DELTA GALIL
INDUSTRIES LTD.

# RESULTS OVERVIEW Q3 2019

Nov 2019



האמור במצגת בכל הקשור לניתוח פעילותיה של החברה הינו תמצית בלבד, ועל מנת לקבל תמונה מלאה של פעילות החברה ושל הסיכונים עימם מתמודדת החברה, יש לעיין בדיווחיה השוטפים של החברה לרבות בדוח הרבעוני לתקופה שהסתיימה ביום 30 ספטמבר 2019.

בין היתר, העובדות והנתונים ששימשו בסיס למידע המפורט במצגת זו מבוססים על מידע כפי שידוע לחברה במועד הכנת מצגת זו, ובכלל זה נתונים שפורסמו על ידי גופים חיצוניים לחברה, אשר תוכנם לא נבדק על ידי החברה באופן עצמאי ולפיכך החברה אינה אחראית לנכונותם. האמור במצגת זו כולל גם מידע צופה פני עתיד, כהגדרתו בחוק ניירות ערך, של תחזיות, מטרות, הערכות, אומדנים ומידע אחר המתייחסים לאירועים ועניינים עתידיים, שהתממשותם אינה ודאית ואינה בשליטת החברה. מידע צופה פני עתיד אינו מהווה עובדה מוכחת והוא מבוסס אך ורק על הערכה סובייקטיבית של החברה במועד הכנת המצגת.

המידע הצופה פני עתיד הכלול במצגת עשוי שלא להתממש, כולו או חלקו, או להתממש באופן שונה מכפי שנצפה, לרבות עקב השפעת גורמים שאינם בשליטת החברה ואשר לא ניתן להעריכם מראש, ובכלל זאת שינוי באיזה מגורמי הסיכון הרלוונטיים לפעילות החברה, וכן התפתחויות בסביבה הכלכלית ובגורמים החיצוניים המשפיעים על החברה. החברה אינה מחויבת בעדכון או שינוי כל תחזית או הערכה הכלולים במצגת זו כאמור על מנת שישקפו אירועים או נסיבות שיחולו לאחר מועד המצגת. לפיכך, קוראי מצגת זו מוזהרים, כי התוצאות וההישגים בפועל של החברה בעתיד עלולים להיות שונים באופן מהותי מאלה שהוצגו במידע הצופה פני עתיד המוצג במצגת זו, ויש לקחת בחשבון כי נתוני עבר אינם מצביעים בהכרח על ביצועים בעתיד.

**בהעדר אינדיקציה אחרת, הנתונים הכספיים הנכללים במצגת זו מתייחסים לרבעון שלשי המסתיים בחודש ספטמבר 2019.**

# Q3 2019 Highlights

## CONCLUDED THE THIRD QUARTER WITH

- **SALES** INCREASED 20% TO $446M, ORGANIC GROWTH 6%
- **EBIT*** INCREASED 2% TO $27M, REPORTED UP 57%
- **NET INCOME*** DECREASED 13% TO $14.5M, REPORTED UP 46%
- **OPERATING CASH FLOW**** IMPROVED BY $10M
- **CAPEX** IS BACK TO PLANNED YEARLY LEVEL OF $30M
- **E-COM** ON DELTA OWN WEBSITES CONTINUOUSLY THEIR DOUBLE DIGIT GROWTH
- **BOGART** PERFORMING BETTER THAN EXPECTED

RESULTS
OVERVIEW
Q3 2019

* EXCLUDING ONE TIME ITEMS

** Excluding IFRS16 EFFECT; REPORTED OPERATING CASH FLOW IMPROVED BY $25M TO $11M

# Q3 2019 Highlights

## GLOBAL UPPER MARKET

- Positive momentum continues with strong Q3 Sales +85%, organic growth 11%
- EBIT up 148%
- Bogart sales of $57M, factories are full until Q2/2020
- Strong growth in our Socks and Seamless categories
- Vietnam factory is full from 4th quarter and profitable in 2020

# Q3 2019 Highlights

## DGUSA

- Q3 Sales are up 5%, EBIT is down 25%

  Gross margin erosion due to price pressure from key mass retailer

**Executing a Strategic & Operational Action Plan**

- Exiting basic business, with low contribution to profitability
- Focusing on higher margin product categories such as Bras, Seamless
- Implementing efficiency and cost cutting measures
- 2020 projected EBIT at the same level as 2019

