

2019 full year results presentation

Thursday 5 March 2020

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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

2019 full year results presentation

- Introduction
- Financial performance
- Business review and outlook

Introduction: another year of significant strategic and financial progress





Overview



\$m unless otherwise stated	2019	Reported change	CER ¹	Organic ¹
Revenue	1,389	(2)%	1%	1%
Operating profit ²	198	2%	5%	6%
Operating margin %	14.3%	50bps	50bps	60bps
EPS (cents) ²	7.0	1%		
Free cashflow ³	107	11%		
ROCE	42.3%	(30)bps		
Dividend per share (cents)	1.85c	11%		

KPI

1 On a CER basis (2018 restated at 2019 rates); organic excludes contribution from acquisitions made during the period 2 Excludes exceptional and acquisition related items, reported / CER includes contribution from bolt-on acquisitions 3 Adjusted for UK pension recovery payments, acquisitions and exceptional items

Operating review: continued margin progression

Revenue

- Asia 3% growth strong performance in key A&F markets
- Americas 5% decline difficult trading conditions in Latin America Crafts (albeit improving in H2) and lower Transportation sales
- EMEA 4% growth driven by Performance Materials (Telecoms and Energy); slower in H2

Operating profit

 Operating profit up 6% – self help initiatives (price, productivity, procurement cost control and C4G) despite input cost inflation



\$m	2019	2018	CER ¹ change %	Organic ¹ change %
Asia	800	777	3%	3%
Americas	323	341	(5)%	(5)%
EMEA	266	257	4%	4%
Total ²	1,389	1,374	1%	1%
Operating profit ^{2,3}	198	189	5%	6%
Operating margin	14.3%	13.8%	50bps	60bps

On a CER basis (2018 figures restated at 2019 exchange rates); organic on CER basis excluding contributions from bolt-on acquisitions

Includes contributions from bolt-on acquisitions made in the year

On an adjusted basis which excludes exceptional and acquisition related items

Segmental overview

- Revenue growth across both segments though slower in H2 due to macro impacts
- Apparel and footwear profit up 9% slightly ahead of the overall Group
- Performance Materials profit down 6% to \$42m largely as a result of specific H2 impacts
 - Lower sales growth
 - Inventory adjustments
 - Incremental Innovation Hub costs
- Group operating margins up 60bps to 14.3%

	2019	2018 ¹	Organic ⁴ change %
Revenue ² (\$m)			
Apparel and footwear	1,063	1,053	1%
Performance materials	326	321	1%
Total	1,389	1,374	1%
Operating profit (\$m) ^{2,3}			
Apparel and footwear	156	145	9%
Performance materials	42	44	(6)%
Group	198	189	6%
Operating margin (%)			
Apparel and footwear	14.7%	13.7%	110bps
Performance materials	12.8%	13.8%	(100)bps
Group	14.3%	13.8%	60bps

²⁰¹⁸ figures restated at 2019 exchange rates

² Includes contributions from bolt-on acquisitions made in the year

³ On an adjusted basis which excludes exceptional and acquisition related items

⁴ On a CER basis excluding contributions from bolt-on acquisitions

Income Statement

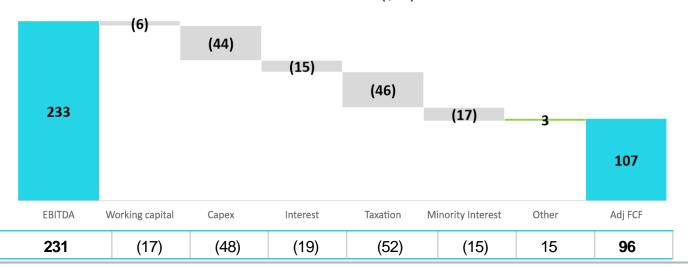
- Exceptional / acquisition related items
 - Significantly reduced year-on-year
 - 2019 includes \$8m of final C4G spend, \$2m acquisition related costs, partially offset by \$3m Brazil tax credit
- Finance costs higher in the period primarily due to
 - Pension finance charge \$1.7m
 - IFRS16 accounting standard adoption \$3.7m
 - Offset by lower interest on borrowings and interest receipt on Brazil exceptional
- Underlying tax rate further reduction to 29% (2018: 31%)
- Adjusted EPS up 1% despite FX translation headwinds
- Full year dividend per share 11% growth to 1.85c

