



Delivering today
Transforming for tomorrow

Coats Group plc **Capital Markets Day**

London – 21 May 2018



Agenda

14:00	Arrivals / coffee	
14:15	Context and priorities	Rajiv Sharma , Group CEO
	Apparel and Footwear	Adrian Elliott , President Apparel and Footwear
	Performance Materials	Shantanu Banerjee , Group Head of Innovation
	Financial overview / approach to acquisitions	Simon Boddie , Group CFO
15.30	Coffee, incl. breakout sessions (1. Our approach to Innovation / Patrick Yarn Mill, 2. ESG / SRI, 3. Electronic sampling)	
16.00	Connecting for Growth	Ronan Cox , Chief Transformation Officer
		Hizmy Hassen , Chief Digital and Technology Officer
		Michael Schofer , Chief Supply Chain Officer
	Our people	Simon Youngs , Head of Talent and Learning
	Summary and Q&A	Rajiv Sharma , Group CEO
17.15	Drinks / further 1-2-1 Q&A	

Objectives for the day



Outline our growth strategy

Meet the management team

Corporate normalisation process complete

**Return to
LSE**
2015

Acquisitions
2015/16/17

**De-listing
AZX/NZX**
2016

**Pension
settlement**
2017

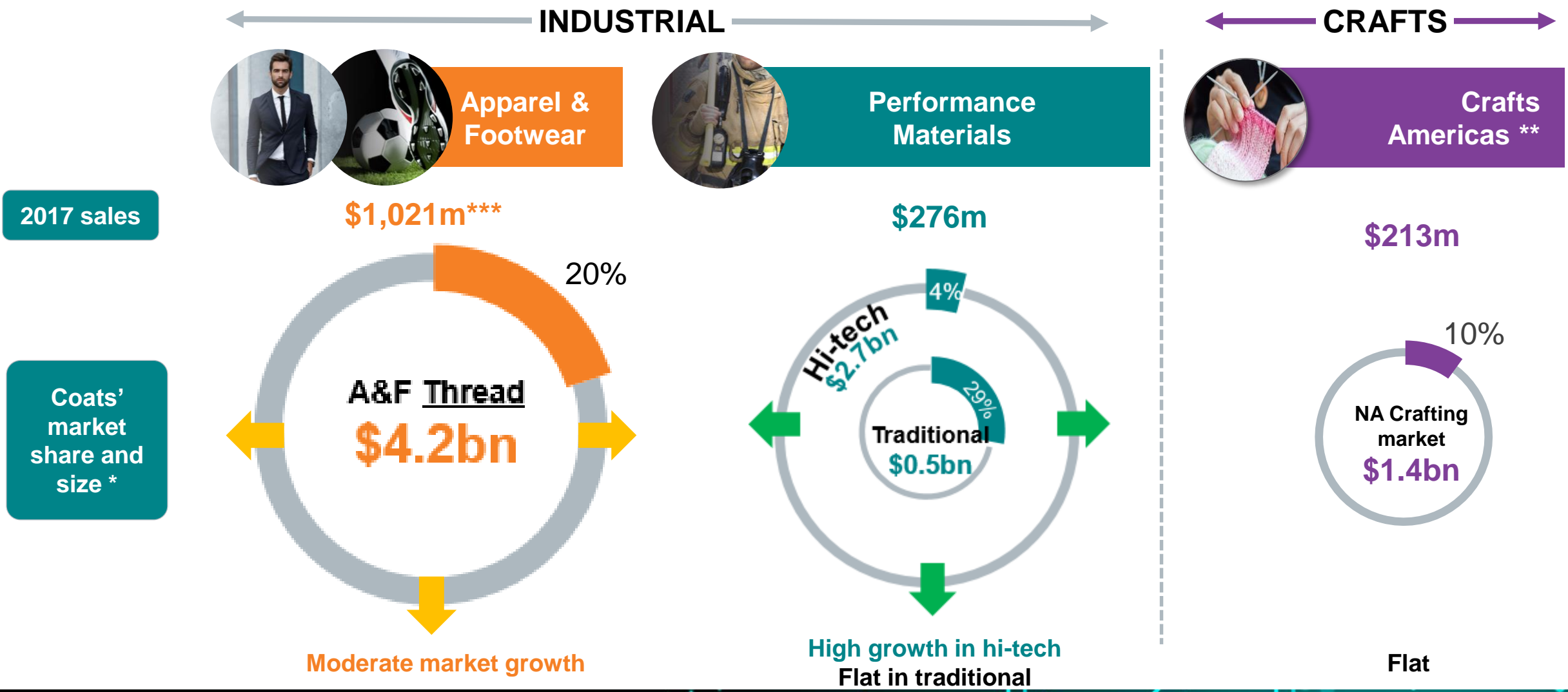
Dividends
2017

FTSE 250
2017

USPP
2017

Strong market positions and growth opportunities

* market shares and sizes Coats' estimates. ** NA Crafts and Latam Crafts *** Includes A&F thread, Zips, Trims and Services



A global business

**Sales in
100+ countries**

**Manufacturing in
30 countries**

50 factories

**19,000
employees**

**40,000
customers**

**25 nationalities
in senior
management**

The mega trends impacting our industry – we are well placed



**EMERGING
MARKETS**

URBANISATION

SUSTAINABILITY

DIGITAL

**ONLINE
RETAIL**

INFLATION

Our strategy is clear

‘Digital’

**GROWTH
SPEED
AGILITY
PRODUCTIVITY**

‘Beyond the stitch line’

**SCALE
SPECIALISATION**

The four key areas critical to delivering our strategy



Experienced and diverse management team



Rajiv Sharma
Group Chief Executive



Simon Boddie
Chief Financial Officer



Ronan Cox
Chief Transformation Officer



Massimo Petronio
Chief Operating Officer –
EMEA and LatAm



Keith DuPont
President
Performance Materials



Adrian Elliott
President
Apparel & Footwear



Kevin Finn
Chief Operating Officer –
Asia



Michael Schofer
Chief Supply Chain Officer



Hizmy Hassen
Chief Digital and
Technology Officer



Monica McKee
Chief Human Resources
Officer



Stuart Morgan
Chief Legal & Risk Officer and
Group Company Secretary



Shantanu Banerjee
Group Head of Innovation

**>180 years Coats
experience**

**Global
experience**

**Textile industry
credentials / respect**

**Multi-industry
experience**

**A wide and
diverse skill set**



Delivering today
Transforming for tomorrow

Apparel and Footwear

Continuing share gains

Adrian Elliott, President, Apparel and Footwear



A global leader. Winning with the winners. Embracing change.

* 2014 – 17 organic CER CAGR

**\$1bn sales
with 4%
CAGR***

→ Consistent
share gains in
thread

**Unrivalled
customer
connections**

4,000 brands;
30,000 direct customers

**Compelling,
value adding
products and
services**

(threads, engineered
yarns, zips, trims,
software solutions)