# DGUSA Growth Opportunities

- Exploring high-margin new licensing opportunities
- Strengthening product assortment with Bogart's lingerie capabilities
- New management is working closely with key accounts on new categories
- Growing with Kim Kardashian intimate brand **SKIMS**









# Q3 2019 Highlights

## DELTA EUROPEAN BRANDS

- Sales growth of 3% in original currency, EBIT up 16%

# Q3 2019 Highlights

## DELTA PREMIUM BRANDS

- SALES are up 2%
- EBIT is ($3.6M) mainly due to
  - Increase in SG&A expense including:
    - Splendid Headquarter move to NY
    - DGPB Finance team move to NJ
- Continued down trend of wholesale channel in the US
- 7FAM and Splendid Spring bookings are up year over year
- Highly seasonal business with significant portion of revenues and EBIT in Q4

# DGPB Growth Opportunities

**7 FOR ALL MANKIND**

- Expansion of diffusion brand “Jen7”
- Capitalizing on trends in the market with the launch of men’s Tech fabric
- Developing Ready To Wear
- Celebrating 20th anniversary with new marketing campaign
- Reintroducing original 7 jeans in sustainable fabric
- New JV signed in Brazil to expand in South America

**SPLENDID**

- Moved production from Mexico to Asia
- New collaboration with Nordstrom for Splendid teens line
- Focusing on selling clubs

# Q3 2019 Highlights

## DELTA ISRAEL

- Q3 Sales up 6%, EBIT up 35%
- Continuous strong growth in same store sales
- E-com strong double digit growth

# IFRS16 IMPACT

## WE APPLIED IFRS16 STARTING Q1/2019

($ million)

| | Q3.2019 | | YTD 2019 | |
|---|---|---|---|---|
| | EXCLUDING IFRS16 | REPORTED | EXCLUDING IFRS16 | REPORTED |
| **OPERATING PROFIT** | 24.6 | 26.7 | 45.7 | 51.5 |
| **OPERATING PROFIT** (Excluding one-time items) | 25.0 | 27.1 | 49.0 | 54.7 |
| **EBITDA** | 35.7 | 51.5 | 76.9 | 119.5 |
| **FINANCIAL EXPENSES** | 7.8 | 10.1 | 19.1 | 25.4 |
| **NET INCOME** | 14.2 | 14.0 | 21.7 | 22.1 |
| **NET INCOME** (Excluding one-time items) | 14.7 | 14.5 | 24.9 | 25.4 |
| **OPERATING CASH FLOW** | (4.5) | 11.2 | 0.3 | 42.8 |



The numbers are rounded

# Q3 2019 Results

**+20%** **Sales**
Sales in original currency +21%
Sales excluding Bogart +5%
Sales organic growth in original currency +6%

**+2%** **Operating Profit** excluding one-time items
Reported OP +57%

**+46%** **EBITDA**

**-13%** **Net income** excluding one-time items
Reported Net income +46%

($ million)

| | Q3 2019 | Q3 2018 | % change vs last year |
|---|---|---|---|
| **SALES** | 446.1 | 370.8 | 20% |
| **OPERATING PROFIT** | 26.7 | 17.0 | 57% |
| % from sales | 6.0% | 4.6% | |
| **OPERATING PROFIT** Excluding one-time items | **27.1** | **26.7** | **2%** |
| % from sales | 6.1% | 7.2% | |
| **EBITDA** | 51.5 | 35.3 | 46% |
| % from sales | 11.5% | 9.5% | |
| **NET INCOME** | 14.0 | 9.6 | 46% |
| **NET INCOME** Excluding one-time items | **14.5** | **16.6** | **(13%)** |
| **DILUTED EPS** ($ per share) | 0.55 | 0.38 | 45% |
| **Diluted EPS ($ per share)** Excluding one-time items | **0.57** | **0.65** | **(13%)** |
| **OPERATING CASH FLOW** | 11.2 | (14.2) | |



The numbers are rounded

# YTD 2019 Results

**+14%** **Sales**
Sales in original currency +15%
Sales excluding Bogart & Eminence H1 +4%
Sales organic growth in original currency +5%

