



**Coats
Group plc**

Coats Group plc
2016 Half Year results presentation

28 July 2016

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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

2016 half year results presentation

- Overview
- Financial performance
- Summary and outlook
- Appendices





Overview

Highlights

Operations / financials

- Organic revenue maintained at \$718m; lower sales growth in Q2 due to tougher market conditions
- Adj operating profit up 24% to \$77m - Industrial performed well, Americas Crafts increased margins
- Adj EPS up 24% to 2.08c - higher profitability and lower tax rate offset by losses on FX hedges
- Adj FCF \$82m (last 12 months), up 10% - primarily through higher profits

Strategic progress

- Acquired Gotex and Fast React; last year's acquisition GSD performing well
- Closing UK Crafts (expected by year end)

Corporate changes

- Appointed Simon Boddie as CFO and delisted from NZX and ASX

Pensions investigations

- Continuing settlement discussions with Trustees and engaging with tPR

Outlook

- Tougher market conditions likely to persist - guidance maintained

A&F: market share gains, digital conversion but softer demand

- 3% growth to \$492m, at constant exchange rates (CER)
- Driven by volume growth (in challenging price environment) - mostly share gains
- Higher growth with major brands through global accounts programmes and through eCommerce with contractors
- Increased sales in major end-use eg knitted outwear and denim
- Underlying market impacted by softer retailer demand in Q2; anticipated to continue into H2



Increasing digital conversion

- Making it easier to do business with Coats
- **eCommerce** - 18 months after roll out
 - in >25 countries, used by >10,000 customers
 - accounts for >60% of total thread orders
 - reduction in back office headcount
- **Opti Express** (zips sampling)
 - piloted in China, 50% customer adoption, halved average lead time to ~5 days

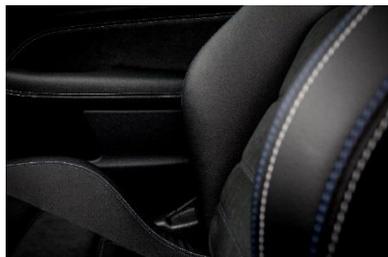


Speciality: continue to innovate & grow but US market weaker

- Sales up 3% CER to \$115m
- Tough comparators (H1'15: 13% growth) and challenging conditions in US consumer durable markets eg outdoor goods, in which destocking was prevalent
- Good growth in EMEA eg aramids/protective clothing and automotive
- Emerging market growth through geographic expansion of existing products eg furniture
- Continued to grow sales in innovative products eg for fibre optics market
- Overall challenging market conditions in USA

New market entry - carbon composites

- Market: shift from metal to textiles
- Idea: 100% fibre based composites
- Innovation: unique commingling technology to support industry needs
- Talent: expert process knowledge
- Manufacturing: carbon cell at US facility



Crafts: cost actions taken to manage tough market conditions



free patterns *Calling all Knitters & Crocheters!* [most popular](#) [most recent](#)

- Sales¹ declined 13% (CER) to \$104m
- Handknitting down 23%¹ due to sharp decline in US market (mild winter) and systems issues with a key customer impacted demand
- Recent improvement in handknitting customer sales
- Needlecraft sales down 1%¹ but with continued growth in lifestyle fabrics
- Taken cost actions to maintain margins (see next slide); remains focus for remainder of 2016
- Americas Crafts margins up 40bps to 3.0%
- Loss-making UK business to close by end of 2016

¹ Excludes UK sales: in H1 2016 handknittings \$4m and needlecraft \$3m

Productivity and procurement improvements and cost focus



Industrial

- Manufacturing productivity and sourcing gains: \$9m on H1'15
- Productivity per employee up 4%
- Improvements in zip manufacturing KPIs
- Effluent treatment plant programme continued - installations in Honduras, Shanghai, Vietnam, India and Bangladesh
- Electricity usage down 5%, fossil fuel consumption down 2% and water reduced 4%

Crafts

- Reduced discretionary spend and tightly managed overheads

Group

- Overhead reduction programme delivering as per expectations (full benefit by end H2'17); re-investing some savings to grow business

Gotex acquisition

Market and technological leader in manufacturing innovative, high-performance materials

- Based in Spain; designs, manufactures and trades range of yarns and tapes for telecoms, energy and oil and gas sectors (2015 sales: €14m)
- Proprietary technology enables manufacture of coated fibreglass yarns at significantly higher speed than conventional means
- Complements Coats' aramid product range and strengthens presence in fibre optics
- Support Gotex in further expanding into high-growth markets by leveraging Coats' unrivalled geographic footprint, global relationships and strong corporate brand
- Initial consideration \$28m, max \$4m earnout after 2yrs



Fast React acquisition; building on success of GSD

Software provider to global textiles industry; another step in enhancing Coats Global Services



- UK based provider of software solutions and expertise to manufacturers and retailers to improve their operational efficiency (2015 sales: £4m)
- Enables Global Services to offer even wider range of productivity improvement tools to customers
- Addresses growth in demand from our customers for value-added services in operational efficiency
- Initial consideration \$7m, max \$4m earnout over 3yrs
- Follows **last year's acquisition of GSD** – UK based supplier of solutions to analyse time, cost and production capability in textiles industry
 - delivering double digit growth by leveraging Coats global reach and strong relationships

Pensions

Investigations

- Continuing settlement discussions with Trustees (progress being made) and now also engaging with tPR to attempt a resolution
- As previously announced committed to retain parent group cash to support Company and schemes - on basis tPR withdraws Warning Notices on three schemes, thereby ending investigations
- Active discussions as to support structure provided by parent group cash and level of annual deficit recovery payments to meet aggregate technical provisions deficit
- If settlement cannot be reached and investigation process continues, hearing unlikely before Q4'16

Triennial valuations

- As previously announced, 2013 valuations for Brunel and Staveley schemes agreed
- April 2015 Coats scheme valuation ongoing; anticipated to be agreed alongside any settlement

IAS19 accounting valuations

- Aggregate deficit for three UK schemes increased to £349m (Dec'15: £286m) due primarily to 70bps fall in discount rates – approximately half of the decline followed EU Referendum

The image features four spools of red thread arranged in a row, receding into the background. The spool in the foreground is in sharp focus, showing the texture of the thread. A teal-colored rectangular box with rounded corners is positioned in the lower-left area, containing the text 'Financial performance' in white, bold, sans-serif font.

