21 Ha'Arba'a St. | Platinum Tower
Tel Aviv, 6473921 Israel
Tel. +972-3-6844700 | Fax. +972-3-6855002
www.midroog.co.il

Delta Galil Industries Ltd.[1]

Monitoring Report | February 2025

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.

Contacts:

Hay Riany, CPA
Senior Team Leader, Lead Rating Analyst
Hriany@midroog.co.il

Liat Kadisch, CPA, Vice President
Head of Corporate Finance
liatk@midroog.co.il

[1] Mr. Shlomo Sherf is an external director at Delta Galil Industries Ltd. as well as an external director at Midroog Ltd. Mr. Sherf is not involved in any way in the determination of ratings by Midroog.

Delta Galil Industries Ltd.

Issuer Rating	**Aa3.il**	**Outlook: Stable**
Series Rating	**Aa3.il**	**Outlook: Stable**

Midroog affirms the Aa3.il rating of the issuer and of bonds (Series 1 and 6) issued by Delta Galil Industries Ltd. ("Delta" or the "Company"). The outlook is stable.

Outstanding bonds rated by Midroog:

Bond series	Security No.	Rating	Outlook	Final Maturity
B1	6270144	Aa3.il	Stable	31.08.2028
B6	6270193	Aa3.il	Stable	31.12.2026

Summary of Rating Rationale

- The year 2024 was marked by a slight macroeconomic recovery, mainly reflected in improved employment rates, real wage increases and the slowing of inflation, while real interest rates remain high and the geopolitical environment continues to be unstable. Several countries have taken steps to restrict imports, these restrictions lead to higher import prices and increased production costs thereby lowering consumer’s standard of living, however the easing of the inflationary environment, the growth in employment rates and real wages, is contributing to and encouraging private consumption. This has helped boost the sales of the Company, which in the first nine months of 2024 amounted to $1,446 million compared with $1,349 million in the corresponding period last year.

- The Company operates in the global apparel market, considered by Midroog to be characterized by high business risk, which adversely affects the Company's rating, due to intense competition and persistent price pressures, moderate exposure to economic cycles, seasonality, as well as exposure to cotton prices. In May 2024, Moody's maintained the stable outlook for the industry [2], in view of an improvement in profits and adjusted EBIT, resulting from, inter alia, low unemployment rate, an increase in real wages and reduced inflation levels, which are expected to have a positive impact on the level of private consumption. An additional parameter cited by Moody's is the stabilization of inventory levels in 2024, following higher levels of inventory in 2023. Notwithstanding the positive variables, Moody's reports that living costs are putting pressure on consumers' disposable income, with many relying on credit to finance their expenses.

[2] Retail and Apparel – Global – "Outlook is stable as cautious consumers contend with higher prices", Moody's, May 2024

- The Company's rating is supported by a strong business profile which is based on a significant scope of operations, leading customers in the industry across a wide range of decentralized market segments, a wide geographical market spread, varied distribution channels, diversification of brands, and strong business ties maintained over many years with most of its principal customers. The Company is continuously broadening and strengthening its base of brands through mergers and acquisitions and the formation of new business ties by means of license agreements. In 2024, the Company acquired Passionata a women's lingerie brand, with the goal to expand to new markets and consolidate its position in existing markets, using a wider product base. This year the Company began marketing product lines under three new license agreements – Florence by Mills, Polo Ralph Lauren, and Lauren Ralph Lauren, and it also launched retail operations in Israel under a new license for the Victoria's Secret and Bath & Body Works brands. The presence of these brands is expected to greatly contribute to the scope of the Company's operations. The Company's major customers include Skims, Nike and Walmart, all leaders in their category, with which the Company enjoys a strong and longstanding relationship. In our estimate, The Company's ability to maintain connections with brands of this magnitude over many years strengthens its business profile.
- In the first nine months of the year Delta recorded a 7.2% growth in revenues compared to the corresponding period last year, due, inter alia, to an increase in revenues of Splendid and Schiesser in the Brands segment, along with organic growth and the entry of new brands in the Delta Israel segment. We note that 2023 was marked by poor results, mainly as a result of a decline in the Company's operations and the accumulation of inventory at its end customers. We estimate that the Company will end 2024 with revenues of $1,950-2,050 million (an increase of 8% over 2023). The Delta Israel and Private Labels operating segments are the segments with the most significant growth in revenues, while "Others", which includes Bare Necessities, is continuing to weigh on the Company's results.
- The Company recorded an improvement in its gross profit margin in the first nine months of 2024, which is attributable to a reduction in inventory levels and decrease in purchases from subcontractors. This, together with an improved customer mix, an increase in operating efficiency and better utilization of the Company's plants, contributed to a rise in the operating profit margin to approximately 8.2% (compared with 6.8% in the corresponding period last year). The profitability is attributable primarily to the Private Label segment (14.6%), as well as to an improved product mix and an increase in demand which led to a reduction in discounts at Delta Israel (16.6%). We estimate that the operating profit margin in the years 2024-2025 will be in the range of 8.0%-9.0% (compared with an average of 8.9% in the years 2021-2023).