**Operational
scale with
global
reach**

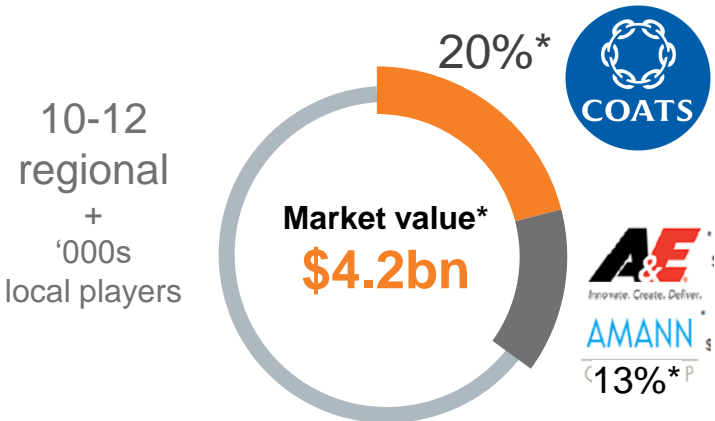
In a fast-changing environment



Understanding the thread market landscape

Size and structure

Consistent but moderate market growth

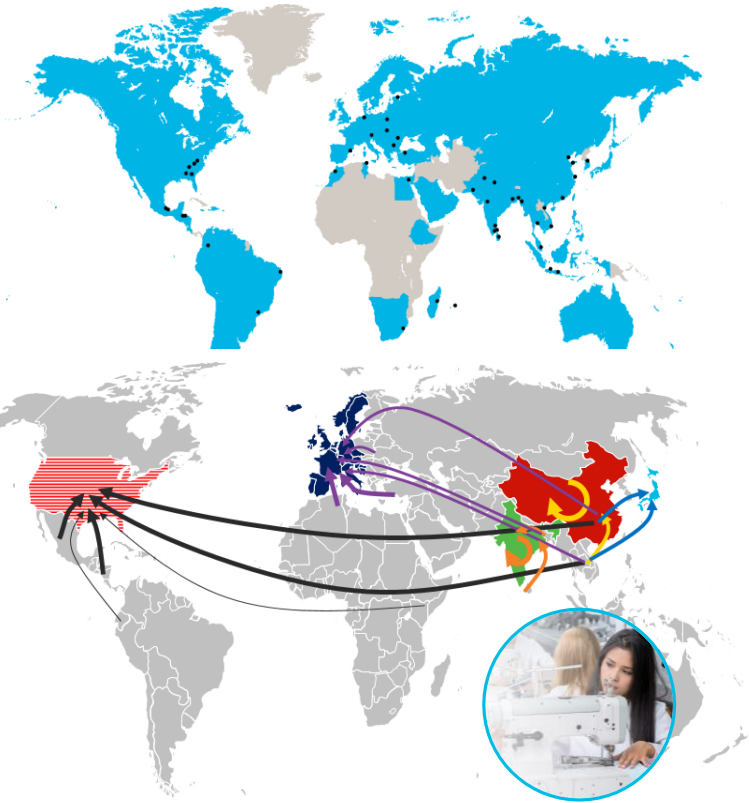


Rich product variety



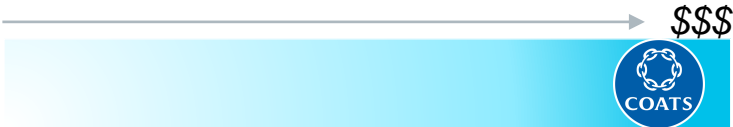
* Coats' estimates

A critical component in a global, agile industry

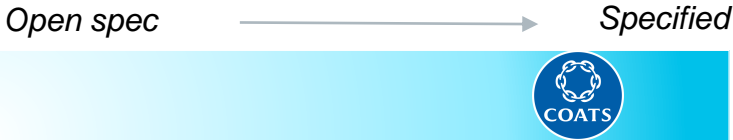


Segmentation

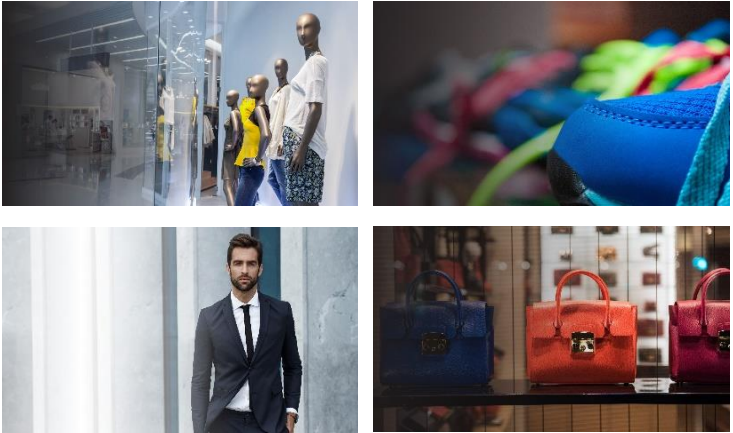
Economy to premium



Specification

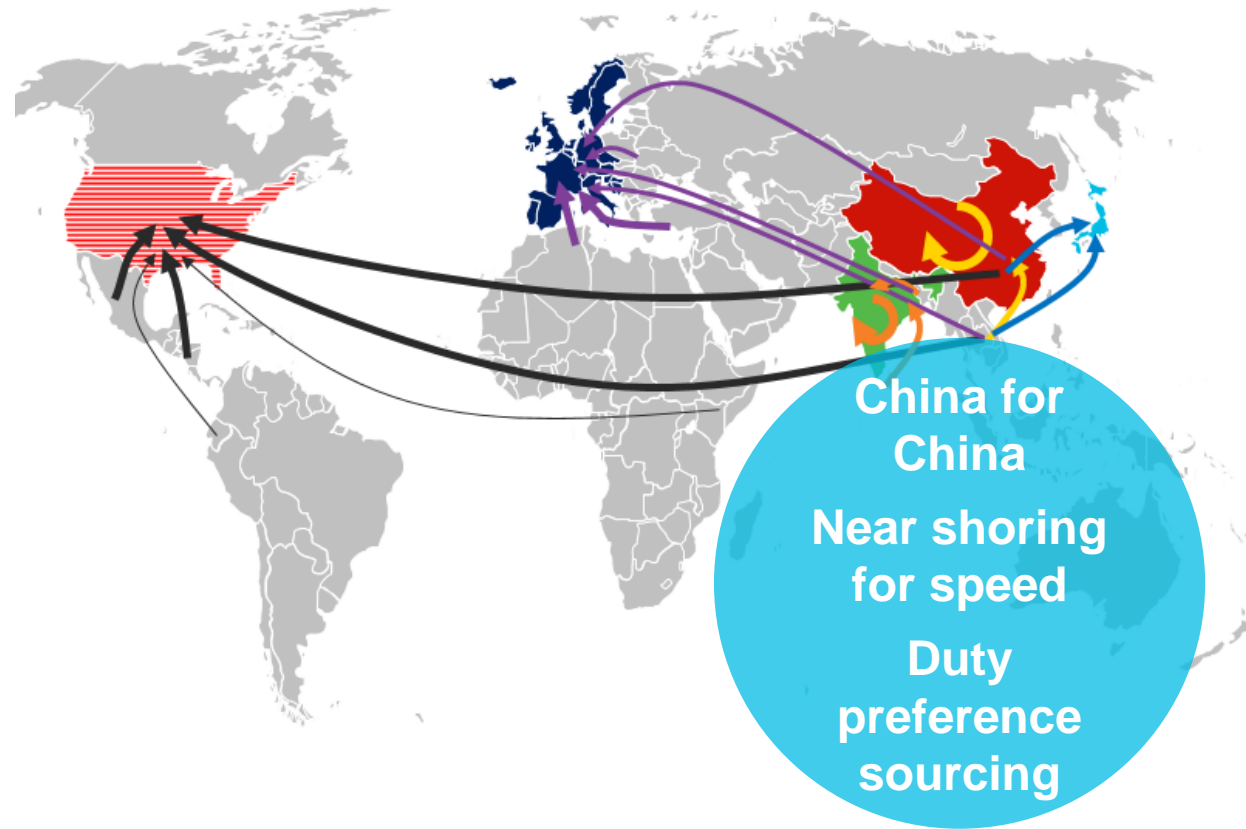


End use



Our customers' priorities are shifting

Sourcing patterns are changing...



