



**Coats  
Group plc**

# **ACCELERATING AND TRANSFORMING**

**19% SALES GROWTH AND 180BPS INCREASE IN OPERATING MARGIN**

**2022 HALF YEAR RESULTS**

**TUESDAY 2 AUGUST 2022**

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## **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

**01**     **Accelerating profitable sales growth**

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**02**     **Transforming the business**

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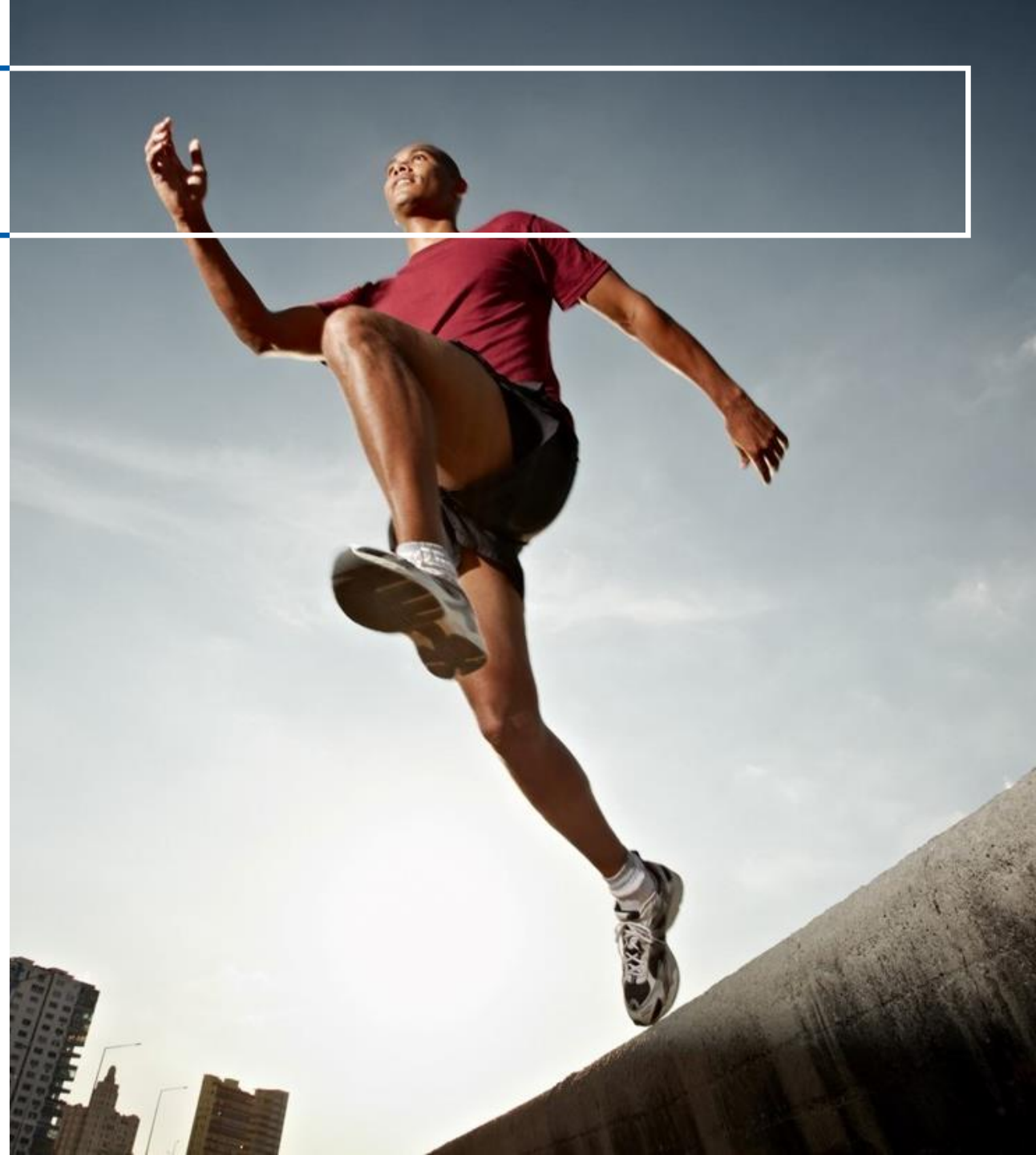
**03**     **Financial performance**

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**04**     **Outlook**

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**05**     **Appendices**



# HIGHLIGHTS

## OUTSTANDING H1 RESULTS

### ACCELERATING

Group sales growth of 19%; growth in both A&F and PM

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Price/mix actions coupled with self-help programs offsetting inflation

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Adjusted operating profit \$125 million; margins up 180bps to 15.6%