- Midroog's base case scenario for 2025 assumes, among other things: **(1)** Maintaining reasonable inventory levels by the Company's customers, which is expected to bolster demand and profitability. **(2)** An increase in sales by 3.0%-5.0% over 2024, mainly as a result of continued growth in new activities in the Brands segment (Florence By Mills, Polo Ralph Lauren, and more), the opening of new stores, the grant of licenses for the distribution of new brands, organic growth, mainly of Schiesser, Delta Israel and 7 For All Mankind, along with increased sales to the large customers (Skims and Nike), and on the other hand a contraction in online sales in "Others". **(3)** The operating profit margin is projected to be in the range of 8.0%-9.0%. **(4)** Net financing expenses of $40-45 million for the year. **(5)** Capital investments of $130-140 million, inter alia, for the continued development of an advanced robotic logistics center in Israel and the U.S., along with the continued opening of stores for the new brands in Israel and for Schiesser in Germany, as well as the integration of ERP systems in the Company and its subsidiaries. **(6)** The distribution of dividends of approximately 30% of the net profit.
- Under Midroog's base case scenario, the Company's revenues in 2025 are expected to amount to $2,000-2,100 million, a figure that is favorable for the rating level. We estimate more moderate growth than in 2024 following completion of the integration of the new brands. Midroog expects the operating profit margin in 2025 to remain within a range of 8.0%-9.0%, with profitability bolstered by an improvement in the customer mix and the enhancement of production processes carried out by the Company in recent years, such as the expansion and relocation of plants, and on the other hand, the continued operating loss in the online activity under "Others".
- Midroog estimates EBITDA at $260-290 million in each of the years 2024-2025. The gross debt to EBITDA coverage ratio in the years 2024-2025 is projected to remain within a range of 1.7-2.2 (compared with 2.0 in the last 12 months as of September 30, 2024). The EBIT to financing expenses ratio (LTM) as of the 12 months ended September 30, 2024, is approximately 4.3 compared with 3.8 in the corresponding period last year, due to a certain increase in operating profitability, with no significant change expected in net financial expenses for the period. Under Midroog's base case scenario, the ratio is expected to be maintained in 2025, within a range of 4.0-4.5.
- The Company's financial policy is appropriate for the rating level. Over time, the Company has demonstrated a stable and conservative financial policy, good compliance with forecasts and high transparency in its conduct, along with an ability to merge and integrate new companies, maintain positive financial parameters and cope with financial crises. Midroog considers these characteristics to have a positive contribution to the Company's rating.

- The Company has good liquidity, supported by liquidity reserves totaling $108 million as of September 30, 2024, as well as unused committed credit lines amounting to $287 million as of that date. The Company maintains adequate headroom to the financial covenants to bondholders and lenders.

Rating Outlook

The stable outlook reflects Midroog's assessment of stability in the key rating metrics according to the base case scenario, with the Company maintaining its business and financial profile.

Factors that could lead to a rating upgrade:

- Improvement in the coverage ratios over time.

Factors that could lead to a rating downgrade:

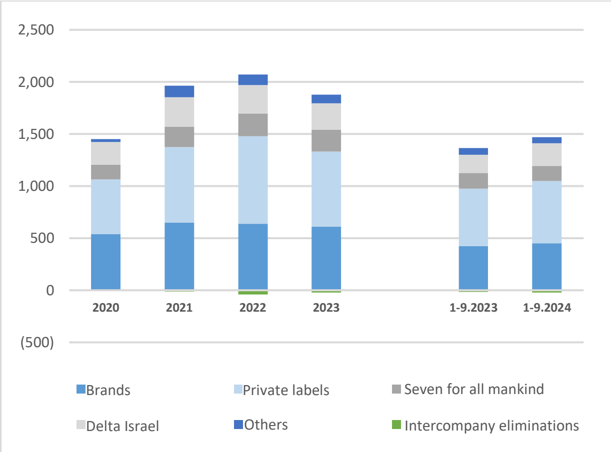
- Decrease in the Company's profitability ratios over time.
- Mergers and acquisitions that increase the level of business risk and/or company leverage.

