



**PRESS RELEASE**

## **Delta Galil Reports First Quarter 2020 Results**

*Took Early and Effective Measures to Mitigate Adverse Impact of Covid-19*

*Improved Operating Cash Flow*

*Double Digit Growth in E-commerce Sales*

**Tel Aviv, June 25, 2020 – Delta Galil Industries, Ltd.** (DELT/Tel Aviv Stock Exchange, DELTY.PK/OTCQX), the global manufacturer and marketer of branded and private label apparel products for men, women and children, as well as leisurewear, activewear and denim, today reported its financial results for the first quarter ended March 31, 2020. The Company noted that despite the increase in sales due to the Bogart acquisition completed in July 2019, as well as rising web and e-commerce customer sales, its first quarter 2020 sales were adversely affected by the COVID-19 pandemic.

### **For the First Quarter Ended March 31, 2020**

- Sales were \$332.7 million, a decrease of 9% from the first quarter of 2019, primarily due to reduced volume in all business segments and markets following COVID-19 eruption, partly offset by sales from The Bogart Group, acquired in July 2019.
- Net loss was \$30.5 million, or (\$1.19) per share, compared to net income of \$3.0 million, or diluted earnings per share of \$0.12, for the first quarter of 2019.
- Operating cash flow improved \$10.3 million, to \$7.5 million in the first quarter of 2020, versus negative \$2.8 million a year ago.
- Strong balance sheet highlighted by \$457.3 million in equity and \$144.1 million in cash.
- Strong Double digit growth in E-commerce sales, including both own sites and internet customers.
- The Company launched a comprehensive restructuring plan to further streamline operations that will be recorded as a one-time expense of \$40 million in the second quarter.
- Actions taken to further strengthen Financial Flexibility:
  - A companywide hiring freeze, reduction in salaries of senior management, furlough and reduced working hours.
  - Elimination and/or reduction of marketing spend, travel and consulting fees.
  - Negotiated reduction in rental costs.
  - Tightly managed working capital items.
  - Suspension of quarterly cash dividend for 2020.
  - Drew down \$66 million from its committed credit facilities.



- Receiving government-supported loans in the amount of \$30 million during Q2 under attractive terms.
- Increasing Company's committed and uncommitted credit facilities by \$25 million and \$29 million during Q2.
- As a result of the actions above, and due to a strong expected operating cash flow in the second quarter, the company estimated its cash balance as of June 24, 2020 to be approximately \$220 million.
- The Company joined the fight against COVID-19 by producing 4 million facemasks for European emergency service personnel and other customers.
- As a result of the global impact of COVID-19, and due to the prolonged shutdown of stores in Delta Galil's main markets, the Company expects its Q2 sales and profit decline to be more significant than Q1; however, the Company expects a much stronger and a profitable second half of the year with a gradual return to normal operations.
- Isaac Dabah, CEO of Delta Galil: "These are truly unprecedented times, where our business and Q1 results have been significantly impacted by the COVID-19 pandemic. That said, we've seen a sustained increase in e-commerce sales in all of our operating segments, demonstrating the continued strength of our diversified business and Omni-channel model. We had a very good improvement in our operating cash flow due to tight management of our working capital. And continuing the positive trend from last year, Delta Israel had significant improvement in profitability, despite COVID-19. I am pleased that through our strong leadership team we were able to identify and implement necessary adjustments to our business where we could, while remaining focused on delivering our core value proposition to our customers and shareholders. In addition, we've launched a comprehensive restructuring plan, which covers all of our operating segments. As a result, and with a strong balance sheet in hand, we are well positioned to emerge from this challenging period and continue our growth in a post-COVID world."

## **COVID-19**

Delta Galil noted that the disruption caused by COVID-19 and related business closures and public quarantine measures resulted in decreased sales volume, primarily with several major DGUSA customers and lower retail sales due to store closures, which were partially offset by higher web and e-commerce customer sales. The impact of COVID-19 reduced first quarter sales and EBIT by approximately \$53 million and \$23 million, respectively. Among other factors impacted by COVID-19, the Company also experienced increased costs related to bad debts, but was able to reduce SG&A expenses. The Company implemented a number of initiatives to reduce operational costs that it will continue to benefit from in subsequent periods, including:

- A companywide hiring freeze, 10%-20% reduction in salaries of senior management until the end of the year, furlough and reduced working hours.
- Elimination and/or reduction of marketing spend, travel and consulting fees.
- Tightly managed working capital items.