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Adjusted EPS of 4.3c per share, up 30% vs 2021

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Recycled product revenues up c.40% to \$65 million

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Interim dividend of 0.70 cents per share, up 15%

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### TRANSFORMING

Significant momentum on strategic projects

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Sale of our Brazil and Argentina business

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Acquisition of Texon

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Exit from Russia

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Exit of direct operations in South Africa

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# ACCELERATING

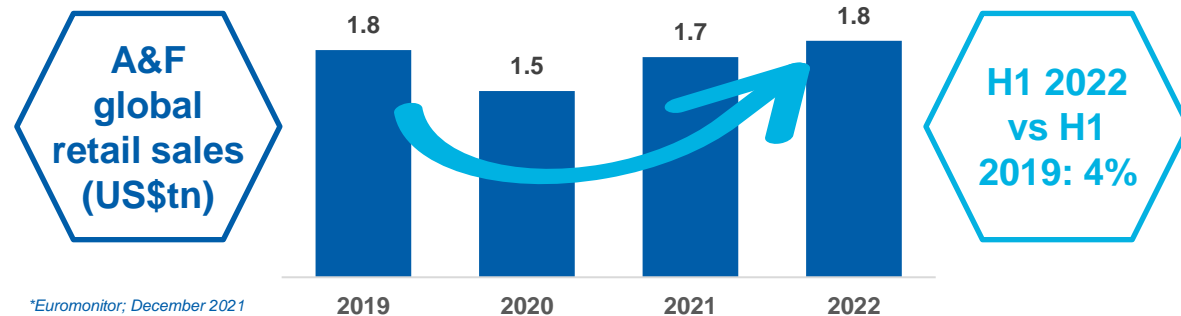


# APPAREL & FOOTWEAR OVERVIEW

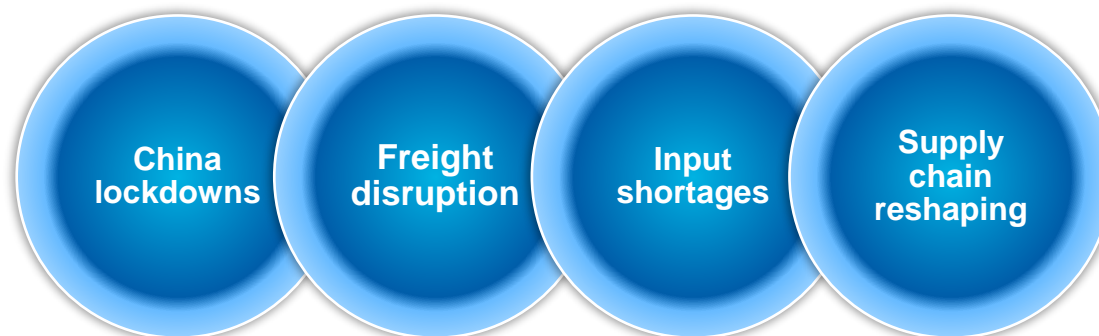
GAINING ADVANTAGES FROM TRENDS; WINNING UNDER SUPPLY CHAIN VOLATILITY

ACCELERATING

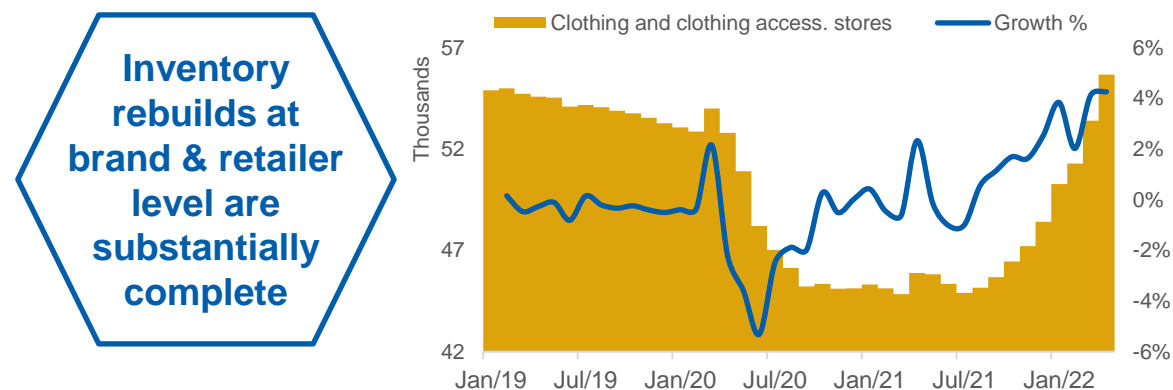
## Retail sales coming back to 2019 levels