Delta Galil Industries Ltd. (Consolidated) – Key Financial Indicators ($ in millions)*

	1-9/2024	1-9/2023	FY 2023	FY 2022	FY 2021	FY 2020
Revenues	1,446	1,349	1,858	2,032	1,951	1,446
Operating profit margin	8.2%	6.8%	7.8%	9.0%	9.7%	4.2%
Adjusted gross financial debt/ EBITDA (LTM)**	2.0	2.3	2.3	2.3	1.9	4.6
Operating profit/net financial expenses	3.8	3.1	3.8	4.9	5.0 ***	1.6
Equity/total assets	41.9%	41.5%	43.0%	38.4%	36.6%	28.2%

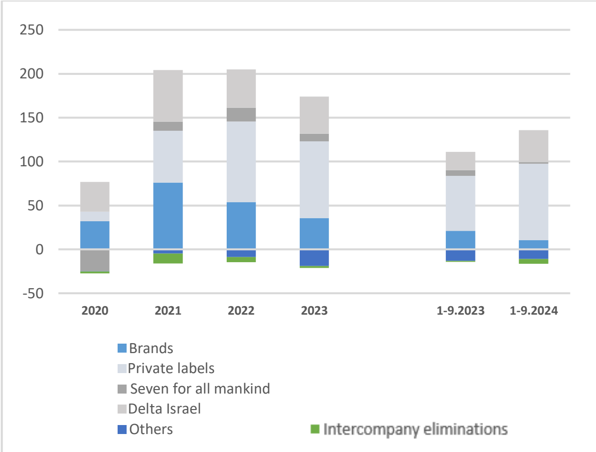
(*) The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company.
(**) Adjusted financial debt includes, inter alia, a lease liability and debt for the purchase of machinery.
(**) Financing expenses for 2021 include a one-time loss of $5 million due to early redemption of bonds.

Chart 1: Revenue Development by Operating Segments ($ in millions)



Source: The Company's financial statements as of September 30, 2024
Processing: Midroog

Chart 2: Operating Profit Development by Operating Segments ($ in millions)



Source: The Company's financial statements as of September 30, 2024
Processing: Midroog

Detailed Rating Considerations

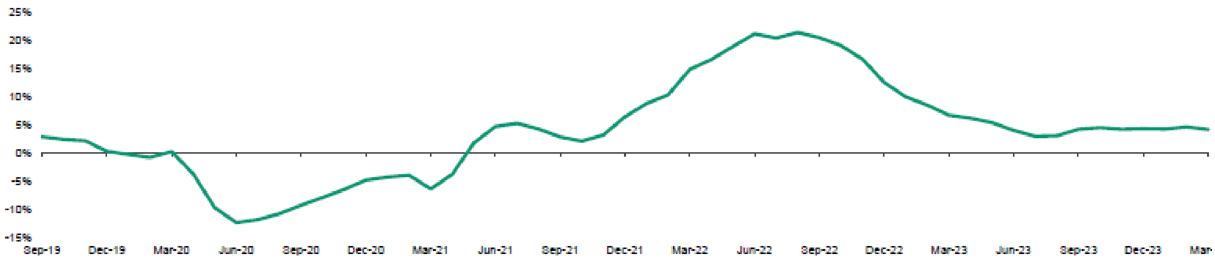
An operating environment characterized by high business risk and intense competition; stable forecast for the industry

The inherent risks which the Company is exposed to in the apparel market include: relatively low entry barriers and a large number of strong, quality competitors, dependence on subcontractors, exposure to commodity prices and wages and their impact on profitability. Among the main market trends in recent years, it is worth noting the shift to online purchases at the expense of some physical stores, the transition to smart production driven by the development of new and advanced textiles and products, the transfer of production to subcontractors in Turkey, Egypt and the Far East (China, Indonesia, Thailand, Sri Lanka, India, Bangladesh, among others), along with rising wage costs in those countries, and managing of inventory levels and supply chains.

The global apparel market includes companies engaged in the design, production, marketing and distribution of a variety of clothing, with production generally carried out in manufacturing facilities located in different countries around the world. The industry includes manufacturing subcontractors, distribution and marketing companies, fashion firms owning fashion brands and retail chains, with most players operating in more than one segment. According to Midroog's assessment, the global apparel industry is characterized by high business risk, depending on the characteristics of the finished products and the operating segment along the industry value-chain. We consider the industry to be moderately exposed to economic cycles, depending on the product category and demand. Competition in the industry is high, which limits 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.

In May 2024, Moody's maintained the stable outlook for the industry, after the results of the industry's companies in 2023 proved to be higher than estimated, mainly due to balancing of inventory levels and higher than expected revenues in the holiday seasons. Moody's forecast for 2024[3] is a moderate growth of 1%-3% in revenues and in operating profit (without online activity), with the industry still being in the process of recovery from the years 2022-2023.

Chart 3: Change in inventory levels in the US, 2019-2024



Source: Federal Reserve Bank of St. Louis; Processing: Moody's

In Moody's assessment, the risks in the industry include, inter alia, high interest levels in the medium term, ongoing inflation, and concerns about the worsening of the geopolitical environment. These risks could lead to pressures on consumers, impacting private consumption.