**-2%** **Operating Profit** excluding one-time items
Reported OP +22%

**+50%** **EBITDA**

**-24%** **Net income** excluding one-time items
Reported Net income -6%

($ million)

| | 2019 | 2018 | % change vs last year |
|---|---|---|---|
| **SALES** | 1,185.4 | 1,044.2 | 14% |
| **OPERATING PROFIT** | 51.5 | 42.3 | 22% |
| % from sales | *4.3%* | *4.1%* | |
| **OPERATING PROFIT** Excluding one-time items | **54.7** | **55.9** | **(2%)** |
| % from sales | 4.6% | 5.3% | |
| **EBITDA** | 119.5 | 79.6 | 50% |
| % from sales | *10.1%* | *7.6%* | |
| **NET INCOME** | 22.1 | 23.5 | (6%) |
| **NET INCOME** Excluding one-time items | **25.4** | **33.2** | **(24%)** |
| **DILUTED EPS** ($ per share) | 0.87 | 0.93 | (7%) |
| **Diluted EPS ($ per share)** Excluding one-time items | **0.99** | **1.31** | **(24%)** |
| **OPERATING CASH FLOW** | 42.8 | (34.1) | |



The numbers are rounded

# Q3 Sales and EBIT by Segment

($ thousands)

| | SALES | | | % change in original currency | EBIT | |
|---|---|---|---|---|---|---|
| | Q3 2019 | Q3 2018 | % change | | Q3 2019 | Q3 2018 |
| **DELTA USA** | 113,871 | 108,704 | 5% | 5% | 6,623 | 8,836 |
| % from sales | | | | | 5.8% | 8.1% |
| **GLOBAL UPPER MARKET** | 144,725 | 78,239 | 85% | 85% | 12,523 | 5,053 |
| % from sales | | | | | 8.7% | 6.5% |
| **DELTA EUROPEAN BRANDS** | 81,621 | 83,305 | (2%) | 3% | 10,101 | 8,698 |
| % from sales | | | | | 12.4% | 10.4% |
| **DELTA PREMIUM BRANDS** | 64,115 | 62,612 | 2% | 3% | (3,640) | 2,920 |
| % from sales | | | | | (5.7%) | 4.7% |
| **DELTA ISRAEL** | 48,527 | 45,589 | 6% | 3% | 1,823 | 1,348 |
| % from sales | | | | | 3.8% | 3.0% |
| **INTERSEGMENT SALES** | (6,720) | (7,686) | | | | |
| **OTHERS** | | | | | (290) | (199) |
| **TOTAL SALES / EBIT** before one-time items | **446,139** | **370,763** | **20%** | **21%** | **27,140** | **26,656** |
| % from sales | | | | | 6.1% | 7.2% |
| **ONE-TIME ITEMS, NET** | | | | | (431) | (9,609) |
| **REPORTED EBIT** | | | | | **26,709** | **17,047** |



The numbers are rounded

# YTD Sales and EBIT by Segment

($ thousands)

| | SALES | | | % change in original currency | EBIT | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | % change | | 2019 | 2018 |
| **DELTA USA** | 332,978 | 330,302 | 1% | 1% | 12,552 | 20,387 |
| % from sales | | | | | 3.8% | 6.2% |
| **GLOBAL UPPER MARKET** | 319,846 | 222,456 | 44% | 44% | 29,180 | 15,428 |
| % from sales | | | | | 9.1% | 6.9% |
| **DELTA EUROPEAN BRANDS** | 222,382 | 186,276 | 19% | 27% | 14,421 | 11,514 |
| % from sales | | | | | 6.5% | 6.2% |
| **DELTA PREMIUM BRANDS** | 191,221 | 195,750 | (2%) | (1%) | (3,519) | 8,441 |
| % from sales | | | | | (1.8%) | 4.3% |
| **DELTA ISRAEL** | 138,855 | 129,265 | 7% | 8% | 5,089 | 3,442 |
| % from sales | | | | | 3.7% | 2.7% |
| **INTERSEGMENT SALES** | (19,882) | (19,892) | | | | |
| **OTHERS** | | | | | (2,982) | (3,351) |
| **TOTAL SALES / EBIT** before one-time items | **1,185,400** | **1,044,157** | **14%** | **15%** | **54,741** | **55,861** |
| % from sales | | | | | 4.6% | 5.3% |
| **ONE-TIME ITEMS, NET** | | | | | (3,273) | (13,554) |
| **REPORTED EBIT** | | | | | **51,468** | **42,307** |