...and significant themes have emerged

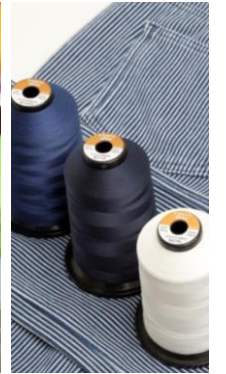


We are the value adding partner. Winning with the winners

Unrivalled customer connections



Leading product, solutions and technical services



Global operational footprint



Global brand and trusted reputation

Dialling up for continued share gains

Sustainability



Innovation



Capability

Talent



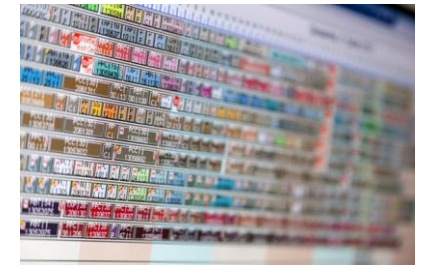
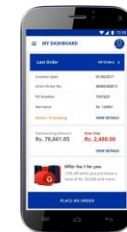
Capacities



New Horizons



Powered by Digital



New Horizons – adding value through software solutions

Capability

Market opportunity

Significant value chain waste

Up to 25% of \$400bn factory gate prices

Highly transactional

20 million+ orders from Brands/Retailers on manufacturers

Fast-changing

15%+ growth in styles every year

Increasing Speed

Design to shelf lead times crashing
6 months to 30 days

Our solutions



Market leader in
production planning
(key to service delivery
and optimum utilisation)



Apparel product
lifecycle management



Industry standard for
bill of labour for
transparent costing

Case study

bodynits

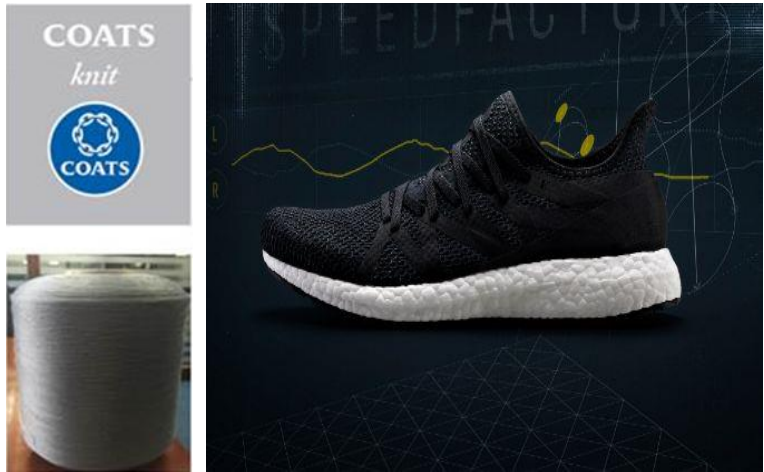


Bodynits achieved faster and more realistic planning process resulting in **+20% efficiency gain** after implementing Fast React's Evolve

Planning time reduced from **5 days to 1 day**

Winning share through innovation

Innovation



Leading in sustainability

Sustainability

* In last 5 years

Restricted
substances



Water/kilo
Down 26% *

Renewables c.30%
of total energy

Energy/kilo
Down 20% *

Effluent treatment
investment



Recycled
products



In summary

**Global
leader**

**Unrivalled
differentiation**

**Winning with
the winners.
Embracing
change**

**Dialling up
for continued
share gains**

**Strategy that
is working –
growing and
delivering**



Delivering today
Transforming for tomorrow

Performance Materials

Achieving scale in
hi-tech sectors

Shantanu Banerjee, Group Head of Innovation



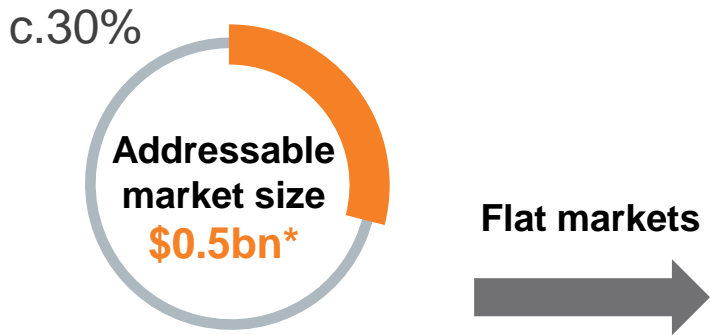
ELEMENTAL

Performance Materials – our markets

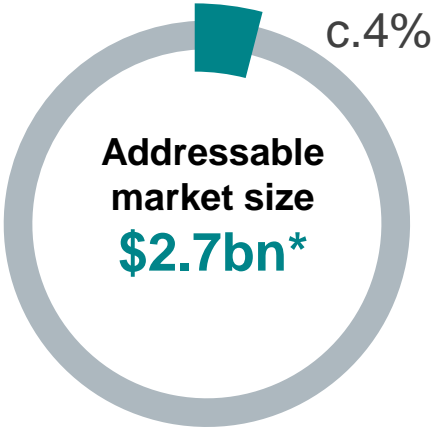
** Market sizes are Coats' estimates of addressable markets*

Traditional sewing thread: 50% of 2017 revenues

Hi-tech engineered yarns: 50% of 2017 revenues



High growth markets



Outdoor



Bedding & Quilting



Home Textiles



Upholstered Furniture



Tea Bags



Feminine Hygiene



Strategic focus areas

Automotive



Telecommunications



Personal Protection



Mechanical Rubber Goods



New technologies

Composites

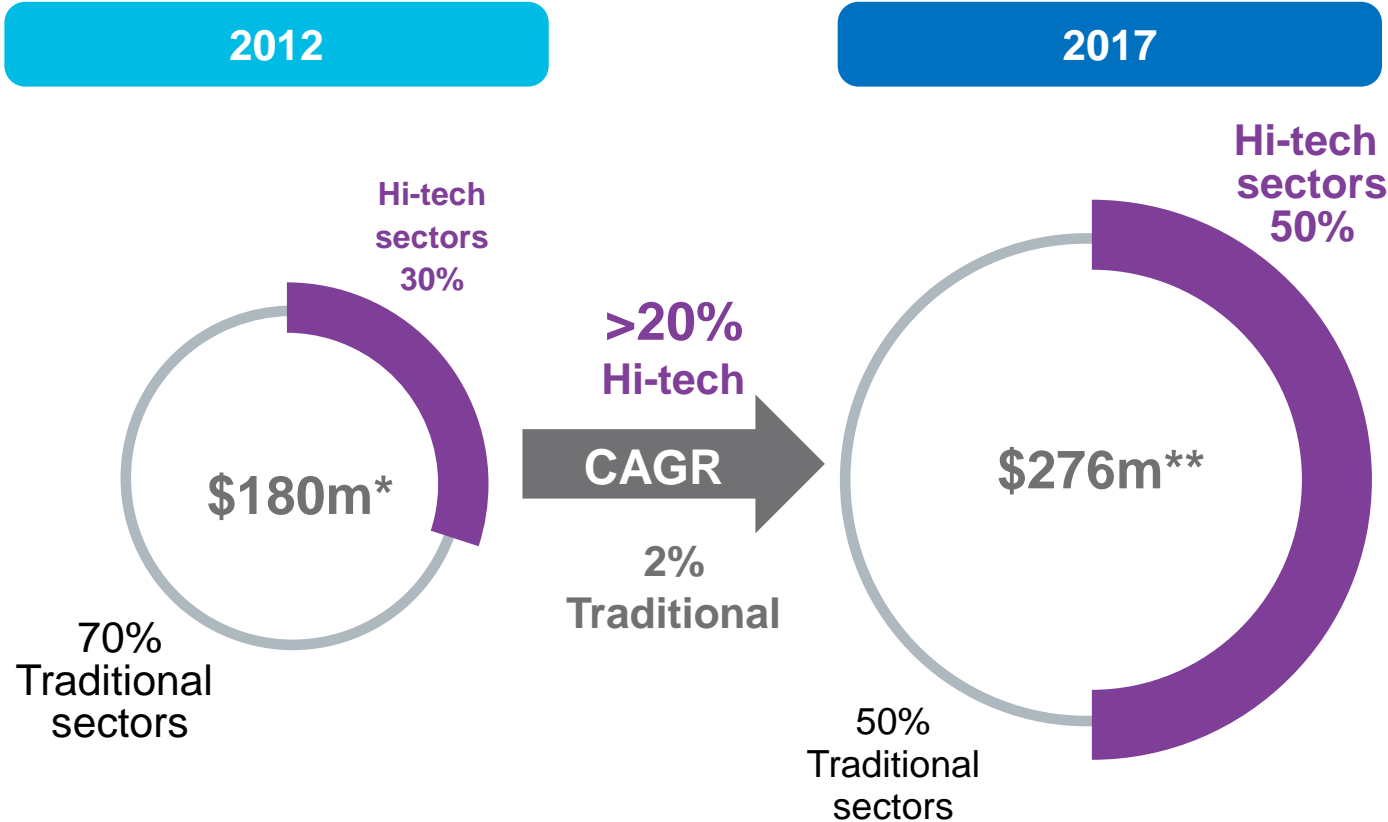


Conductive



Hi-tech sectors driving the growth – an evolution of our traditional base

Significant opportunities in hi-tech sectors – innovating new technologies and aligning to macro trends