It should be noted that most of Delta's revenues derive from the undergarments, socks, pajamas and leisure and comfort wear categories, which, though highly competitive, enjoy relatively stable demand and are growing at faster rates than the industry average. The Company's products are characterized as multi-seasonal wear, which is less exposed to fashion changes or fluctuations in the global economy.

One of the notable characteristics of the apparel industry 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 duration of cost adjustment, production diversification and fluctuations in exchange rates.

The Company's strong business position, supported by wide business distribution and diversification, is also reflected by the acquisition of additional brands in recent years

Delta engages in major activities along the entire value-chain in the apparel industry, including development, design, production, marketing, wholesaling and retailing to the end customer. The

[3] Source: Moody's "Retail & Apparel – Global," May 2024.

Company holds a dominant position in the undergarments category worldwide, with proven technological innovation capabilities, conferring on the Company relative advantages in its main operating categories, particularly in relatively profitable categories such as bras, pajamas, comfort wear 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 wholesale distribution, but also extensive retail activity encompassing 430 physical stores located mainly in shopping malls and commercial centers as well as a growing presence on digital platforms.

In Midroog's estimation, Delta benefits from a spread of operations across diversified apparel categories, as well as the geographical distribution of revenues across several continents and countries. Its operations in the US accounted for 52% of total company revenues in the first nine months of 2024, with the remaining revenues divided between Europe (27%), Israel (15%) and others. The Company owns manufacturing facilities in the Far East, Europe and the Middle East, and it also outsources manufacturing to subcontractors' facilities. The Company has four operating segments as reported in the financial statements: Brands, Private Labels, 7 For All Mankind and Delta Israel. In addition, it has online activities reported under "Others".

Brands operating segment – The main brand in this operating segment is Schiesser, which was acquired in 2012 and is known primarily in Germany. Furthermore, in recent years the Company made several strategic acquisitions that have contributed to its business positioning and the expansion of the scope of its operations, the latest being the acquisition of Passionata in 2024. As of 2023, in this operating segment, about 83% of the Company's sales are of products purchased from subcontractors in the Far East, Eastern Europe and North America.[4] The Company operates 125 stores (out of which 100 are Schiesser brand stores). Apart from its owned brands, the Company has signed global license agreements with leading brands, among them Adidas, Polo Ralph Lauren, Columbia, Tommy Hilfiger, Calvin Klein and more. The products sold under license agreements include mainly undergarments, socks, children's apparel, leisure wear and activewear. The license agreements are generally for a period of three to four years. In the first nine months of 2024, revenues from this segment amounted to $451 million, compared with $424 million in the corresponding period last year. The increase (approximately 6.5%) was mainly attributable to an increase in sales of the Splendid brand in the U.S. to wholesale customers and to sales of the Schiesser brand to retail customers in Germany.

[4] Based on the periodic report of Delta Galil Industries as of December 31, 2023.

Midroog assesses 8%-10% revenue growth in this segment in 2025, due to the introduction of new brands as well as moderate organic growth of the Company's brands in the segment.

Private Label operating segment – Besides the production and sale of its own brands, the Company also engages in the development, design, independent production and purchase from subcontractors of products for leading global private labels in the US and Europe. The Company has several large customers, among them Skims, Nike (Rated A1 by Moody's with a negative outlook), Walmart (Rated A2 by Moody's with a stable outlook), Target, Victoria's Secret, Amazon, Primark and Calvin Klein. The Company's customer base is widely diversified, without any customer that accounts for more than 10% of total sales. We note that Delta has several manufacturing plants around the world that confer on it a competitive advantage vis-à-vis its customers, with emphasis on added-value products which are manufactured to the specific needs of particular customers, as well as on efficient (just-in-time) supply chain management. In 2023, approximately 63% of sales are of products manufactured in the Company's facilities in locations such as China, Myanmar, Thailand, Vietnam, Egypt and Turkey. The Company strives to establish competitive advantages, through substantial investments in development, design and continuous improvement of operational capabilities, together with the implementation of several realignment plans which include the closing of unprofitable plants and opening of new plants. In the first nine months of 2024, revenues from this segment amounted to $597 million, compared with $551 million in the corresponding period last year. The increase (approximately 8.3%) stems from sales to customers in the U.S. and Europe and particularly higher sales to the Company's large customers. Under Midroog's base case scenario, revenues in this segment are projected to grow by 3.5%-4.0% in 2025, mainly as a result of organic growth of existing customers.

7 For All Mankind operating segment includes the Seven jeans brand in the premium denim category for men, women and children, as well as the ready-to-wear category. Products in this operating segment are manufactured by several subcontractors in Italy, Turkey, Tunisia and the Far East. As of the date of the financial statements for 2023, the Group sells its products through 82 stores operating in North America, Europe, Brazil, Mexico and online. In the first nine months of 2024, revenues from this segment amounted to $144 million, compared with $151 million the in the corresponding period last year. The decrease (approximately 4.3%) in sales is mainly attributable to lower sales to retail customers due to the return to higher premium prices and lower discounts. Additionally, the Company carried out realignment measures including the consolidation of the European and U.S. headquarters, with the aim of improving operating results. Midroog expects revenues from this activity to grow moderately in 2025.