The numbers are rounded

# Sales Analysis by Geographic Area

($ thousands)

| | Q3 | | | | | | YTD | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | % of sales | 2018 | % of sales | % change | % change in original currency | 2019 | % of sales | 2018 | % of sales | % change | % change in original currency |
| **U.S.A** | 220,446 | 49% | 185,519 | 50% | 19% | 19% | **609,531** | 51% | **556,909** | 53% | **9%** | **9%** |
| **EUROPE** (excluding Germany) | 83,806 | 19% | 75,583 | 20% | 11% | 13% | **222,702** | 19% | **174,180** | 17% | **28%** | **31%** |
| **GERMANY** | 49,795 | 11% | 47,440 | 13% | 5% | 10% | **136,121** | 11% | **138,496** | 13% | **(2%)** | **4%** |
| **ISRAEL** | 48,554 | 11% | 45,635 | 12% | 6% | 3% | **139,039** | 12% | **129,305** | 12% | **8%** | **8%** |
| **OTHERS** | 43,538 | 10% | 16,585 | 4% | 163% | 163% | **78,007** | 7% | **45,267** | 4% | **72%** | **72%** |
| **Total** | **446,139** | 100% | **370,763** | 100% | **20%** | **21%** | **1,185,400** | 100% | **1,044,157** | 100% | **14%** | **15%** |



The numbers are rounded

# Segmental Results on a Quarterly Basis

## Excluding one time items

($ thousands)

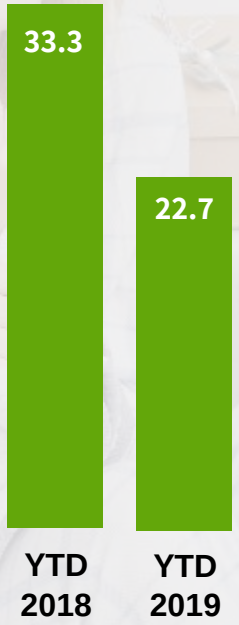
| | 2018 | | | | 2019 | | | | | | TRAILING TWELVE MONTHS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 | | Q4 | | Q1 | | Q2 | | Q3 | | | |
| | EBIT | SALES | EBIT | SALES | EBIT | SALES | EBIT | SALES | EBIT | SALES | EBIT | SALES |
| **DELTA USA** | **8,836** | **108,704** | 12,600 | 139,019 | 4,815 | 111,775 | 1,115 | 107,332 | **6,623** | **113,871** | 25,152 | 471,997 |
| % from sales | 8.1% | | 9.1% | | 4.3% | | 1.0% | | 5.8% | | 5.3% | |
| **GLOBAL UPPER MARKET** | **5,053** | **78,239** | 5,595 | 85,909 | 5,197 | 79,548 | 11,460 | 95,573 | **12,523** | **144,725** | 34,776 | 405,754 |
| % from sales | 6.5% | | 6.5% | | 6.5% | | 12.0% | | 8.7% | | 8.6% | |
| **DELTA EUROPEAN BRANDS** | **8,698** | **83,305** | 9,559 | 86,976 | 2,092 | 74,761 | 2,228 | 66,000 | **10,101** | **81,621** | 23,980 | 309,358 |
| % from sales | 10.4% | | 11.0% | | 2.8% | | 3.4% | | 12.4% | | 7.8% | |
| **DELTA PREMIUM BRANDS** | **2,920** | **62,612** | 8,511 | 86,181 | (922) | 62,196 | 1,043 | 64,910 | **(3,640)** | **64,115** | 4,993 | 277,402 |
| % from sales | 4.7% | | 9.9% | | -1.5% | | 1.6% | | -5.7% | | 1.8% | |
| **DELTA ISRAEL** | **1,348** | **45,589** | 7,520 | 64,933 | 307 | 44,436 | 2,959 | 45,892 | **1,823** | **48,527** | 12,608 | 203,789 |
| % from sales | 3.0% | | 11.6% | | 0.7% | | 6.4% | | 3.8% | | 6.2% | |
| **INTERSEGMENT SALES & EBIT** | **(199)** | **(7,686)** | (1,642) | (8,754) | (1,045) | (7,341) | (1,648) | (5,821) | **(290)** | **(6,720)** | (4,624) | (28,636) |
| **TOTAL EBIT / SALES** | **26,656** | **370,763** | 42,144 | 454,264 | 10,444 | 365,375 | 17,157 | 373,886 | **27,140** | **446,139** | 96,884 | 1,639,665 |
| % from sales | 7.2% | | 9.3% | | 2.9% | | 4.6% | | 6.1% | | 5.9% | |