Financial performance

Overview



\$m unless otherwise stated		H1 2016	Reported change	CER change ¹
Revenue	- reported	720	(4)%	
	- organic ²	718	(4)%	0%
Operating profit	- reported	75	44%	
	- adjusted ³	77	19%	24%
EPS (cents)	- reported	1.90	NA	
	- adjusted ⁴	2.08	14%	24%
Free cashflow (LTM)	- adjusted ⁵	82	10%	
ROCE ⁶		31%	700bps	

KPI

¹ On a constant exchange rate (CER) restates H1 2015 figures at H1 2016 exchange rates

² Excludes contribution from acquisitions made during the period

³ Excludes contribution from acquisitions made during the period, exceptional and acquisition related items

⁴ Excludes exceptional costs, acquisition related items and foreign exchange gains/losses on parent group cash balance

⁵ On a last twelve months basis; adjusted for UK pension recovery payments, acquisitions and exceptional items (see slide 23)

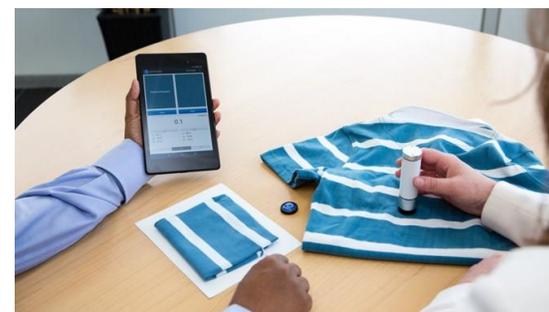
⁶ Adjusted operating profit for last twelve months divided by capital employed at 30 June 2016 (H1 2015: 25%)

Segmental performance

<i>Organic basis</i>	H1 2016	H1 2015	CER change
Revenue (\$m)			
Industrial	607	589	3%
Americas Crafts	104	119	(13)%
UK Crafts	7	8	(12)%
Total	718	716	0%

Operating profit (\$m)			
Industrial	81	64	27%
Americas Crafts	3	3	0%
UK Crafts	(2)	(1)	NA
	81	66	
UK pension admin	(4)	(4)	
Group	77	62	24%

Operating margin (%)			
Industrial	13.3%	10.8%	250bps
Americas Crafts	3.0%	2.6%	40bps
Group	10.8%	8.7%	210bps



Industrial

Revenue

- **Asia** up 3% with a strong start to the year in A&F somewhat offset by softer retailer demand in Q2
- **Americas** down 1%, solid growth in LatAm A&F markets offset by US consumer durables slowdown
- **EMEA** up 8%, following challenging 2015, with growth in key A&F markets, improved performance in zips and good performance in Speciality

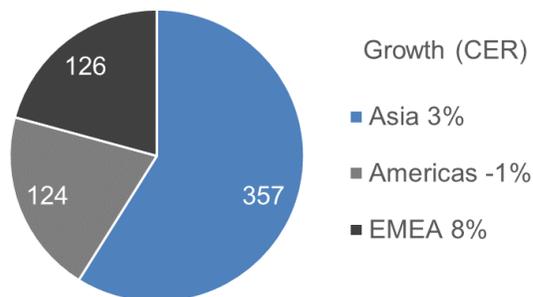
Profit

- 250bps margin improvement driven by volumes (operational gearing), productivity and procurement gains and lower average oil prices; more than offset challenging pricing conditions and structural inflation

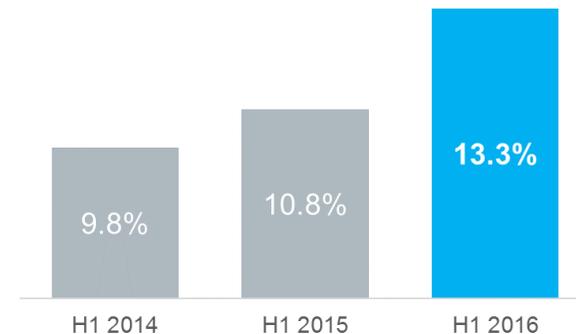
\$m	H1 2016	H1 2015	CER change
Organic revenue			
Apparel and Footwear	492	477	3%
Speciality	115	112	3%
Total	607	589	3%

Segment profit	81	64	27%
Segment margin	13.3%	10.8%	250bps

Revenue by region



Segment margin
(actual exchange rates)



Crafts

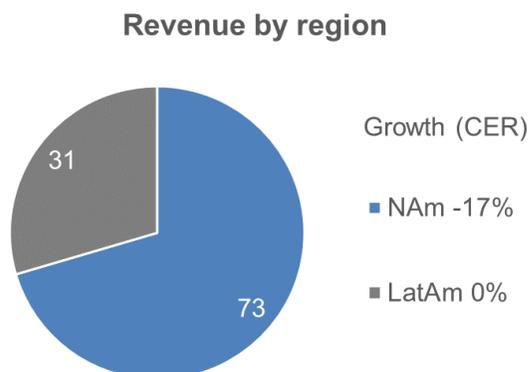
All figures exclude UK business (closing by end of 2016)

Americas revenue

- **North America:** down 17% with sharp decline in US handknittings and systems issues at a key customer; recent improvement in handknitting sales
- **LatAm:** broadly stable, with lower volumes due to challenging market conditions largely offset by product and country mix benefits

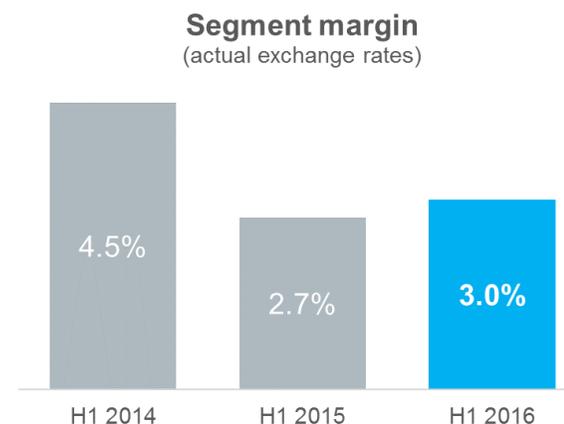
Americas profit

- Cost actions enabled business to maintain profits
- Margin expected to improve in H2 due to anticipated upturn in market conditions, ongoing focus on costs and traditional sales weighting to second half



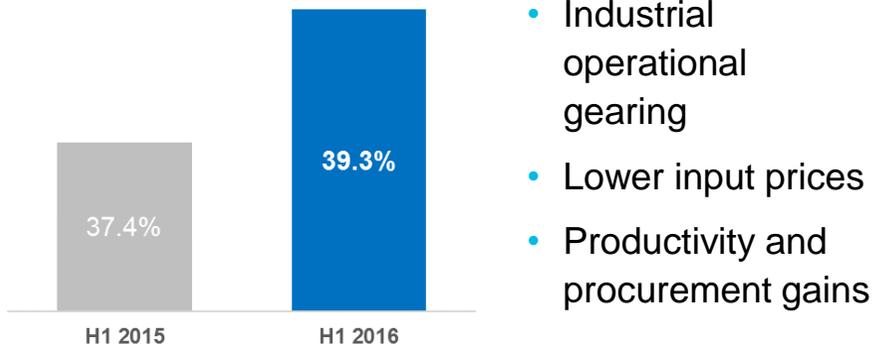
\$m	H1 2016	H1 2015	CER change
Organic revenue			
Handknittings	49	63	(23)%
Needlecrafts	55	56	(1)%
Total	104	119	(13)%