## Continued significant supply chain volatility



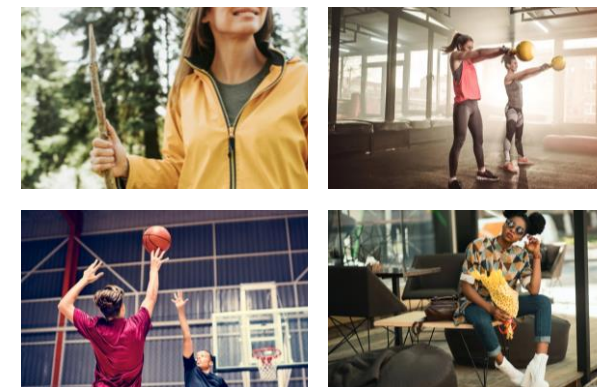
## H1 Inventories normalising



## Interest in casual, versatile and functional clothing

### Comfortable and sport-inspired

- Hybrid working
- Workplace casualisation
- Health & wellness demand



# APPAREL & FOOTWEAR IN H1

## PREMIUMISATION, SUSTAINABILITY AND CUSTOMER FOCUS DELIVERING RESULTS

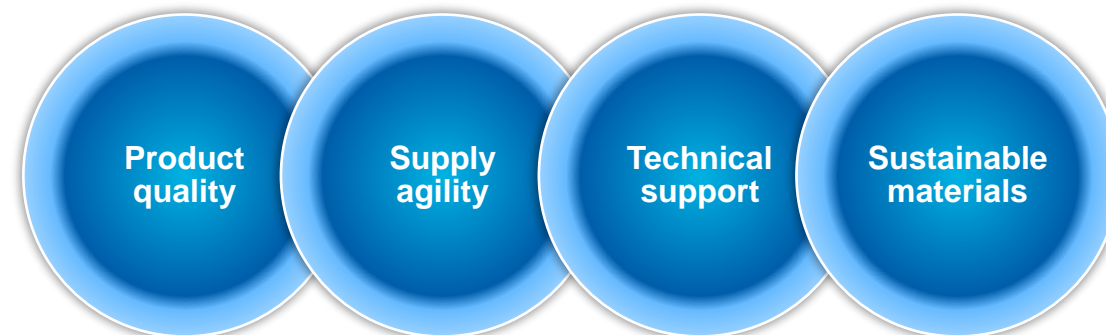
ACCELERATING

### Continuing momentum and growth ahead of market

6 monthly  
sales trend  
(vs 2019)



### Price and mix actions offsetting inflation



### Competitive advantage

Recycled product  
sales up c.40%



Premiumisation of  
products



43 of our top 50  
brands now have  
sustainability targets



### Winning with the winners at the heart of our progress

INDITEX



lululemon



GAP

UNI  
QLO



H&M

# PERFORMANCE MATERIALS OVERVIEW

## GROWTH ACROSS DIVERSE END MARKETS

**PERSONAL PROTECTION**  
(c.40% PM revenue)

**COMPOSITES**  
(c.25% PM revenue)

**PERFORMANCE THREAD**  
(c.35% PM revenue)

**Multi-hazard**  
**Comfort**

**Light-weighting**  
**Internet proliferation**

**Premiumisation**  
**Consistent demand**

**Energy markets**  
**Safety standards**

**Fibre-optic rollout**  
**Performance demands**

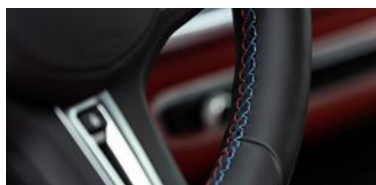
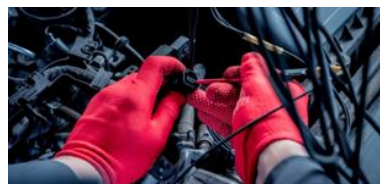
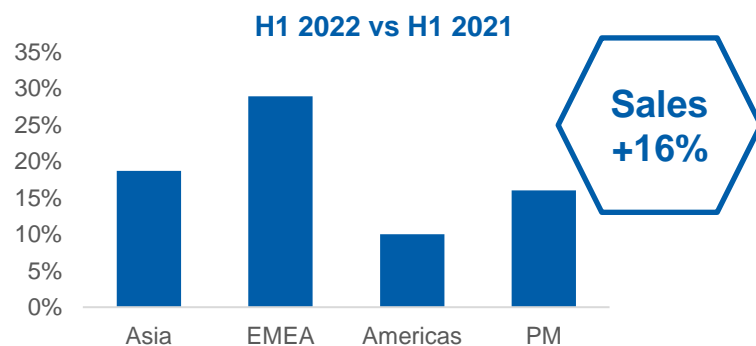
**Automotive content**  
**Consumer demand**