The numbers are rounded

# Capital Expenditures

BACK TO PLANNED YEARLY LEVEL OF $30M




($ million)

| | |
|---|---|
| Global upper market | 7.5 |
| Delta European brands | 3.4 |
| DGPB | 7.2 |
| Delta Israel | 2.1 |
| Others | 2.5 |
| **Total** | **22.7** |

# Balance Sheet

Increased following Bogart acquisition and IFRS16 implementation

**$51M** Cash on hand

**$469M** Equity

**29%** Equity from total balance sheet

**3.2** Proforma Net debt / EBITDA

($ million)

| | Sep. 30 2019 | % FROM TOTAL | Sep. 30 2018 | % FROM TOTAL |
|---|---|---|---|---|
| CASH AND CASH EQUIVALENTS | 51.0 | 3% | 61.9 | 5% |
| OTHER CURRENT ASSETS | 657.1 | 41% | 580.0 | 48% |
| TOTAL CURRENT ASSETS | 708.1 | 44% | 641.9 | 53% |
| NON CURRENT ASSETS | 891.8 | 56% | 565.8 | 47% |
| **TOTAL ASSETS** | **1,600.0** | **100%** | **1,207.7** | **100%** |
| CURRENT LIABILITIES | 499.5 | 31% | 364.5 | 30% |
| DEBENTURES | 288.2 | 18% | 241.5 | 20% |
| OTHER NON-CURRENT LIABILITIES | 343.1 | 21% | 144.1 | 12% |
| TOTAL LONG TERM LIABILITIES | 631.3 | 39% | 385.6 | 32% |
| EQUITY | 469.1 | 29% | 457.6 | 38% |
| **TOTAL LIABILITIES AND EQUITY** | **1,600.0** | **100%** | **1,207.7** | **100%** |

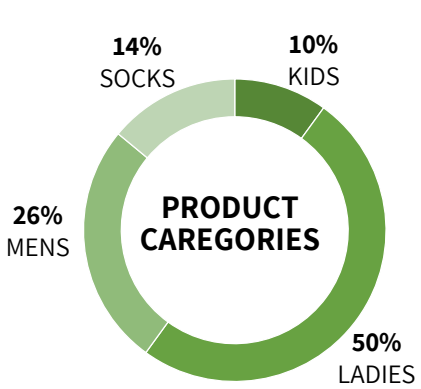
# Financial Indicators

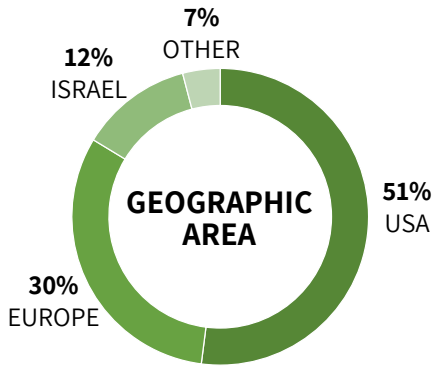
| | 30.09.2019 | 30.09.2018 |
|---|---|---|
| Current ratio | **1.42** | 1.76 |
| Quick ratio | **0.61** | 0.78 |
| Days of Sales Outstanding | **43** | 46 |
| Days Payable Outstanding | **56** | 54 |
| Inventory Days | **124** | 141 |
| Operating cash flow - Q3 ($ million) | **11.2** | (14.2) |
| Operating cash flow - YTD ($ million) | **42.8** | (34.1) |
| Operating cash flow - Last 4 Quarters ($ million) | **99.3** | 20.9 |
| EBITDA - Q3 ($ million) | **51.5** | 35.3 |
| EBITDA - YTD ($ million) | **119.5** | 79.6 |
| EBITDA - Last 4 Quarters ($ million) | **169.7** | 119.6 |
| Net financial debt ($ million) | **417.8** | 349.1 |
| Net financial debt to EBITDA* (based on Last 4 Quarters) | **3.2** | 2.7 |
| Equity / Total balance sheet | **29.3%** | 37.9% |
| Equity ($ million) | **469.1** | 457.6 |
| Net Debt / CAP | **42.5%** | 39.0% |