Segment profit	3	3	0%
Segment margin	3.0%	2.6%	40bps

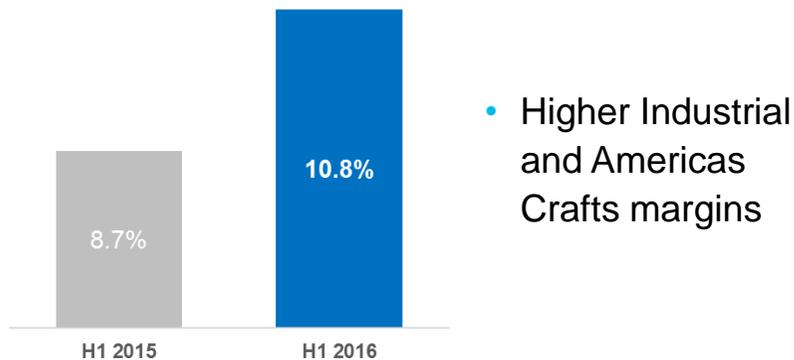


Group metrics

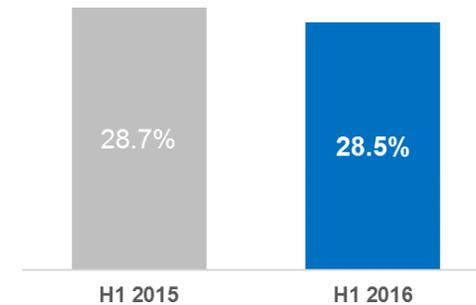
Gross margin %



Operating margin %



SD&A % revenue



- Overhead reduction programme, following EMEA Crafts disposal in 2015, delivering in line with expectations
- Americas Crafts cost actions
- Re-investing some programme savings to grow business
- Structural labour inflation in many countries in which we operate

All metrics on an organic, adjusted and CER basis

Income statement

\$m, unless otherwise stated	H1 2016	H1 2015
Adjusted operating profit	78	65
Exceptional / acquisition related items	(3)	(13)
Operating profit	75	52
Share of profit from JVs	0	1
Finance costs	(18)	(23)
PBT	57	30
Tax	(23)	(20)
Profit / (loss) after tax	35	10
Discontinued operations	-	(52)
Profit / (loss) for period	35	(42)
Minority interest	(8)	(7)
Attributable profit / (loss)	26	(48)
Adjusted EPS (cents)	2.08	1.82
EPS (cents)	1.90	NA

- \$52m discontinued operations in H1 2015 relates to disposal of EMEA Crafts
- Minority interest predominantly related to Coats' operations in Vietnam and Bangladesh (controlling interests)



As per financial statements (at actual exchange rates and including contribution from acquisitions made during the period)

Exceptional and acquisition related items

\$m	H1 2016	H1 2015
UK Crafts costs	(1)	-
Acquisition related items	(2)	-
Reorganisation - Mexico	-	(3)
US environmental	-	(7)
Overhead reduction programme	-	(3)
Total	(3)	(13)

- UK Crafts expected to close by year end and be treated as discontinued in FY16 results
- Acquisition-related items include transaction fees, performance based earn-out costs and amortisation of acquired intangible assets



Finance costs

Operating items

- \$3m lower interest partly due to fixed rate swaps coming to an end
- H1'15 investment income primarily relates to compensation from historic financing arrangement
- Other includes ~\$4m unrealised losses on FX contracts mainly due to depreciation of GBP following EU Referendum

Parent group

- Reduced FX exposure by moving balance to GBP in H2'15 (\$12m FX loss in H1'15 due to movements between GBP, NZD and AUD)
- Consequently investment income fell to \$1m due to lower interest rates on GBP holdings

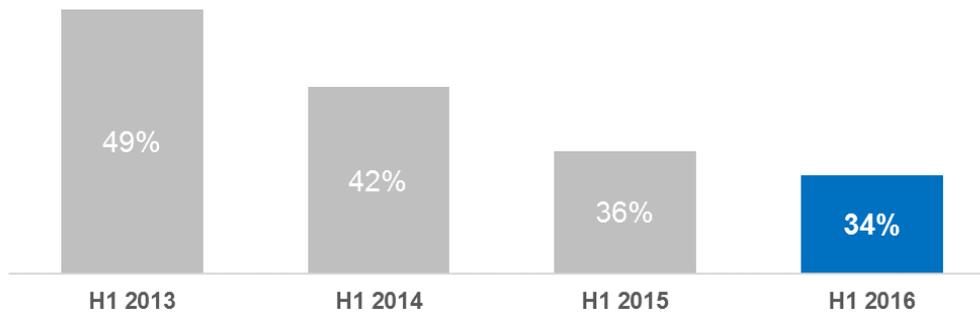
Pensions finance costs

- \$2m decrease due to lower IAS19 pensions deficit at y/e 2015 (compared to y/e'14)

\$m	H1 2016	H1 2015
Operating items		
- Interest on bank and other borrowings	(7)	(10)
- Investment income from operating activities	1	5
- Other (including unrealised gains / (losses) on FX contracts)	(7)	(0)
Parent Group		
- FX (losses) / gains on parent group cash	-	(12)
- Investment income on parent group cash	1	3
Pension finance costs	(7)	(9)
Total finance costs	(18)	(23)
Adj EPS impact (exc FX losses / gains)	(18)	(11)

Tax

- Reported tax rate 40% (H1 2015: 66%)
- Underlying tax rate¹ (UTR) reduced 200bps to 34%
 - Reduction in unrelieved losses
 - Reduction in withholding tax suffered
 - Favourable change in profit mix
- Improvement in UTR benefits EPS and free cash flow

