



**Coats
Group plc**

2018 full year results presentation

Friday 1 March 2019

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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

2018 Full Year results presentation

- Introduction and highlights
- Business review
- Financial performance
- Outlook and summary

Introduction: 2018 a year of good strategic progress – a platform for future growth



**Sale of North
America
Crafts**

**Strategic
investments**
Threadsol /
Twine

**Connecting for
Growth**
Acceleration of
benefits

**Successful
UK pensions
triennial
valuation**

**Digital and
innovation**

Financial highlights: 2018 a year of strong financial delivery

- Revenues up 6% - continued momentum in A&F thread and Performance Materials
- Continued share gains in A&F and double digit hi-tech PM growth; underpinned by innovation, digital, service and sustainability
- Operating profits up 24% to \$195m with 200bps margin expansion to 13.8%
- Free cash flow up 26% to \$96m and EPS up 21%
- 15% dividend increase

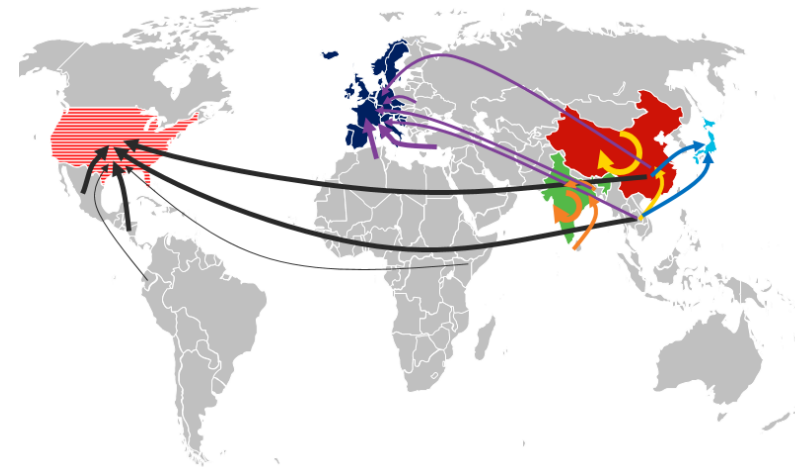
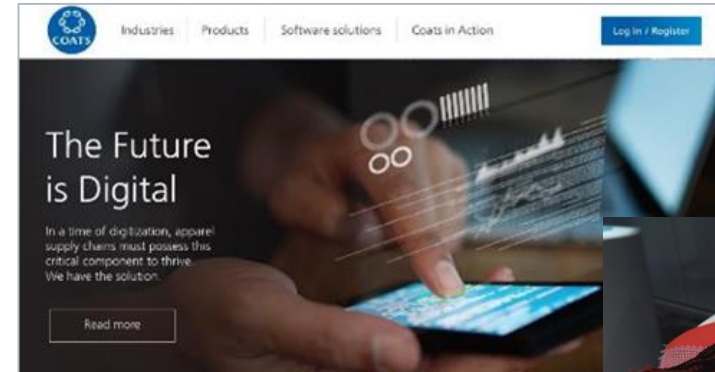


Business review

Rajiv Sharma

Apparel and Footwear: Continued share gains through addressing key industry trends

- 2% revenue growth to \$1,083m
 - A&F thread business: up 4%
 - Premium thread growth: up 6%
- Manufacturing in emerging markets, exposed to consumption in developed markets; US consumers driving 2018 retail growth
- Continued market share gains:
 - Innovation China domestic footwear yarns
 - Speed/service “On time in full” up 5%
 - Sustainability Epic Ecoverde launch (100% recycled)
 - Digital Live data streaming from Effluent Treatment Plants



Apparel and Footwear: investing in new technologies – increasing proximity to customers

Threadsol

- A cloud-based digital application provider for the global garment industry
- Using AI to optimise fabric consumption for 1.5bn garments p.a.
- Acquired for \$12m in December 2018
- 140 customers in 13 countries; now access to Coats' 30,000 customers – part of Coats Global Services

ThreadSol



Part of Coats Global Services



Twine Solutions

- Start-up developer of revolutionary digital thread dyeing system; \$5m investment for 9.5% share
- Combining small scale digital printing with traditional dyeing process; thread produced on demand to specific requirements
- Addressing key industry mega trends: speed, innovation, sustainability, flexibility



Any Length. Any Color. On Demand.



