



**Coats**  
Group plc

# Coats Group plc

## 2015 half year results presentation

3 August 2015

# Disclaimer

---

## **Restricted distribution**

This presentation is not for release, publication or distribution, in whole or in part, directly or indirectly, in, into or from any jurisdiction where to do so would constitute a violation of the relevant laws or regulations of such jurisdiction (the 'Restricted Jurisdictions').

## **Not an offer**

This presentation is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the matters contained herein or otherwise.

## **Forward-looking statements**

This document contains certain forward-looking statements, including statements regarding Coats Group plc's plans ('Coats' or the 'Company'), objectives and expected performance. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts of licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; and war and terrorism. These forward-looking statements speak only as at the date of this document.

## **Not a profit forecast**

The financial information contained in this presentation is based on publicly available historic financial information of Coats and is not intended to be a profit forecast or profit estimate under applicable rules.

## **Rounding**

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

# Agenda

---

- Overview
- Financial performance
- Summary and outlook
- Appendices
  - Including strategy and pensions



# Overview

# Financial highlights

---

- Revenue up 4%<sup>1</sup>; continued double digit sales growth in Speciality
- Operating profit up 9%<sup>2</sup>; 15% growth in Industrial
- Adjusted EPS up 20%; reported EPS negatively impacted by non-operating items
- Adjusted free cash flow for last twelve months of \$50m; \$63m for operating business
- Completed sale of EMEA Crafts business in July 2015
- Return on capital employed<sup>3</sup> increased to 24% for last twelve months (H1 2014: 19%)

1) Like-for-like (restates H1'14 figures at H1'15 exchange rates)

2) Like-for-like, pre-exceptional items

3) ROCE defined as pre-exceptional operating profit for last 12 months divided by capital employed at period end

## Operational highlights

## Market share gains in A&F

- Strong volume growth offset challenging pricing conditions
- Double digit sales growth in some key markets
- Growth in both domestic and export apparel and footwear markets in Asia



## Double digit Speciality growth

- Geographic expansion of existing products eg sales in automotive up ~15%
- New product innovation eg sales in wire and cable (inc aramid composites used in thermoplastic pipes) up ~35%



## Progress within Crafts

- 5% sales growth in N. American foundation handknittings
- Red Heart awarded prestigious Women's Choice Award in the US
- Greater predictability of performance



# Product and service innovation

## Secura

Fusible self-locking thread for secure button and sequin attachment



## RecLID Teabag

Biodegradable fibre used in manufacturing of tea bags



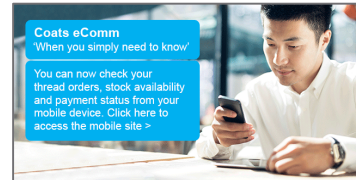
## Signal thread

Innovative reflective thread designed for fashion applications, outdoor and active wear



## Opti LUX Trio

Luxury zips with a triple chain for personalised and creative finished goods



## eCommerce

Launched in 2014; live in 22 markets (5 in 2014, 17 in H1'15), with ~4,400 customers; ~ 30% global adoption rate and 50% in key markets



## Coats Colour Express

World's fastest, most accurate thread sampling service

65% of all sampling now digital; ~70% reduction in sampling lead-time



## Opti Express

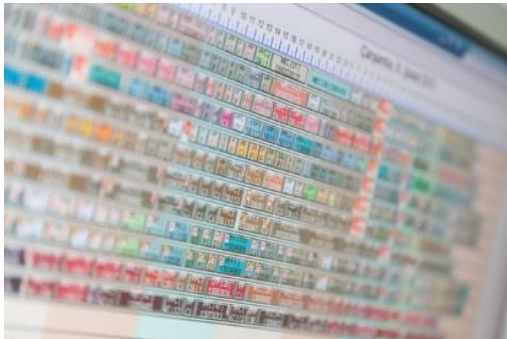
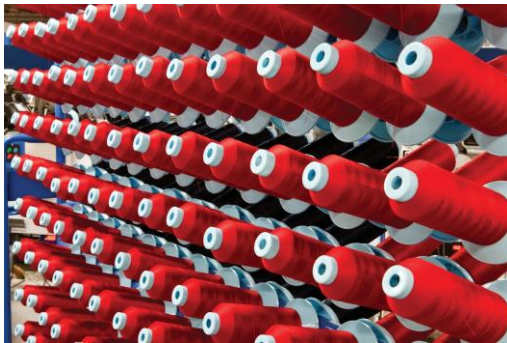
Launch of revolutionary zips sampling service in H1 2015

# Conductive threads: metallized antenna for RFID tag



- Developed metallized thread antenna specifically for use with a revolutionary radio frequency identification ('RFID') tag
- Patented RFID tag includes integrated circuit and partially metallized thread, specifically developed by Coats for CSL (the tag manufacturer)
- Provides solution for quick and accurate inventory management and brand authentication of all types of garments
- Launched in July; represents successful first commercial step for Coats into conductive threads
- Example of Coats' innovation; extending beyond traditional thread to develop 'clever thin lines' which can transmit and carry data

# Increased productivity



## Industrial

- Manufacturing productivity and sourcing gains: ~\$9m y-o-y
- Inventories held flat y-o-y with sales growth of 6% in H1
- Effluent treatment plant projects to be completed by end of 2015 (Shenzhen, Sri Lanka, Germany); others at design stage (Shanghai, Vietnam)
- Continuing to expand network of Lean and Six Sigma experts

## Crafts

- 3% improvement in conversion costs at US plants through efficiency and productivity programmes
- 'Right first time' performance in Brazil dye-house up 700bps to 90%

## Group

- Net working capital % sales reduced from 18% to 15%
- Sales per employee up 5%

# Enhanced Global Services offering through M&A



The world's leading colour and textile services expert



## Adding services

- End-to-end transformative solutions
- Digitalising Apparel and Footwear supply chain

### Three verticals

- Operational excellence (OE)
- Colour Solutions
- Training



## Software tools

- Time and cost benchmarking
- Process control and planning
- Colour Atlas
- Online training
- Digital printing



## acquisition

- ~\$5.5m acquisition of industry leader with strong brand
- Customers in +60 countries, strong Asian presence, \$2m pa revenue
- Enhances end-to-end OE solution

### Brands

- Predict cost of new styles
- Engineer designs to optimise cost
- Improve productivity, compliance and transparency across supply chain

### Contractors

- Optimise costs, enhance productivity, capacity planning
- Actual vs GSD standard time

Supports market goal to become the leading value added partner to the global apparel and footwear industries

# Role of M&A in delivering future growth

- Profitable sales growth over last five years driven purely by organic growth
- Now looking to access inorganic growth
- Comprehensive M&A process in place – from strategy to post merger integration

## Criteria (includes)

- Aligned to Speciality, Services (eg GSD) or Asian geographic expansion in core A&F business
- Manageable risk profile
- Compliance with Coats standards
- Number of financial metrics (return and value)
  - looking for bolt-on transactions



No external limitations on executing M&A

# Progress in CR and people programmes

## Corporate Responsibility (CR)

### During H1 2015

- Decathlon Bangladesh awarded Coats their Sustainable Development Award for our performance around 'human responsibility in production'
- Rolled out new supplier code of practice - held workshops with over 70 key suppliers in China

### Longer term progress

- Over past 15 years reduced our global CO2 emissions by >50%, with 5% reduction in 2014
- >50% of our packaging now made from recycled materials
- CR targets for 2015 and beyond across 10 KPIs

## People

- Since 2013 our Management Capability Development Programme has been completed by 425 people from 41 countries
- 77 nationalities amongst our employees and 24 (out of ~100 people) in our global leadership team
- Launched a diversity and inclusion programme, which will address the number of women in leadership positions



# Corporate and other progress during H1 2015

---

- Renamed Coats Group plc in February; established Coats as standalone, listed entity
- Moved from being investment company with diversified portfolio of assets to global manufacturing business (change in FTSE classification to General Industrials)
- Created single Board with Director changes (including appointment of Exec Directors and Senior Independent Director) to lead a global manufacturing business
- Successfully refinanced main debt facility with extended maturity and lower margin
- Ongoing shift in shareholder base to UK institutions (now hold >50%) from primarily New Zealand and Australian holders
- Hosted Capital Markets Day in London in June
- London broker coverage commenced; looking to further increase
- Set-up share-based long term incentives for senior executives, in line with standards of a FTSE 250 company - employee benefit trust has bought shares in open market

A row of colorful spools of thread (white, light green, green, yellow, orange, red) is arranged on a wooden shelf, receding into the background. A semi-transparent blue rectangular overlay is positioned in the lower-left foreground, containing the text "Financial performance" in white.