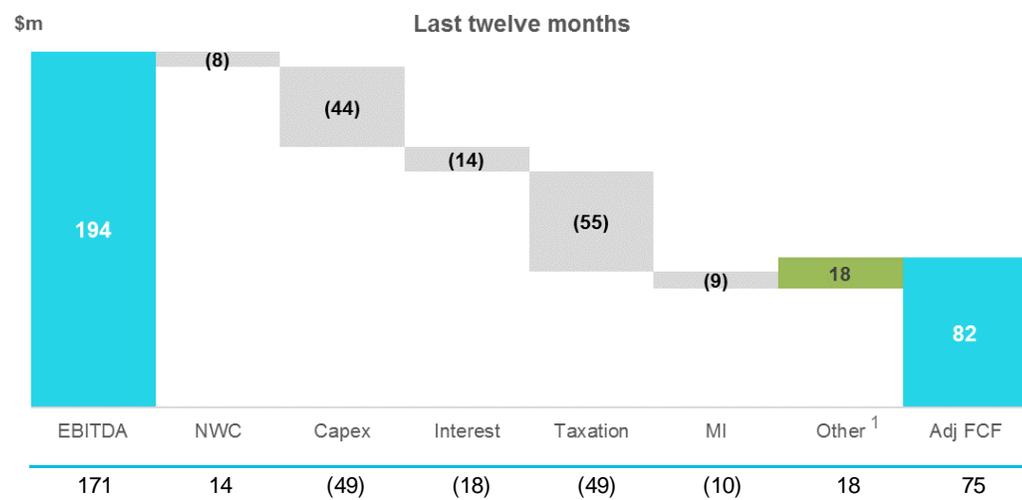


¹ Excludes exceptional and acquisition related items, IAS19 finance charges and FX gains/losses on parent group cash



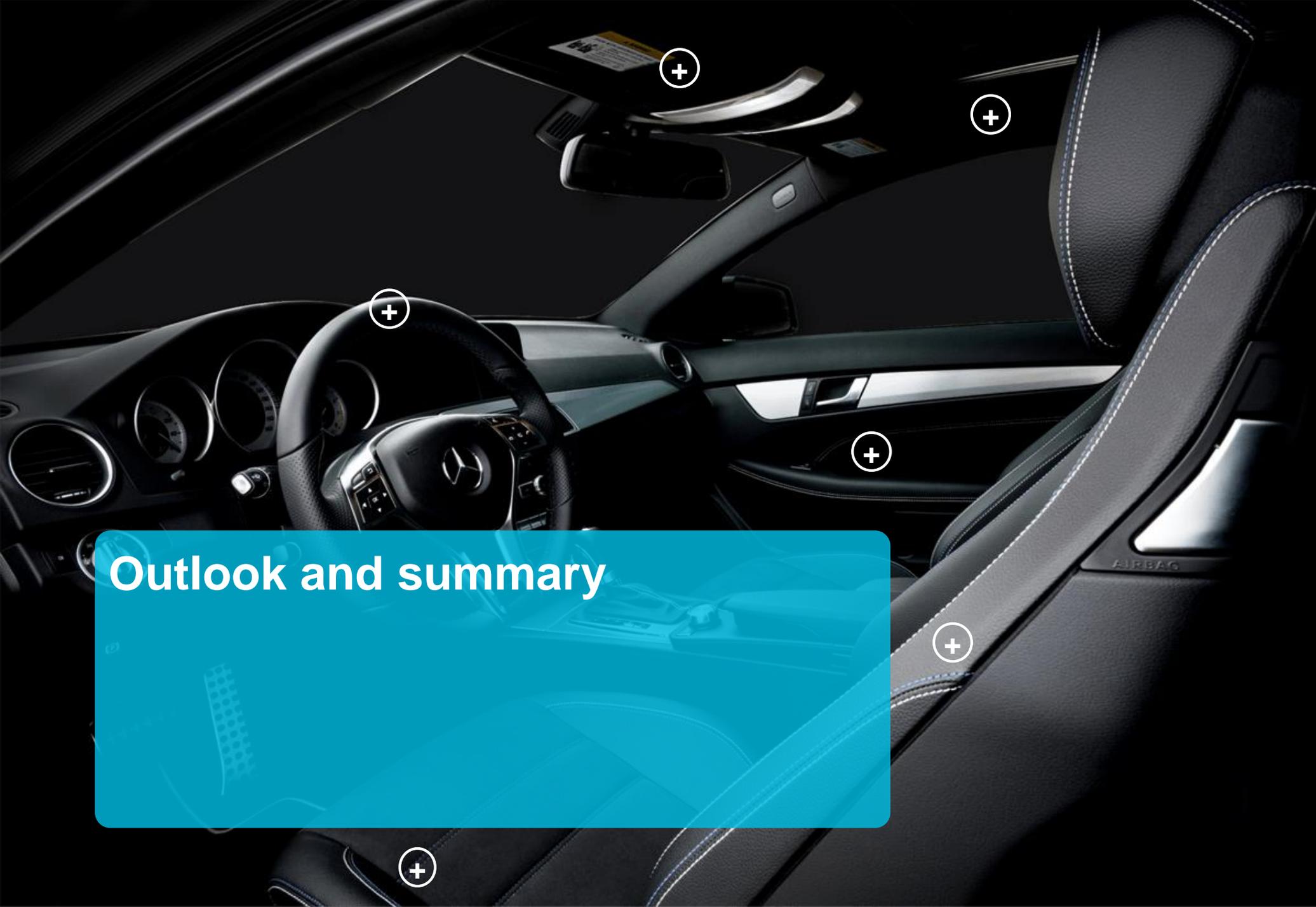
Cash flow and leverage

- \$15m adjusted free cash outflow in H1 2016 (improvement on H1'15: \$23m outflow) - reflects normal intra-year working capital cycle of business
- Reduction in net cash additionally impacted by pension recovery payments to Staveley and Brunel, acquisitions and FX impact - lower USD value of GBP denominated parent group cash (although no real impact as matched to GBP pensions liabilities)
- Operating business at 1.7x leverage, in 1-2x range (H1'15: 1.9x)
- \$82m adj FCF on LTM basis – up 10% on H1 2015 (\$75m)



\$m	H1 2016	H1 2015
EBITDA	98	87
Working capital	(55)	(62)
Capital expenditure	(18)	(18)
Interest	(7)	(9)
Taxation	(31)	(25)
Minority Interest	(8)	(9)
Other ¹	5	13
Adj free cash flow	(15)	(23)
Pensions	(65)	(12)
Discontinued	(4)	(11)
Acquisitions	(35)	(6)
Exceptionals and other	(15)	(14)
FCF	(134)	(65)
FX and other movements	(47)	(22)
Change in net cash	(182)	(87)

\$m	H1 2016	H1 2015
Parent group cash ²	396	552
Ops business net debt	(337)	(318)
Total net cash	59	234
Leverage³	1.7x	1.9x
NWC % sales	15%	15%