- Natural extension of core competencies
 - Blending technology
 - Chemistry/coating expertise
 - Design capability
 - Machinery innovation
 - Process excellence
- Matrix of design, cost and performance that meets emerging customer needs

* PM sales at 31/12/17 FX rates ** 2017 sales as reported in FY17 financials

4 clear strategic avenues to drive future growth



1 Globalisation
of existing products



2 New sector growth in Personal Protection
and Telecommunications



3 New technologies in Composites
and Conductive



4 Bolt-on acquisitions to build
technology expertise and scale

Expand beyond the
core by creating value
through innovation and
best-in-class service

Globalising products in Performance Materials

* CER organic sales growth (excl M&A)

+11%

*EMEA sales CAGR 2012-17 **

+13%

*Asia sales CAGR 2012-17 **

**Geographic market entry
through M&A (Gotex)**

**New Gotex plant
in India**

**New Innovation Hubs
in Turkey and China**

Personal protection – how we built a \$90m Flamepro business in 6 yrs

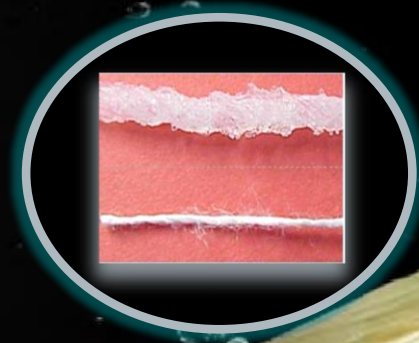
* Market sizes are Coats' estimates

- **\$350m** addressable market *
- *'Beyond the stitch line'*
- Protection with comfort trend
- Digital blend innovation – desktop design capability in front of the customer
- Flamepro brand: Scientific blending >5 fibers
- \$50m organic sales in 6 years
- **Enhanced growth through acquisition of Patrick Yarn Mill – now a \$90m+ business**

Telecommunication cables – small player to a market leader in 3 years

- Growing market – connectivity trend
- Market need: ‘Dry’ cables with no gel
- Water-swellable chemistry innovation
- Ultrabloc protects cables from rain/salt water
- Successful organic entry
- Acquisition of Gotex (\$14m p.a.) in 2016
- \$30m sales in telecommunications in 2017

• **Small player to market leader in 3 years**



New technologies: Composites – the big prize

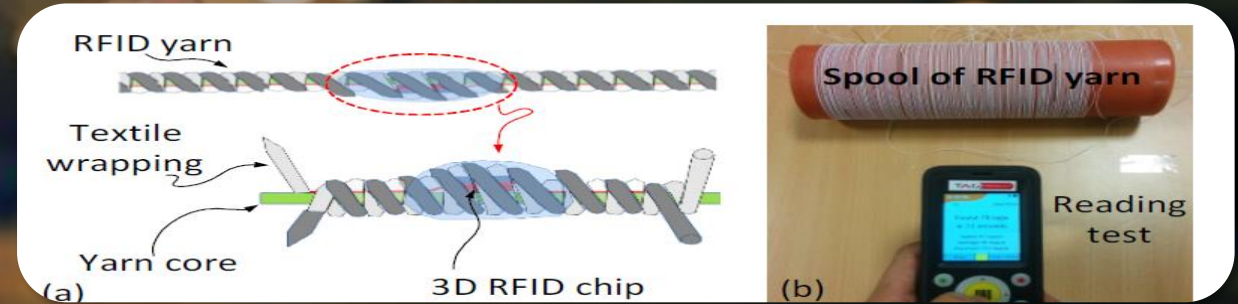
** Market sizes are Coats' estimates*

- **\$1.7bn** estimated addressable market *
- Metal replacement by carbon textile fibre
- Synergex Lattice tailored fibre technology
- Talent acquired for engineering design capability
- OEM Part development: automotive, oil & gas
- Journey from thread to yarn to composite parts
- **A transformational long term opportunity**



New technologies: Conductive – where textile meets electronics

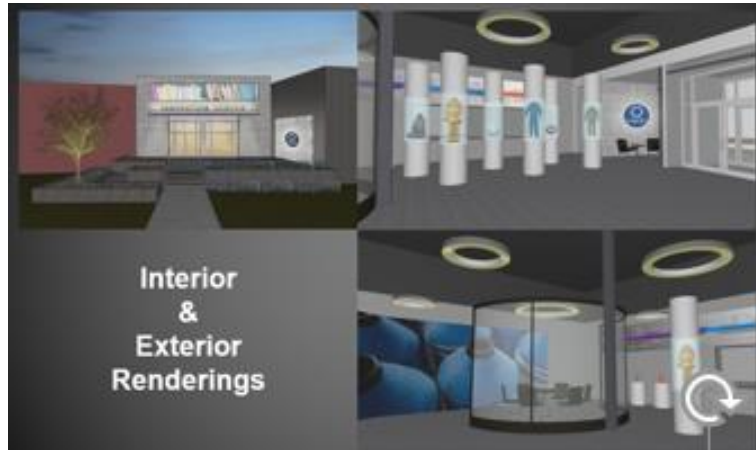
- Next-gen technology trend
- Precision design of conductive circuits in smart apparel
- Conductance, insulation, sew, wash



Innovation – central underpinning for growth and differentiation

Innovation plan

3 Innovation Hubs



- Global Innovation Forum
- University partnerships
- Supplier innovation
- Technology knowledge sharing
- Digital
- Recruit 'A' team new talent
- New product development targets





Delivering today
Transforming for tomorrow

Financial overview / approach to acquisitions

Simon Boddie, Group CFO



Latest trading update (16 May)

Year-on-year sales performance (January to April)

	Reported	CER	Organic
Industrial	9%	6%	3%
Apparel & Footwear	6%	3%	3%
Performance Materials	24%	19%	4%
Crafts	(4%)	(4%)	(4%)
Group	8%	5%	2%

Connecting for Growth

- Programme on track to deliver anticipated gains

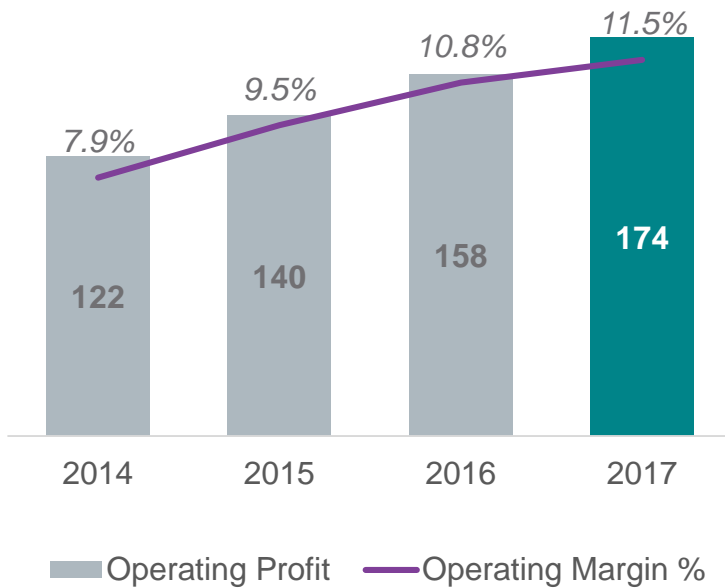
- **+5%** Group sales growth at CER
- Driven by Industrial division **+6%**:
 - Apparel and Footwear **+3%** (thread **+4%**)
 - Performance Materials **+19%**;
 - **+4%** organic; double digit growth in hi-tech end uses
 - **+15%** contribution from Patrick Yarns; in line with business case
- Crafts **-4%** sales decline driven by NA Crafts