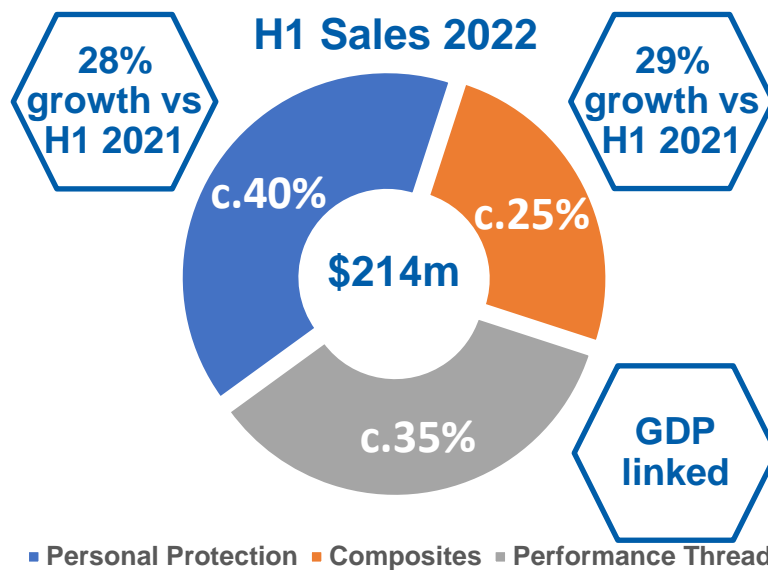
# PERFORMANCE MATERIALS IN H1

## SIGNIFICANT CUSTOMER WINS DELIVERING DOUBLE DIGIT SALES GROWTH

### Growth vs 2021 through price and volume



### Growing scale in all three sub-segments



### Significant customer wins

Multiyear German military tender

GM composite floorboard program expected to launch in Q3

European seat trim for Mercedes Benz

Safety critical thread for Mobis



# SUCCESSFULLY OFFSETTING INFLATION

## CONFIRMING VALUE THROUGH SELF-HELP & PRICE/MIX

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### INFLATIONARY PRESSURES

\$36m

Raw materials



\$22m

Other incl. labour & energy



\$7m

Freight



**\$65m**

### MITIGATING ACTIONS

Price / mix

\$57m



Productivity & Procurement

\$12m



**\$69m**



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# TRANSFORMING



# STRATEGIC PROJECTS

TRANSFORMING

## SIGNIFICANT MOMENTUM; DELIVERING AHEAD OF INITIAL EXPECTATIONS

### What we said;

**Improve overall cost base efficiency**

**Optimise the portfolio and footprint**

- Incremental adjusted operating profit of \$50m by 2024
- Exceptional cash costs of c.\$35m across 2022 and 2023



### What we are delivering;

**Cost base efficiency**

- Well advanced; \$5m savings already in H1 22
- FY 22 guidance increased to \$15m (previous expectations \$5-10m)

**Optimising portfolio and footprint**

- First facility in Mexico expected to commence in October 2022. Full production early 2023