\$m	2019 reported	2018 reported
Adjusted operating profit	198	195
Exceptional / acquisition related items	(7)	(48)
Operating profit	191	147
Share of profit from JVs	1	0
Finance costs	(25)	(24)
PBT	167	123
Tax	(51)	(49)
Profit after tax	116	74
Discontinued operations	(1)	(16)
Profit for the period	116	58
Minority interest	(20)	(19)
Attributable profit / (loss)	96	39
Adjusted EPS (cents)	7.0	6.9
EPS (cents)	6.7	3.9
DPS (cents)	1.85	1.66

All data shown on a reported basis ie 2018 not CER basis

Cash flow and leverage

- \$107m adj. free cash flow: 11% year-on-year growth underpinned by operating profit growth, controlled NWC, lower tax and interest spend
- Capex spend \$44m (2018: \$48m): 1.2x depreciation and amortisation
- Net debt (excl. IFRS16) reduced to \$150m: leverage 0.6x (Dec 2018 1.0x)
- One-time impact of adoption of IFRS 16 increases net debt by \$65m to \$215m (and associated \$15m uplift to EBITDA)
 2019 Cashflow (\$m)



\$m	2019	2018
Adj free cash flow	107	96
Pensions	(27)	(24)
Discontinued	32	7
Acquisitions	(5)	(7)
Dividends paid to equity shareholders	(24)	(21)
Exceptionals and other	(10)	(27)
FCF	72	25
FX and other movements	-	(6)
Change in net debt (Excl. IFRS 16)	72	19
Adoption of IFRS 16	(65)	-
Change in net debt	8	19
Group net debt (Incl. IFRS 16)	(215)	n/a
Group net debt (Excl. IFRS 16)	(150)	(223)
Leverage (Excl. IFRS 16)	0.6x	1.0x

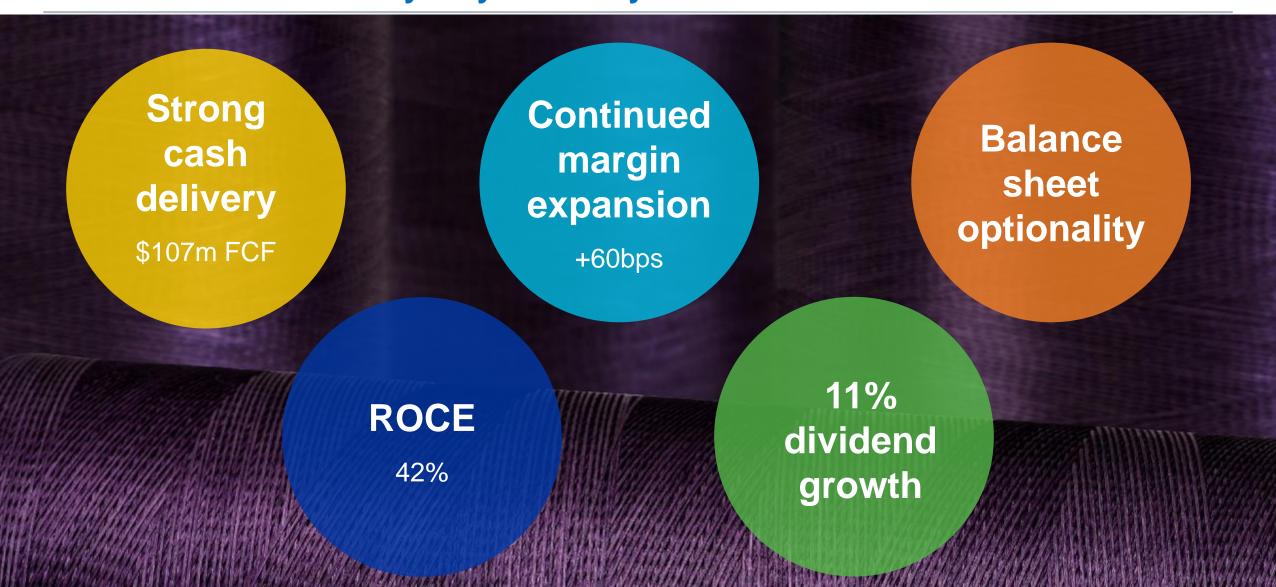
EBITDA does not add-back for increased depreciation for right of use assets under IFRS 16 (\$15m)