**Financial performance**

# Financial summary



\$m	H1 2015			H1 2014 <sup>1</sup>		
	Before exceptional items	Exceptional items <sup>6</sup>	Total	Before exceptional items	Exceptional items <sup>6</sup>	Total
Revenue	748	-	748	775	-	775
Operating profit	65	(13)	52	63	(4)	59
Attributable profit / (loss)	7	(55)	(48)	17	(4)	13
EPS (c) - continuing			0.25			1.36

KPIs	Industrial	Crafts	Group
Sales Growth <sup>2</sup>	6%	(7)%	4%
Operating profit growth <sup>3</sup>	15%	(55)%	9%
EPS growth <sup>4</sup>			20%
Adjusted Free Cash Flow <sup>5</sup>			\$50m

1) Restated to reflect change in accounting policies for presentation currency, operating profit and exceptional items and results of EMEA Crafts business as discontinued

2) On a like-for-like basis (restates H1 2014 figures at H1 2015 exchange rates)

3) On a like-for-like basis before exceptional items (exceptional items set out on slide 20)

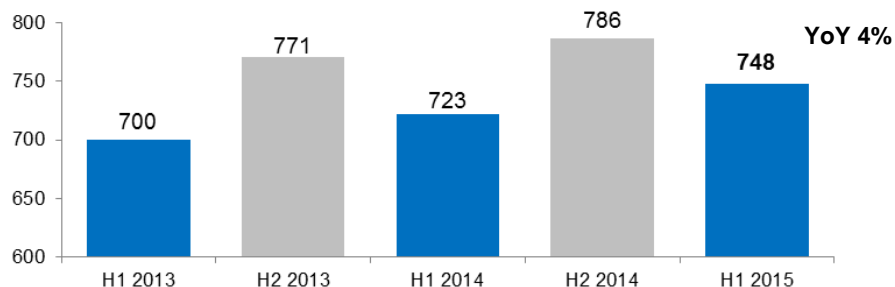
4) On a reported basis before exceptional items and foreign exchange loss/gain on parent group cash balance

5) On a last twelve months basis (see slide 25)

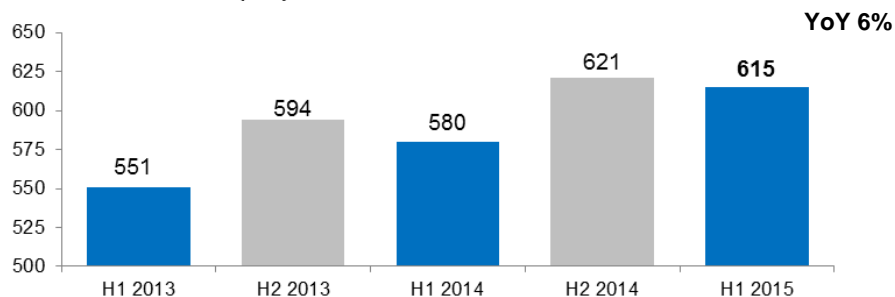
6) Exceptional items are set out on slide 20

# Segmental performance

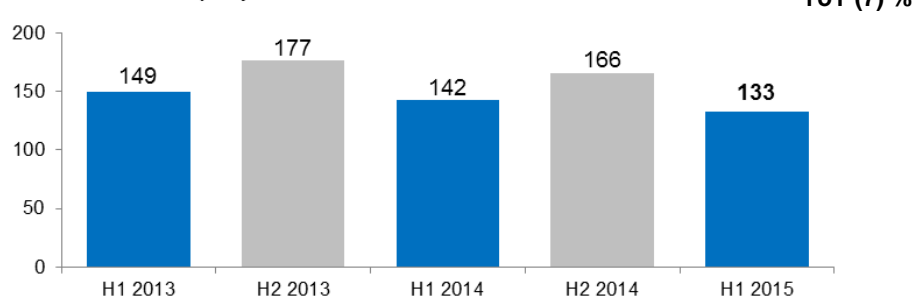
**Total revenue (\$m)**



**Industrial revenue (\$m)**



**Crafts revenue (\$m)**



## Operating profit and margin <sup>1</sup>

	H1 2015	H1 2014	YoY%
<b>Segment profit (\$m)</b>			
Industrial	66	58	15%
Crafts	3	6	(55)%
	<b>69</b>	<b>64</b>	
Pension admin	(4)	(4)	
<b>Group</b>	<b>65</b>	<b>60</b>	<b>9%</b>

## Operating margin (%)

Industrial	10.8%	9.9%	90bps
Crafts	2.1%	4.4%	(230)bps
<b>Group</b>	<b>8.7%</b>	<b>8.3%</b>	<b>40bps</b>

- 9% increase in group operating profit due to higher Industrial profitability and lower group costs, which more than offset decline in Crafts trading

1) On a like-for-like basis (restates H1 2014 at H1 2015 rates) before exceptional items

# Industrial performance

## Revenue

- **Asia & Australasia** - up 8% with growth across most countries. Stronger A&F domestic and export demand and Speciality growth (inc automotive)
- **Americas** - 8% increase, strong Speciality sales in N. America (inc engineered performance fabrics and wire and cable); good growth in LatAm A&F
- **EMEA** - 1% decline, weaker zips demand due to changes in high end footwear fashion and softness in apparel thread demand in key markets

## By category

- A&F<sup>1</sup> up 4% - good volume growth; pricing gains challenging in deflationary environment
- Speciality up 13% - geographic expansion of existing products and new product innovation

## Segmental profit

- Up 15% - sales growth, lower oil price, productivity and non-raw material purchasing improvements, more than offset other inflation

## Industrial performance by region

\$m	H1 2015	H1 2014 <sup>2</sup>	YoY%
<b>Revenue (by region)</b>			
Asia & Australasia	357	330	8%
Americas	137	127	8%
EMEA	121	123	(1)%
<b>Total</b>	<b>615</b>	<b>580</b>	<b>6%</b>
<b>Revenue (by category)</b>			
Apparel and Footwear <sup>1</sup>	499	477	4%
Speciality	116	103	13%
<b>Segment profit <sup>3</sup></b>	<b>66</b>	<b>58</b>	<b>15%</b>
<b>Segment margin <sup>3</sup></b>	<b>10.8%</b>	<b>9.9%</b>	

<sup>1</sup> Includes accessories, zips and trims and global services

<sup>2</sup> On a like-for-like basis (restates H1 2014 figures at H1 2015 rate)

<sup>3</sup> Before exceptional items

# Crafts performance

## Revenue

- Declined 7% for ongoing operations
- Expected decline in fashion handknitting sales more than offset 5% growth in foundation handknittings in North America; decline in Needlecrafts sales reflects long term decline in North American market
- Broadly stable y-o-y performance in smaller Latin American market in both Handknittings and Needlecrafts product categories
- Overall handknitting sales declined 9% and needlecrafts by 3%

## Segmental profit

- Profit of \$3m, down by 55% mainly due to the reduced sales of higher margin fashion handknittings
- Segment margin of 2.1%; upturn in trading performance expected in H2 which will improve margin

## Crafts performance by region

\$m	H1 2015	H1 2014 <sup>2</sup>	YoY%
<b>Total</b>	<b>133</b>	<b>142</b>	<b>(7)%</b>
<b>Revenue (by category)</b>			
Handknittings	69	76	<b>(9)%</b>
Needlecrafts <sup>1</sup>	64	66	<b>(3)%</b>
<b>Segment profit <sup>3</sup></b>	<b>3</b>	<b>6</b>	<b>(55)%</b>
<b>Segment margin <sup>3</sup></b>	<b>2.1%</b>	<b>4.4%</b>	