Performance Materials: accelerated momentum in hi-tech sectors

- 23% revenue growth to \$332m;
 - 7% organic growth (5% in H1)
 - 16% contribution from the acquisition of Patrick Yarn Mill
- Hi-tech continuing to drive organic growth (21% growth); now ~60% of PM revenues
- Strong geographic expansion: EMEA up 10%, Asia up 14%
- US consumer durables remains relatively soft
- Selling to 7,000 customers globally

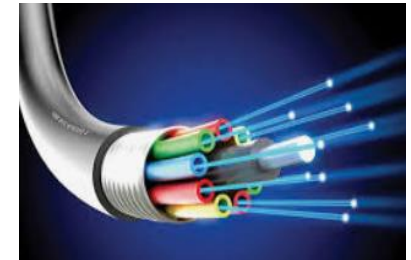
Personal protection

- 30% organic growth
- Going beyond the stitchline
- Built c.\$100m business in 6 years



Telecommunications

- 41% organic growth
- Fast growing market – connectivity trend
- Small player to market leader in 3 years; c.\$45m sales



New technologies- the next phase

- Composites – lightweighting / metal replacement - commercial sales commenced
- Conductives – where textiles meet electronics



Connecting for Growth: strong cost savings to drive our next phase of growth

2018 progress

- Good progress: benefits being realised faster. \$15m net benefits in full year 2018 delivered
- Reinvestments commenced: Digital (e.g. Factory of the Future), Innovation and People

2020 outcomes

- A 2 year programme; transforming into a lean, fit and fast organisation
- \$23m total net benefits, after reinvestments (previously \$15m)



Innovation: significant strengthening of our innovation model

Underpinning growth and differentiation now, and in the future

From

To

Impact

Incremental evolution of existing core competencies

Limited / selective input from customers

New products aimed at small markets / specific customers

Gaps in R&D skills / industry capabilities

Global innovation forum
3 innovation hubs
Innovation eco-system

Regular “innovation conversations” with customers

Developing new products with global opportunities

Unlocking innovation synergies with acquired companies

21% hi-tech PM growth
Building sustainable innovation pipeline
>20% PM sales from new products
Innovation eco-system and culture in place (e.g. working with start ups / universities)



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

In 2018

20% water recycled / reused

28% renewable energy

Achieved zero liquid discharge at largest plant

91% of sites above industry benchmark for H&S culture

New waste management system



In 2022

WATER

Managing a precious resource wisely

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



Financial performance

Simon Boddie

Basis of preparation

- Headline results reflect continuing operations (Industrial)
- North America Crafts, which is now sold, is reported as discontinued operations
- Latin America Crafts now reported in continuing operations, reflecting the largely complete integration of this business with Industrial
- Pension administrative costs, previously reported separately, now included entirely within Industrial continuing operations
- Future segmental reporting under review; anticipated to be reflected in H1 2019 results

Overview



<i>\$m unless otherwise stated</i>	FY 2018	Change	CER change ¹	Organic ²
Revenue	1,415	4%	6%	3%
Operating profit ³	195	21%	24%	23%
Operating margin %	13.8%	190bps	200bps	220bps
EPS (cents) ³	6.9	21%		
Free cash flow ⁴	96	26%		
ROCE	43%	800bps		
Dividend per share	1.66c	15%		

KPI

¹ On a constant exchange rate (CER) restates 2017 figures at 2018 exchange rates

² On a CER basis, and excludes contribution from acquisitions made during the period

³ Excludes exceptional and acquisition related items, reported / CER includes contribution from bolt-on acquisitions

⁴ Adjusted for UK pension recovery payments, acquisitions and exceptional items

Operating review

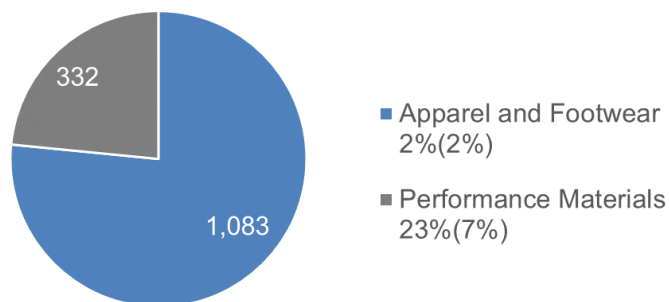
Revenue

- **Asia:** 5% growth reflecting continued momentum in key A&F markets
- **Americas:** 12% growth including first year contribution from Patrick Yarn Mill; strong double-digit PM growth in certain Latam markets, offset by continued softness in US consumer durables
- **EMEA:** 3% growth against tough 2017 comparator (improving in H2); lower fashion zips sales, and impact of peripheral markets (C4G)

Operating profit

- Margins up 200bps as self help initiatives (price, productivity, procurement, cost control and C4G) despite input cost increases and other structural inflation.

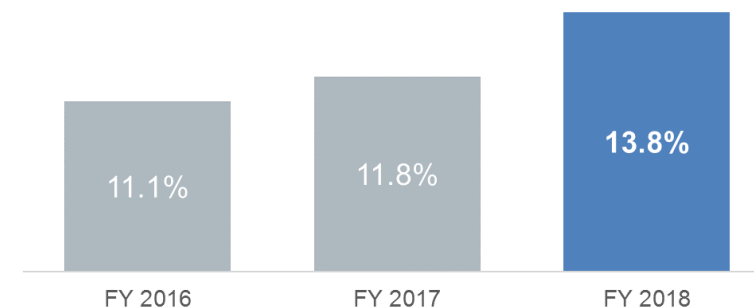
Revenue by segment (\$m)