# TEXON ACQUISITION

## EXCITING NEW ADJACENCY

TRANSFORMING



Leading position  
in highly attractive  
growth market



Industry leader in  
sustainability and  
innovation



Unique  
additional growth  
opportunities



Compelling  
financial  
rationale

Timberland

DECATHLON

NIKE

adidas

asics

PUMA

CONVERSE

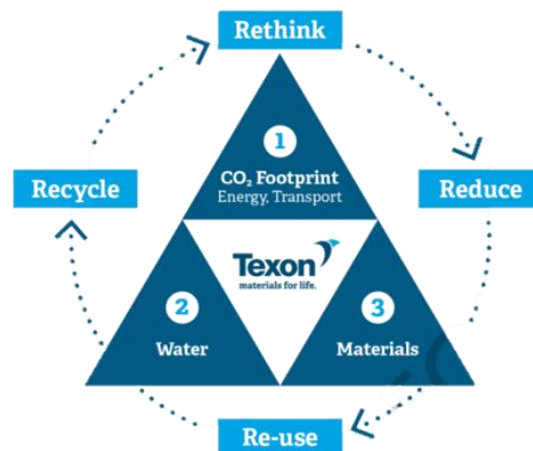
Dr. Martens

WOLVERINE

new balance

Clarks

VANS



\$132m 2021 Sales

36% 2021 Gross Margin

13% 2021 EBIT Margin

\$5m Synergies announced



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# FINANCIAL PERFORMANCE

# KEY FINANCIAL HIGHLIGHTS

ACCELERATING

## ACCELERATING SALES AND PROFITS



Accelerating sales growth

**Up 19%**



Price/mix and self-help programmes

**Offsetting inflation**



Adjusted operating profit \$125m

**Margins up 180bps**



Strong cash generation; 0.8x leverage<sup>1</sup>

**Adj. FCF \$30m**



Strategic projects momentum

**H1 \$5m  
FY \$15m**

1) Pre-TEXON acquisition

# KEY FINANCIAL METRICS

## STRONG SALES AND MARGIN GROWTH

ACCELERATING

	H1 2022	H1 2021	Reported change	CER <sup>1</sup>
<b>Revenue (\$ million)</b>				
Apparel & Footwear	587	507	16%	21%
Performance Materials	214	196	9%	16%
<b>Group</b>	<b>801</b>	<b>703</b>	<b>14%</b>	<b>19%</b>
<b>Adj. operating Profit (\$ million)</b>				
Apparel & Footwear	107	85	26%	30%
Performance Materials	18	12	48%	77%
<b>Group</b>	<b>125</b>	<b>97</b>	<b>28%</b>	<b>35%</b>
<b>Adj. operating margin (%)</b>				
Apparel & Footwear	18.2%	16.8%	140 Bps	130 Bps
Performance Materials	8.2%	6.1%	220 Bps	280 Bps
<b>Group</b>	<b>15.6%</b>	<b>13.8%</b>	<b>170 Bps</b>	<b>180 Bps</b>
Adj. EPS (cents)	4.3	3.3		
Adj. free cashflow (\$ million)	30	49		
Interim dividend per share (cents)	0.70	0.61		

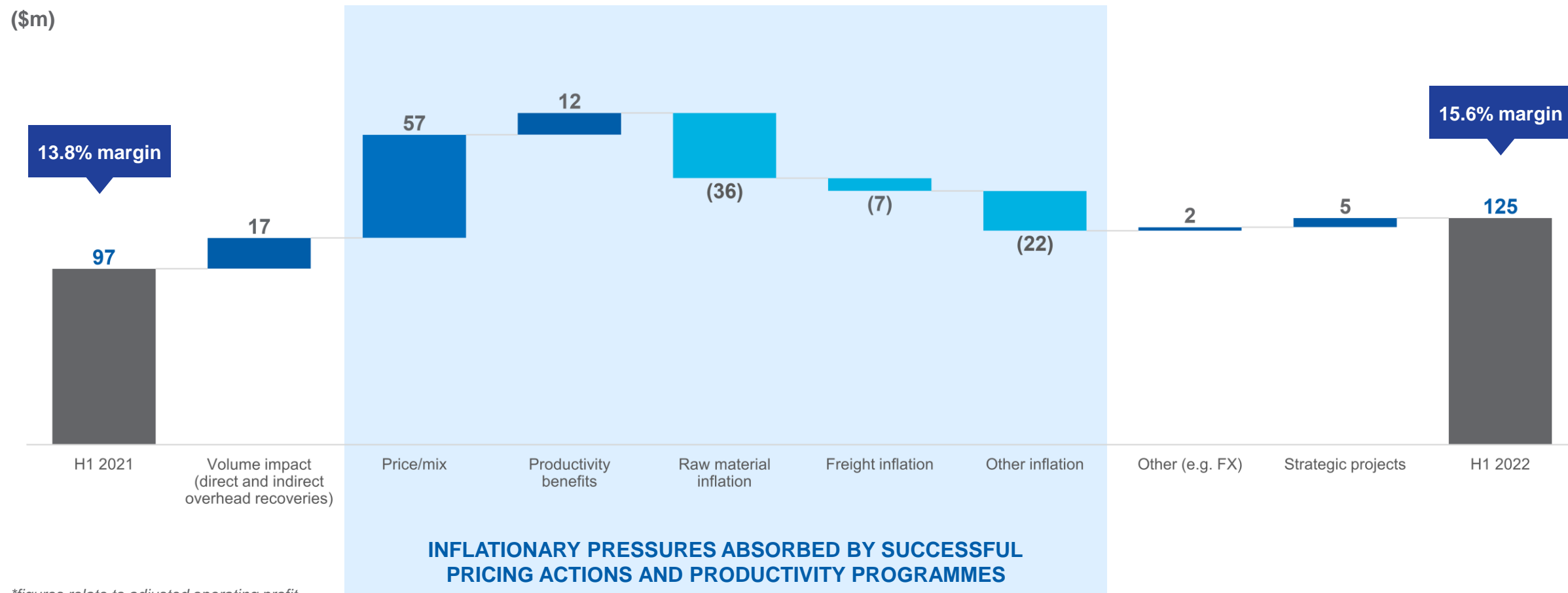
1) CER is 2021 figures at 2022 exchange rates.

