September 30, 2022 (including short-term deposits and restricted cash) as well as binding and undrawn credit facilities amounting to approximately \$145 million at that date. Midroog assumes that over time some of the cash in the Company's coffers is expected to be used for mergers and acquisitions in the medium to long term.

The Company has current maturities of bonds and long-term bank loans in the amount of approximately \$85 million in 2023. The Company maintains sufficient headroom from the financial covenants. The Company's financial policy has been proven over time to be stable and conservative, good adherence to forecasts and high transparency in its conduct, and it has

previously demonstrated ability in merging and assimilating new companies, maintaining positive financial parameters, and resistance to financial crises. Midroog considers these characteristics as positive characteristics contributing to the Company's rating.

Additional Rating Considerations

The Company's rating is one notch higher than the rating derived from the rating matrix after Midroog granted the Company a rating benefit in view of the Company's business position, the significant scope of its revenues and its dominance, this beyond their relative weight in the rating matrix. This business strength contributes to the stability of its income over time and provides high visibility to the cash flows, thereby contributing to the reduction of credit risk.

Environmental, Social and Corporate Governance (ESG) Considerations

Midroog examines the impact of environmental, social and corporate governance factors when evaluating the credit quality of companies (ESG considerations).

Delta has moderate exposure to environmental risks – as a manufacturer the Company is exposed to carbon emissions risks, climate change risks in light of the use of cotton as a main raw material which is sensitive to climate changes, pollution and waste risks, etc. The Company complies with the required regulation.

The Company has moderate exposure to social considerations – the Company is exposed to trends in the clothing industry, exposed to safety risks of production workers, *inter alia*, of workers and their rights and working conditions in third world countries and the like. The Company places an emphasis on the ESG policy and publishes reports on the subject every year.

Corporate governance considerations do not have a material impact on the Company.

The Rating Matrix

NIS million		As of 30.09.2022		Midroog Forecast	
Category	Parameters	Measurement [1]	Score	Measurement [1]	Score
Operating sector	Sector-specific risk	---	Baa.il	---	Baa.il
Business profile	Revenues LTM	NIS 7,000 million [2]	Aa.il	NIS 6,800-6,900 million [2]	Aa.il
	Business position	---	Aa.il	---	Aa.il
Profitability	LTM operating profit rate	9.3%	Aa.il	9.2%-8.5%	Aa.il
Financial profile	Equity/ balance sheet	35.4%	A.il	42%-37%	A.il
	Debt/EBITDA LTM	2.7	Aa.il	1.5-2.5	Aa.il
	Operating profit/ financing expenses	5.4	A.il	4.3-5.0	A.il
	Financial policy	---	A.il	---	A.il
Implied rating					A1.il
Actual rating					Aa3.il

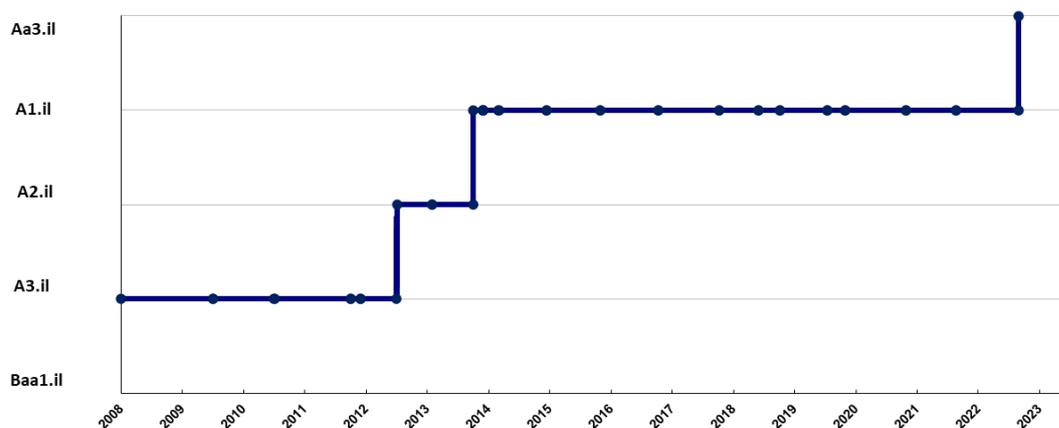
[1] The metrics shown in the table are after adjustments by Midroog, and are not necessarily the same as those presented by the Company. Midroog's forecast includes Midroog's estimates concerning the Issuer according to Midroog's base scenario, and not the Issuer's estimates.

[2] The Company reports in USD, the figures in the table were converted to NIS according to an average USD-NIS exchange rate of 3.38 in 2022.

Company Profile

Delta engages in the development, manufacturing, marketing and sale of undergarments, leisure wear and activewear, as well as outerwear. The Company sells its products under its own brands and also manufactures for private labels. The Company designs and develops its products primarily in Israel, Germany, Switzerland, France, the US, China and Hong Kong, whereas production is mostly carried out by subcontractors and in the Group's own plants in the Middle East, Europe, Central America and the Far East. The Company's controlling shareholder and CEO is Mr. Isaac Dabah. Mr. Dabah holds about 47% of the Company's share capital and voting rights. Mr. Noam Lautman, the Chairman of the Board, is a stakeholder in the Company and holds about 9.9% of the share capital and voting rights.

Rating History



Related Reports

[Delta Galil Industries Ltd. - related reports](#)

[Rating of Non-Financial Corporations – Methodology Report, December 2022](#)

[Adjustments to financial Statements and Presentation of Key Financial Indicators in the Rating of Corporations – methodology report, May 2020](#)

[Guidelines for examining environmental, social and corporate governance risks within the framework of credit ratings – methodology report, February 2022](#)

[Table of affinities and holdings](#)

[Midroog's rating scales and definitions](#)

The reports are published on Midroog's website: www.midroog.co.il.

General Information

Date of rating report:	January 30, 2023
The last date the rating was updated:	January 25, 2022
Date rating was first published:	June 17, 2008
Name of rating initiator:	Delta Galil Industries Ltd.
Name of party that paid for the rating:	Delta Galil Industries Ltd.

Information Provided by the Issuer

Midroog relies in its ratings, *inter alia*, on information received from the issuer's authorized entities.

Long-Term Rating Scale

Aaa.il	Issuers or issues rated Aaa.il are those that, in Midroog judgment, have highest creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il are those that, in Midroog judgment, have very strong creditworthiness relative to other local issuers.
A.il	Issuers or issues rated A.il are those that, in Midroog judgment, have relatively high creditworthiness relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il are those that, in Midroog judgment, have relatively moderate credit risk relative to other local issuers, and could involve certain speculative characteristics.
Ba.il	Issuers or issues rated Ba.il are those that, in Midroog judgment, have relatively weak creditworthiness relative to other local issuers, and involve speculative characteristics.
B.il	Issuers or issues rated B.il are those that, in Midroog judgment, have relatively very weak creditworthiness relative to other local issuers, and involve significant speculative characteristics.
Caa.il	Issuers or issues rated Caa.il are those that, in Midroog judgment, have extremely weak creditworthiness relative to other local issuers, and involve very significant speculative characteristics.
Ca.il	Issuers or issues rated Ca.il are those that, in Midroog judgment, have extremely weak creditworthiness and very near default, with some prospect of recovery of principal and interest.
C.il	Issuers or issues rated C are those that, in Midroog judgment, have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier '1' indicates that the bond ranks in the higher end of its rating category, which is denoted by letters. The modifier '2' indicates that it ranks in the middle of its rating category and the modifier '3' indicates that the bond ranks in the lower end of that category, denoted by letters.

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