In Israel, the Company coordinates its operations through Delta Israel Brands Ltd. ("**Delta Israel**"), a public company in which it holds an 80% stake. As of the date of the financial statements for 2023, the

Company operates 210 stores in Israel. In the first nine months of 2024, revenues from this segment amounted to approximately $219 million, compared with $173 million the year before. The significant increase (approximately 26.6%) is primarily due to a rise in same-store and online sales, as well as the opening of stores for the new brands – Bath & Body Works ("BBW") and Victoria's Secret ("VS"), which began operating in 2024. The Company is expected to continue investing in the development of this segment, including in the opening of new stores, which it will finance from its own sources. Accordingly, Midroog expects revenues in this segment to increase by a range of approximately 5%-6% in 2025, inter alia due to the introduction of new brands, opening of new VS- and BBW-brand stores and moderate organic growth of the Company's existing brands.

"Others" includes the online activities of Bare Necessities ("BN"), which was acquired in 2020, and of Organic Basics. In the first nine months of 2024, revenues from "Others" amounted to $57 million, compared with $65 million in the corresponding period last year. The decrease is attributable to a decline in sales of Bare Necessities, mainly due to a realignment focusing on a reduction of brands not owned by the Company, which was partly offset by an increase in sales of Organic Basics following the global relaunch of the brand in the third quarter of 2024. The Company continues to work on improving the results in this segment.

Further to the above, in the first nine months of 2024, the Group recorded consolidated revenues of $1,446 million, compared with $1,349 million in the same period in 2023 (an increase of approximately 7%). In 2025, we project more moderate growth than that demonstrated in 2024 following the completion of the integration of the new products. Under Midroog's base case scenario, the Company will record revenues of $2,000-2,100 million per year in the years 2024-2025, a figure which is favorable for the rating level.

Rating is supported by a high operating profit margin which is expected to remain steady in the forecast years

Delta presented in the first nine months of 2024 an operating profit margin of approximately 8.2% (compared with an average of approximately 8.9% in the years 2021-2023). This ratio is supported, inter alia, by high profitability in the Private Label segment (approximately 14.6%), mainly attributable to sales of socks and undergarments in the U.S. and Europe, as well as to steps taken by the Company to reduce production costs through the realignment of the different plants, along with an improvement in the customer mix and an increase in demand, which led to a reduction in discounts and improved operating profitability at Delta Israel (approximately 16.6%), alongside a decline in profitability of the Brands segment (approximately 2.3%), due, among other reasons, to minimum royalty payments to brands, coupled with a low volume of sales of the new brands. The 7 For All Mankind segment presented low profitability (1.3%) in this period, in view of a drop in sales to retail customers resulting from a strategic change that includes a transition to premium prices, while the "Others" segment continues to suffer from losses and to weigh on the operating profit margin. In this regard, the Company continues to invest in realignment plans for some of its owned brands, along with the closing of unprofitable plants and opening of new plants in geographical areas where lower production costs are expected, for the purpose of improving profitability.

Midroog's base case scenario includes several assumptions, among them: **(1)** Improvement in the operating profit margin in the Brands segment to a range of approximately 5.5%-6%, inter alia as a result of higher sales of new brands, which will mitigate the effect of the minimum royalties on the profitability ratio in the segment, as well as lower freight costs. **(2)** Maintaining the profitability ratio in the Private Label segment at around the current level (approximately 14.6% in the first nine months of 2024). **(3)** Improvement in the operating profit margin in the 7 For All Mankind segment to a range of approximately 4%-4.5%, inter alia in view of the Company's ongoing realignment measures, including the consolidation of the U.S. and European headquarters, repricing at premium prices which are characterized by high marginal profit ratios, and the addition of new apparel categories in the segment. **(4)** Delta Israel's profitability is expected to moderate slightly compared with 2024, which, in our assessment, was somewhat anomalous, and to be in the range of approximately 14%-15% (compared with 16.6% in the first nine months of 2024). **(5)** We project a continuing operating loss from the online activity ("Others").

Accordingly, and inter alia on the assumption that the Company's customers will maintain inventory levels similar to 2024, Midroog's base case scenario puts the Company's operating profit margin (before other income/expenses) at a projected range of 8.0%-9.0% during 2024-2025, compared with an average of 8.9% in the years 2021-2023. It should be noted that the Company's profitability is exposed to volatility due to fluctuations in the shekel/euro exchange rate, which are partially hedged by the Company.