All 2021 numbers restated for Sales of Brazil and Argentina

# GROUP OPERATING PROFITS AND MARGINS

SIGNIFICANT VOLUME GROWTH; SELF-HELP PROGRAMMES OFFSETTING INFLATION

ACCELERATING

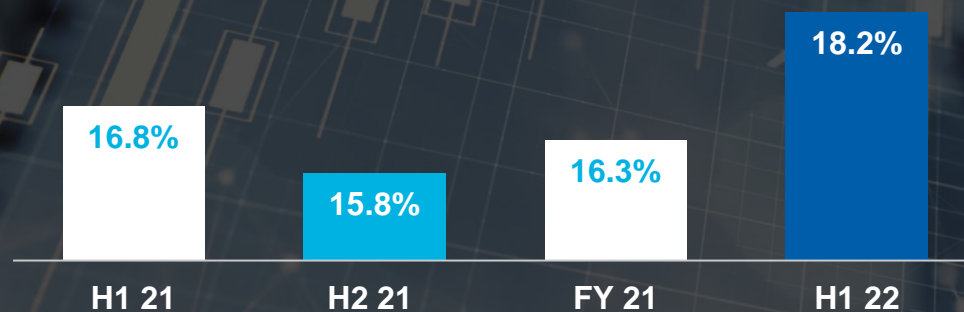


*\*figures relate to adjusted operating profit*

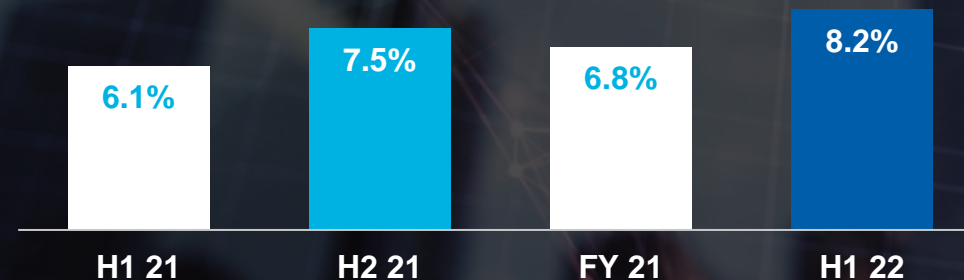
# SEGMENTAL MARGINS

STRONG A&F MARGINS DRIVEN BY VOLUMES  
PM MARGINS IMPROVING

## APPAREL AND FOOTWEAR (%)



## PERFORMANCE MATERIALS (%)



## A&F margins up 130bps

18.2%

- Excellent commercial and operational delivery
- Increased volumes and factory utilisation
- Pricing and procurement initiatives offsetting inflationary pressures

## PM margins up 280bps

8.2%

- Strategic initiatives impacting in US; still some labour availability issues
- Excluding the US, PM margins remain healthy double digits
- Pricing and procurement initiatives offsetting inflationary pressures

*Commentary on a CER basis*

# INCOME STATEMENT

SIGNIFICANT EPS GROWTH DRIVEN BY  
OPERATING PROFIT PERFORMANCE

## Exceptional / acquisition related items

- Commencement of strategic projects
- Texon acquisition costs

## Finance costs

Higher primarily due to

- Higher interest on borrowings – higher floating interest rate
- MTM losses due to GBP weakness

## Underlying effective tax rate

Decrease to 30% (2021 31%)

## Discontinued operations

Relates to the sale of Brazil / Argentina

## Dividend

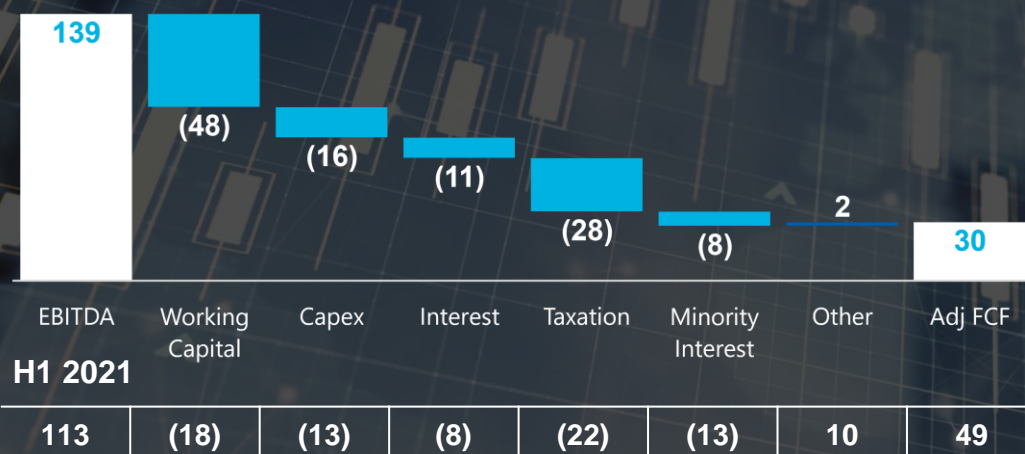
- Interim dividend of 0.70 cents per share proposed, up 15% vs 2021