Outlook

- The Group continues to perform well; 2018 full year results in line with expectations

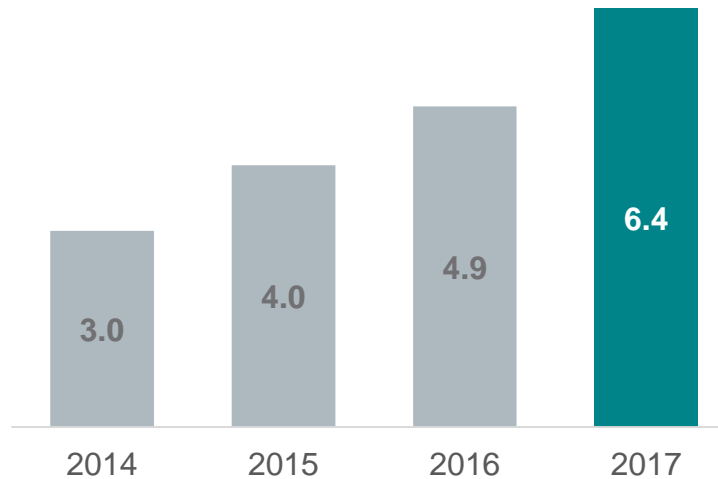
A track record of delivery: improving earnings and consistent cash flows

Operating profit \$m



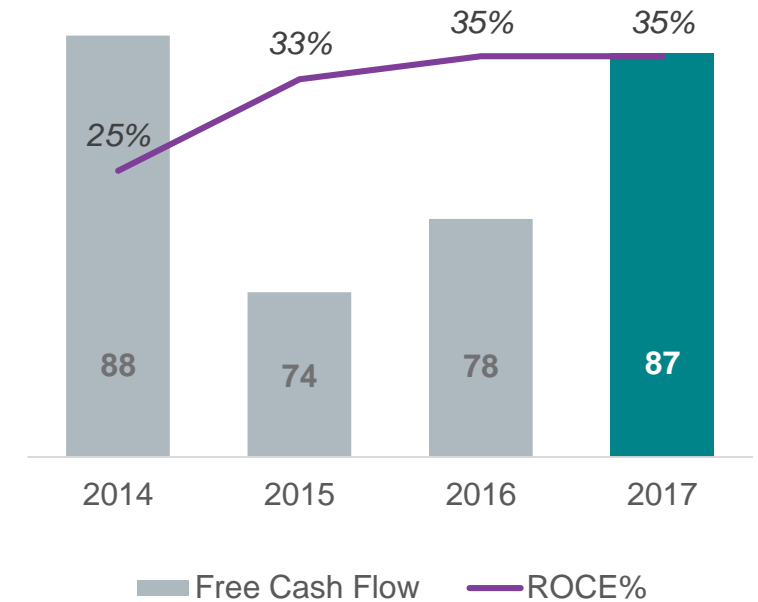
13% CAGR

EPS (c)



28% CAGR

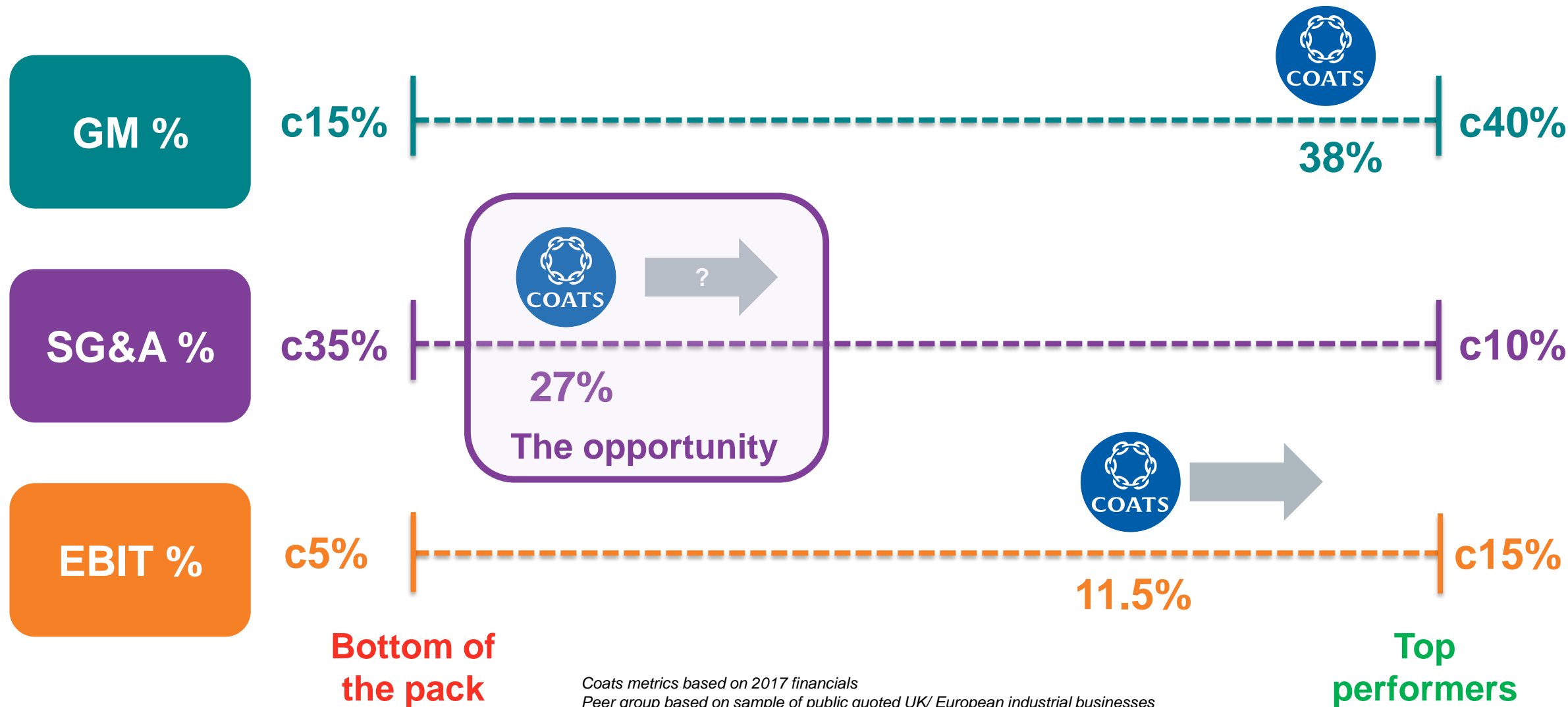
Free cash flow \$m



\$82m ave. FCF p.a.

Operating profit, EPS and FCF on an adjusted basis, as per 5 year summary in 2017 Annual Report. ROCE on a restated basis consistent with 2017 reported, as per 5 year summary in 2017 Annual Report.