FY 2018

Coronavirus update

- Monitoring situation closely priority is employee safety, business continuity and supporting our global customer base
- Impact to date for Coats is China operations (mainly A&F)
 - 12% group sales
 - 4 out of 50 facilities: all now back open full capacity expected by end of March
 - \$8m sales impact in Jan / Feb
- China remains important to wider A&F supply chain (40% of garments and footwear produced) continue to monitor the uncertainty around the future impact
- Coats unrivalled global footprint enables us to serve global customer needs

Robust financial delivery: key takeaways





Coats today: the world's leading industrial thread manufacturer

A lean and focused B2B business

Customers include







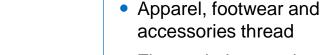












- Zips and trims products
- Coats Digital

2019 sales: \$1,063m



Performance Materials

- High technology threads and yarns for a variety of end-uses
- 3 bolt-on acquisitions

2019 sales: \$326m

Customers include







Portfolio rationalisation actions

- EMEA Crafts divestment 2015
- NA Crafts divestment 2019
- Eight tail market exits



Apparel and

Footwear (A&F)

Global footprint

- 17,000 employees
- 50 sites
- Sales in 100+ countries
- Global distribution network
- Three global innovation hubs

Apparel and Footwear: \$1bn business and global market leader



Estimated Coats share:

2019 Coats sales:

5 year sales CAGR *:



Continued market share gains

- Global market leader
- Critical component to 30,000 customers
- Speed, quality, productivity, innovation, sustainability



Large opportunity - \$400bn factory gate prices

\$12m

\$1bn+ addressable market
Growing at 10%

Industry value through technology

- Compelling market opportunity waste, speed, complexity
- Providing a suite of solutions for our customers



Apparel and Footwear – 2019 review: ongoing share gains in thread

- 1% revenue growth: 2% on like-for-like basis
- Mixed retailer sentiment US-China trade wars exacerbating
- Continued market share gains in thread
 - High quality products at speed
 - Customer service at the core of our offering
- Continued fashion trends and portfolio rationalisation actions impacting zips
- Environmental, Social, and Governance an increasing Coats' differentiator
- Strong demand for EcoVerde



Performance Materials: five attractive and different end-use segments

Building scale and presence

Personal Protection harr hp

10%

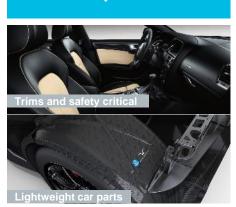
c.\$100m

+23%

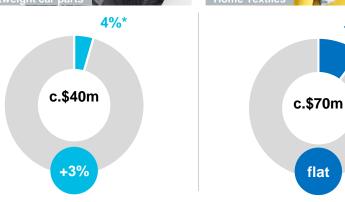
20% incl. Pharr HP



14%



Transportation













Growth drivers / trends

Estimated

Coats' share:

2019 Coats'

6 year sales

CAGR **:

sales:

Safety, defence, industrial production

Telecoms / O&G infrastructure investment, light-weighting

c.\$60m

+34%

Global automotive production, lightweighting, safety

Multiple mature markets

10%

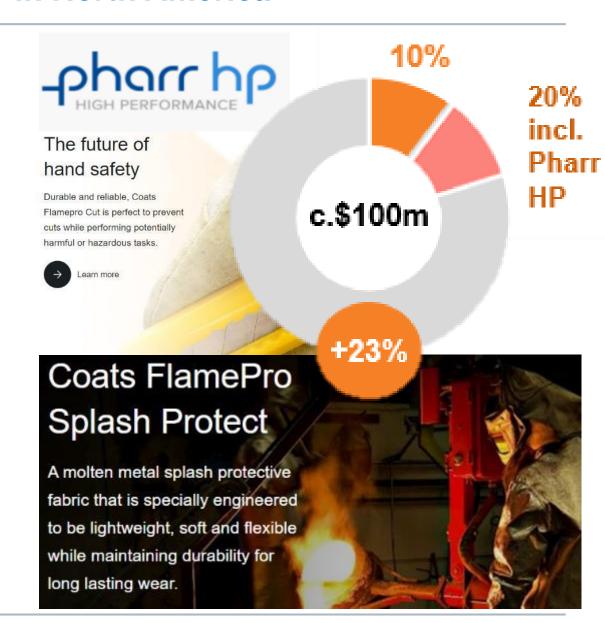
GDP

^{*} Excludes significant automotive composites opportunity ** 2014-19 organic CAGR

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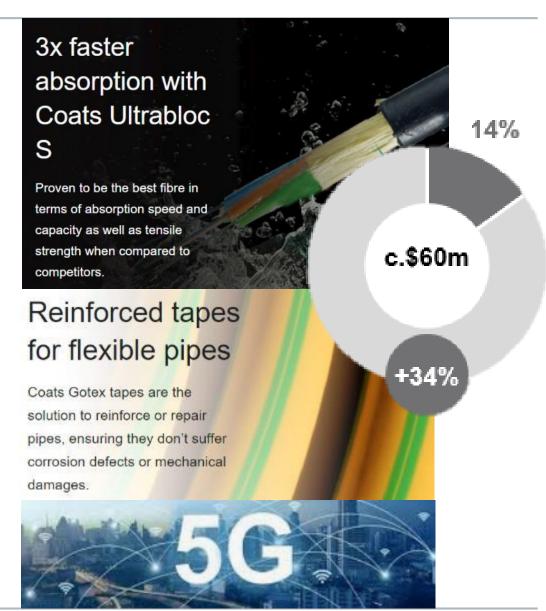
Personal Protection: now a market leader in North America

- \$1bn addressable market attractive growth drivers (mid-high single digits)
- Digital blend innovation flame/cut resistant products for extreme personal protection
- End uses include fire protection, cut resistance, thermal protection, defence
- Currently 10% market share
 - 20% with Pharr building significant scale
 - Now have presence in all key PP end-uses:
 Military, Fire, Industrial protection
- Pharr margin opportunity driving incremental shareholder value
- Remains future acquisition focus area



Telecoms and Energy: market fundamentals remain attractive

- Thread based solutions for the Telecoms and Oil & Gas sectors \$0.4bn addressable market
- Water-blocking and coated textile fibre technology solutions
- Reinforcing, insulating and protecting optical fibre and power cables incl. steel replacement
- Significant and sustained growth
- Temporary H2 softness
 - Global Telco Capex pause
 - Global fibre demand down 7%
- Expect 5G commercial roll out to commence in 2020
- Future growth from both organic and inorganic activities



Innovation: network of innovation hubs now operational

- Building on our existing innovative culture
- Innovation infrastructure / ecosystem now largely in place, three global hubs, new talent hired
- Driving incremental sales, \$16m in 2019 as hubs begin to impact
- Strong pipeline, further incremental sales in future expected, across A&F and PM
- >\$120m of sales in 2019 from products less than 5 years old
- 9 patents registered in year (eg autos composites)
- \$12m spent on innovation hubs in 2019 (capex and opex)