Outlook and summary

Summary

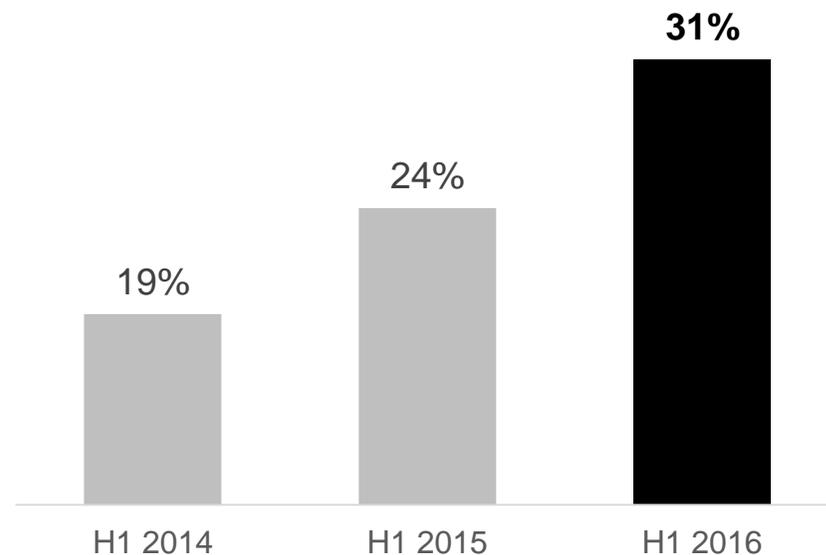
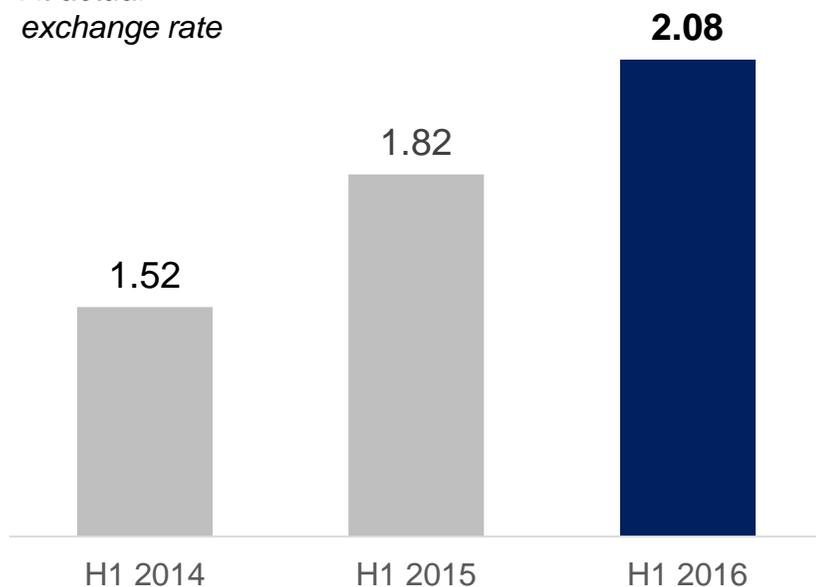
- **Global market leader** with robust fundamentals; **strong** and **defendable core**
- Supported by **key differentiators** - world class asset base, product and service (including digital) innovation, highly engaged workforce and corporate responsibility
- Defined **growth strategy** and **market goals**
- Delivering **EPS growth** and **generating cash to reinvest** in business
- Executing **bolt-on acquisitions** to complement organic growth and funded internally
- **Normalising** as a UK plc - moved to single London listing
- Continuing **settlement discussions** with pension Trustees and now tPR
- **Well positioned** for continued sales, earnings and free cash flow growth

Record of delivering improving earnings and returns

Adjusted EPS

Return on capital employed

*At actual
exchange rate*



Before exceptional items and foreign exchange gains/losses on parent group cash balance. H1 2013 excludes EMEA Crafts profit and includes parent group overheads (at H1 2014 levels)

Adjusted operating profit divided by capital employed. H1 2014 includes EMEA Crafts

Outlook

EU referendum

- Too early to provide a definitive assessment of potential impact
- Of the view that there would be a limited direct adverse impact on the Group
- Indirect factors (lower discount rates and Sterling depreciation) have impacted results; in near and longer term may be other impacts (notably macroeconomic uncertainty)

2016

- Look to build on performance of H1 2016 in which we continued to gain market share and deliver productivity and procurement improvements
- However, the challenging market conditions that impacted Q2 sales performance likely to persist into H2, particularly given macroeconomic uncertainty
- Therefore, on balance, expectations for the year remain unchanged



Appendices

Who we are

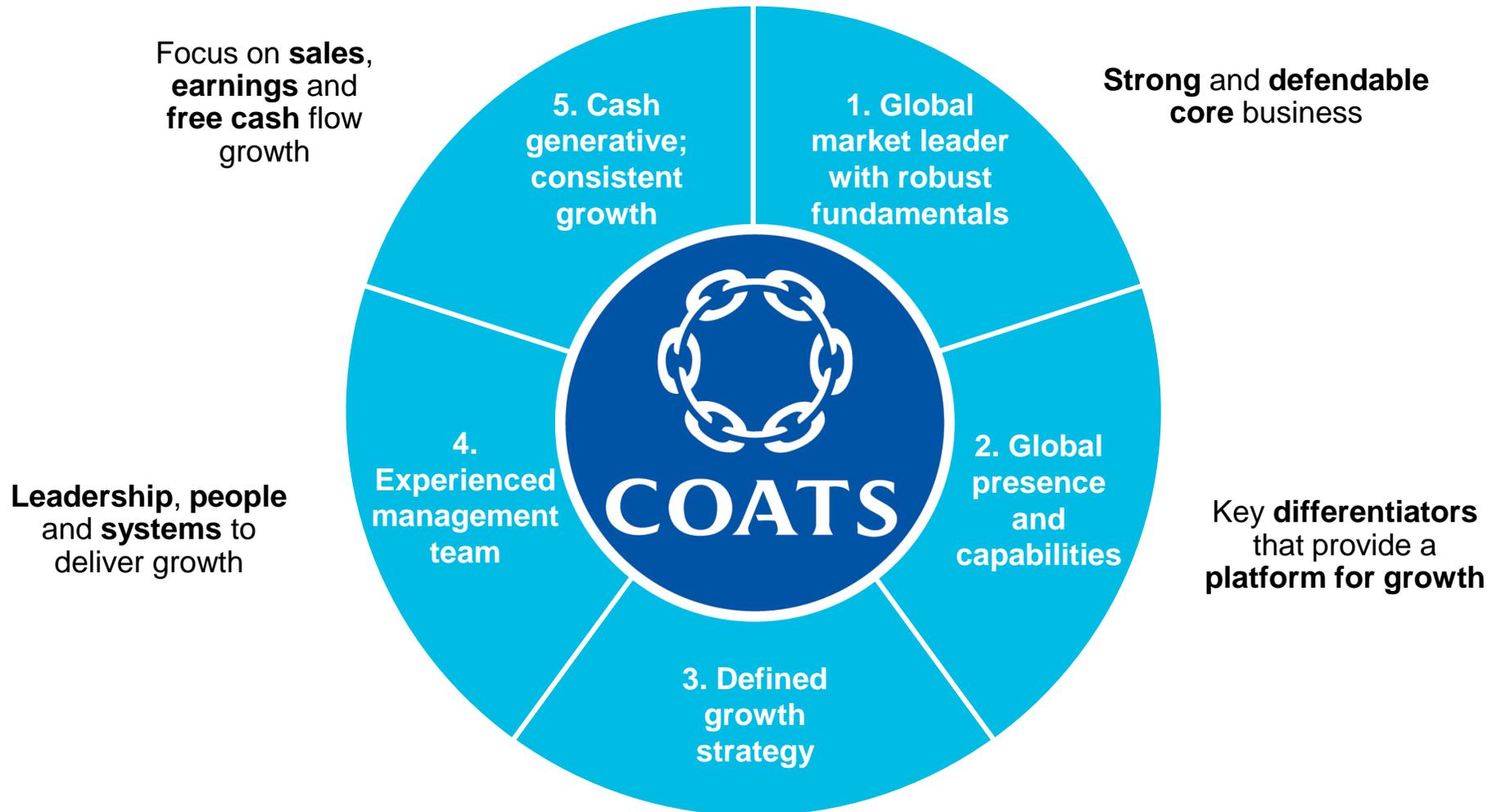
Coats is the world's leading industrial thread manufacturer and a major player in the Americas textile crafts market. At home in more than 60 countries, employing 19,000 people across six continents.