\$m	2018	2017 ¹	CER ¹ change %	Organic ⁴ change %
Asia	791	750	5%	5%
Americas	349	312	12%	(1)%
EMEA	275	267	3%	3%
Total ²	1,415	1,329	6%	3%

Operating profit ^{2,3}	195	157	24%	23%
Operating margin	13.8%	11.8%	200bps	220bps

Segment margin
(actual exchange rates)



¹ 2017 figures restated at 2018 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

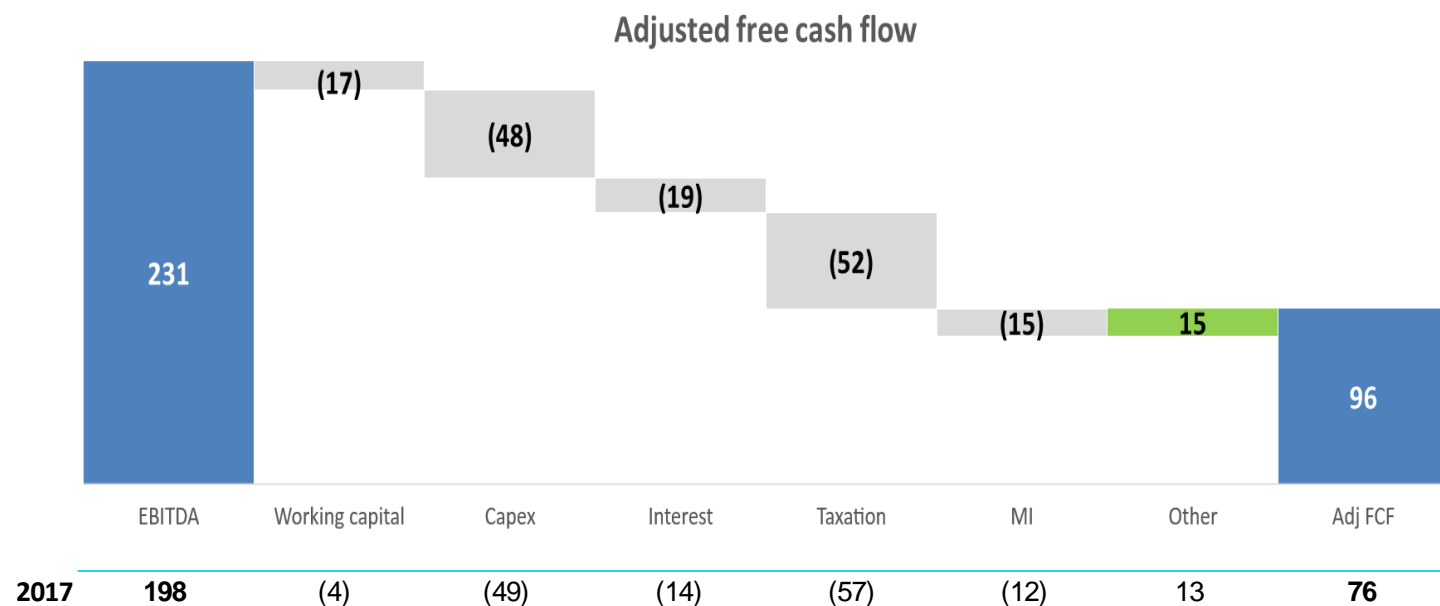
- **Exceptional / acquisition related items:**
 - Connecting for Growth (\$23m)
 - UK guaranteed minimum pension equalisation (\$10m)
 - LPR legal costs (\$8m) – no change in overall position
 - Acquisition related items (\$7m)
- **Finance costs:**
 - MTM loss (\$2m) vs 2017 gain (\$1m)
 - Higher interest on borrowings (\$1m) due to rising floating rates and larger proportion of fixed debt (USPP)
 - \$2m higher “other” interest costs (e.g. local FX / VAT interest)
 - Reduction in pension finance charge (\$6m)
- **Underlying tax rate:** further reduction to 31% (2017: 32%)
- **Minority interests:** relates predominantly to operations in Vietnam and Bangladesh
- **Discontinued operations:** primarily write down of assets to FV
- **Adjusted EPS:** 6.9c per share (continuing operations); 21% growth
- **Full year dividend per share:** 1.66c – 15% growth

\$m	2018 reported	2017 reported
Adjusted operating profit	195	161
Exceptional and acquisition related items	(48)	(7)
Operating profit	147	154
Share of profit from JVs	0	(1)
Finance costs	(24)	(23)
Profit before tax	123	130
Tax	(49)	(44)
Profit after tax	74	86
Discontinued operations	(16)	10
Profit for period	58	95
Minority interest	(19)	(14)
Attributable profit	39	81
Adjusted EPS (cents)	6.9	5.7
DPS (cents)	1.66	1.44

All data shown on a reported basis, i.e. 2017 not CER basis

Cash flow and leverage

- \$96m adjusted free cash flow in 2018 (up 26%); increased profitability and controlled NWC (9.5% of sales), whilst maintaining CAPEX > depreciation
- Exceptional cash outflow (\$27m) primarily due to C4G reorganisation
- Strong Balance Sheet position with leverage of 1.0x (bottom end of 1-2x target range); reduced marginally from 2017