<sup>1</sup> Includes other textile crafts products

<sup>2</sup> On a like-for-like basis (restates H1 2014 figures at H1 2015 rate)

<sup>3</sup> Before exceptional items

# Income statement

- Adjusted EPS<sup>1</sup> up 20% to 1.82c:
  - Gross margin up 40bps due to reduced material costs (due to lower oil price), productivity and non-raw material procurement improvements
  - SD&A%sales down 20bps due to lower group costs and FX movements
  - 600bps improvement in underlying tax rate (see slide 22)
- Decline in reported EPS (continuing operations) to 0.25 cents driven by:
  - Higher level of exceptional charges (see slide 20)
  - \$12m foreign exchange loss on group cash balance (see slide 21)

\$m	H1 2015			H1 2014 <sup>2</sup>		
	Before exceptional items	Exceptional items <sup>3</sup>	Total	Before exceptional items	Exceptional items <sup>3</sup>	Total
<b>Revenue</b>	<b>748</b>	<b>-</b>	<b>748</b>	<b>775</b>	<b>-</b>	<b>775</b>
<b>Gross Profit</b>	<b>280</b>	<b>(9)</b>	<b>271</b>	<b>287</b>	<b>-</b>	<b>287</b>
SD&A	(215)	(3)	(218)	(224)	(4)	(228)
<b>Operating profit</b>	<b>65</b>	<b>(13)</b>	<b>52</b>	<b>63</b>	<b>(4)</b>	<b>59</b>
Share of profit of JVs	1	-	1	2	-	2
Finance costs	(23)	-	(23)	(11)	-	(11)
<b>Profit before tax</b>	<b>43</b>	<b>(13)</b>	<b>30</b>	<b>54</b>	<b>(4)</b>	<b>50</b>
Tax	(23)	3	(20)	(24)	-	(24)
<b>Profit after tax</b>	<b>20</b>	<b>(10)</b>	<b>10</b>	<b>29</b>	<b>(4)</b>	<b>26</b>
Loss from discontinued operations <sup>2</sup>	(6)	(46)	(52)	(6)	(0)	(6)
<b>Profit / (Loss) for the period</b>	<b>14</b>	<b>(55)</b>	<b>(42)</b>	<b>24</b>	<b>(4)</b>	<b>19</b>
Minority interest	(7)	-	(7)	(6)	-	(6)
<b>Attributable Profit / (Loss)</b>	<b>7</b>	<b>(55)</b>	<b>(48)</b>	<b>17</b>	<b>(4)</b>	<b>13</b>
<b>Adjusted EPS (cents)<sup>1</sup></b>	<b>1.82</b>			<b>1.52</b>		
<b>EPS (cents)</b>	<b>0.25</b>			<b>1.36</b>		

1) On a reported basis before exceptional items and foreign exchange gains/losses on parent group cash balance

2) Restated to reflect change in accounting policies for presentation currency, operating profit and exceptional items and results of EMEA Crafts business as discontinued

3) Exceptional items set out on slide 20 and discontinued items on slide 24

# Exceptional items

- **US environmental:** includes provision for remedial work on the Lower Passaic River, USA (see slide 23)
- **Reorganisation – Mexican operations:** \$3m related to reducing footprint from three sites to two; will increase efficiency and reduce operational costs
  - Process expected to complete by end 2015 with disposal of property; will lead to an overall positive P&L impact for the full year
- **Reorganisation – other:** with announced sale of EMEA Crafts commenced review of cost base, including costs previously allocated to that business
  - Expect to identify further areas of savings in H2 which would lead to additional reorganisation costs being incurred

## Excluding tax

\$m	H1 2015	H1 2014
US environmental (LPR)	(7)	-
Reorganisation - Mexico	(3)	-
Reorganisation - other	(3)	-
Other exceptionals	-	(5)
Property gain on disposal	-	1
<b>Total exceptional costs</b>	<b>(13)</b>	<b>(4)</b>

# Finance costs and foreign exchange movements

- \$12m y-o-y increase mainly driven by:
  - \$12m FX losses on parent group cash<sup>1</sup> driven by movements between GBP, NZD and AUD; this currency exposure has been reduced by denominating cash held in GBP and USD
  - \$3m increase in IAS19 pensions interest charges due to higher deficit at end of 2014
- More than offset
  - Reduction in interest as a result of lower y-o-y net debt and reduction in interest rates on borrowing facility
  - \$4m investment income (from operating activities) related to compensation received in respect of an historical compulsory state financing arrangement in Latin America

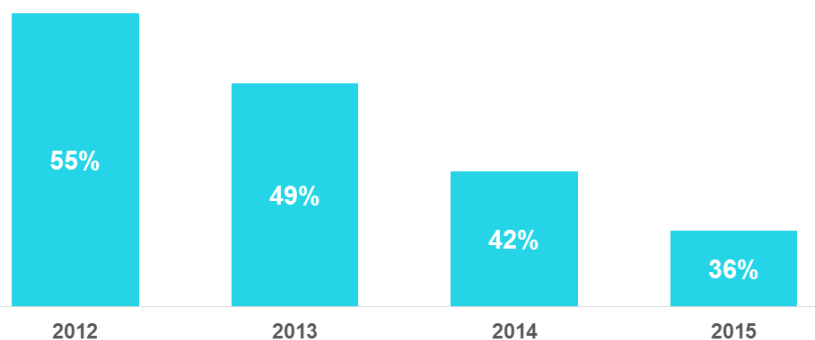
\$m	H1 2015	H1 2014
Interest on bank and other borrowings	<b>(10)</b>	(11)
Investment income from operating activities	<b>5</b>	1
Pension finance costs	<b>(9)</b>	(6)
Investment income on parent group cash	<b>3</b>	4
FX (losses) / gains on parent group cash	<b>(12)</b>	2
Other	<b>(1)</b>	(1)
<b>Total finance costs</b>	<b>(23)</b>	(11)

1) Non-distributed proceeds of asset realisation programme

# Taxation

- Reported tax rate of 66%, up from 49% in H1 2014
- Underlying tax rate (UTR)<sup>1</sup> decreased 600bps y-o-y to 36%
  - Change in mix as regions with lower statutory tax rates contributed higher profits
  - Reduction in unrelieved losses
- Tax cash outflow decreased 21% to \$25m; outflow due to reduction in UTR and timing of certain payments in H1 2014

Underlying tax rate<sup>3</sup>



\$m	H1 2015			H1 2014		
	Tax	PBT	%	Tax	PBT	%
As reported	(20)	30	66%	(24)	50	49%
Exceptional items	(3)	13		-	4	
FX losses on parent group cash	-	12		-	(2)	
Pension interest IAS19	-	9		-	6	
<b>Underlying tax rate</b>	<b>(23)</b>	<b>64</b>	<b>36%</b>	<b>(24)</b>	<b>58</b>	<b>42%</b>
<b>Cash outflow<sup>3</sup></b>	<b>(25)</b>			<b>(29)</b>		

1) Pre-exceptional items, IAS19 interest and foreign exchange gains/losses on parent group cash

2) 2012 and 2013 rate based on Coats operating business (as previously reported). 2014 and 2015 based on Coats Group basis

3) Adjusted for exceptional items (H1 2014 cash outflow on a reported basis \$31m)

# Other non-operating items

---

## US environmental (Lower Passaic River, New Jersey, USA)

- As previously reported, US EPA notified Coats, and many other companies, of potential responsibility for certain environmental costs
- Coats part of Cooperating Parties Group which submitted remedial investigation and feasibility study
- During H1 2015 recorded charge of \$6m, net of insurance
- EPA expected to issue final Record of Decision by end H2 2015; if EPA selects its own remedy, provision could increase materially and may be reflected in FY15 results