Sustainability: significant commercial differentiator – on track for 2022 targets

"We expect our partners to have clear goals and targets in this space. Coats is doing a great job"

Coats customer

2022 targets





- This is the right thing to do aligned to Coats' values over 250 years
- Seeing commercial benefits eg share gain / protection
- Aligned to customers' ambitions / goals

- 2019: foundations in place to deliver 2022 goals
- Significant ongoing investments eg solar power / \$5m spend on effluent treatment plants
- Recycled threads: Coats and brands committed to significant progress
- Good progress with ESG ratings * (top quartile)

Acquisitions: building a strong track record





May 2016



June 2016



December 2017





- Six deals now completed in chosen focus areas of Coats Digital and Performance Materials business cases on track
- \$120m total consideration delivering (pro-forma) incremental annual sales of \$200m and EBIT of c.\$15m *
- Future focus areas remain the same potentially larger bolt-on targets, balance sheet optionality

Outlook

- We enter 2020 as a lean and agile organisation, having delivered significant positive strategic change through 2019
- We are well placed to take advantage of the fast-paced and rapidly changing modern world, by capturing the many opportunities this presents to Coats as a truly global business
- Absent a material impact from Covid-19, Coats remains well placed to execute our strategy and deliver another year of growth in 2020

In summary





Financial guidance

Area	Guidance
Capital expenditure	\$45-55m in 2020 (including Pharr HP)
Foreign exchange	 Based on 31/12/19 rates, minimal FX translation effect expected in 2020 Primary FX rates to consider (local operations reporting their books in these currencies); INR, CNY, TRL, EUR, BRL Some exposure to GBP cost base and pension payments
UK pension deficit recovery payments, and admin costs	 Latest 2018 triennial valuation deficit recovery payments effective from April 2019 onwards until 2028 (10 year recovery schedule) \$31m (£24m) deficit recovery payments, including administrative costs and levies in 2020 Next triennial review effective date 31 March 2021
Pension finance charge	2020 pension finance charge c.\$4m (based on closing 2019 IAS19 position); 2019: \$5.5m
Underlying effective tax rate	 29% for FY2019; continue to drive for further incremental improvements 2020 effective cash tax rate > P/L effective rate (timing)
Shareholder dividends	Progressive growth reflecting earnings and cash growth
Capital allocation priorities	See later slide
Leverage	Maintain a strong Balance Sheet with a target leverage (net debt / EBITDA, pre. IFRS 16) of 1-2x
Pharr HP acquisition	 Year ending 31 March 2019 (last financial year): annual sales c.\$110 million: adjusted EBITDA of c.\$5 million Transaction consideration \$37 million; completion date 10 February 2020 As a result of the initial dilutive effect of Pharr HP lower operating margins, pro-forma 2019 Performance Materials and Group operating margins would have been 10.5% (as reported: 12.8%), and 13.5% (as reported: 14.3%) respectively Over time, we expect Pharr HP margins to trend towards Group levels

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Corporate timeline: a rich heritage

Coats is a company with more than 250 years of history

1750s

James and Patrick Clark began work in Paisley, Scotland





1812

Clark's sewing thread placed on the market



1826

James Coats establishes first Ferguslie mill in Paislev



Exchange 1891

1890

Coats' initial share offering takes place on London Stock Exchange



2004

GPG acquisition completed and company de-listed



1960s manufacturing

1980s-1990s

Period of manufacturing decline: Acquired by Vantona Vivella. M&A with Tootal, Barbour, and DMC



1912

One of the world's largest companies by market capitalisation



J&P Coats Sewing Cotton

1896

Coats and Clark family business merger forms: J. & P. Coats. Ltd

2011-13

GPG asset realisation programme leaving Coats as sole remaining operating business