\$m	2018	2017
Adjusted free cash flow	96	76
Pensions	(24)	(373)
Discontinued	7	10
Acquisitions	(7)	(20)
Dividends paid to equity shareholders	(21)	(18)
Exceptionals and other	(27)	(6)
FCF	25	(330)
FX and other movements	(6)	10
Change in net debt	19	(320)

\$m	2018	2017
Parent group cash	-	-
Ops business net debt	(223)	(241)
Group net debt	(223)	(241)
Leverage	1.0x	1.2x
NWC % sales	9.5%	9.2%

UK pensions update

Triennial valuation update

- Consolidation of the 3 UK schemes (Coats, Brunel and Staveley) into 1 single scheme (Coats UK Pension Scheme) on 1 July 2018
- Resulting new effective date for latest triennial valuation of 30 June 2018
- Triennial valuation outcome successfully agreed in principle with future contributions (including admin expenses and levies) of £24m (\$31m); currently £17.5m (\$24m)
- Based on Technical Provisions deficit of c£250m
- New contribution rates start from 1 May 2019 and run until 2028; 2019 contributions (incl. admin costs) of £22m (\$29m)
- Next triennial valuation date 31 March 2021

Other notable items

- As at 31 December 2018, UK schemes IAS19 deficit of \$109m (31 Dec 2017 \$107m deficit)
- Guaranteed minimum pension equalisation; \$10m exceptional charge; reflected in deficit and triennial valuation outcome
- Future administrative expenses; c.\$1m annualised savings following UK scheme consolidation once fully realised
- >80% of interest / inflation linked liabilities are hedged (TP basis)