## Pensions

- **Deficits:** in UK schemes decreased by \$40m (£28m) to \$468m (£298m) due to a decrease in liabilities largely driven by 30bps increase in discount rate, more than offset 20bps increase in inflation rate
- **Triennial valuations:** Coats UK Plan process underway, Brunel and Staveley remain ongoing
- **UK Pensions Regulator (tPR) investigations:** Written representations in response to WN issued by tPR on Coats UK Plan submitted at end of July; having reviewed WN with legal and other advisers, including leading Pension and Public Law QCs, remain of the view that, under regulations, not proper for tPR to seek to use its statutory powers. Intend to litigate matter as far as necessary, unless resolved satisfactorily via negotiation

# Discontinued items – EMEA Crafts

- Loss from discontinued operations of \$52m in H1 2015 related to the EMEA Crafts business
- \$6m related to trading loss generated during H1 2015 (H1 2014: \$6m)
- Remaining \$46m represents loss on reclassification of business as held for sale
- With completion of EMEA Crafts sale in July 2015, July trading result and other items such as historical FX translation gains (position at 30 Jun 2015: \$7m) and losses previously recognised in equity, will be included as discontinued items in FY15 results

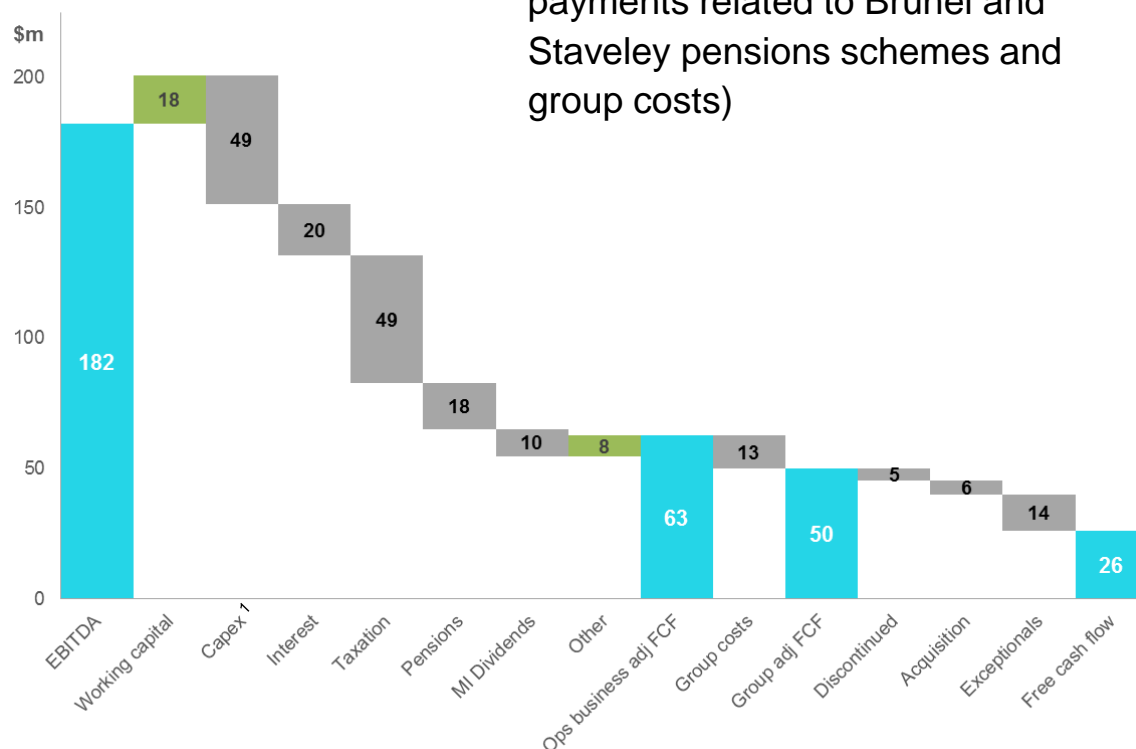
\$m	H1 2015
Cash to be retained in the business	(17)
Net working capital	(34)
Pensions and other provisions	12
Other assets and liabilities <sup>1</sup>	(7)
<b>Loss on reclassification as held for sale</b>	<b>(46)</b>
Trading loss	(6)
<b>Loss from discontinued items</b>	<b>(52)</b>

1) Includes completion adjustments and disposal-related costs

# Cash flow and leverage

## Cash flow (last twelve months)

- \$63m adj FCF from operating business (target at least \$50m)
  - Improvement in working capital management and reduced Crafts sales led to cash inflow
  - Reduction in interest and tax paid
- Group adj FCF of \$50m (includes all payments related to Brunel and Staveley pensions schemes and group costs)



## H1 cash flow and leverage

\$m	H1 2015	H1 2014
EBITDA	87	85
Working capital	(62)	(44)
Capital expenditure	(18)	(15)
Interest	(9)	(12)
Taxation	(25)	(29)
Pension	(7)	(8)
Minority interest	(9)	(5)
Other	6	2
<b>Adj free cash flow</b>	<b>(37)</b>	<b>(25)</b>
Discontinued	(9)	(9)
Acquisition	(6)	-
Exceptionals	(14)	(11)
<b>Free cash flow</b>	<b>(65)</b>	<b>(44)</b>

\$m	H1 2015	H1 2014
Parent group cash	552	643
Ops business net debt	(321)	(364)
<b>Total net cash</b>	<b>232</b>	<b>280</b>
NWC%sales	15%	18%
Leverage (Ops business)	1.9	2.1

A stack of several rolls of fabric with various colorful patterns, including floral, geometric, and abstract designs. Three spools of thread in orange, yellow, and green are placed on top of the fabric stack. The background is a blurred brown textured surface.

## Outlook and summary

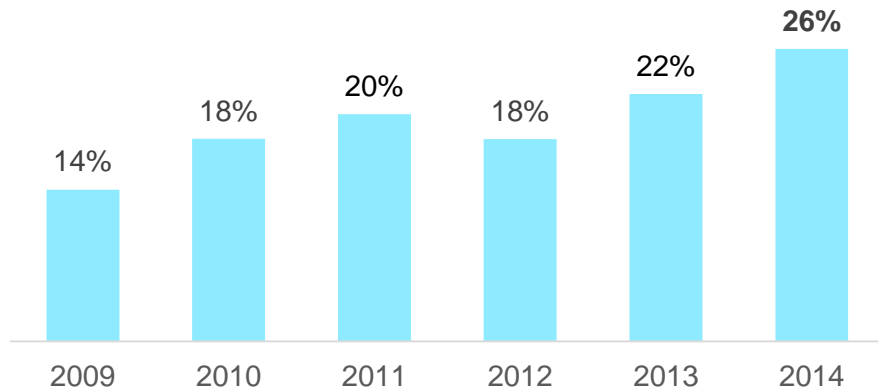
# Summary

---

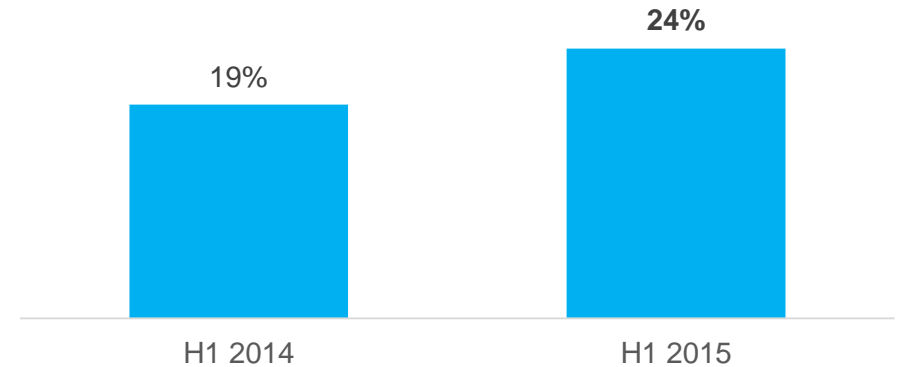
- **Global market leader** with robust fundamentals; **strong** and **defendable core**
- Defined growth strategy
  - **Apparel and Footwear**: share gains based on innovation in services and products
  - **Speciality**: growth through global expansion and innovative new products
  - **Crafts**: focus on strong and profitable Americas business
- Supported by **key differentiators** - world class asset base, product and service (including digital) innovation, highly engaged workforce and corporate responsibility
- Delivering **attributable profit growth** and **generating significant free cash flow**
- **Acquisition pipeline** being developed to complement organic sales growth and funded internally
- Continue to **explore options to resolve pensions matters**, balancing interests of all stakeholders; however prepared to litigate this matter as far as necessary
- **Well positioned** for continued sales, earnings and free cash flow growth