A financial profile supported by quick coverage ratios which are maintained over time

In recent years the Company has shown a steady improvement in its financial profile, reflected inter alia in reduced debt. As of September 30, 2024, the adjusted gross financial debt amounted to approximately $534.5 million compared with approximately $564.2 million as of December 31, 2023. In Midroog's assessment, during the forecast years the adjusted financial debt will remain within a range of $500-550 million, while funds from operations (FFO) will be between $190-210 million per year in the years 2024-2025 (compared with $147 million in 2023). Midroog estimates in 2025 a negative annual free cash flow (FCF) in the range of $(-60)-(-65) million, due inter alia to negative changes in working capital resulting mainly from the expansion of the scope of operations along with a dividend distribution in the amount of approximately $45-50 million and capital investments totaling $120-140 million mainly in respect of the opening of new stores, investments in logistics warehouses and integration of an ERP systems in the Company and its subsidiaries. Midroog estimates that the Company's available cash will partly be used for mergers and acquisitions in the medium term.

Midroog estimates EBITDA at $260-$290 million in each of the years 2024-2025, compared with $268 million in the last 12 months ended September 30, 2024 and $240 million in 2023. This amount derives from Midroog's expectations for financing expenses of approximately $40-45 million per year and annual tax expenses of approximately $30-35 million. The gross debt to EBITDA coverage ratio is projected to remain within a range of 1.7-2.2 in 2024-2025 (compared with 2.0 in the last twelve months as of September 30, 2024). The EBIT to financial expenses coverage ratio as of September 30, 2024 is 4.3, due to a certain increase in operating profitability, with no significant change expected in net financial expenses for the period. Under Midroog's base case scenario, the ratio is expected to remain in 2025 within a range of 4.0-4.5. The equity cushion is estimated at approximately $798 million as of September 30, 2024. We estimate a moderate improvement in the equity to total assets ratio, which in our assessment will range between 42%-45% in the forecast years, compared with 41.9% as of September 30, 2024.

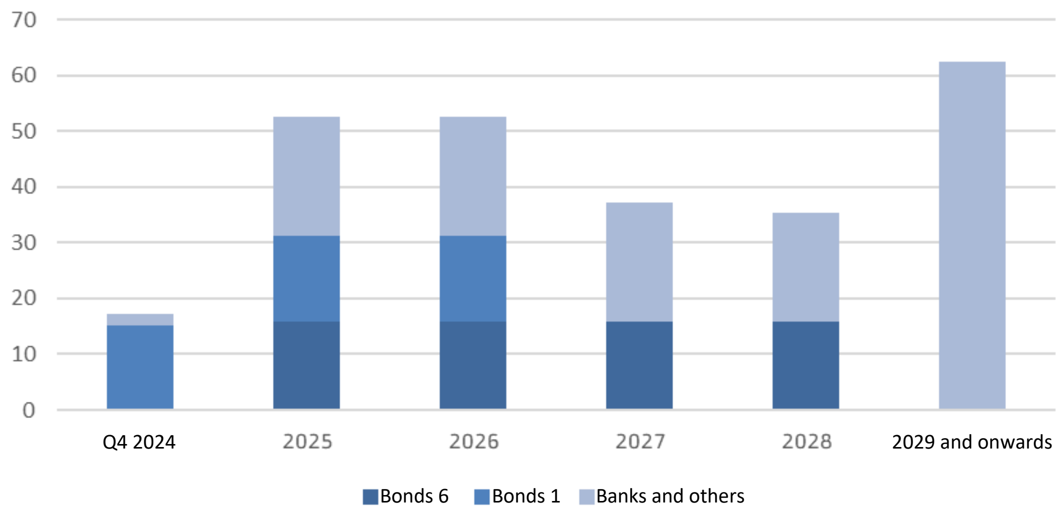
Liquidity is supported by adequate cash balances and confirmed bank credit facilities in substantial amounts; an appropriate financial policy which, in our assessment, balances between the interests of the equity holders and the Company's debt

The Company’s liquidity is supported by liquidity reserves of $108 million as of September 30, 2024, as well as by unused committed credit lines totaling approximately $287 million as of that date. Midroog assumes that over time, some of the Company's available cash will be used for mergers and acquisitions in the medium to long term. In contrast, the Company has outstanding current liabilities of bonds and long-term bank loans totaling approximately $53 million in each of the years 2025-2026.

In Midroog's assessment, the Company maintains adequate headroom to the financial covenants to bondholders and lenders.

Over time, the Company has demonstrated a stable and conservative financial policy, good compliance with forecasts and high transparency in its conduct, along with an ability to merge and integrate new companies, maintain positive financial parameters and cope with financial crises. Midroog considers these characteristics to be a positive contribution to the Company's rating. The Company has a medium business appetite for mergers, with several mergers on a moderate scale made in recent years. These mergers, which enabled the creation of synergy in the Company's areas of operation, were financed by an increase in debt and from the Company's current resources. Midroog will consider and evaluate, as necessary, mergers and acquisitions on larger scales and their impact on the Company's credit risk.