A robust financial platform to deliver future growth

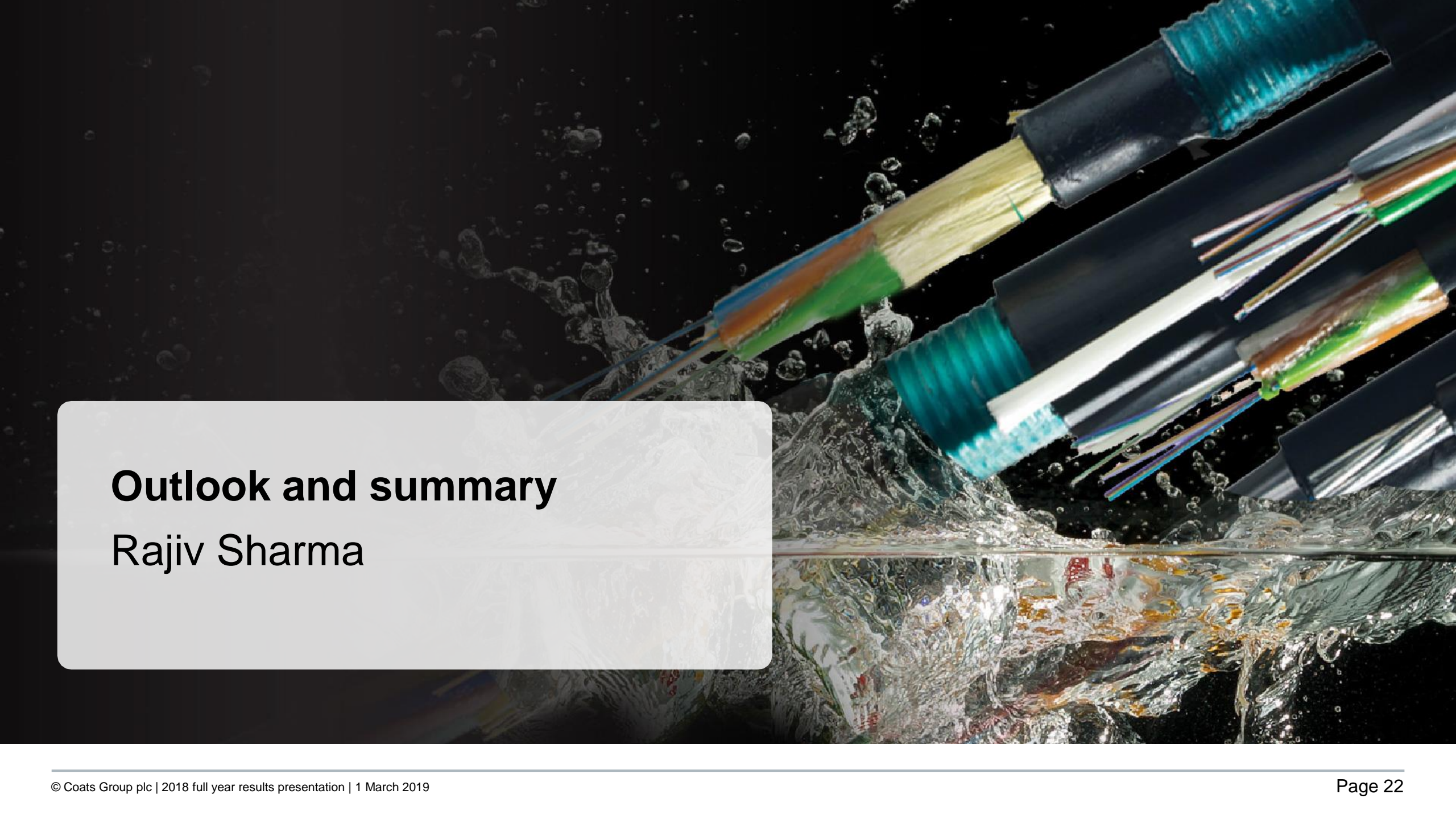
3%
organic sales
growth

13.8%
operating
margin

\$96m
free cash flow

1.0x
leverage

15%
dividend
growth

A close-up, high-speed photograph of several fiber optic cables being splashed into water. The cables have black outer jackets and are bundled together. As they hit the water, a large splash of white water and bubbles is visible. The individual fibers inside the cables are visible at the ends, showing a variety of colors including blue, green, yellow, orange, and red. The background is dark, making the white water and colorful fibers stand out.

Outlook and summary

Rajiv Sharma

Outlook

- We enter 2019 in a strong position, with continued positive momentum in our core Apparel and Footwear and hi-tech Performance Materials businesses.
- The exit of our non-core North American Crafts business will ensure complete focus on growing our remaining businesses organically and identifying further value-add bolt-on acquisitions.
- Whilst we are cautious around the current macroeconomic uncertainties, based on our current assessment of business trends we remain confident in delivering another year of improving performance through effective execution of our strategy.

Summary: delivering our strategy



Appendices



Financial guidance

Area	Guidance
Capital expenditure	<ul style="list-style-type: none"> \$45-55m in 2019
Connecting for Growth programme	<ul style="list-style-type: none"> \$23m net benefits by 2020, after reinvestments (innovation, digital, people) \$30m total reorg. costs (excluded from adjusted operating profit); \$23m incurred in 2018, with remainder in 2019
UK pension deficit recovery payments, and admin costs	<ul style="list-style-type: none"> \$31m p.a. (£24m) deficit recovery payments, including administrative costs and levies, from April 2019 onwards until 2028 \$29m (£22m) deficit recovery payments, including administrative costs and levies in 2019 (including Q1 at current rates). UK scheme admin costs – c.\$1m annualised savings following UK scheme consolidation once fully realised
Finance charges	<ul style="list-style-type: none"> 2019 pension finance charge c.\$5m (based on closing IAS19 position) (2018: \$4m)
Underlying effective tax rate	<ul style="list-style-type: none"> Expect to reduce to c.30% in the medium term 2019 effective cash tax rate > P/L effective rate (timing)
Shareholder dividends	<ul style="list-style-type: none"> Progressive growth reflecting earnings and cash growth
Leverage	<ul style="list-style-type: none"> Maintain a strong Balance Sheet with a target leverage (net debt / EBITDA) of 1-2x
Segmental reporting	<ul style="list-style-type: none"> Following sale of NA Crafts, segmental reporting under review; new approach anticipated to be reported from H1 2019 onwards.
North America Crafts	<ul style="list-style-type: none"> Now reported as discontinued operations; \$2m stranded costs remain with local Industrial business 2018 revenues \$128m; operating profit \$3m (pre an allocation of corporate costs)

World's leading industrial thread manufacturer

Customers include



Apparel and Footwear (A&F)

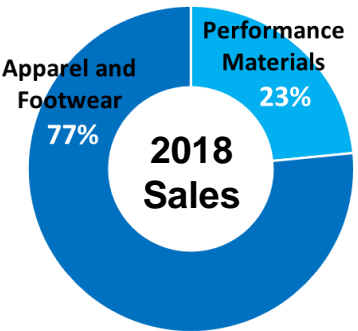
- Apparel, footwear and accessories thread
- Zips and trims products
- Software solutions