- Group revenues of US\$1.5bn in 2015
- World's leading thread producer for the apparel & footwear industry
- Leading and expanding position in Speciality thread and yarn market
- Largest player in Americas textile crafts
- Headquartered in UK; LSE premium listing (COA)



- Countries in which Coats operates
- Manufacturing sites

Five elements to our value



Targeting **known markets** through **organic** and **acquisitive** growth

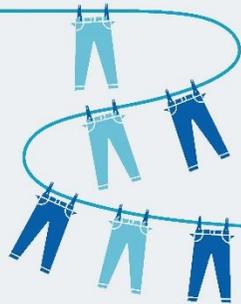
Global market leader

Facts about Coats

Each year we make enough thread to go into over

8 billion

pairs of jeans – that's one for every person on the planet!



More than

100 million

car airbags are made using Coats' thread every year



Every month we produce enough thread to stretch all the way round the Sun –
that's six round trips a year



Our flame retardant Specialty threads can withstand temperatures as high as

1000°C



We're experts in colour. Last year we dyed thread and yarn in more than

150,000

different colours for our customers



Our long history includes
Thomas Edison

who used Coats' thread in his experiments in 1879 to invent the lightbulb



Servicing global markets and customers

End use applications

include



Industrial customers

A&F



BURBERRY

PRADA

Speciality



Crafts products

Products and brands include

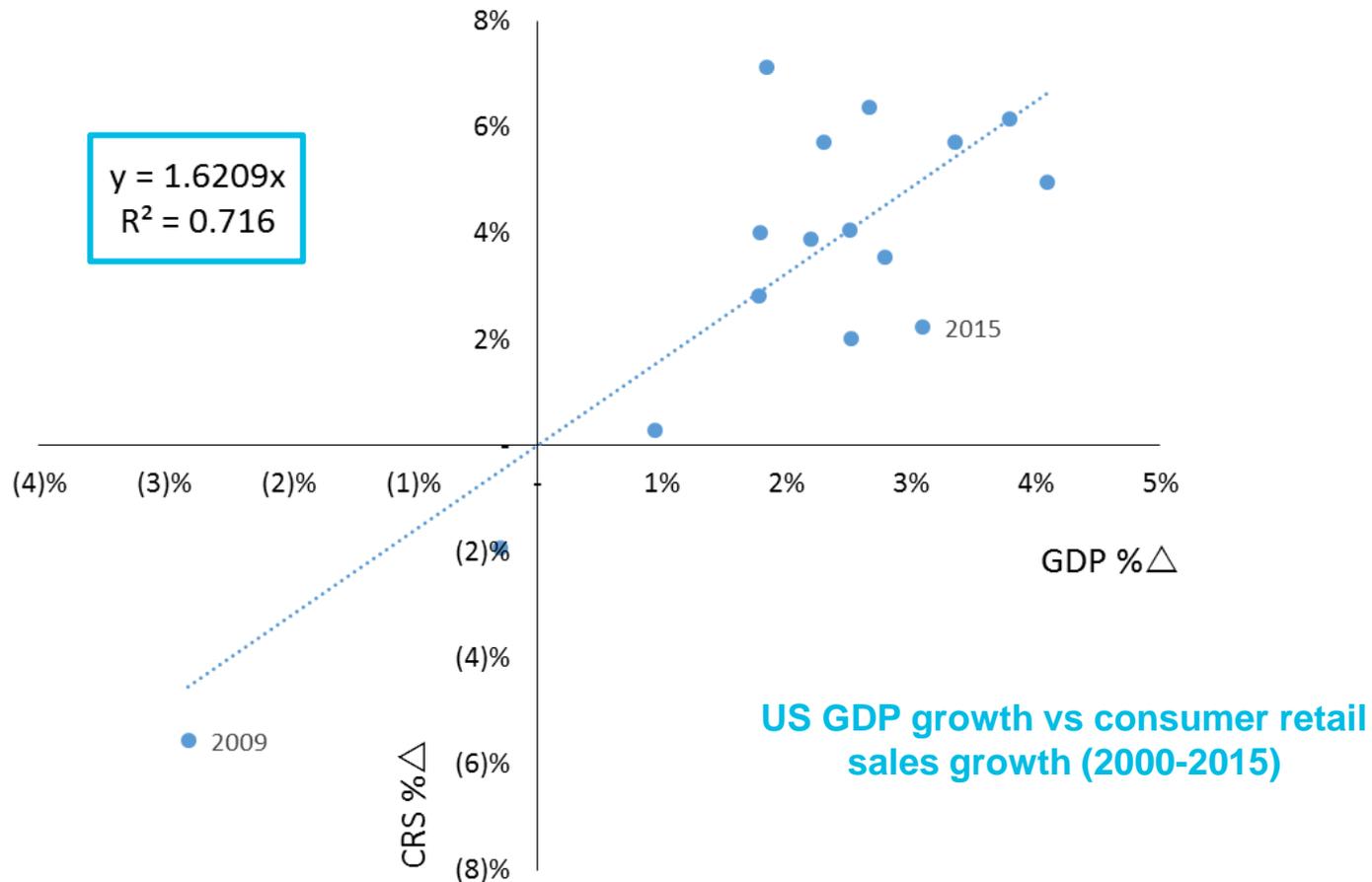


COATS



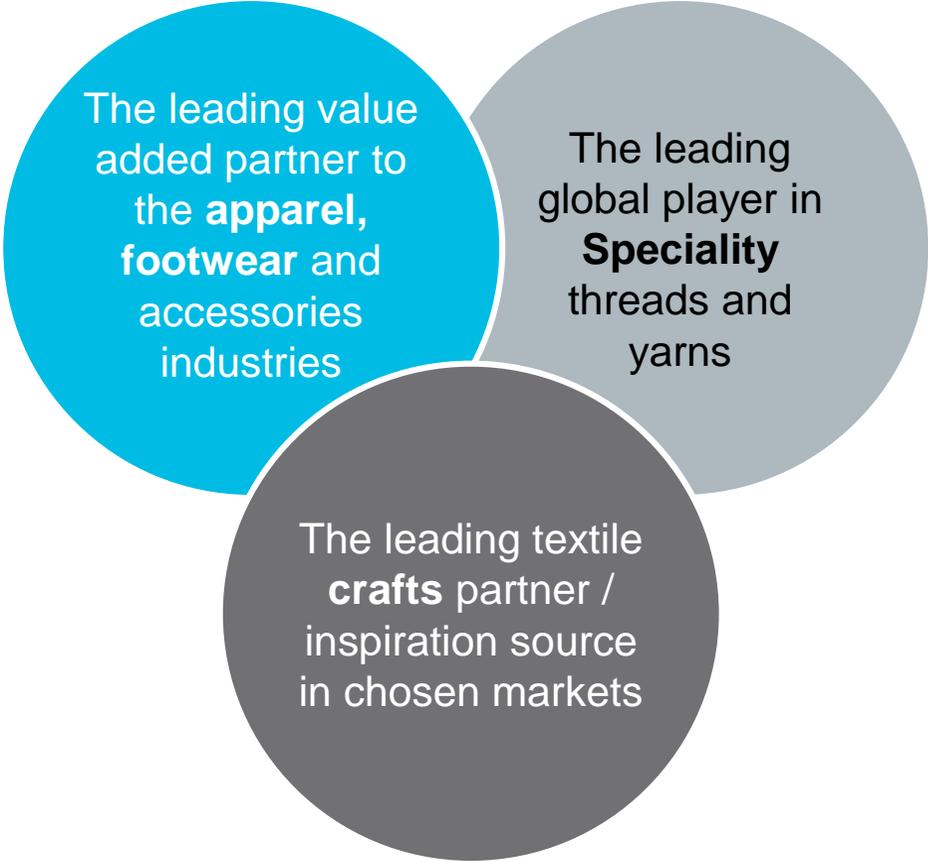
Stable underlying trends

Strong link between clothing retail sales and GDP growth. For the US, clothing retail sales growth is approximately 1.6 times GDP growth



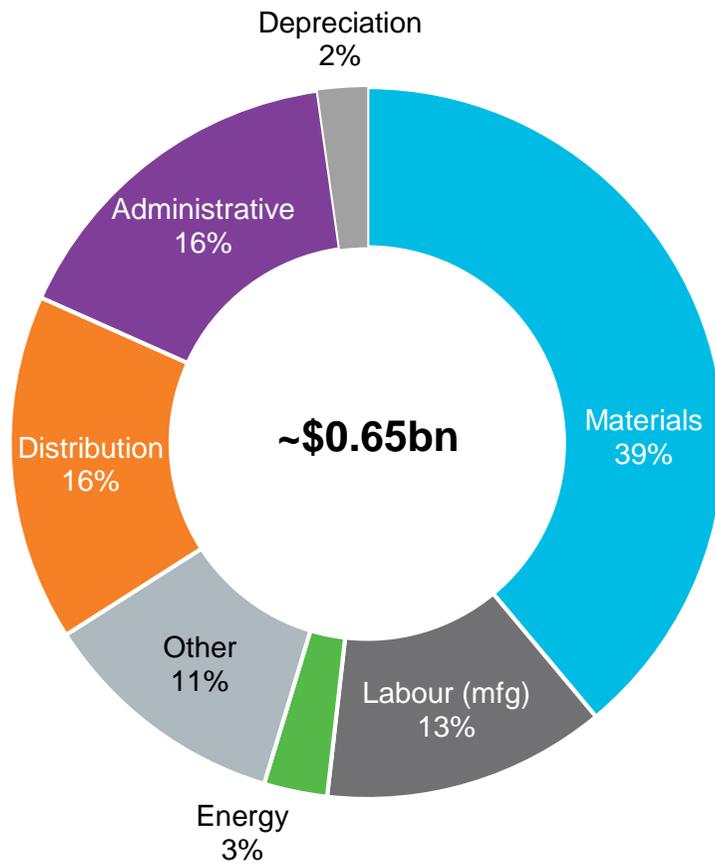
CRS: Clothing Retail Sales
Source: IMF, US Census Bureau