# Improving returns and quality of earnings

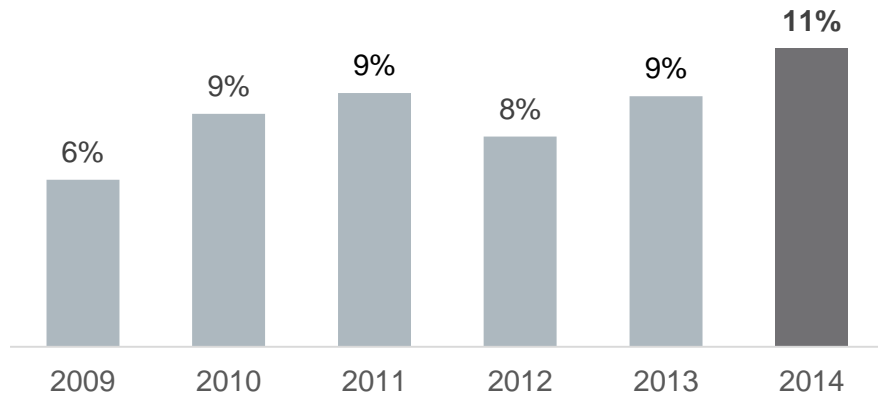
## Return on capital employed (ROCE)<sup>1</sup> – full year



## ROCE<sup>2</sup> – last twelve months



## Return on invested capital (ROIC)<sup>1</sup>



Strong improvement trend in key return metrics using organic levers only

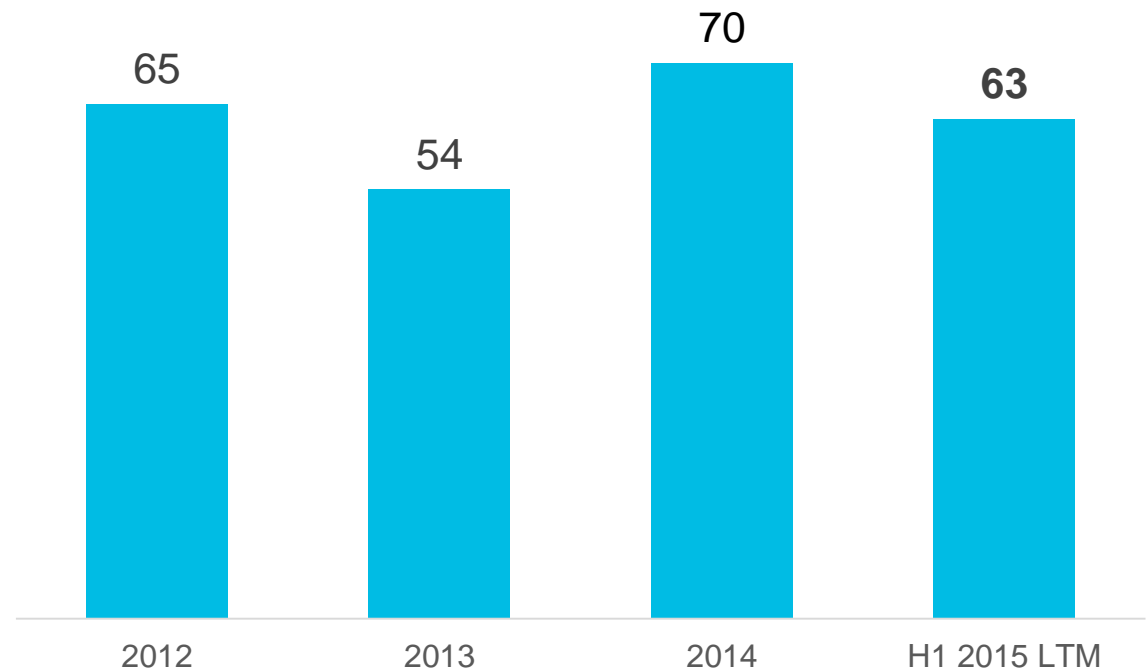
1) Represents performance of Coats operating business and includes EMEA Crafts. 2009-11 figures adjusted by \$6m (estimate) to reflect impact of adoption of IAS19 (revised) on operating profit

2) Represents performance of Coats Group plc (operating profit for last 12 months divided by capital employed at period end; does not include EMEA Crafts)

# Generating significant free cash flow



Coats operating business - adjusted FCF (\$m)



# 2015 outlook

---

- Good operating performance in H1 2015 based on:
  - market share gains
  - product and service innovation
  - reduction in operating costs
- Provides solid platform for the remainder of the year
- As such, Management expects to deliver a y-o-y improvement in Group pre-exceptional operating profit (2014: \$123m)
- Adjusted EPS growth expected to follow same trend
- However non-operating charges will materially impact full year reported EPS