Performance Materials

- High technology threads and yarns from performance materials

Customers include

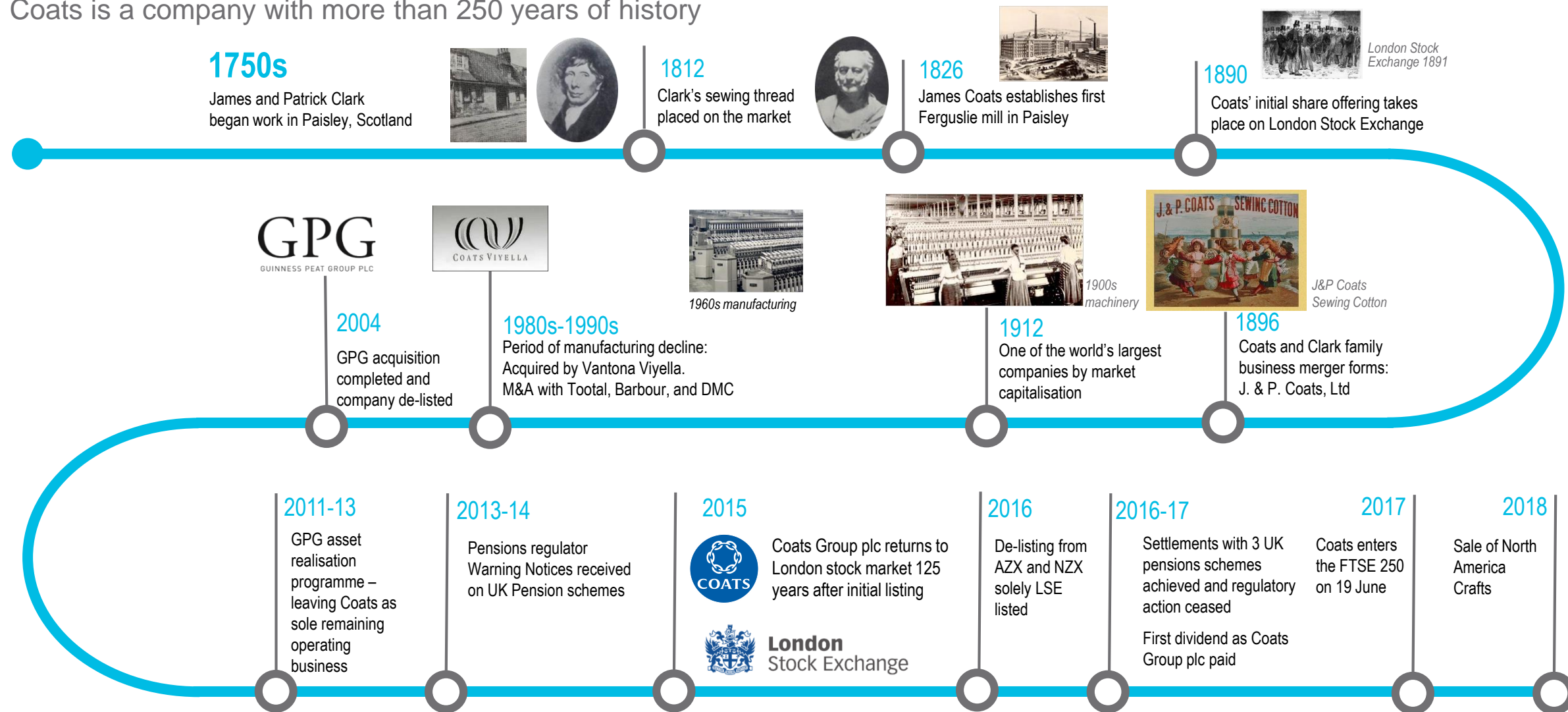


- Global footprint**
- 18,000 employees
 - Some 50 sites
 - Sales in 100+ countries
 - Global distribution network
 - UK headquartered, COA:LSE
 - FTSE 250 member

Group	2018
Sales	\$1.4bn
Operating profit	\$195m
Adj EPS growth	21%
Adj free cash flow	\$96m
ROCE	43%

Corporate timeline: a rich heritage

Coats is a company with more than 250 years of history



Apparel and Footwear: A global leader. Winning with the winners.

* 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

**Operational
scale with
global
reach**

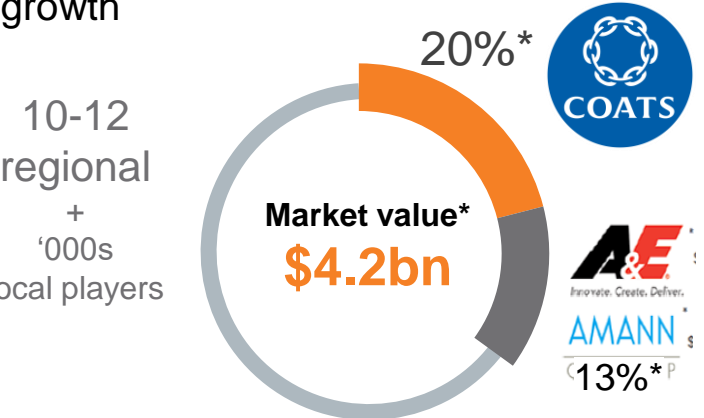
**Compelling,
value adding
products and
services**