	H1 2022	H1 2021
\$m	Reported	Reported
Adjusted operating profit	125	97
Exceptional / acquisition related items	(13)	(4)
<b>Operating profit</b>	<b>111</b>	<b>93</b>
Share of profit from JVs	1	1
Finance costs	(15)	(10)
<b>Profit before tax</b>	<b>97</b>	<b>84</b>
Tax	(33)	(27)
<b>Profit from continuing operations</b>	<b>64</b>	<b>57</b>
Discontinued operations	(87)	5
<b>(Loss) / Profit for the period</b>	<b>(23)</b>	<b>62</b>
Minority interest	(15)	(13)
<b>Attributable (loss) / Profit</b>	<b>(38)</b>	<b>49</b>
<b>Adjusted EPS (cents)</b>	<b>4.3</b>	<b>3.3</b>
<b>EPS (cents)</b>	<b>3.4</b>	<b>3.0</b>
<b>Interim DPS (cents)</b>	<b>0.70</b>	<b>0.61</b>

# CASH FLOW AND LEVERAGE

## STRONG CASH GENERATION

### H1 2022 CASHFLOW (\$m)



**\$30m adj. free cash flow; behind 2021 due to timing benefits last year**

**Well controlled net working capital: some investment in inventories to support customer service given supply chain disruption, and inflationary pressures**

**Capex on selective strategic initiatives and growth opportunities**

**Proforma leverage post Texon acquisition remains comfortably within 1-2x range**

\$m	H1 2022	H1 2021
Adjusted free cash flow	30	49
Pensions	(23)	(19)
Exceptional and acquisitions	(10)	(2)
Disposals and discontinued operations	(23)	(1)
Dividends paid to equity shareholders	(22)	(15)
Other	(2)	-
<b>Free cash flow</b>	<b>(49)</b>	<b>13</b>
FX and other movements	6	1
Movement in leases (IFRS 16)	6	(31)
<b>Change in net debt (incl IFRS 16)</b>	<b>(38)</b>	<b>(18)</b>
<b>Group net debt (excl IFRS 16)</b>	<b>(195)</b>	<b>(168)</b>
Leases (IFRS 16)	(89)	(97)
<b>Group net debt (incl IFRS 16)</b>	<b>(284)</b>	<b>(264)</b>
<b>Leverage (excl IFRS 16)</b>	<b>0.8x</b>	<b>0.8x</b>

# STRATEGIC PROJECTS - FINANCIAL IMPACTS

TRANSFORMING

## Overall financials – a reminder

- \$50m incremental adjusted operating profit by 2024
- Benefits broadly weighted evenly between cost base optimisation and footprint optimisation
- Total cash exceptional costs expected to be around \$35m

## 2022 impacts

- Significant momentum achieved
- Adjusted operating profit benefits of \$15m – previous guidance (\$5-10m)
- Cash exceptional costs of around \$30m

# 2022 MODELLING GUIDANCE

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Area	Guidance
Raw material inflation	We anticipate inflationary pressures to be offset by pricing and other self help productivity measures – in line with past track record
Other non raw material inflation	
Freight cost inflation	
Sourcing and productivity savings	c.\$20m
Strategic projects	c.\$35m cash exceptional costs (majority in 2022); incremental EBIT \$50m by 2024; \$15m incremental EBIT in 2022
Capex	c.\$35-45m
Tax	Effective tax rate of 29-30%
Pension	2022 annual deficit recovery payments \$32m including admin costs and levies, plus remaining \$12m of deferred 2020 payments (Covid underpinning measure)
Foreign exchange	At current exchange rates (30 June 2022) we expect a c.3-4% headwind on revenues and EBIT for the Full Year 2022 (excluding impacts of Turkey hyperinflation accounting)



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# KEY HIGHLIGHTS AND OUTLOOK



# HIGHLIGHTS

## OUTSTANDING H1 RESULTS

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Significant momentum on strategic projects

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Sale of our Brazil and Argentina business

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Acquisition of Texon

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Exit from Russia

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Exit of direct operations in South Africa

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A woman with long dark hair, wearing a bright red coat, stands on a balcony with a black metal railing. She is looking upwards and to the right with a slight smile. The background shows a blurred city street with buildings and people. A large blue semi-transparent shape is on the left side of the image, containing the title text.