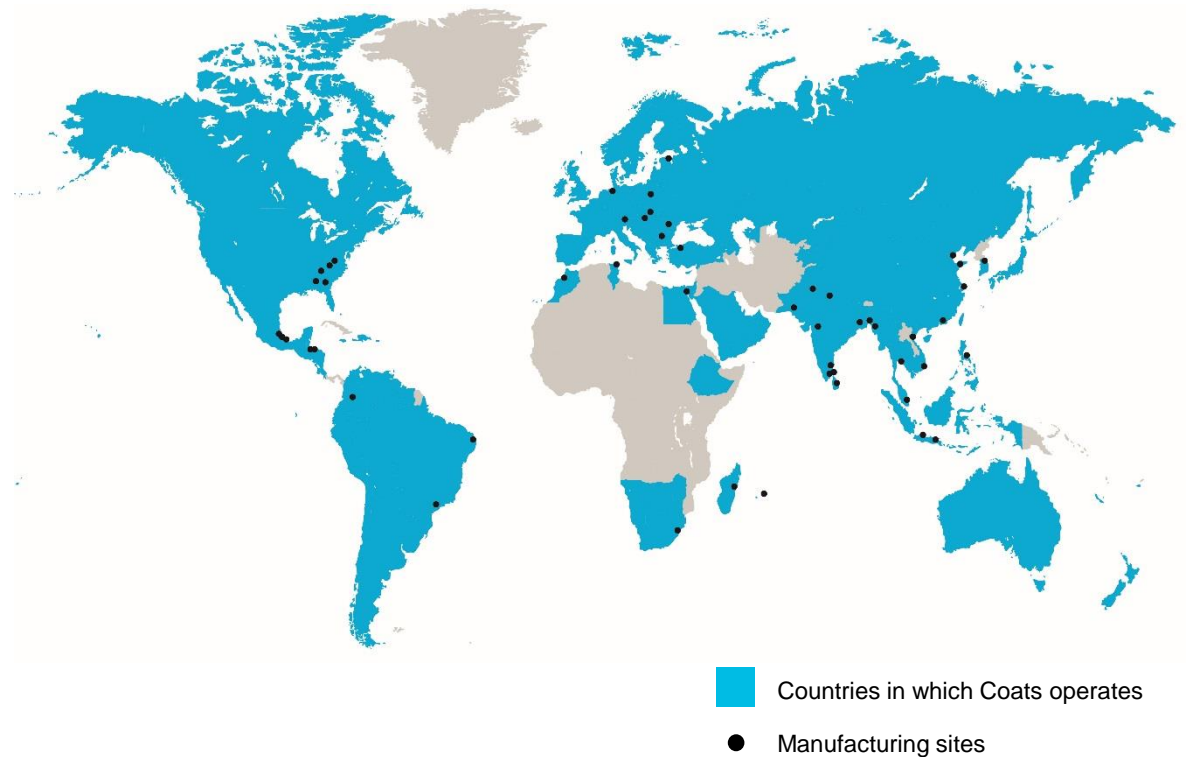


# Appendices

# Who we are

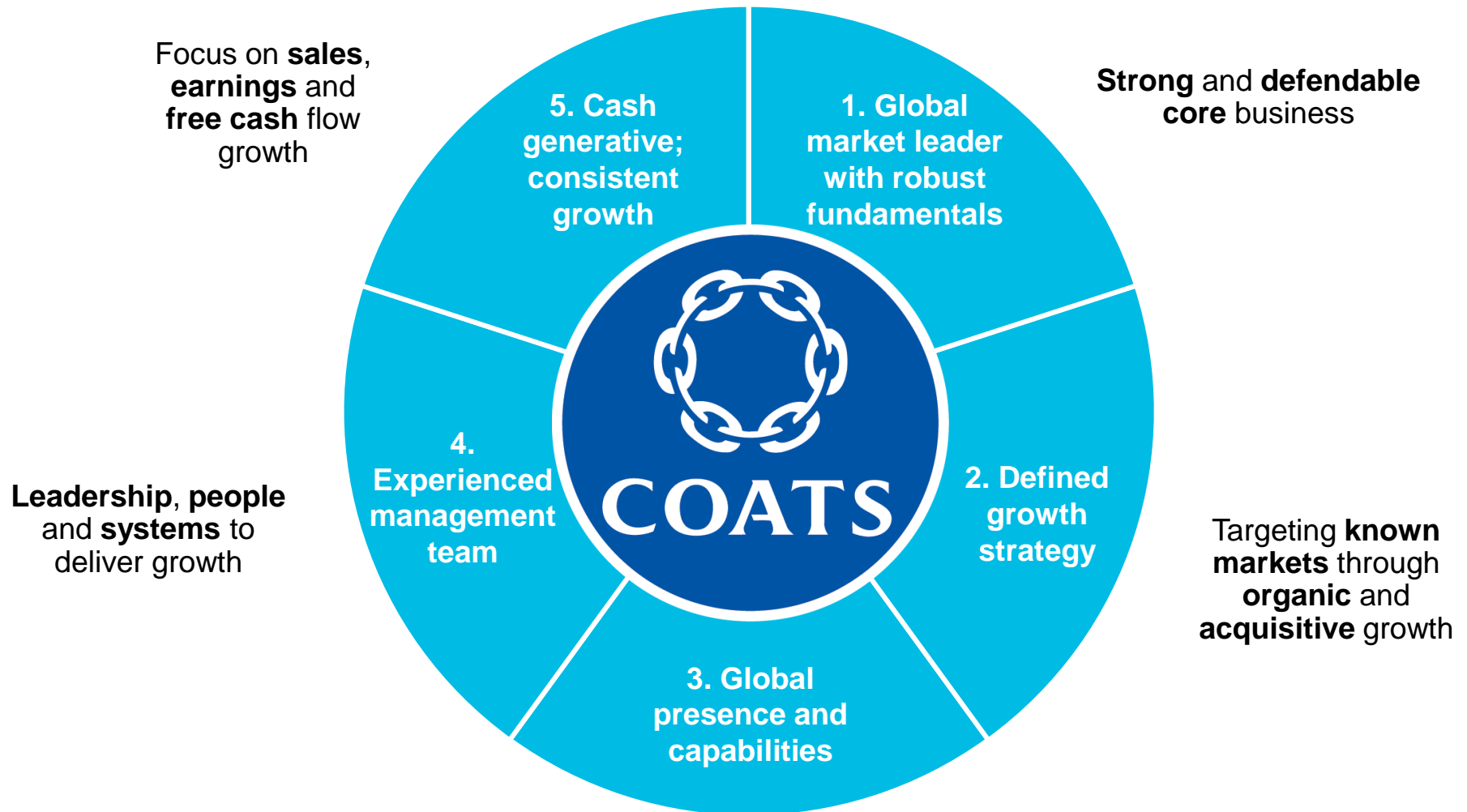
With a rich heritage dating back to the 1750s, Coats is the world's leading industrial thread and consumer textile crafts business employing ~20,000 employees in over 70 countries across six continents

- Group revenues of US\$1.7bn in 2014
- World's leading industrial thread producer
- Leading and expanding position in Speciality thread and yarn market
- Largest global player in textile crafts
- Headquartered in UK; LSE primary listing, also listed in New Zealand and Australia