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

Understanding the thread market landscape

Size and structure

Consistent but moderate market growth

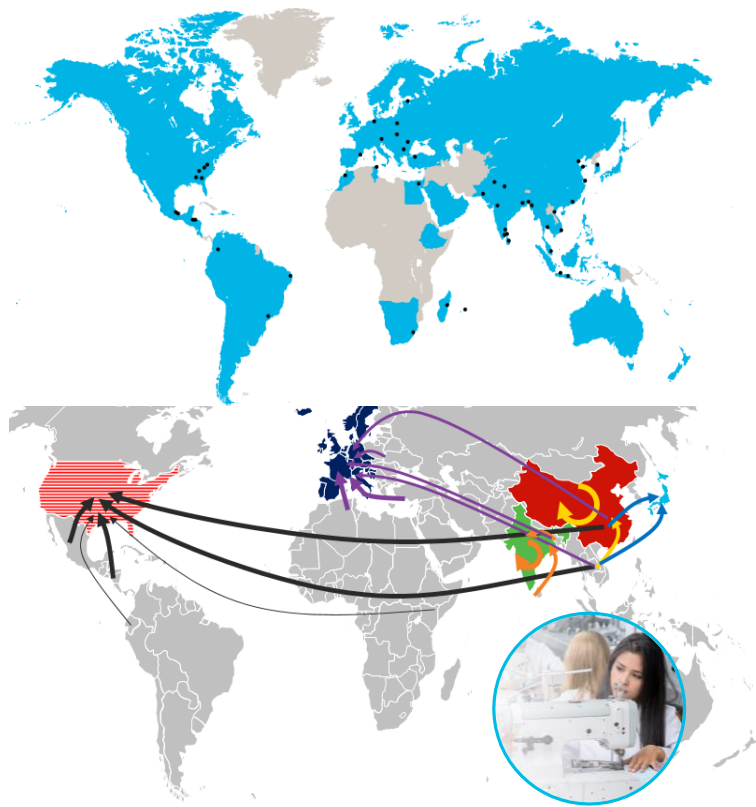


Rich product variety



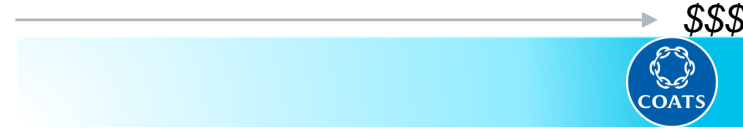
* Coats' estimates – as per 2018 Capital Markets Day presentation

A critical component in a global, agile industry



Segmentation

Economy to premium

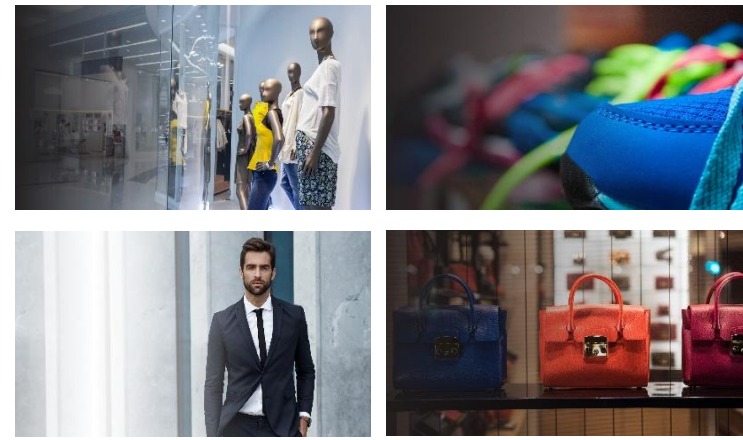


Specification

Open spec → Specified



End use



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)



Apparel product
lifecycle management



Industry standard for
bill of labour for
transparent costing

ThreadSol

Case study

bodynits



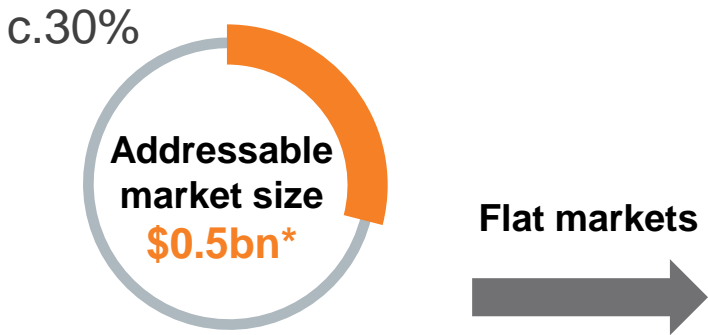
Bodynits achieved faster and more realistic planning process resulting in **+20% efficiency gain** after implementing Fast React's Evolve