2018 Market goals



Cost base

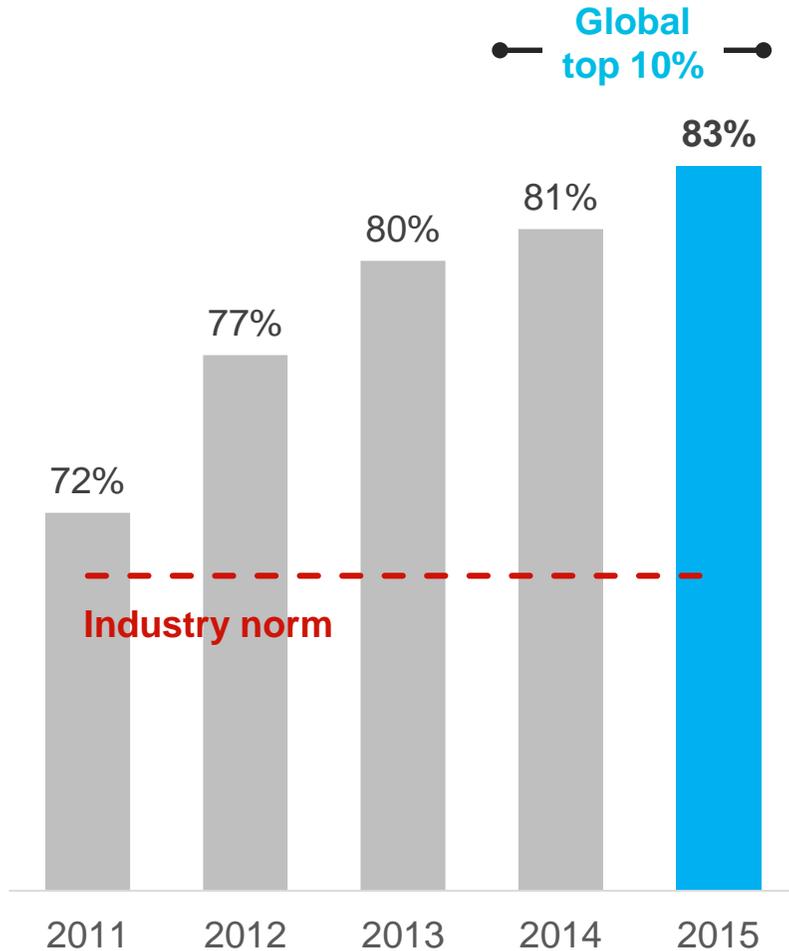
Pre-exceptional costs – H1 2016



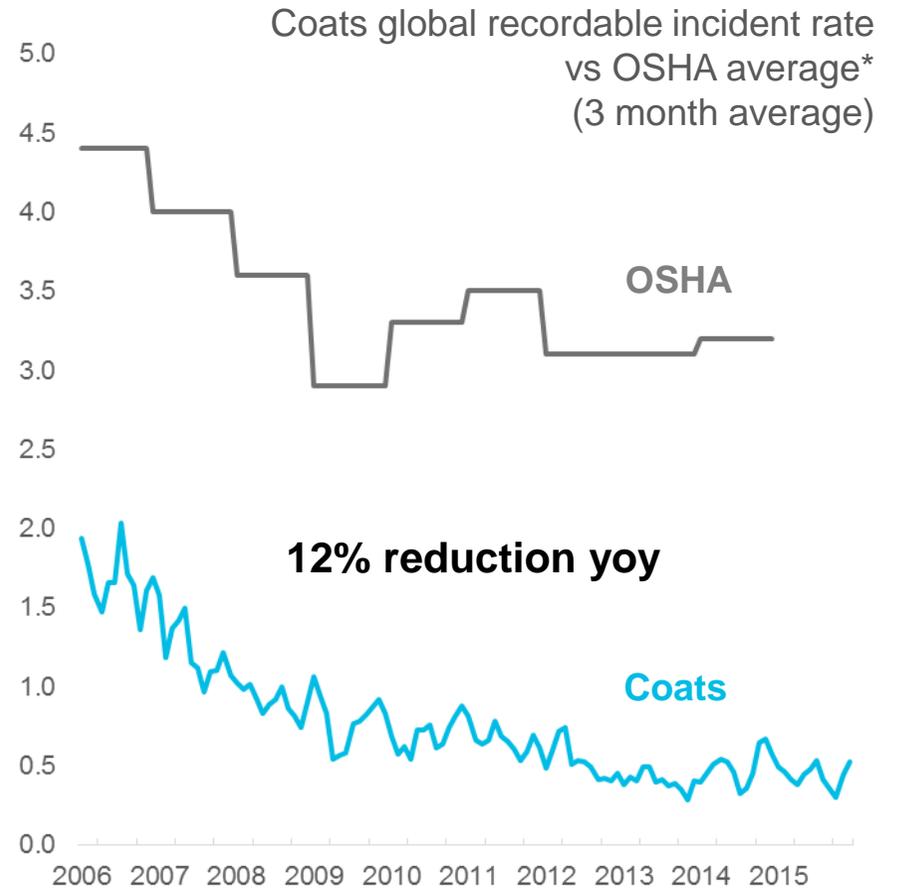
- Materials: raw materials (polyester, nylon, cotton) and intermediates (grey thread); direct materials (dyes, cones) and bought-in finished goods (craft products)
- Labour (mfg): ongoing inflationary pressures in the locations in which we operate
- Energy: sourced from local and national grids, price linked to regional supply / demand dynamics
- Other includes maintenance, insurance and water
- Distribution includes freight and warehousing
- Administrative includes corporate costs
- Capex at approximately 1x depreciation
- Overhead reduction programme has delivered savings across the business – some further savings to be realised over H2'16 and H1'17

Safe and engaged workforce

Employee engagement



Recordable incident rate



* Occupational Safety and Health Administration, agency of US Department of Labor, average of US textiles mills

Pension schemes: income statement and cashflow impact

\$m	Brunel		Staveley		Coats UK		Coats other		Total	
	H1 16	H1 15	H1 16	H1 15	H1 16	H1 15	H1 16	H1 15	H1 16	H1 15
Service charge	-	-	-	-	2	2	4	4	6	6
Administrative expenses ¹	1	1	1	1	3	3	1	1	6	6
Operating profit impact	1	1	1	1	5	5	5	5	12	12
Finance charge	1	1	1	1	5	5	-	1	7	9
Total income statement impact	2	2	2	2	10	10	5	6	19	20
UK contributions for active members	-	-	-	-	1	1	-	-	1	1
Cash payments to pensioners and other	-	-	-	-	-	-	4	6	4	6
Cash outflow within adjusted FCF	-	-	-	-	1	1	4	6	5	6
UK recovery contributions ²	4	-	51	1	10	11	-	-	65	12
Total cash outflow	4	-	51	1	11	12	4	6	70	19

1. Administrative expenses of Brunel, Staveley and Coats UK plan equate to UK Pension admin charge in segmental operating profit split on slide 15 (H1'16: \$4m)

2. As per pensions recovery payments line in adjusted FCF to change in net cash reconciliation table on slide 23

Pension schemes: balance sheet positions

30 June	Brunel		Staveley		Coats UK		RoW schemes		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<i>\$m</i>										
Assets	153	173	296	284	1,962	2,344				
Liabilities	(223)	(254)	(326)	(375)	(2,327)	(2,640)				
Net deficit	(70)	(81)	(30)	(91)	(365)	(296)				
Unrecognised asset	-	-	-	-	-	-				
Net deficit recognised	(70)	(81)	(30)	(91)	(365)	(296)	(50)	(58)	(515)	(526)
<i>£m</i>										
	Brunel		Staveley		Coats UK		UK total			
<i>Equities</i>	31	32	39	36	494	458	564	526		
<i>Bonds</i>	60	40	178	85	874	859	1,112	984		
<i>Other</i>	24	38	5	60	107	176	136	274		
Total assets	115	110	222	181	1,475	1,493	1,812	1,784		
Liabilities	(168)	(162)	(244)	(238)	(1,749)	(1,682)	(2,161)	(2,082)		
Net obligation	(53)	(52)	(22)	(57)	(274)	(189)	(349)	(298)		
Discount rate (%) ¹	2.90	3.65	2.90	3.65	2.90	3.65				
Inflation (%) ²	2.80	3.15	2.80	3.15	2.80	3.15				
Rate of increase in pensions in payment (%)	2.75	3.05	2.75	3.05	2.75	3.05				
Life expectancy	26.1	26.3	25.4	25.7	25.6	25.7	For male retiring today at 60			
Increase in real discount rate to eliminate deficit (bps) ³	350	390	90	250	220	140				

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 June 2016: 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

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