Coats has a margin improvement opportunity via SG&A when benchmarked to peers



Opportunities to drive sales growth and increase margins further

We have built strong foundations
in last 4 years

Sales

+2%
CAGR**

- A&F** +4%
- PM ** +6%
- Crafts - 8%

GM%

38%*
(+70bps pa)

- Top quartile vs peer group
- Productivity / procurement / pricing

SG&A%

27%*
(flat)

- Disciplined approach to cost
- Corporate cost reductions post EMEA Crafts sale

EPS

+28%
CAGR

- Effective tax rate reduction
- De-leveraged (low end of target range)

And have a clear future path
to deliver growth

- Continued A&F share gains
- Achieve scale in high growth hi-tech PM
- Stabilise / grow Crafts

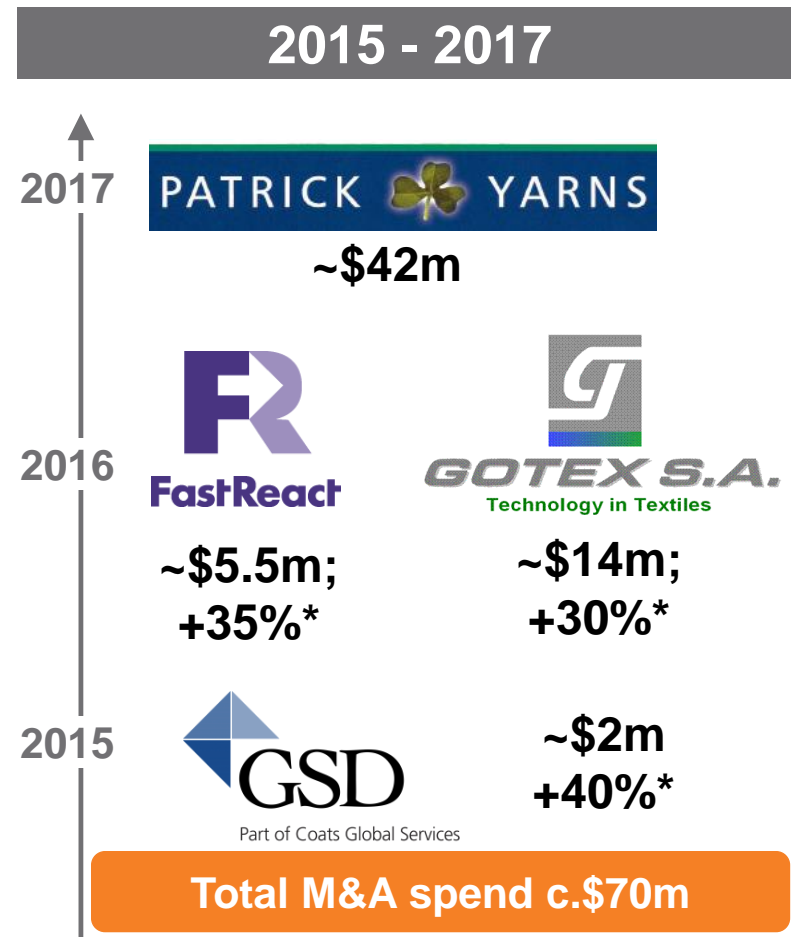
- Hold margins in top quartile
- Continue to drive supply chain efficiencies
- Maintain effective price recovery mechanism

- Deliver C4G net savings of \$15m by 2020
- Continued general cost discipline
- EBIT growth > sales growth

- Further ETR improvements to ~30%
- Maintain leverage in target range
- Earnings enhancing acquisitions

* 2017 reported ** organic CER growth rates 2014-17 (excl. M&A)

Targeted strategic focus areas for acquisitions



**Sales at acquisition: Total sales growth under Coats vs 12 months prior to completion*

Going forward

- **Performance Materials** – build scale in targeted hi-tech industry sectors
- **Global Services** – position Coats as a technology leader in the Apparel and Footwear (A&F) industry
- Strengthen the core **A&F** business with adjacent categories (eg trims) that lend themselves to higher technology and innovation

A disciplined approach to executing transactions

A well defined set of financial and non-financial criteria to identify appropriate acquisition targets

Strategic considerations

- Prioritise companies with technology, IP or unique capabilities
- No reputational risk (eg H&S, compliance)
- Must deliver customer and shareholder value; $1+1 = 3$
- Performance based earn-out deal structures
- Key personnel retention

Financial criteria

- Defined valuation metrics (eg multiples)
- Earnings accretion / margin growth
- 'Sweet spot' for future bolt-ons: sales of \$50m+ pa
- Larger acquisitions if opportunity occurs providing strong strategic logic
- Funding: 1) FCF, 2) debt headroom, 3) other options for larger opportunities

M&A case study – a successful integration strategy

Gotex – the Coats era

- Turned a growing business into a high growth business (>30% post-acq sales growth)
- Geographical expansion – new sales regions, new India line
- M&A business case being delivered
- Mutual benefits of technological expertise and R&D thinking
- Further penetration in existing local markets – leveraging Coats' brand
- Creation of market leader in Telecommunications



Break



Break-out sessions

15:30

ESG / SRI

Our approach to innovation / Patrick Yarn Mill acquisition

Electronic thread sampling – create your own sample

Andrew Morgan

Head of Corporate Responsibility

Shantanu Banerjee

Group Head of Innovation

Hizmy Hassen

Chief Digital and Technology Officer

Coffee also available! Group sessions recommence at 4pm





Delivering today
Transforming for tomorrow

Connecting for Growth

Ronan Cox, Chief Transformation Officer

Hizmy Hassen, Chief Digital and Technology Officer

Michael Schofer, Chief Supply Chain Officer



A constantly changing world



Connecting for growth – why, and why now...

Consumers
are
changing
the industry

We must act
with or before
our customers

We are
repositioning
to improve
further

- Speed / agility
- Innovation
- Sustainability
- Productivity
- Compliance

To continue to grow
ahead of the market

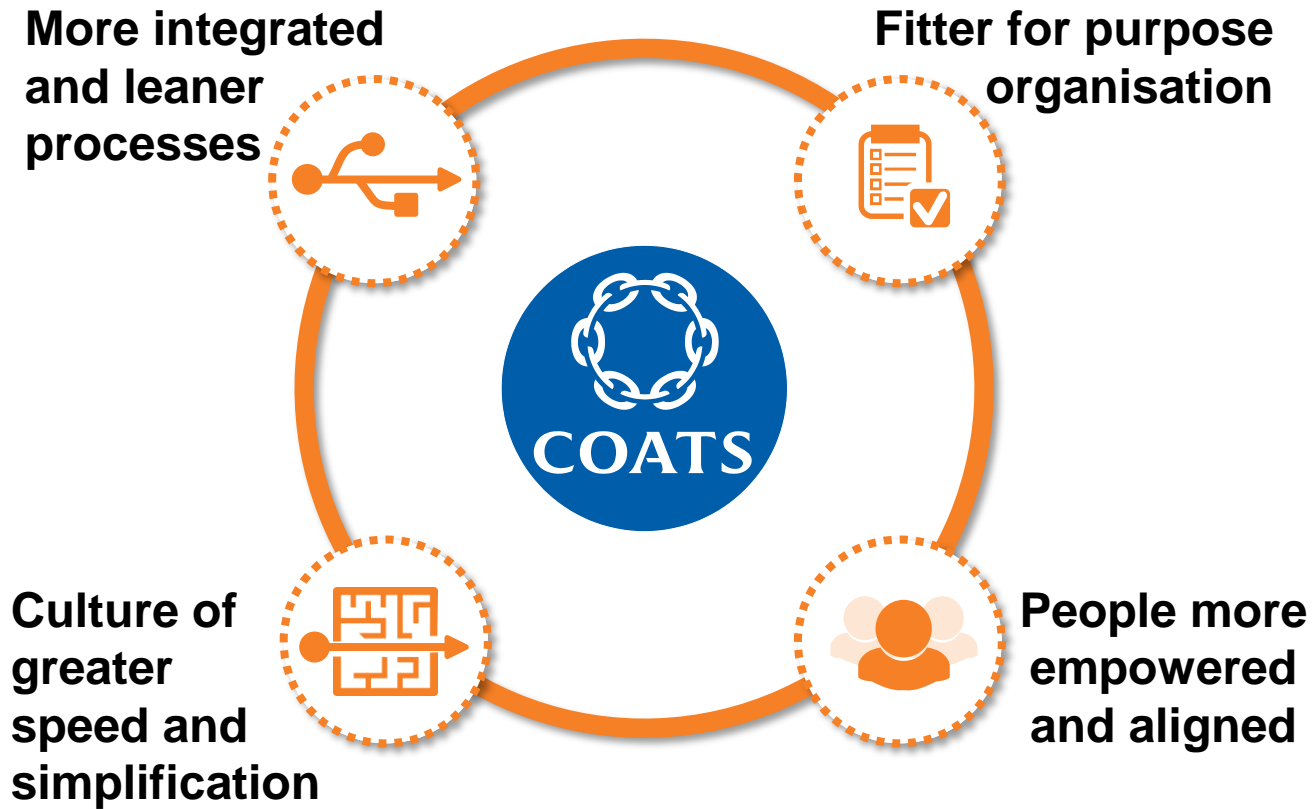
... and now
is the right
time for us to
change