Chart 4: Amortization schedule of bonds and bank loans, September 30, 2024 ($ in millions)



Additional Rating Considerations

The Company's final rating at Aa3.il is one notch above the A1.il rating derived from the rating scorecard, considering its business position, significant scope of revenues and market dominance, which were assigned a greater weight than their relative weight in the scorecard. This business strength contributes to the stability of the Company's revenues over time and confers high visibility on its cash flows, helping, according to our estimate, to reduce the credit risk.

Environmental, Social and Governance (ESG) Considerations

When assessing a company's creditworthiness, Midroog examines the effects of environmental, social and governance factors (ESG considerations). Delta has moderate exposure to environmental risks – as a manufacturer, it is exposed to carbon emission risks, to climate change risks considering its use of cotton as a primary raw material that is sensitive to climate changes, to pollution and waste risks, etc. The Company operates in compliance with regulatory requirements. The Company has moderate exposure to social risks – it is exposed to trends in the apparel industry, as well as to safety risks of the production workers, inter alia workers in Third World countries, including their rights and working conditions. The company emphasizes its ESG policy and publishes reports on the matter annually. Governance risks do not have a material impact on the Company.

Rating Scorecard

		As of 30.09.2024		Midroog Forecast	
Category	**Parameters**	**Measurement[1]**	**Score**	**Measurement[1]**	**Score**
Operating sector	Sector risk	---	Baa.il	---	Baa.il
Business profile	Revenue LTM	NIS 7,265M[2]	Aa.il	NIS 7,200-7,600M[3]	Aa.il
	Business position	---	Aa.il	---	Aa.il
Profitability	Operating profit margin LTM	8.8%	Aa.il	8.0%-9.0%	Aa.il
Financial profile	Equity/total assets	41.9%	Aa.il	42%-45%	Aa.il
	Debt/EBITDA LTM	2.0	Aa.il	1.7-2.2	Aa.il
	Operating profit/ financial expenses	4.3	A.il	4.0-4.5	A.il
	Financial policy	---	A.il	---	A.il
Implied score					**A1.il**
Final score					**Aa3.il**

[1] The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company. Midroog's forecast includes its own assessments regarding the issuer according to Midroog's base case scenario, and not those of the issuer.

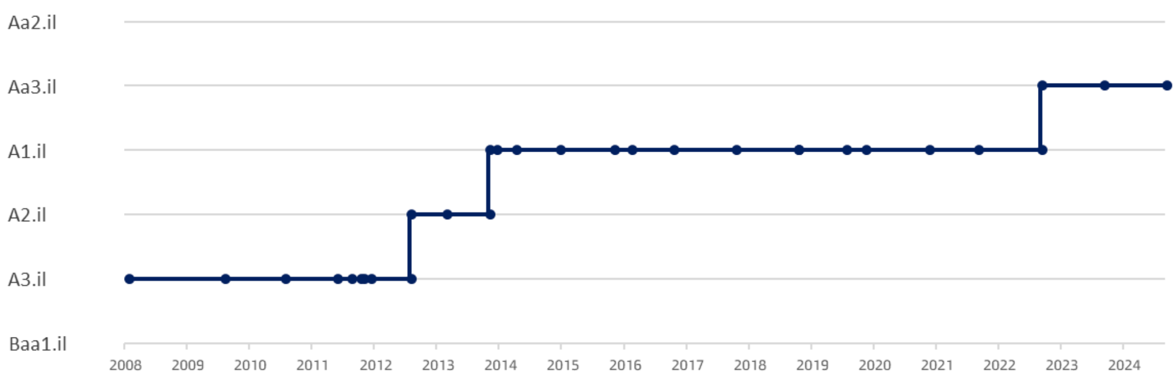
[2] The Company reports in US dollars; the amounts in the table were converted to shekels according to an exchange rate of 3.72 shekels to US dollar on September 30, 2024

[3] The Company reports in US dollars; the amounts in the table were converted to shekels according to an average exchange rate of 3.7 shekels to US dollar.

Company Profile

Delta engages in the development, design, manufacture, marketing and sale of undergarments, leisure wear and activewear, as well as outerwear. The Company sells its products under its own brands as well as manufactures for private labels. The Company designs and develops its products primarily in Israel, Germany, Switzerland, France, the US, China and Hong Kong, while production is carried out by subcontractors and in the Group's own plants in the Middle East, Europe and the Far East. The Company's controlling shareholder is Mr. Isaac Dabah, who serves as CEO and as a director of the Company. Mr. Dabah holds (directly and indirectly) 49.2% of the Company's share capital and voting rights. Mr. Noam Lautman, the Chairman of the Board, is a stakeholder in the Company, holding 9.76% of the share capital and voting rights.

