

Delta Galil Reports Record Results for Second Quarter of 2014

Operating Income Rises 11% from Prior Year

Sales Increase 6%, Trailing 12-Month Sales Exceed \$1 Billion

19th Consecutive Quarter of Year-over-Year Organic Sales Growth

Reaffirming 2014 Guidance; Sales Expected to Reach \$1,045 Million-\$1,075 Million and Full-Year EPS Expected to Reach \$1.95-2.14

Quarterly Highlights

- Sales increased to \$249.2 million in the 2014 second quarter, up 6% from the same period of 2013.
- Delta Galil delivered its 19th consecutive quarter of year-over-year organic sales growth.
- Operating income was \$15.5 million in the 2014 second quarter, growing 11% from the comparable amount a year ago.
- EBITDA was \$19.9 million or 8.0% of sales in the 2014 second quarter, increasing 9% compared with \$18.3 million or 7.8% of sales in the 2013 second quarter.
- Net income attributed to shareholders rose to \$9.7 million in the 2014 second quarter, increasing 11% from the comparable amount of \$8.8 million a year ago.
- Diluted earnings per share attributed to shareholders rose to \$0.38 for the 2014 second quarter, up 9% from the comparable amount of \$0.35 a year ago.
- Financial guidance for 2014 was reaffirmed: sales are expected to be \$1,045 million-\$1,075 million. Full-year 2014 EBITDA is expected to range between \$95 million-\$101 million. Full-year 2014 diluted EPS is expected to be \$1.95- \$2.14.
- The Board of Directors declared a dividend of \$3.5 million or \$0.141 per share, to be distributed on August 20, 2014. The determining and "ex-dividend" date will be August 6, 2014, per the Tel Aviv Stock Exchange.
- Strong balance sheet was highlighted by a record \$336.3 million in equity as of June 30, 2014, and approximately \$117 million in cash and equivalents.
- Isaac Dabah, CEO of Delta Galil, stated: "Our strong results for the first half of 2014 were distinguished by record sales and profitability, sustained organic growth across nearly all of our business segments, and a solid financial base that will support Delta Galil's future

expansion and success. We are well on the way to our first \$1 billion sales year, and in fact have already reached that milestone during the four quarters ended June 30, 2014.”

Tel Aviv, July 28, 2014 – 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, today reported its financial results for the second quarter and six months ended June 30, 2014.

The Company reported sales of \$249.2 million for the second quarter of 2014, an increase of 6% from \$234.4 million for the same quarter of 2013. Sales in the first six months of 2014 were \$487.2 million, an increase of 6% from \$461.6 million in the same period of 2013.

Operating income was \$15.5 million for second quarter of 2014, up 11% from \$14.0 million in the same quarter of 2013. For the first six months of 2014, operating income grew 19%, to \$30.4 million from \$25.5 million a year earlier.

The increase in operating income reflected both the rising sales and an expanding gross profit margin. Gross profit increased to 31.2% of sales in the second quarter and 30.8% in the first half of 2014, up from 29.5% and 29.0% in the respective periods a year ago. This was partly offset by higher selling and marketing expenses as Delta Galil invested in the growth of its business.

Net income attributable to shareholders was \$9.7 million in the 2014 second quarter, compared to \$8.8 million in the same quarter of 2013, an 11% increase. Diluted earnings per share attributed to shareholders rose to \$0.38 for the 2014 second quarter, from \$0.35 for the 2013 period. For the first six months of 2014, net income attributable to shareholders was \$18.5 million or \$0.73 per diluted share, compared to \$15.4 million or \$0.61 per diluted share for the same period of 2013.

Management Comment

Isaac Dabah, CEO of Delta Galil, stated: “Our strong results for the first half of 2014 were distinguished by record sales and profitability, sustained organic growth across nearly all of our business segments, and a solid financial base that will support Delta Galil’s future expansion and success. We are well on the way to our first \$1 billion sales year, and in fact have already reached that milestone during the four quarters ended June 30, 2014.”