Planning time reduced from
5 days to 1 day

Performance materials – our markets

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

Traditional sewing thread: c.40% of 2018 revenues



Outdoor



Bedding & Quilting



Home Textiles



Upholstered Furniture



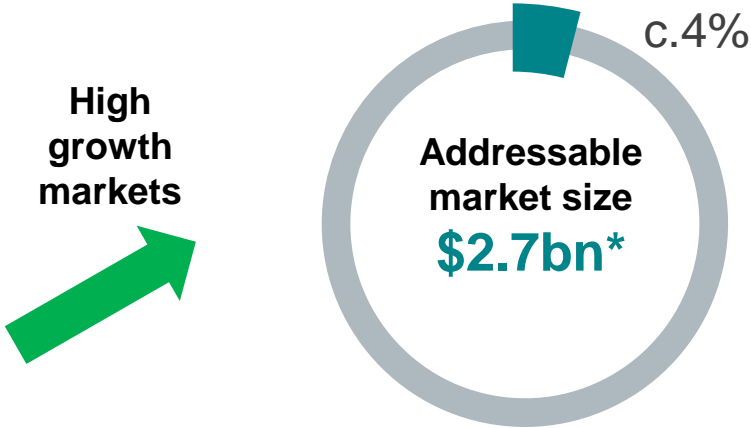
Tea Bags



Feminine Hygiene



Hi-tech engineered yarns: c.60% of 2018 revenues



Strategic focus areas

Automotive



Telecommunications



Personal Protection



Mechanical Rubber Goods



New technologies

Composites

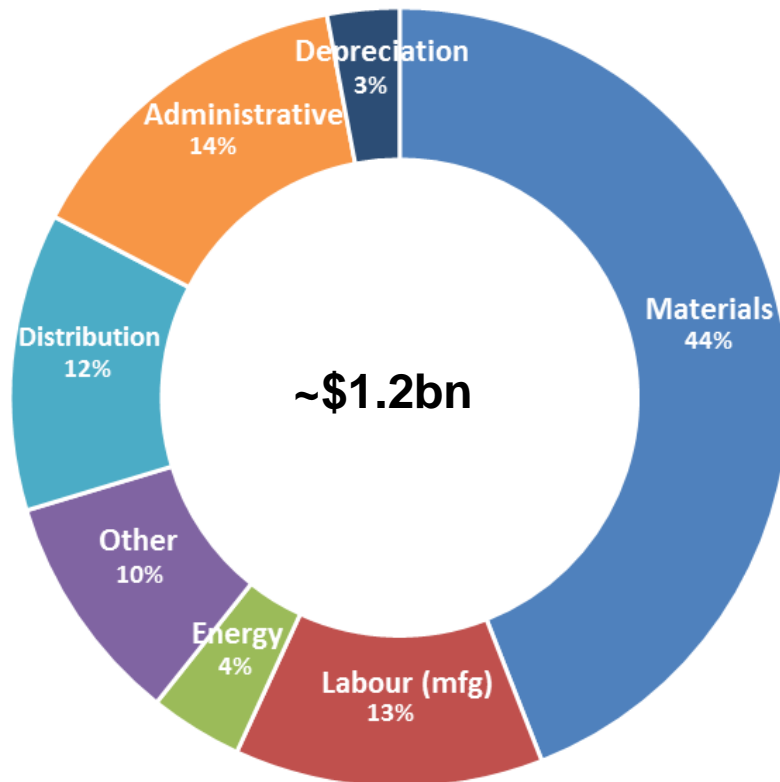


Conductive



Cost base

Full year 2018 - 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 final dividend of 1.16c per share making the total dividend for 2018 1.66c per share – a 15% growth on 2017
- The full year 2018 dividend reflects earnings cover of 4.1x and cash cover (post recurring pension recovery payments) of 3.4x



Coats
Group plc

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

Pension schemes

\$m	Coats UK Pension Scheme		Coats other		Total	
	2018	2017	2018	2017	2018	2017
Service charge	-	-	8	8	8	8
Administrative expenses	7	6	1	1	8	8
Operating profit impact ¹	7	6	9	9	16	15
Finance charge	2	8	2	1	4	9
Total income statement impact	9	14	11	10	20	25
UK contributions for active members	-	-	-	-	-	-
Cash payments to pensioners and other	-	-	8	7	8	7
Cash outflow within adjusted FCF	-	-	8	7	8	7
UK settlement lump sum payments ²	-	348	-	-	-	348
UK recovery contributions and admin expenses paid ²	24	25	-	-	24	25
Payments in respect of exceptional reorganisation costs	-	-	2	-	2	-
Total cash outflow	24	373	10	7	34	380

1. Pre-exceptional operating profit

2. As per pensions recovery payments line in adjusted FCF to change in net cash reconciliation table on slide 21

	Coats UK Pension Scheme		Other		Total	
	Dec 2018	Dec 2017	Dec 2018	Dec 2017	Dec 2018	Dec 2017
<i>\$m</i>						
Assets	2,640	2,997	215	255	2,855	3,253
Liabilities	(2,749)	(3,104)	(253)	(285)	(3,002)	(3,388)
Net deficit	(109)	(107)	(38)	(30)	(147)	(137)
Unrecognised asset	-	-	(21)	(27)	(21)	(27)
Net deficit recognised	(109)	(107)	(59)	(57)	(168)	(163)

<i>£m</i>		
Equities	343	524
Bonds	1,234	1,201
Other ¹	492	493
Total assets	2,069	2,218
Liabilities	(2,154)	(2,297)
Net obligation	(85)	(79)

Discount rate (%) ²	2.8	
Inflation (%) ³	3.3	
Rate of increase in pensions in payment (%)	3.1	
Life expectancy	26.1	For male retiring today at 60
Increase in real discount rate to eliminate deficit (bps) ⁴	125	

1. Assets include diversified investment funds, real estate and hedging instruments

2. Assumption derived using a yield curve approach, based on Sterling AA corporate bonds

3. Assumption based on a market implied long-term rate of inflation

4. As at 31 December 2018: 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. In aggregate, the UK schemes now hedge >80% of interest and inflation linked liabilities.



For more information

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FTSE4Good