# OUTLOOK

## RAISING FULL YEAR GUIDANCE

We expect to see more normalised growth in the second half of the year as the stock replenishment of the first half gives way to more typical demand patterns.

We will continue to use timely pricing actions to fully offset inflationary pressure, leveraging our unparalleled global footprint and critical position in the supply chain to serve our diversified customer base.

We are also delivering ahead of expectations on our strategic projects to transform the business. Our focus on the premium and athleisure markets in A&F, and our diversified end markets in PM, positions Coats well in the current macro-economic environment.

As a result of these factors, we now anticipate the Group's full year 2022 performance to be moderately ahead of our previous expectations.



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# THE Q&A SESSION WILL BEGIN SHORTLY

If you would like to ask a question, please dial

United Kingdom

**0800 640 6441**

United Kingdom (local)

**020 3936 2999**

All other locations

**+44 20 3936 2999**

Participant access code

**416968**

*Press \*1 to ask a question, \*2 to withdraw your question, or \*0 for operator assistance*



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# APPENDICES

# SUPPLY SECURITY, RESILIENCE AND AGILITY

## SUPPORTING OUR CUSTOMERS AND KEEPING EMPLOYEES SAFE

### Early identification of supply bottlenecks ensured no disruptions



**Supplier base diversification across countries**



**Leveraging Coats' global network to sidestep country-specific issues**



**Monthly rebalancing of global supply chain**



**Successful pricing actions and productivity programmes**

### Service levels maintained



Output and service levels maintained despite Covid-related issues in key supplying countries



Longstanding supplier relationships enabled continuous supplies of key input materials



Constant optimisation of inventory levels to maximise service levels



Targeted pricing and self-help productivity interventions

### Solid health and safety performance continued in H1 2022

Work-related injury rate at 0.38 below the 12 month average of 0.46, indicating a steady downward trend in injury incidents

Improvement actions, hazard reporting and training hours up by >10% v. H1 2021

**All leading indicators are well above target, at record levels**








# SUSTAINABILITY: PIONEERING A SUSTAINABLE FUTURE

**Strong progress in H1 2022 in water, energy and waste**

**Good progress towards achieving social target again in 2022**

**Recycled product revenues up c.40% to \$65m (2021 H1 \$42m)**

**Work on effluent continuing to accelerate towards target in H2**

PILLAR	TARGET	2022 PROGRESS	2022 TARGETS
 WATER	Water Intensity	(37)%	(40)%
 ENERGY	Energy Intensity	(11)%	(7)%
	Certified renewables	7%	n/a
 EFFLUENT & EMISSIONS	ZDHC compliance	71%	100%
 SOCIAL	GPTW certification	56%	88%
 LIVING SUSTAINABILITY	Waste reduction	(24)%	(25)%
	Premium recycled sales	\$65m	\$150m

# SUSTAINABILITY: ACCELERATING OUR JOURNEY

**Significantly increased ambitions to evolve sustainability strategy, increase momentum, and enhance competitive advantage**



\$10m earmarked to fund the scaling up of green technologies and materials that are relevant to our industry supply chain



Our Innovation Hub in Shenzhen, China, is being re-purposed to focus on the application of biomaterials



## NET ZERO

Coats commits to net zero by 2050. By 2030 70% of our global energy consumption will come from renewables



## SOCIAL IMPACT

Coats commits to making sustained progress and will develop 2030 targets for: Diversity, Equity & Inclusion, workplace health & safety, employee & community wellbeing and supplier social performance



## ECO MATERIALS

By 2030 all products will be made completely independently of new oil-extraction materials



## CIRCULARITY

Coats will shift to circularity, creating products and packaging solutions that enable recycling and reuse, within its own operations and across the wider garment industry

# GEOGRAPHICAL REVENUE SPLIT

\$m	H1 2022	H1 2021	Vs 2021 CER <sup>1</sup> change %
Asia	475	407	19%
Americas	172	153	13%
EMEA	154	143	31%
<b>Total</b>	<b>801</b>	<b>703</b>	<b>19%</b>

1) CER is 2021 figures at 2022 exchange rates.

## STRONG PERFORMANCE ACROSS ALL REGIONS

### Asia

- Driven by key A&F markets
- Exporter demand very strong in Indonesia and Bangladesh
- Some ongoing Covid disruption in China and Vietnam

### Americas

- Strong performance in Colombia, Honduras and Mexico
- US Personal Protection business performed well via improving operational delivery
- Performance Threads broadly flat

### EMEA

- Positive momentum in Composites and Transportation
- Strong Zips demand
- FX benefits from USD pricing in Turkey, and the impacts of hyperinflation accounting