The Company expects that its financial results in the second quarter of 2020 will continue to be affected by the business disruptions caused by the pandemic. The Company said it will



continue to take the necessary actions across its business to streamline its operations, optimize production capabilities and productivity, reduce overhead, and improve its competitive position going forward. These measures are expected to result in restructuring expenses of approximately \$40 million, of which approximately \$36 million will be in cash, (and approximately \$23 million of that will be paid during 2020) and \$4.0 million of non-cash expenses related to write down of fixed assets.

### **Sales**

The Company reported sales of \$332.7 million in the first quarter of 2020, compared to \$365.4 million in the first quarter last year, representing a 9% decrease. The decrease was mainly driven by a reduction in sales in all business segments and markets, partially offset by increased sales to certain customers, including \$38.1 million in sales attributable to the Bogart acquisition.

### **Operating Income (Loss)**

Operating loss was \$28.8 million for the first quarter of 2020, compared to operating income of \$10.4 million in the first quarter of 2019. Operating loss for the 2020 first quarter included bad debt expenses of \$7.0 million, a write-down of intangible assets (including IFRS 16 impairment) of \$12.8 million, and deal costs related to the Brayola acquisition of \$0.1 million. Excluding non-recurring items, operating loss was \$15.8 million in the first quarter of 2020, compared to operating income of \$10.4 million in the comparable period last year.

### **Net Income (Loss)**

Net loss was \$30.5 million in the first quarter of 2020, compared to net income of \$3.0 million for the first quarter last year. Excluding non-recurring items net of tax, net loss was \$20.0 million in the first quarter of 2020, compared to net income of \$3.0 million in the comparable period last year.

### **Diluted Earnings (Loss) Per Share**

Diluted loss per share was (\$1.19) for the first quarter of 2020, compared to diluted earnings per share of \$0.12 for the first quarter of 2019. Before one-time items, diluted loss per share was (\$0.78) for the first quarter of 2020, compared to diluted earnings per share of \$0.12 for the comparable period last year.

### **EBITDA, Cash Flow, Net Debt, Equity and Dividend**

EBITDA was \$7.6 million in the first quarter of 2020, compared to \$30.6 million in the first quarter of 2019.

Operating cash flow improved \$10.3 million to \$7.5 million in the first quarter of 2020, from negative \$2.8 million in the first quarter of 2019. Excluding IFRS 16, operating cash flow improved \$8.4 million to negative \$7.8 million in the first quarter of 2020, compared to negative \$16.2 million in the comparable period last year.



Net financial debt as of March 31, 2020 was \$366.4 million, compared to \$361.8 million as of March 31, 2019.

Equity on March 31, 2020 was \$457.3 million, compared to \$456.1 million a year prior.

The Company does not currently anticipate declaring a dividend for the remainder of the fiscal year.

### **2020 Financial Guidance**

As a result of the global impact of COVID-19, and the continued uncertainty surrounding the pandemic, Delta Galil is not providing financial guidance for fiscal 2020 at this time.

### **IFRS 16**

Starting January 1, 2019, the Company adopted the new lease accounting standards set forth in IFRS 16. This requires that certain leases, which were accounted for as operating leases be treated as capital leases going forward. Certain leases will be reclassified as assets and liabilities on the balance sheet, which will yield increased depreciation and interest expense, offset by a reduction in rental expense.

### **About Delta Galil Industries**

Delta Galil Industries is a global manufacturer and marketer of branded and private label apparel products for men, women and children. Since its inception in 1975, the Company has continually strived to create products that follow a body-before-fabric philosophy, placing equal emphasis on comfort, aesthetics and quality. Delta Galil develops innovative seamless apparel including bras, shapewear and socks; intimate apparel for women; extensive lines of underwear for men and branded Men's underwear including the brands Schiesser, Eminence, Athena & Liabel; babywear, activewear, sleepwear such as the PJ Salvage brand, and leisurewear. Delta Galil also designs, develops, markets and sells branded denim and apparel under the brand 7 For All Mankind®, and ladies apparel under the brands Splendid® and Ella Moss®, among others. In addition, it sells its products under brand names licensed to the company, including: Wilson, Maidenform, Tommy Hilfiger and others. For more information, visit [www.deltagalil.com](http://www.deltagalil.com).

### **Safe Harbor Statement**

Matters discussed in this press release contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this press release, the words "anticipate," "believe," "estimate," "may" "intend," "expect" and similar expressions identify such forward-looking statements. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein, and while expected, there is no guarantee that we will attain the aforementioned anticipated developmental milestones. These forward-looking statements are based largely on the expectations of the Company and are subject to a number of risks and uncertainties. These include, but are not limited to, risks and uncertainties associated with: the impact of economic, competitive and other factors affecting the Company and its operations, markets, product, and distributor performance, the impact on the national and local economies



resulting from terrorist actions, and U.S. actions subsequently; and other factors detailed in reports filed by the Company.