Rating History



Related Reports

Delta Galil Industries Ltd. – Related Reports

Non-Financial Corporates Rating – Methodology Report, December 2022

Financial Statement Adjustments and Presentation of Main Financial Measures in Corporate Rating – Methodology Report, May 2020

Guidelines for Reviewing Environmental, Social and Governance Risks in Credit Ratings – Methodology Report, February 2022

Table of Relationships and Holdings

Midroog Rating Scales and Definitions

The reports are published on the Midroog website at www.midroog.co.il

General Information

Date of rating report:	February 3, 2025
Date of last revision of the rating:	January 31, 2024
Date of first publication of the rating:	June 17, 2008
Rating commissioned by:	Delta Galil Industries Ltd.
Rating paid for by:	Delta Galil Industries Ltd.

Information from the Issuer

Midroog relies in its ratings inter alia on information received from competent personnel at the issuer.

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 obligation 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 obligation ranks in the lower end of that category, denoted by letters.

<u>Caveat regarding the limitations of a rating and the risks of relying on a rating, and caveats and reservations in respect to the activity of Midroog Ltd. and the information appearing on its website</u>

Ratings and/or publications issued by Midroog are or contain Midroog's subjective opinions about the relative future credit risk of entities, credit obligations, debts and/or debt-like financial instruments, that apply on the date of their publication, and as long as Midroog has not changed the rating or withdrawn it. Midroog's publications may contain assessments based on quantitative models of credit risks, as well as related opinions. Ratings and publications by Midroog do not constitute a statement about the accuracy of the facts at the time of the publication or in general. Midroog makes use of rating scales to issue its opinions, according to definitions detailed in the scale itself. The choice of a symbol to reflect Midroog's opinion with respect to credit risk reflects solely a relative assessment of that risk. Midroog's ratings are issued on a national scale and, as such, are opinions of the relative creditworthiness of issuers and financial obligations within Israel. National scale ratings are not designed to be compared between countries; rather, they address relative credit risk within a given country.

Midroog defines credit risk as the risk that an entity may fail to meet its contractual financial obligations on schedule and the estimated financial loss in the event of default. Midroog's ratings do not address any other risk, such as risks relating to liquidity, market value, change in interest rates, and fluctuation in prices or any other element that influences the capital market.

The ratings and/or publications issued by Midroog do not constitute a recommendation to buy, hold, and/or sell bonds and/or other financial instruments and/or make any other investment and/or forgo any of these actions.

Nor do the ratings and/or publications issued by Midroog constitute investment advice or financial advice, nor do they address the appropriateness of any given investment for any specific investor. Midroog issues ratings on the assumption that anybody making use of the information therein and of the ratings will exercise due caution and make his own assessment (himself and/or through authorized professionals) of the merit of any investment in a financial asset that he is thinking of buying, holding or selling. Every investor should obtain professional advice in respect to his investments, to the applicable law, and/or to any other professional issue.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MIDROOG IN ANY FORM OR MANNER WHATSOEVER.

Midroog's credit ratings and publications are not intended for use by retail investors and it would be reckless and inappropriate for retail investors to use Midroog's credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

All the information contained in Midroog ratings and/or publications, and on which it relied (hereinafter: "the Information") was delivered to Midroog by sources (including the rated entity) that it considers credible. Midroog is not responsible for the accuracy of the Information and presents it as provided by the sources. Midroog exercises reasonable means, to the best of its understanding, so that the Information is of sufficient quality and that it originates from sources Midroog considers to be credible, including information received from independent third parties, if and when appropriate. However, Midroog does not carry out audits and cannot therefore verify or validate the Information.

The provisions of any Midroog publication other than one expressly stated as a methodology do not constitute part of any Midroog methodology. Midroog may change its position regarding the content of such publications at any time.

Subject to applicable law, Midroog, its directors, its officers, its employees and/or anybody on its behalf involved in the rating shall not be held responsible under law, for any damage and/or loss, financial or other, direct, indirect, special, consequential, associated or related, incurred in any way or in connection with the Information or a rating or a rating process, including not issuing a rating, including if they were advised in advance of the possibility of damage or a loss as said above, including but not confined to (a) any loss of profit in present or future, including the loss of other investment opportunities; (b) any loss or damage caused consequential to holding, acquisition and/or selling of a financial instrument, whether it is a subject of a rating issued by Midroog or not; (c) any loss or damage caused consequential to the relevant financial asset, that was caused, *inter alia* and not exclusively, as a result of or in respect to negligence (except for fraud, a malicious action or any other action for which the law does not permit exemption from responsibility) by directors, officers, employees and/or anybody acting on Midroog's behalf, whether by action or omission.

Midroog maintains policies and procedures in respect to the independence of the rating and the rating processes.

A rating issued by Midroog may change as a result of changes in the information on which it was based and/or as a result of new information and/or for any other reason. Updates and/or changes in ratings are presented on Midroog's website at http://www.midroog.co.il.