- Corporate normalisation complete
- Proven ability to drive change
- Already leading the change in our markets
- Strong financial platform - earnings, margin and cash growth

CONNECTING FOR GROWTH

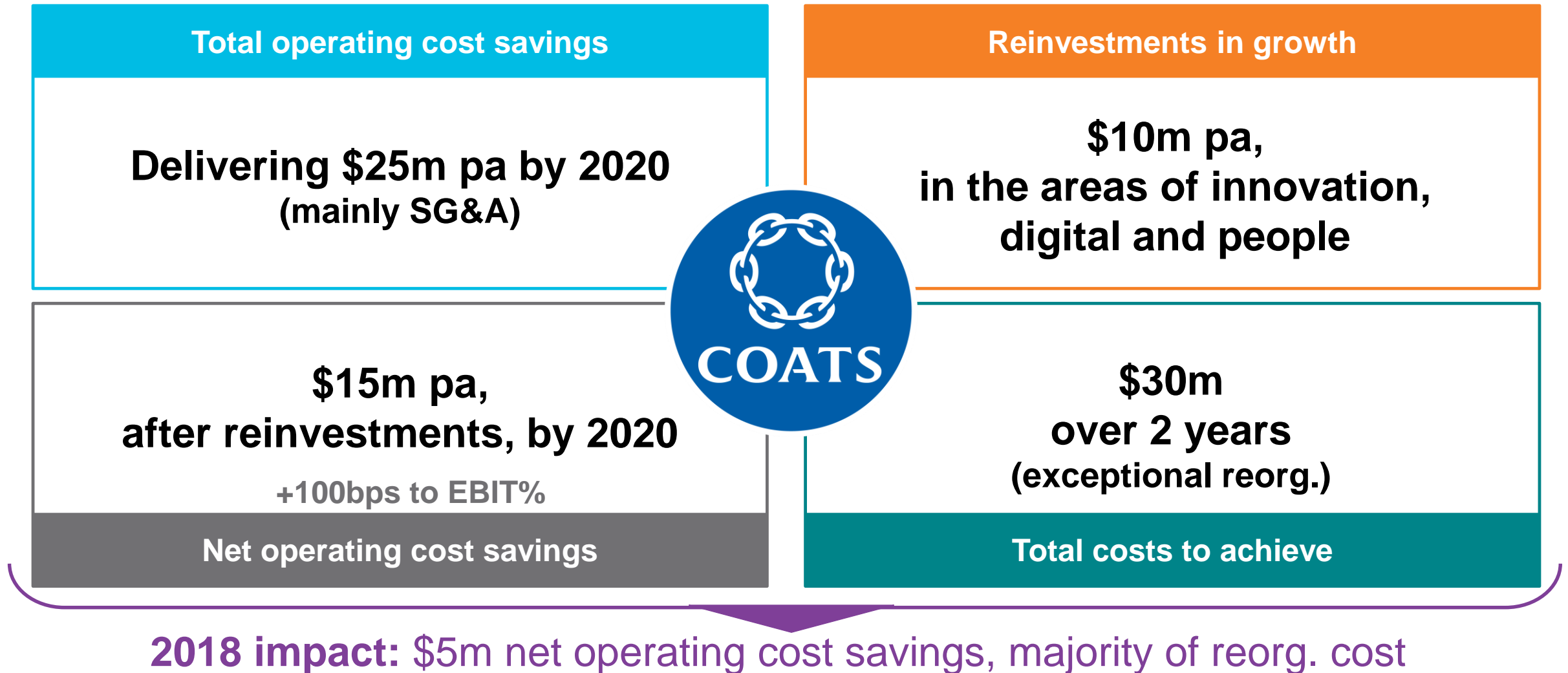
2 year programme and a key enabler to deliver the required change

Coats in 2020



Generating cost savings to drive next phase of our growth

Connecting for Growth – the financials



Simplification – faster, more efficient, better service

2017 – progress made

From April 2018...

...leading to greater...

1. Simplified senior management structure – Group Executive Team
2. Commenced integration of Crafts and Industrial businesses in LatAm
3. Merger of Digital and Technology functions

45+
countries
↓
10
management
clusters

Evolved
business
models for
10-15
smaller
countries

Globally
integrated
functions
(e.g. finance,
HR, legal,
technology)



Speed/agility



Service



Insights

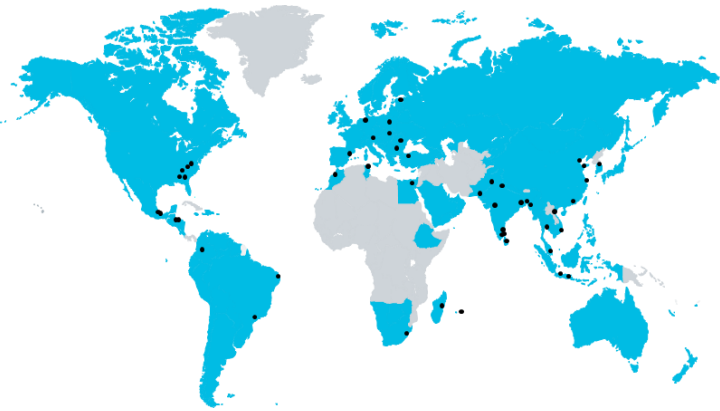


Productivity

Simplification – 10 scalable management clusters

Previously

45+
countries



Now

India

Vietnam

China

Bangladesh

EMEA

LatAm
South

LatAm
North

North
America

Crafts
NA

Services

10
clusters

Digital – underpinning Connecting for Growth

Connecting Coats and providing a market leading online customer service experience



Focus on Cyber Security and Data Protection

Today we have 9,000 devices connected to the internet – rising to 325,000 devices by end of 2019

Profitable sales growth and margin improvement

95%+
On Time In Full

5 days
Sales Order Lead Time

Digital solutions – delivering speed, flexibility, customer service

Our current solutions

95%
of all sampling
requests
digitised



83%
of orders
through eComm
(20,000 customers)



Technology foundations are largely in place to deliver this

Digital 2.0
Coats.com

SAP R/3
managing core
transactions

Industry 4.0
Connected
factory
& Coats dye
house system

**Specialised
Warehousing &
Distribution**
applications

SG&A
specialised
systems

**Supplier
Portal**

Single Data Lake

Artificial intelligence to transform data to common standard: feeding data analytics & reporting