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# DELTA GALIL

INDUSTRIES LTD.

## DELTA GALIL INDUSTRIES LTD.

Concise Consolidated Balance Sheets

As of March 31, 2020

	March 31		December 31
	2020	2019	2019
	(Unaudited)		(Audited)
	Thousands of Dollars		
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	143,134	43,290	108,294
Restricted Cash	922	2,534	933
Other accounts receivable:			
Trade receivables	149,337	184,839	212,311
Taxes on income receivable	2,103	1,789	2,867
Others	39,768	52,352	35,200
Financial derivative	649	693	971
Inventory	323,068	317,578	328,108
<b>Total current assets</b>	<b>658,981</b>	<b>603,075</b>	<b>688,684</b>
<b>Non-current assets:</b>			
Investments in associated companies accounted using the equity method and long-term receivables	14,140	15,421	14,367
Investment property	3,114	3,325	3,228
Fixed assets, net of accumulated depreciation	210,109	189,746	213,210
Goodwill	144,941	110,163	148,001
Intangible assets, net of accumulated amortization	264,031	219,952	273,318
Assets in respect of usage rights	200,110	200,055	207,651
Deferred tax assets	27,201	16,363	19,678
Financial derivative	8,777	8,505	19,677
<b>Total non-current assets</b>	<b>872,423</b>	<b>763,530</b>	<b>899,130</b>
<b>Total assets</b>	<b>1,531,404</b>	<b>1,366,605</b>	<b>1,587,814</b>



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	<b>March 31</b>		<b>December 31</b>
	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>Thousands of Dollars</b>		
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Short-term bank loans	68,463	22,024	1,868
Current maturities of bank loan	10,392	7,860	10,588
Current maturities of debentures	36,532	28,699	36,802
Financial derivative	3,437	2,903	2,070
Current maturities of liabilities in respect of leases	55,054	49,809	53,401
Other accounts payable:			
Trade payables	109,954	101,347	140,475
Taxes on income payable	14,169	8,899	16,392
Others	112,561	96,200	140,237
<b>Total current liabilities</b>	<b>410,562</b>	<b>317,741</b>	<b>401,833</b>
<b>Non-current liabilities:</b>			
Bank loan	64,717	66,810	68,337
Severance pay liabilities less plan assets	10,035	8,836	10,155
Liabilities in respect of leases	172,565	172,652	172,903
Other non-current liabilities	43,547	29,140	47,899
Debentures	332,049	288,494	340,376
Deferred taxes liabilities	35,518	26,876	39,368
Financial derivative	5,151	-	-
<b>Total non-current liabilities</b>	<b>663,582</b>	<b>592,808</b>	<b>679,038</b>
<b>Total liabilities</b>	<b>1,074,144</b>	<b>910,549</b>	<b>1,080,871</b>
<b>Equity:</b>			
Equity attributable to equity holders of the parent company:			
Share capital	23,714	23,719	23,714
Share premium	130,261	130,411	130,237
Other capital reserves	(20,974)	(11,725)	(7,962)
Retained earning	340,174	329,695	376,763
Treasury shares	(16,093)	(16,272)	(16,093)
	457,082	455,828	506,659
Minority interests	178	228	284
<b>Total equity</b>	<b>457,260</b>	<b>456,056</b>	<b>506,943</b>
<b>Total liabilities and equity</b>	<b>1,531,404</b>	<b>1,366,605</b>	<b>1,587,814</b>



**DELTA GALIL INDUSTRIES LTD.**

Concise Consolidated Statement of Income  
For the 3-month period ending March 31, 2020

	<b>Three months ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	
	<b>Thousands of Dollars</b>	
<b>Sales</b>	<b>332,683</b>	365,375
Cost of sales	<b>218,950</b>	234,992
<b>Gross profit</b>	<b>113,733</b>	130,383
% of sales	<i>34.2%</i>	<i>35.7%</i>
Selling and marketing expenses	<b>105,492</b>	103,289
% of sales	<i>31.7%</i>	<i>28.3%</i>
General and administrative expenses	<b>23,786</b>	17,971
% of sales	<i>7.1%</i>	
Other Expenses (income), net	<b>(305)</b>	1,321
<b>Operating income (loss) excluding non-recurring items</b>	<b>(15,850)</b>	10,444
% of sales	<i>(4.8%)</i>	<i>2.9%</i>
One-time items	<b>12,906</b>	-
<b>Operating income (loss)</b>	<b>(28,756)</b>	10,444
% of sales	<i>(8.6%)</i>	<i>2.9%</i>
Finance expenses, net	<b>10,403</b>	7,951
Income before tax on income	<b>(39,159)</b>	2,493
Taxes on income	<b>(8,650)</b>	(536)
<b>Net income (loss) for the period</b>	<b>(30,509)</b>	3,029
<b>Net income (loss) for the period excluding one-time items, net of tax to company's shareholders</b>	<b>(19,990)</b>	3,029
<b>Attribution of net earnings for the period:</b>		
Attributed to company's shareholders	<b>(30,403)</b>	3,029
Attributed to non-controlling interests	<b>(106)</b>	-
	<b>(30,509)</b>	3,029
<b>Net diluted earnings (loss) per share attributed to company's shareholders</b>	<b>(1.19)</b>	0.12
<b>Net diluted earnings (loss) per share, before non-recurring items net of tax attributable to Company's shareholders</b>	<b>(0.78)</b>	0.12