**Coats is the world's leading industrial thread and textile crafts business**

# Five elements to our value



Key **differentiators** that provide a **platform for growth**

# Global market leader...



**1 in 5**

garments around the world is held together using Coats' thread

In 2014 Coats produced enough flame retardant thread to sew

**7 million**

fireman suits

Every

**3 hours**

Coats makes enough thread to go to the moon and back

Thousands of operations take place

**every day**

using Coats' thread

More than

**100 million**

car airbags are made using Coats' thread every year

Over

**1 billion**

teabags using Coats' thread are brewed every week

In **1879**

Thomas Edison used Coats' thread in his **experiments** to invent the light bulb

Coats is the

**2<sup>nd</sup> largest**

and fastest growing global zip manufacturer

More than

**450 million**

pairs of shoes are made every year using Coats' thread



# ... servicing several markets and global customers...



## Industrial

End use applications include



Customers include



Abercrombie & Fitch

## Crafts

End uses include



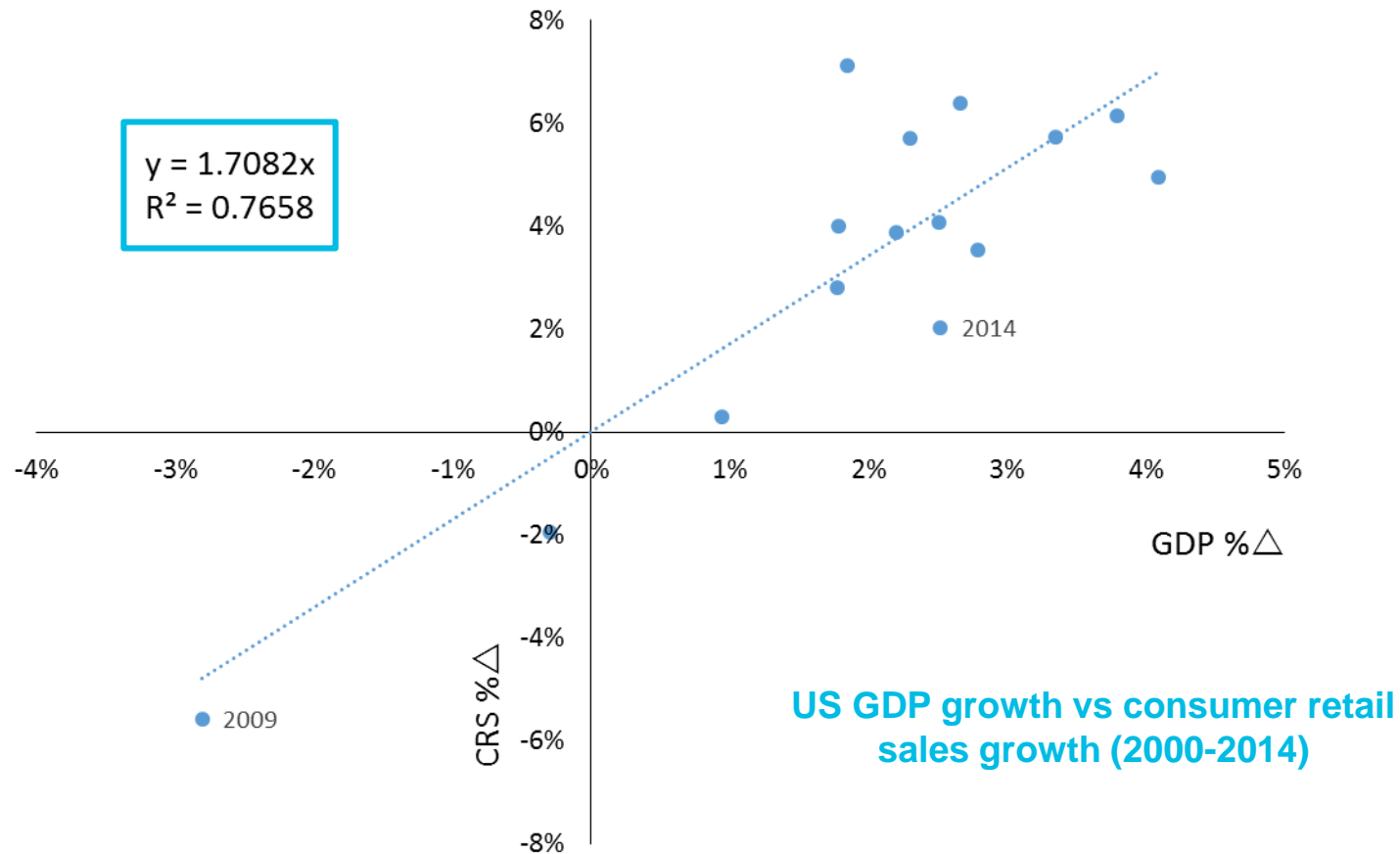
Brands include



## ... and stable underlying trends

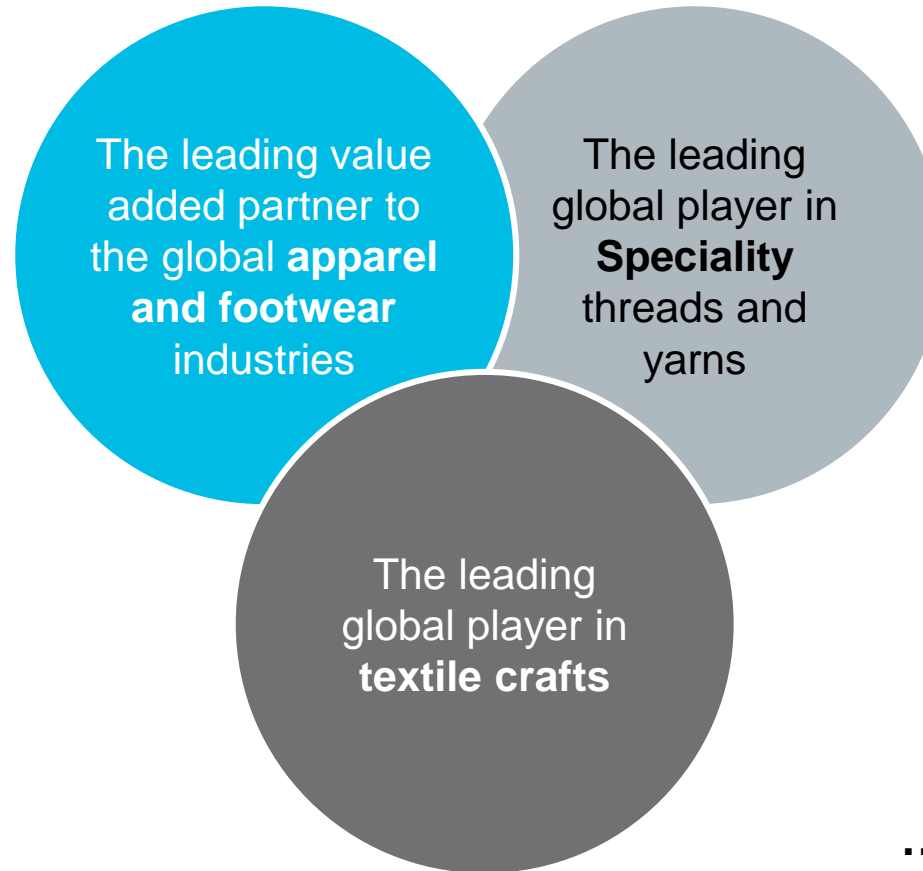


Strong link between clothing retail sales and GDP growth. For the US, clothing retail sales growth is approximately 1.7 times GDP growth



CRS: Clothing Retail Sales  
Source: IMF, US Census Bureau

# Defined growth strategy to achieve three Market Goals

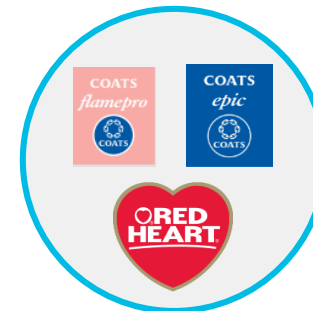


**...based on a core of  
world class skills  
and infrastructure globally**

# Key differentiators that provide a platform for growth...



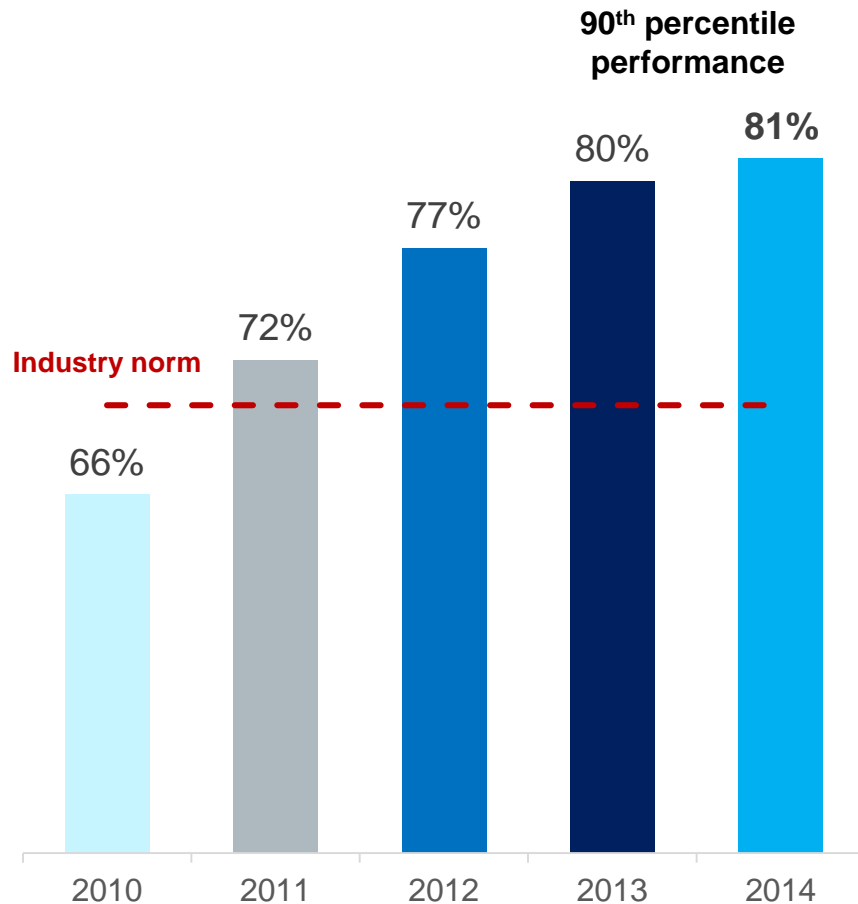
- Market positions that are several times bigger than our competition with a comprehensive range of products
- Unparalleled physical network of factories (>70 manufacturing facilities across the world), warehouses and IT systems;
- Access to the widest range of A&F, Speciality and textile craft customers
- Market leading brands
- 'Human asset base' with world-leading expertise, commitment, truly international capability and highly engaged
- Corporate brand reputation