2013-14

Pensions regulator Warning Notices received on UK Pension schemes

2015



Coats Group plc returns to London stock market 125 years after initial listing



London Stock Exchange

2016

De-listing from AZX and NZX solely LSE listed

2016-17

Settlements with three UK pensions schemes achieved and regulatory action ceased

First dividend as Coats Group plc paid

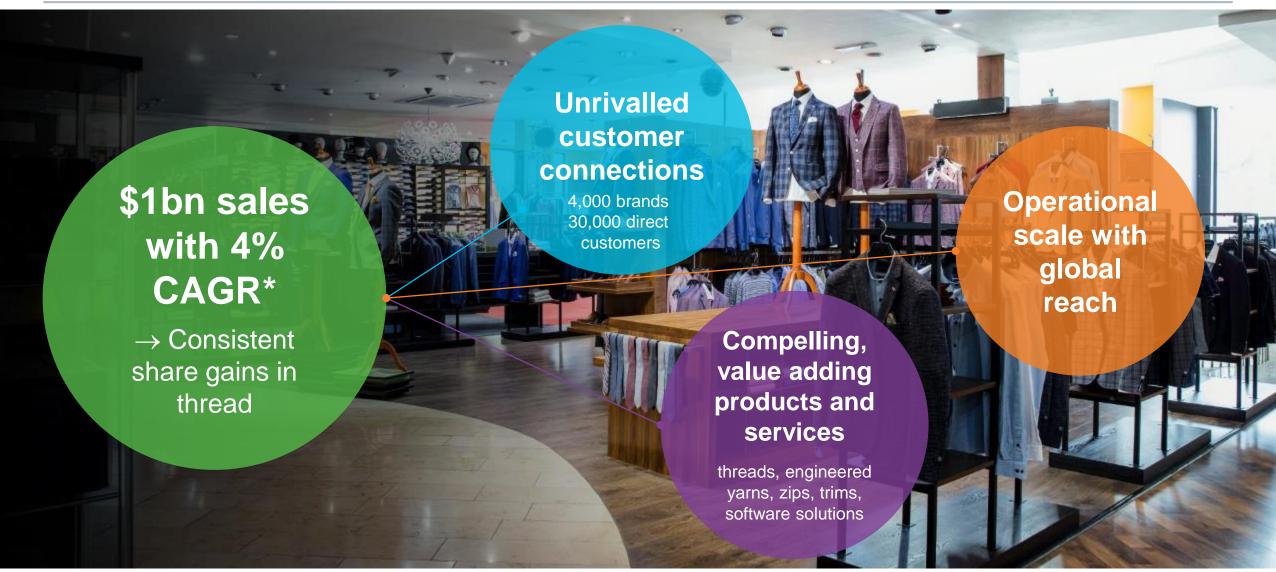
2017

on 19 June

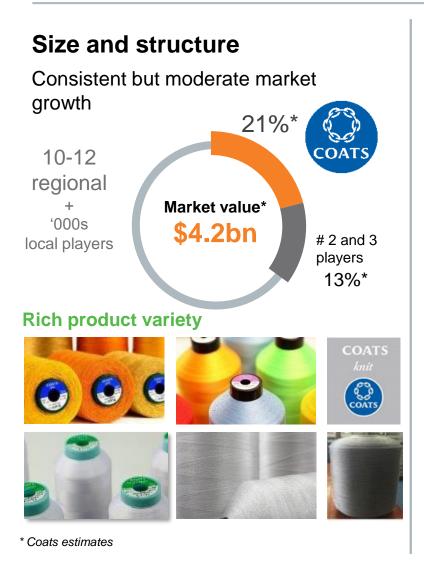
Coats enters Sale of North the FTSE 250 America Crafts