**DELTA GALIL INDUSTRIES LTD.**

Concise Consolidated Cash Flow Reports  
For the 3-month period ending March 31, 2020

	<b>Three months ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	
	<b>Thousands of Dollars</b>	
<b>Cash flows from operating activities:</b>		
Net income for the period	(30,509)	3,029
Adjustments required to reflect cash flows deriving from operating activities	44,790	977
Interest paid in cash	(5,670)	(3,847)
Interest received in cash	128	10
Taxes on income paid in cash, net	(1,249)	(3,010)
Net cash generated (used in) from operating activities	<u>7,490</u>	<u>(2,841)</u>
<b>Cash flows from investment activities:</b>		
Acquisition of fixed assets and intangible assets	(5,418)	(6,603)
Providing loans	-	(8,812)
Restricted cash release	-	960
deposit with respect to SWAP transaction Bank	(5,180)	-
Acquisition of a subsidiary	(1,469)	(441)
Proceeds from selling of fixed asset	280	70
Net cash used in Investing activities	<u>(11,787)</u>	<u>(14,826)</u>
<b>Cash flows from financing activities:</b>		
Dividends paid to non-controlling interest holders in consolidated subsidiary	-	(346)
Long term payables credit for fixed assets purchase	(1,184)	(1,138)
Lease principle repayment	(15,263)	(13,353)
Dividend paid	(6,506)	(3,547)
Repayment of long-term loans from banks	(2,140)	(2,004)
Short-term credit from banking corporations, net	68,463	(57,791)
Proceed from Debentures Issuance, net of Issuance expenses	-	69,130
Repayment of bank loan used to acquisition of a subsidiary	(1,098)	-
Net cash generated from ( used in) financing activities	<u>42,272</u>	<u>(9,049)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>37,975</u>	<u>(26,716)</u>
<b>Exchange rate differences and revaluation of cash and cash equivalents, net</b>		
	(1,267)	(528)
<b>Balance of cash and cash equivalents at the beginning of the period, net</b>	<u>106,426</u>	<u>70,534</u>
<b>Balance of cash and cash equivalents at the end of the Period, net</b>	<u>143,134</u>	<u>43,290</u>



## DELTA GALIL INDUSTRIES LTD.

Concise Consolidated Cash Flow Reports  
For the 3-month period ending March 31, 2020

	<b>Three months ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	
	<b>Thousands of Dollars</b>	
<b>Adjustments required to reflect cash flows from operating activities:</b>		
Revenues and expenses not involving cash flow:		
Depreciation	8,070	6,667
Amortization	15,352	13,506
Cash erosion, net	390	(271)
Interest paid in cash	5,670	3,847
Interest received in cash	(128)	(10)
Taxes on income paid in cash, net	1,249	3,010
Deferred taxes on income, net	(11,718)	(1,032)
Discount component for lease agreements	2,740	2,195
Severance pay liability, net	57	86
Capital loss (gain) from sale of fixed assets and asset held for sale	(66)	24
Change to the benefit component of options granted to employees of intangible assets Impairment	320	291
of customers and other receivables Write-down	12,780	-
Share in profits of associated company accounted for using the equity method	6,984	358
Others	57	(33)
	241	(596)
	<b>41,998</b>	<b>28,042</b>
Changes to operating assets and liabilities:		
Decrease (increase) in trade receivables	55,164	39,090
Decrease (Increase) in other receivable and balances	(2,441)	(4,615)
Decrease in trade payables	(28,541)	(38,596)
Decrease in other payables	(22,812)	(14,362)
Decrease (increase) in inventory	1,422	(8,582)
	<b>2,792</b>	<b>(27,065)</b>
	<b>44,790</b>	<b>977</b>