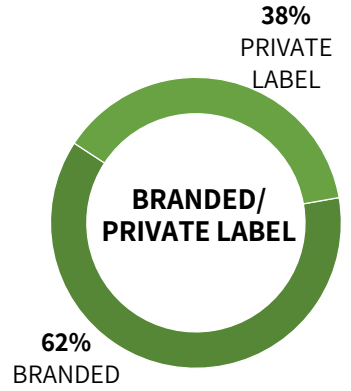
* This ratio excludes $42.6M positive impact on EBITDA due to IFRS16

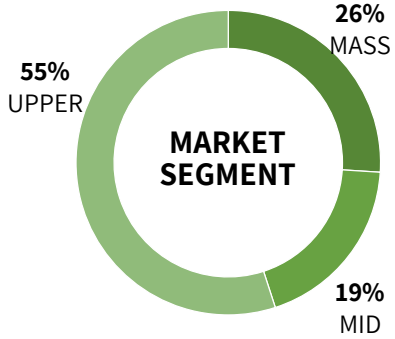
# Diversified Portfolio

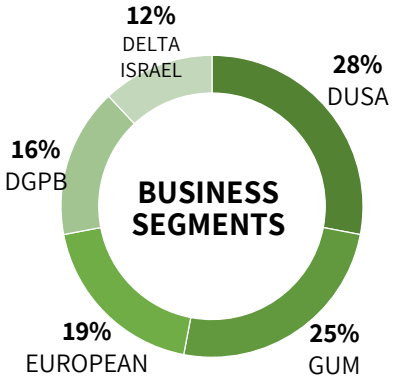
Enables Delta to mitigate the market changes
% from sales (for YTD 2019)

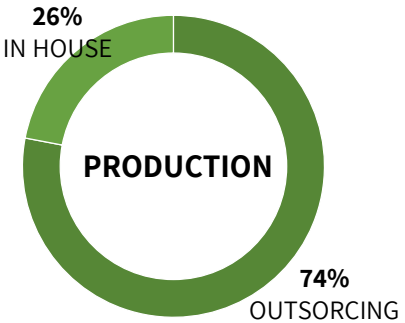


# 2019 Updated Guidance

Excluding one time items

($ million)

| | 2018 ACTUAL | 2019 GUIDANCE | % INCREASE 2019 GUIDANCE COMPARED TO 2018 ACTUAL |
|---|---|---|---|
| SALES | 1,498 | 1,650 - 1,690 | **10% - 13%** |
| EBIT | 98 | 98 - 102 | **0% - 4%** |
| EBITDA | 130 | 132 - 136 | **2% - 5%** |
| NET INCOME | 60 | 60 - 62 | **0% - 3%** |
| DILUTED EPS ($) | 2.37 | 2.37 - 2.44 | **0% - 3%** |
| **INCLUDING IFRS16 IMPACT** | | | |
| EBIT | 98 | 106 - 111 | **8% - 13%** |
| EBITDA | 130 | 183 - 187 | **41% - 44%** |

The updated guidance includes the impact of the China tariffs and of the product return of up to $4M.

# Future Growth

- Leveraging **Bogart relationships** to sell **Delta products** to major new customers
- Introducing **Bogart products** to Delta customers
- Growth in **E-com** channel expected to continue
- Continuous growth in GUM in **Seamless and Socks**
- Expanding **Eminence Ladies & kids** products
- Leveraging infrastructure of **European brands** to expand distribution of Delta products


THANK YOU
DELTA GALIL
INDUSTRIES LTD.

# BOGART Purchase Price Allocation

| | € M |
|---|---|
| WORKING CAPITAL | **20.8** |
| FIXED ASSETS | **31.8** |
| OVERDUE SUPPLIERS & PAYABLES | **(27.5)** |
| CUSTOMER RELATIONS | **53.0** |
| GOODWILL | **36.5** |
| DEFERRED TAX LIABILITIES, NET | **(18.5)** |
| **TOTAL ACQUIRED** | **105.9** |