Highly Scalable Infrastructure – the **FOUNDATIONS** are in place



Cloud computing and work
place collaboration tools



Centrally managed network



Internet service providers

'Factory of the Future'... a compelling vision

Priorities for delivery in our factory of the future

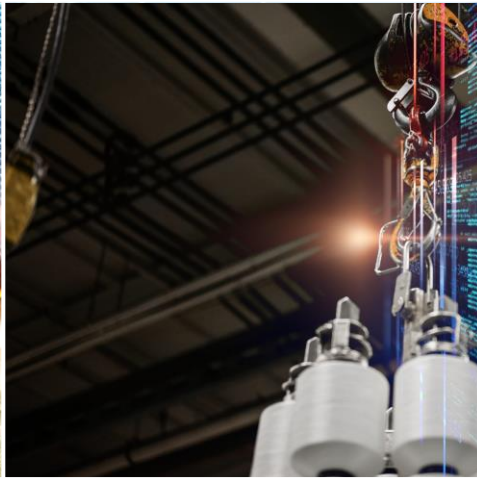
1

**Speed
and agility**



2

**Increased
productivity**



3

**Higher
service levels**



4

**Lower
cost**



5

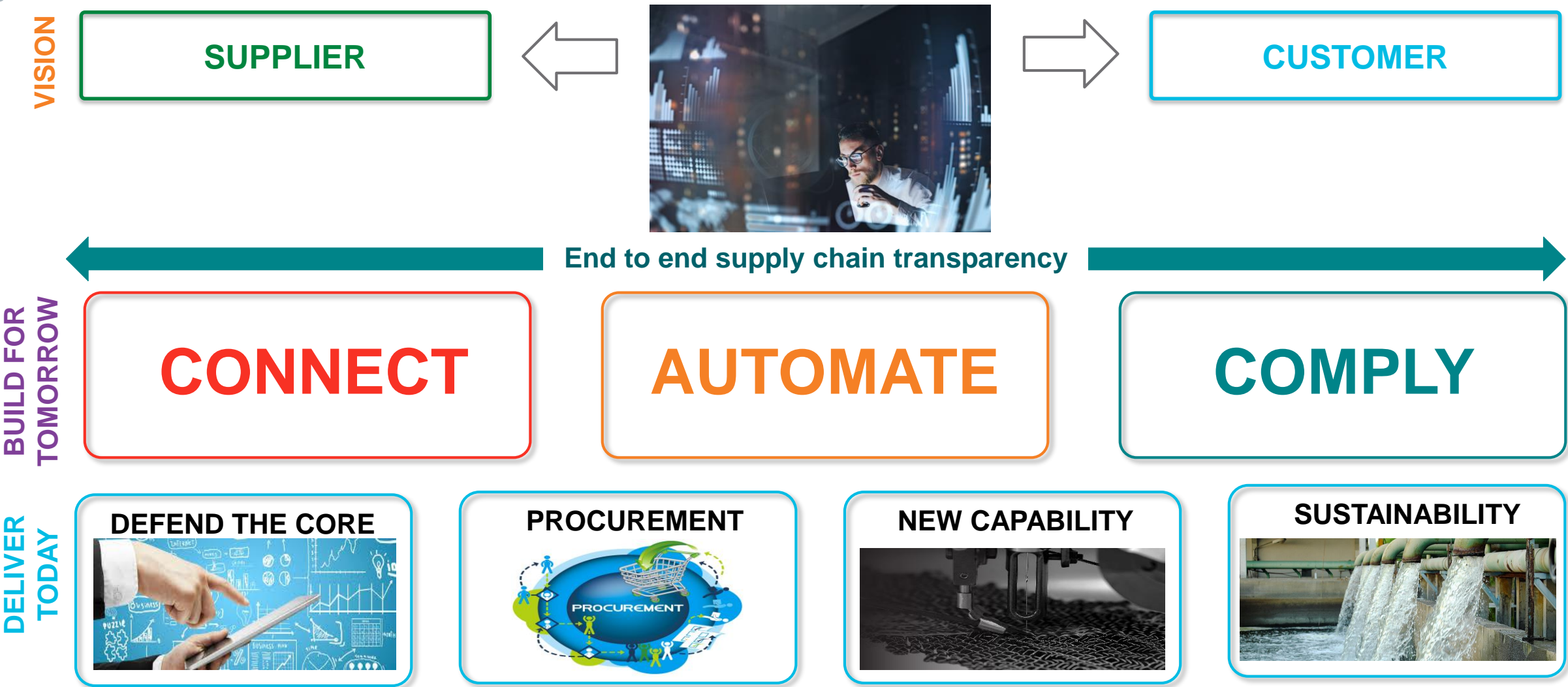
**Excellence
in H&S and
compliance**



**Health & Safety
our #1 Priority**

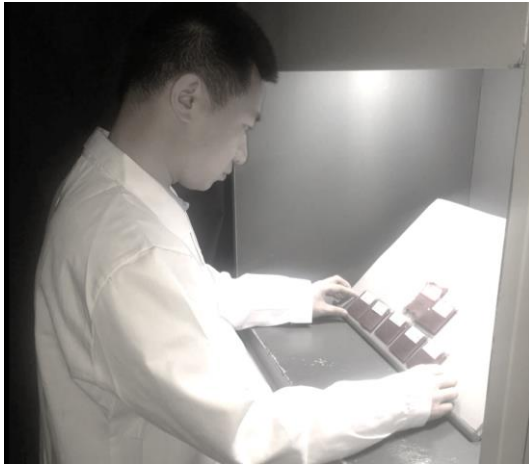
Fully integrated supply chain with end-to-end transparency

'Connecting Coats'... a Supply Chain for growth

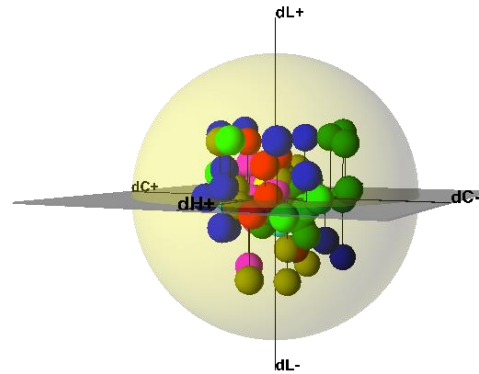


Dyeing process digitisation – the reason to believe

From Art...



...to Science



- Data driven approach
- Connected each machine to one plant system
- Created global Hub database
- Automated processes



- A state-of-the-art colour management system connecting 43 dye houses globally
- Centralised monitoring by global expert team
- Productivity increases of 20%
- Colour quality metrics doubled in 10 years

Intelligent dashboard demonstration



Delivering today
Transforming for tomorrow



Connecting for Growth: In summary

**Our industry
is changing**

**We are
already
changing in
response**

**Complements
strong gross
margins with
leaner SG&A
costs**

**Delivering
improved
customer
service**

**Digital
connectivity
across the
supply chain**

**\$30m re-
investments in
innovation,
digital and
people**

**Unlocking
value from the
wealth of data
we have**



Delivering today
Transforming for tomorrow

Our people – making it happen

Simon Youngs, Head of Talent and Learning



Our people

People at Coats

c.19,000
employees



83% employee
engagement
(Top 10% of
companies (IBM))



In some
50+
countries



25
nationalities
represented
in top 275
leaders



Proud. Engaged.
Committed. Ethical.
Talented.

Externally recognised



A fast changing world – employees' demands are increasing

Digital



**Talent acquisition:
Cognitive recruitment**



**Leadership
in the digital age**

Learning



**Careers and learning:
Real-time, all the time**



**Every day performance
management**

Culture



**The employee experience:
Culture and engagement**



**Inclusion and
diversity**

Agility



**Organising for speed,
agility and adaptability**



**The augmented
workforce**

How we will win

Retaining our best people while acquiring specialist talent



Developing new capabilities



Being change-focused and agile



Enhancing our culture and mindset



Employing 'Glocal' ways of working



Buy it. Build it. Borrow it.

In summary



Engaged Team

Speed & Agility

Winning Mindset



**Delivering today
Transforming for tomorrow**

Summary

Rajiv Sharma, Group CEO



Our investment highlights

Market leader in Apparel and Footwear

Consistently gaining share through:

- deep customer insight
- corporate responsibility
- digital tools
- innovation
- software solutions

Leading player in Performance Materials

Opportunity to grow in fragmented, high growth market through

- geographic expansion
- new sector entry
- product innovation
- bolt-on acquisitions

Refocused Americas Crafts

- Leading consumer brands, strong market positions and new product development
- New management team

Delivering self-help initiatives

Experienced management team delivering:

- productivity; procurement;
- SD&A savings; and
- C4G programme

Delivering consistent free cash flow

Allowing investment in:

- organic growth (high ROCE)
- support pensions
- fund bolt-on acquisitions
- pay dividends

Key takeaway... changing from a position of strength

**Global scale
- industry
leader**

**Future
mega
trend
positive**

**Clear
growth
strategy**

**Strong
management
team**

**Emphasis on
simplification,
digitisation,
innovation and
acquisitions**



Delivering today
Transforming for tomorrow

Questions

For more information

Rob Mann
Head of Investor Relations
+44 20 8210 5175
rob.mann@coats.com

Coats Group plc
www.coats.com



**Delivering today
Transforming for tomorrow**