“The solid performance of Delta Galil is the product of sharply focused strategies to diversify our portfolio, invest in innovation, and strengthen our financial resources. As a result, we have delivered 19 straight quarters of organic sales growth, driven by such diverse engines as brands, activewear and retail. By broadening our global presence, we are positioned to grow in markets as diverse as Israel, Germany and North America. Our decision to expand the branded business has also led to meaningful margin improvement. And our capacity to continue this profitable growth is supported by a strong balance sheet, with \$336.3 million in equity and low financial leverage.”

“We are continuing to invest in Delta Galil’s future growth, including manufacturing capacity, retail store enhancements and other areas that will reinforce our reputation for innovation, quality and customer service,” Mr. Dabah concluded.

EBITDA, Cash Flow, Net Debt, Equity and Dividend

EBITDA was \$19.9 million or 8.0% of sales in the 2014 second quarter, increasing 9% compared with \$18.3 million or 7.8% of sales in the 2013 second quarter. For the first six months of 2014, EBITDA rose 14% to \$38.9 million or 8% of sales, compared to \$34.0 million or 7.4% of sales in the same period of 2013.

Operating cash flow was \$10.2 million in the second quarter and \$3.6 million in the first six months of 2014. In the respective second quarter and six month periods of 2013, operating cash flow was \$18.0 million and \$4.7 million. Operating cash flow for the last four quarters increased to \$45.1 million from \$42.2 million.

Net financial debt decreased to \$82.4 million at June 30, 2014 from \$99.1 million at June 30, 2013.

The net financial debt to EBITDA ratio (based on the last four quarters) improved significantly to 0.9 as of June 30, 2014, down from 1.3 a year earlier.

Equity on June 30, 2014 was a record \$336.3 million, compared to \$290.8 million a year earlier.

Delta Galil declared a dividend of \$3.5 million or \$0.141 per share, to be distributed on August 20, 2014. The determining and “ex-dividend” date will be August 6, 2014, per the Tel Aviv Stock Exchange

Reaffirming Guidance for 2014

The Company today reiterated its 2014 financial guidance, reflecting a strong outlook for sales and profitability.

- Full-year 2014 sales are expected to range between \$1,045 million-\$1,075 million, representing an increase of 7%-10% from 2013 sales of \$974.7 million.
- Full-year 2014 EBIT is expected to range between \$77 million-\$83 million, representing an increase of 13%-22% from 2013 EBIT of \$67.9 million.
- Full-year 2014 EBITDA is expected to range between \$95 million-\$101 million, representing an increase of 10%-17% from 2013 EBITDA of \$86.2 million.
- Full-year 2014 net income is expected to range between \$50 million-\$55 million, representing an increase of 13%-24% from 2013 net income of \$44.3 million.
- Full-year 2014 diluted EPS is expected to range between \$1.95-\$2.14, representing an increase of 11%-22% from 2013 EPS of \$1.75.

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; babywear, activewear, sleepwear, and leisurewear. For more information, visit 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.

Concise Consolidated Balance Sheets

As of June 30, 2014

	June 30		December 31
	2014	2013	2013
	(Unaudited)		(Audited)
	Thousands of Dollars		
Assets			
Current assets:			
Cash and cash equivalents	116,820	34,825	97,346
Restricted Cash	453	1,790	1,448
Other accounts receivable:			
Trade receivables	121,676	117,367	112,293
Taxes on income receivable	4,084	2,389	2,427
Others	12,110	22,797	9,522
Financial derivative	2,875	1,262	2,955
Inventory	188,801	159,890	169,303
Assets classified as held for sale	1,000	1,017	1,000
Total current assets	447,819	341,337	396,294
Non-current assets:			
Long-term receivables	20,493	10,910	15,520
Investment property	4,722	4,668	4,850
Fixed assets, net of accumulated depreciation	99,987	95,503	95,797
Intangible assets, net of accumulated amortization	124,200	112,619	118,135
Deferred tax assets	10,157	9,956	9,560
Financial derivative	16,202	3,280	10,942
Total non-current assets	275,761	236,936	254,804
Total assets	723,580	578,273	651,098