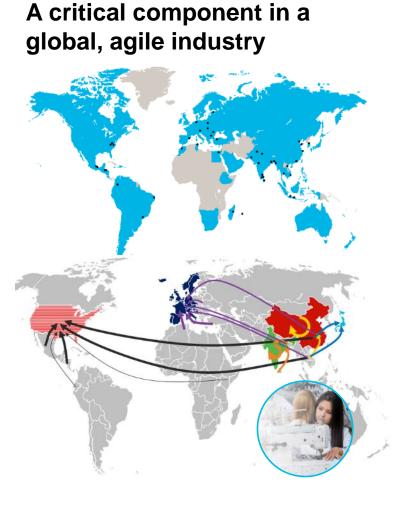
2019

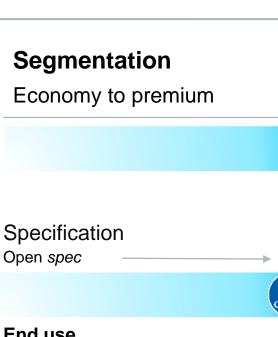
Apparel and Footwear: a global leader – winning with the winners



Understanding the thread market landscape







End use





Specified





Software solutions – a clear opportunity to add value for our partners

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







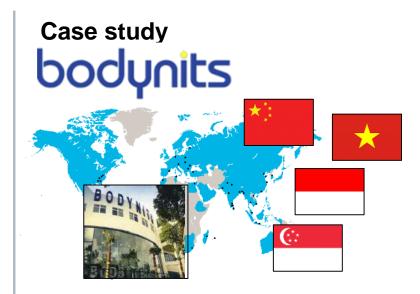
Market leader in production planning (key to service delivery and optimum utilisation)





Industry standard for bill of labour for transparent costing





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

Pioneering a sustainable future: committed to leadership, building on excellent progress to date

5 key priorities, with clear and ambitious 2022 targets, to drive accelerated progress