# ... and a highly engaged and safe workforce

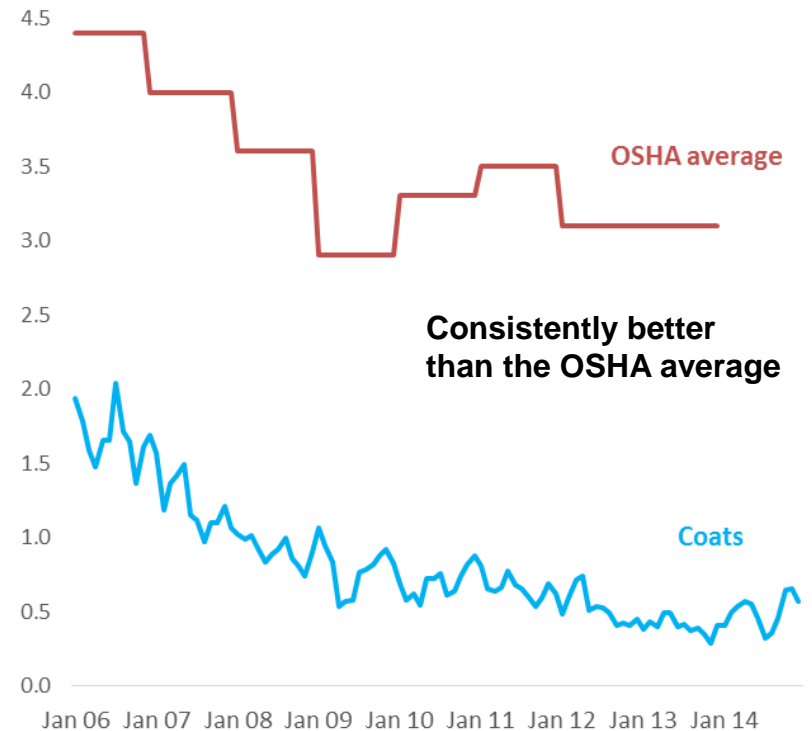


## Global employee engagement survey results



## Global recordable accident rate

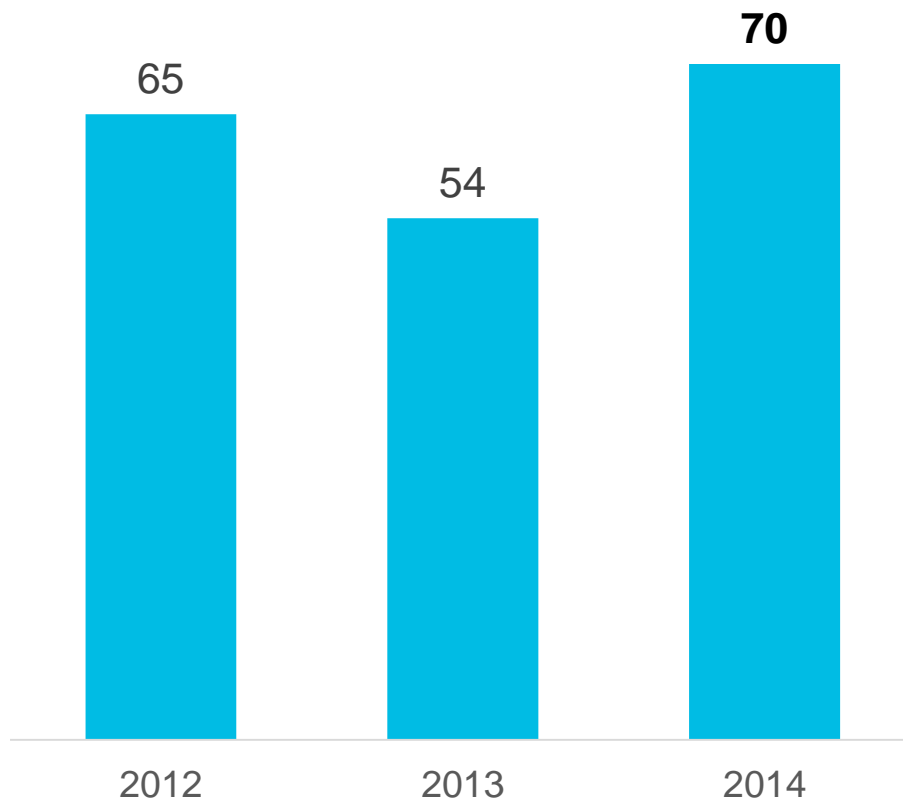
Coats global recordable accident rate vs OSHA average (US textile mills) - 2006 to 2014



# Leading to significant free cash flow generation



## Adjusted free cash flow of Coats operating business - \$m



- Profitable Sales Growth – share gains, new product and service innovation, geographic expansion
- Increased productivity – offsetting inflation
- Expert pricing management
- SD&A efficiency programmes and new structures being implemented
- Focus on working capital management
- Capital discipline – capex  $\leq$  x1.0 depreciation

# Pension schemes: income statement and cashflow impact

\$m	Brunel		Staveley		Coats UK		Coats other		Total	
	H1' 15	H1' 14	H1' 15	H1' 14	H1' 15	H1' 14	H1' 15	H1' 14	H1' 15	H1' 14
Service charge	-	-	-	-	2	2	4	4	6	6
Administrative expenses	1	1	1	1	3	3	1	1	6	6
<b>Pre-exceptional operating profit impact</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>12</b>	<b>12</b>
Exceptional administrative expenses	-	-	-	1	-	-	-	-	-	1
<b>Operating profit impact</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>12</b>	<b>13</b>
Finance charge	1	1	1	1	5	3	1	1	8	6
<b>Total income statement impact</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>10</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>20</b>	<b>19</b>
UK recovery contributions	-	-	1	1	11	12	-	-	12	13
UK Contributions for active members	-	-	-	-	1	1	-	-	1	1
Cash payments to pensioners and other	-	-	-	-	-	-	6	5	6	5
<b>Cash outflow</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>12</b>	<b>13</b>	<b>6</b>	<b>5</b>	<b>19</b>	<b>19</b>

\* Difference between \$19m cash outflow and \$12m charge to operating profit represents the non-cash movement in the cash flow bridge on slide 25

# Pension schemes: balance sheet positions

UK schemes	Brunel		Staveley		Coats UK			30 Jun 15	31 Dec 14
	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14	30 Jun 15	31 Dec 14			
<b>£m</b>								\$m	\$m
<i>Equities</i>	32	55	-	86	458	469	Coats Plan	(296)	(334)
<i>Bonds</i>	40	55	85	91	859	914	Brunel	(81)	(84)
<i>Other</i>	38	3	96	4	176	151	Staveley	(91)	(90)
Total assets	110	113	181	181	1,493	1,534	<b>UK DB schemes</b>	<b>(468)</b>	<b>(508)</b>
Liabilities	(162)	(167)	(238)	(239)	(1,682)	(1,748)	Other Coats schemes	(58)	(76)
<b>Net obligation</b>	<b>(52)</b>	<b>(54)</b>	<b>(57)</b>	<b>(58)</b>	<b>(189)</b>	<b>(214)</b>	<b>Total</b>	<b>(526)</b>	<b>(584)</b>
Discount rate (%) <sup>1</sup>	3.65	3.35	3.65	3.35	3.65	3.35			
Inflation (%) <sup>2</sup>	3.15	2.95	3.15	2.95	3.15	2.95			
Rate of increase in pensions in payment (%)	3.05	2.85	3.05	2.85	3.05	2.85			
Life expectancy (male retiring today at 60)	26.3	26.3	25.7	25.7	25.7	25.7			
Increase in real discount rate to eliminate deficit (bps) <sup>3</sup>	360	390	250	250	140	160			

1) Assumption derived using a yield curve approach, based on Sterling AA corporate bonds

2) Assumption based on a market implied long-term rate of inflation

3) As at 30 Jun 2015. Assumes an immediate increase across all points on the yield curve and includes an estimate for the impact on the value of corporate bonds in the scheme assets

For more  
information

---

Jaideep Thatai  
Head of Investor Relations  
+44 20 8210 5086  
[jaideep.thatai@coats.com](mailto:jaideep.thatai@coats.com)

Coats Group plc  
[www.coats.com](http://www.coats.com)

Coats Industrial  
[www.coatsindustrial.com](http://www.coatsindustrial.com)

Coats Crafts  
[www.makeitcoats.com](http://www.makeitcoats.com)