June 30		December 31
2014	2013	2013
(Unaudited)		(Audited)
Thousands of Dollars		

Liabilities and Equity

Current liabilities:

Short-term bank loans	6,566	38,744	26,438
Current maturities of long-term loans			
from banking corporations	-	450	150
Current maturities of debentures	18,667	16,468	17,847
Other accounts payable:			
Trade payables	82,650	72,832	71,283
Taxes on income payable	4,461	4,618	4,401
Others	55,839	52,986	56,441
Total current liabilities	168,183	186,098	176,560

Non-current liabilities:

Severance pay liabilities less plan assets	2,328	2,985	2,105
Other non-current liabilities	22,228	12,815	17,196
Debentures	191,866	81,857	129,717
Reserve for deferred taxes	2,688	3,693	3,630
Total non-current liabilities	219,110	101,350	152,648
Total liabilities	387,293	287,448	329,208

Equity:

Equity attributable to equity holders of the parent company:

Share capital	23,515	23,451	23,499
Share premium	127,257	125,896	127,024
Other capital reserves	19,069	9,220	16,212
Retained earning	176,331	141,030	163,990
Treasury shares	(10,996)	(10,996)	(10,996)
	335,176	288,601	319,729
Minority interests	1,111	2,224	2,161
Total equity	336,287	290,825	321,890
Total liabilities and equity	723,580	578,273	651,098

DELTA GALIL INDUSTRIES LTD.

Consolidated Statement of Comprehensive Income For the 3-month and 6-month periods ending June 30, 2014

	Six months ended June 30		%	Three months ended June 30		%
	2014	2013	<i>Increase/(Decrease)</i>	2014	2013	<i>Increase/(Decrease)</i>
	(Unaudited)					
	Thousands of Dollars					
	Except for Earnings per Share Data					
Sales	487,226	461,623	6%	249,152	234,368	6%
Cost of sales	337,033	327,765		171,398	165,136	
Gross profit	150,193	133,858	12%	77,754	69,232	12%
% of sales	30.8%	29.0%		31.2%	29.5%	
Selling and marketing expenses	103,520	90,807	14%	53,570	46,239	16%
% of sales	21.2%	19.7%		21.5%	19.7%	
Administrative and general expenses	17,815	19,336	(8%)	9,029	9,919	(9%)
% of sales	3.7%	4.2%		3.6%	4.2%	
Other income, net	1,619	1,831		484	905	
Share in losses of associated companies accounted for using the equity method	101			101		
Operating income	30,376	25,546	19%	15,538	13,979	11%
% of sales	6.2%	5.5%		6.2%	6.0%	
Finance expenses, net	6,088	5,290	15%	3,041	2,689	13%
Income before tax on income	24,288	20,256		12,497	11,290	
Taxes on income	5,186	4,767		2,725	2,457	
Net income for the period	19,102	15,489	23%	9,772	8,833	11%
Attribution of net earnings for the period:						
Attributed to company's shareholders	18,491	15,429	20%	9,742	8,803	11%
Attributed to non-controlling interests	611	60		30	30	
	19,102	15,489		9,772	8,833	
Net diluted earnings per share attributed to company's shareholders	0.73	0.61	20%	0.38	0.35	9%

DELTA GALIL INDUSTRIES LTD.

Consolidated Cash Flow Reports For the 3-month and 6-month periods ending June 30, 2014

