PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **April 29, 2024**

D&L Industries, Inc.'s Outstanding Bonds Maintain Highest Credit Rating

Philippine Rating Services Corporation (PhilRatings) maintained its Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook**, for D&L Industries, Inc.'s (D&L) total outstanding Fixed Rate Bonds amounting to P5.0 billion.

Obligations rated **PRS Aaa** are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. **PRS Aaa** is the highest rating assigned by PhilRatings. On the other hand, a **Stable Outlook** is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

The rating and Outlook were assigned given the following key considerations: (1) Strong market position in the industries that D&L is engaged in; (2) Diversification of products offered and markets served; (3) Innovation-driven specialty products that protect the Company from keen competition and ensure continued demand from customers; (4) Relatively stable margins amid higher cost and expenses, including incremental costs related to the Batangas expansion facility; and (5) Conservative debt management and adequate cash flow generation.

PhilRatings' ratings are based on available information at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to D&L and may change the rating and Outlook at any time, should circumstances warrant a change.

Since its incorporation in 1971, D&L pioneered and established its market leadership in various industries through product customization and specialization. The Company has four principal business segments, namely: Food Ingredients, Oleochemicals and Other Specialty Chemicals, Specialty Plastics and Consumer Products Original Design Manufacturer (ODM). Each of D&L's business segments cater to numerous needs in various industries and serve customers belonging to different market segments. Moreover, D&L is able to offer both the specialized and more basic products that further broaden its presence in different consumer markets. D&L's revenue sources are also geographically diverse as it caters to both the domestic and international markets. The Company's export sales accounted for 27% of total sales in 2023. D&L is aiming to expand its export business to at least 50% of revenues in the long-term.

In July 2023, the Company officially commenced the commercial operations of its new Batangas Facility, and this expansion is expected to support the goal of D&L for its export business. Moreover, the Central Hub of the Batangas plant was awarded LEEDv4 Gold Certification in March 2024, the second highest in the LEED certification. The building design passed global standards of sustainability and efficiency that will benefit the Company in the long run.

D&L largely invests in strong research and development (R&D) capabilities in order to produce high quality High Margin Specialty Products (HMSP), and to keep up with the evolving demand of consumers. Given the unique technicalities of producing HMSP, clients tend to conduct business with the same suppliers, hence, ensuring continued demand for the products of the Company. The R&D-driven

nature of the products being manufactured, likewise, limits the entry of potential players in the market. In 2023, total revenues consisted of 62% HMSP and 38% commodities, or the more basic and less specialized products.

D&L's total revenues in 2023 went down by 23.0% to P33.5 billion on account of the challenging business environment given the lingering effects of high inflation. Net income declined by 30.8% to P2.3 billion in 2023, considering also the incremental expenses related to the completion of the Batangas facility. Net profit margin was 6.9%, lower than the 7.6% margin in 2022. D&L pointed out, however, that excluding incremental expenses related to the Batangas plant, net income will be at P3.0 billion, lower by only 15.3%, compared with P3.5 billion in 2022. Recomputed net profit margin will be at 9.0% in 2023, higher than 8.2% in 2022.

Conservative debt levels were maintained as of end-December 2023, with the Company's total debt to equity ratio remaining flat at 0.8x. Net operating cash flow was sufficient and largely used for the repayment of obligations, such as, borrowings and lease liabilities. D&L's total debt stood at P17.1 billion as of end-2023, from P15.5 billion as of end-2022, due to net borrowings. On September 14, 2024, D&L is expected to settle its P3.0-billion Fixed-Rate bonds upon maturity. Given its conservative leverage position, as well as its profit and cash flow performance, the Company is seen to be able to comfortably service its maturing obligations.

As the economy continues to recover from the pandemic, D&L is positive that it is more capable to withstand adverse environments with the expertise it has learned through its years of operations. The Company strives to enhance its capabilities in order to maintain a strong market position. D&L is optimistic given the continued strong demand for its products as these mainly cater to essential industries and basic materials.