WATER

Managing a precious resource wisely

By

2022

40%

Reduction in litres/kg thread

ENERGY

Renewables for a sustainable future

7%

Reduction in kwh/kg thread

EFFLUENT & EMISSIONS

Working for a cleaner world

ZDHC*

alignment

SOCIAL

Safe and sustainable workplaces and communities

Great place to work accredited

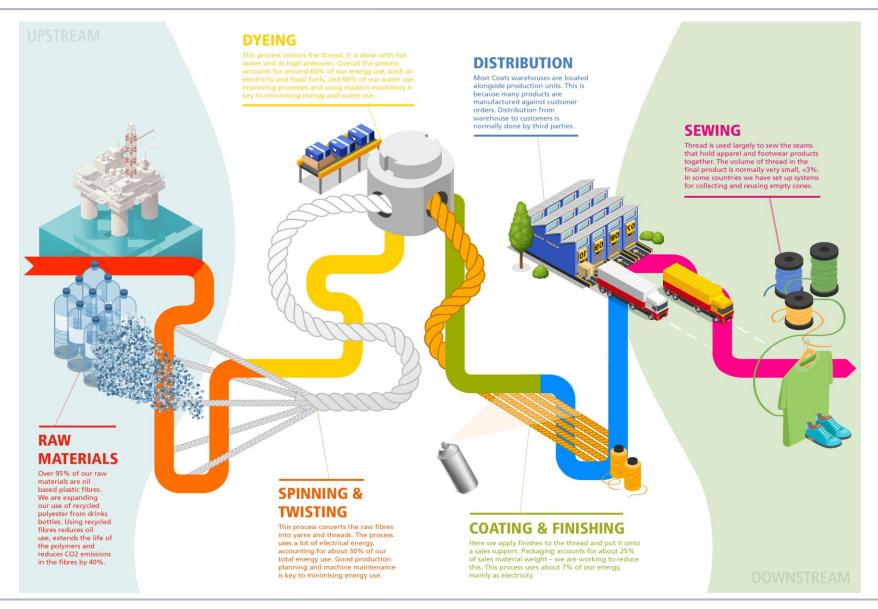
LIVING SUSTAINABLY

Protecting our planet

25%

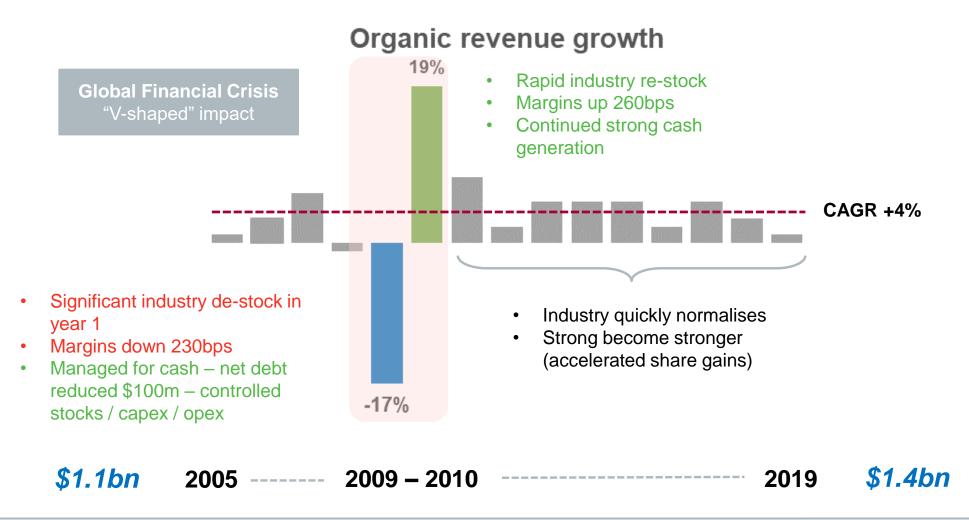
Waste reduction

Our key production steps



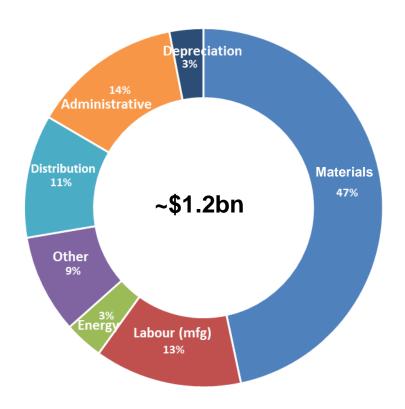
Proven resilience to macro shocks: the Global Financial Crisis case study

Our industry was not immune in the GFC – however, after an immediate de-stocking there was a rapid bounce back – reflecting the nature of the fundamentally critical products we supply (eg clothing and footwear) – Coats came out of this period stronger



Cost base

Full year 2019 pre-exceptional costs



- Materials: raw materials (polyester, nylon, cotton) and intermediates (grey thread); direct materials (dyes, cones) and bought-in finished goods (craft products)
- Labour (mfg): ongoing inflationary pressures in the locations in which we operate
- Energy: sourced from local and national grids, price linked to regional supply / demand dynamics
- Other includes maintenance, insurance and water
- Distribution includes freight and warehousing
- Administrative includes corporate costs

Continuing operations

Dividend and capital allocation

- The Group aims to use the free cash flow it generates to balance its various capital demands
- Whilst maintaining its strong Balance Sheet position (target leverage 1-2x)
- We have adopted a progressive dividend policy where we aim to grow dividends along with underlying earnings and cash
- The Board has proposed a full year dividend for 2019 of 1.85c per share – 11% growth on 2018
- The full year 2019 dividend reflects earnings cover of 3.8x and cash cover (post recurring pension recovery payments) of 3.3x



The Board has set out clear capital allocation policies:

Grow earnings and free cash flow by delivering on our 3 strategic goals – which will be used for:

Reinvesting in organic growth

Supporting pensions

Paying a progressive dividend

Acquisitions in line with strategy

Whilst maintaining a strong balance sheet with a target leverage ratio of 1-2 times net debt to EBITDA