	Six months ending June 30		Three months ending June 30	
	2014	2013	2014	2013
	(Unaudited)			
	Thousands of Dollars			
Cash flows from operating activities:				
Net income for the period	19,102	15,489	9,772	8,833
Adjustments required to reflect cash flows deriving from operating activities	(5,733)	(715)	6,318	14,079
Interest paid in cash	(4,866)	(2,584)	(1,889)	(634)
Interest received in cash	182	107	81	77
Taxes on income paid in cash, net	(5,080)	(7,568)	(4,063)	(4,353)
Net cash generated from operating activities	3,605	4,729	10,219	18,002
Cash flows from investment activities:				
Acquisition of fixed assets and intangible assets	(12,368)	(9,611)	(6,186)	(5,024)
Investments in associated companies	(5,002)	-	(2,204)	-
Restricted cash release	981	1,010	1,091	389
Proceeds from realization of assets held for sale, net of tax	-	1,003	-	655
Proceeds from selling of fixed asset	1,739	466	285	408
Payments related to realization of asset held for sale (Tax payment related to the realization)	(1,989)	-	-	-
Loans to subcontractor, net	36	(400)	18	(227)
Others	9	(49)	6	(19)
Net cash used for Investing activities	(16,612)	(7,581)	(7,002)	(3,818)
Cash flows from financing activities:				
Dividends paid to non-controlling interest holders in consolidated subsidiary	(1,661)	-	(86)	-
Long term payables credit for fixed assets purchase	(1,802)	(1,376)	(734)	(1,376)
Dividend paid	(6,500)	(5,000)	(3,500)	(2,500)
Repayment of loans and other long-term liabilities	(330)	(1,883)	(91)	(1,317)
Short-term credit from banking corporations, net	(19,829)	(1,284)	4,416	(17,056)
Issuance of debentures, net	61,882	-	61,882	-
Proceeds from exercise of employee options	249	1,816	68	1,355
Net cash generated from (used in) financing activities	32,009	(7,727)	61,955	(20,894)
Net increase (decrease) in cash and cash equivalents	19,002	(10,579)	65,172	(6,710)
Exchange rate differences and revaluation of cash and cash equivalents, net	472	(71)	420	308
Balance of cash and cash equivalents at the beginning of the period	97,346	45,475	51,228	41,227
Balance of cash and cash equivalents at the end of the Period	116,820	34,825	116,820	34,825

DELTA GALIL INDUSTRIES LTD.

Consolidated Cash Flow Reports For the 3-month and 6-month periods ending June 30, 2014

Six months ending June 30		Three months ending June 30	
2014	2013	2014	2013
(Unaudited)			
Thousands of Dollars			

Adjustments required to reflect cash flows from operating activities:

Revenues and expenses not involving cash flow:

Depreciation	7,232	7,304	3,691	3,708
Amortization	1,281	1,197	634	601
Cash erosion (revaluation), net	(539)	(16)	(537)	(20)
Interest paid in cash	4,866	2,584	1,889	634
Interest received in cash	(182)	(107)	(81)	(77)
Taxes on income paid in cash, net	5,080	7,568	4,063	4,353
Deferred taxes on income, net	(1,395)	(773)	(1,551)	(1,232)
Severance pay liability, net	224	300	103	179
Capital gain from sale of fixed assets and asset held for sale	(1,319)	(1,343)	(264)	(1,174)
Change to the benefit component of options granted to employees	350	237	174	113
Change to the fair value of financial derivatives	(557)	(491)	(114)	279
Share in losses of associated companies accounted for using the equity method	101	-	101	-
Increase in liabilities of Long-term employee bonuses	995	-	829	-
Changes in long term balances	314	(239)	685	(19)
Others	(379)	(58)	(229)	(72)
	<u>16,072</u>	<u>16,163</u>	<u>9,393</u>	<u>7,273</u>
Changes to operating assets and liabilities:				
Increase in trade receivables	(8,538)	(7,475)	(13,942)	(5,442)
Increase in other receivable and balances	(3,453)	(3,925)	(185)	(346)
Increase (decrease) in trade payables	11,746	(236)	20,344	13,519
Increase (decrease) in other payables	(2,198)	4,309	793	3,631
Increase in inventory	(19,362)	(9,551)	(10,085)	(4,556)
	<u>(21,805)</u>	<u>(16,878)</u>	<u>(3,075)</u>	<u>6,806</u>
	<u>(5,733)</u>	<u>(715)</u>	<u>6,318</u>	<u>14,079</u>