



**Coats
Group plc**

Coats Group plc

2018 Half Year results presentation

31 July 2018

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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 Half Year results presentation

- Highlights
- Business review
- Financial performance
- Outlook and summary

Highlights: strong financial results and operational performance

Financial highlights

- Revenues up 5% - strong performance in A&F thread and hi-tech Performance Materials
- Operating profits up 12% to \$100m alongside margin expansion to 12.7%
- Strong EPS (up 19%) and free cash flow (\$85m LTM) performance
- 14% dividend increase

Operational highlights

- Connecting for Growth benefits being realised faster than initially anticipated
- Continued positive progress in the key strategic focus areas of simplification, digital and innovation
- Completed merger of the three UK Pension Schemes into one single new scheme



Business review

Rajiv Sharma

Apparel and Footwear: customer led approach driving continued outperformance

- 3% revenue growth to \$529m;
 - A&F thread business: up 4%
 - Premium thread sales: up 6%
 - Fast React: up 13%
- Continued market outperformance;
 - Service: “On Time In Full”: up 5%
 - Digital:
 - Online thread orders 84%
 - Sampling: > 90%
 - Innovation: engineered footwear yarn for China domestic market



Performance Materials: innovation and globalisation driving hi-tech growth

- 21% revenue growth;
 - 5% organic growth
 - 16% contribution from the acquisition of Patrick Yarn Mill
- Hi-tech driving organic growth (15% growth); now > 50% of PM revenues
- > 20% of Performance Materials organic revenues from new products (<5 years)
- Modest decline in mature traditional end-use market

Geographic expansion

- 19% growth in Asia
- 11%* growth in EMEA



New sector growth

- 24% growth in personal protection and telecommunications



New technologies

- Composites: commercial sales in Oil & Gas reinforced pipes
- Focus on Industrial applications



Bolt-on acquisitions

- Patrick Yarns performing in line
- Gotex capacity expanded by 30%



Crafts: progress on refocused strategy

- 2% decline in NA Crafts (15% decline in 2017)
- Progress on refocused strategy by new NA management team;
 - Reopened US distribution centre
 - Building new product pipeline
 - Entering further into premium yarn space
 - Online sales up 60%
- Smaller Latam business declined by 8%; softer demand in key markets (Brazil / Argentina)
- Sale of non-core Lifestyle Fabrics business completed in the period (\$10m sales in H1)



Strategic focus areas: positive progress continues

Simplification

- Connecting for Growth
- 1,300 less tech. apps.
- 15% reduction in legal entities
- 30% brand harmonisation
- 5% less suppliers
- UK pension schemes merger



Digital solutions

- Automated credit control / reminders
- >90% thread sampling digitally enabled
- Re-launch of www.coats.com



Innovation

- >20% PM sales from new products
- Developing 3 innovation centres
- Increasing interaction with start-ups and universities



Corporate Responsibility (CR)

- c.40% CAPEX on sustainability / CR
- Continued YTD reductions in energy (2%) and water usage (9%)
- Epic Ecoverde – 100% recycled thread – significant sample demand



FTSE4Good

Connecting for Growth: encouraging start, net benefits ahead of schedule

2020 goals

- A 2 year programme; transforming into a lean, fit and fast organisation
- \$15m total net benefits, after reinvestments
- Reinvestments in the areas of innovation, digital and people



2018 progress to date

- Encouraging start: benefits being realised faster. \$10m net benefits in full year 2018 now expected (previously \$5m)
- From April:
 - 1) 45 markets now 10 clusters
 - 2) integrated back office functions
 - 3) different business models for 7 peripheral markets



Speed/agility



Service



Insights



Productivity

A close-up, low-angle shot of a person's legs as they ascend a set of wide, grey stone stairs. The person is wearing dark blue athletic shorts and bright neon green sneakers with white laces and a white midsole. The background shows a stone wall with a circular window and a dark metal handrail. The lighting is dramatic, highlighting the person's muscular legs and the texture of the stone.

Financial performance

Simon Boddie

Overview



<i>\$m unless otherwise stated</i>	H1 2018	Reported change	CER change ¹	Organic ²
Revenue	788	7%	5%	2%
Operating profit ³	100	13%	12%	11%
EPS (cents) ³	3.6	19%		
Free cashflow (last twelve months) ⁴	85	(23)%		
ROCE	35%	100 bps		
Interim Dividend per share (cents)	0.50	14%		

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

Segmental performance

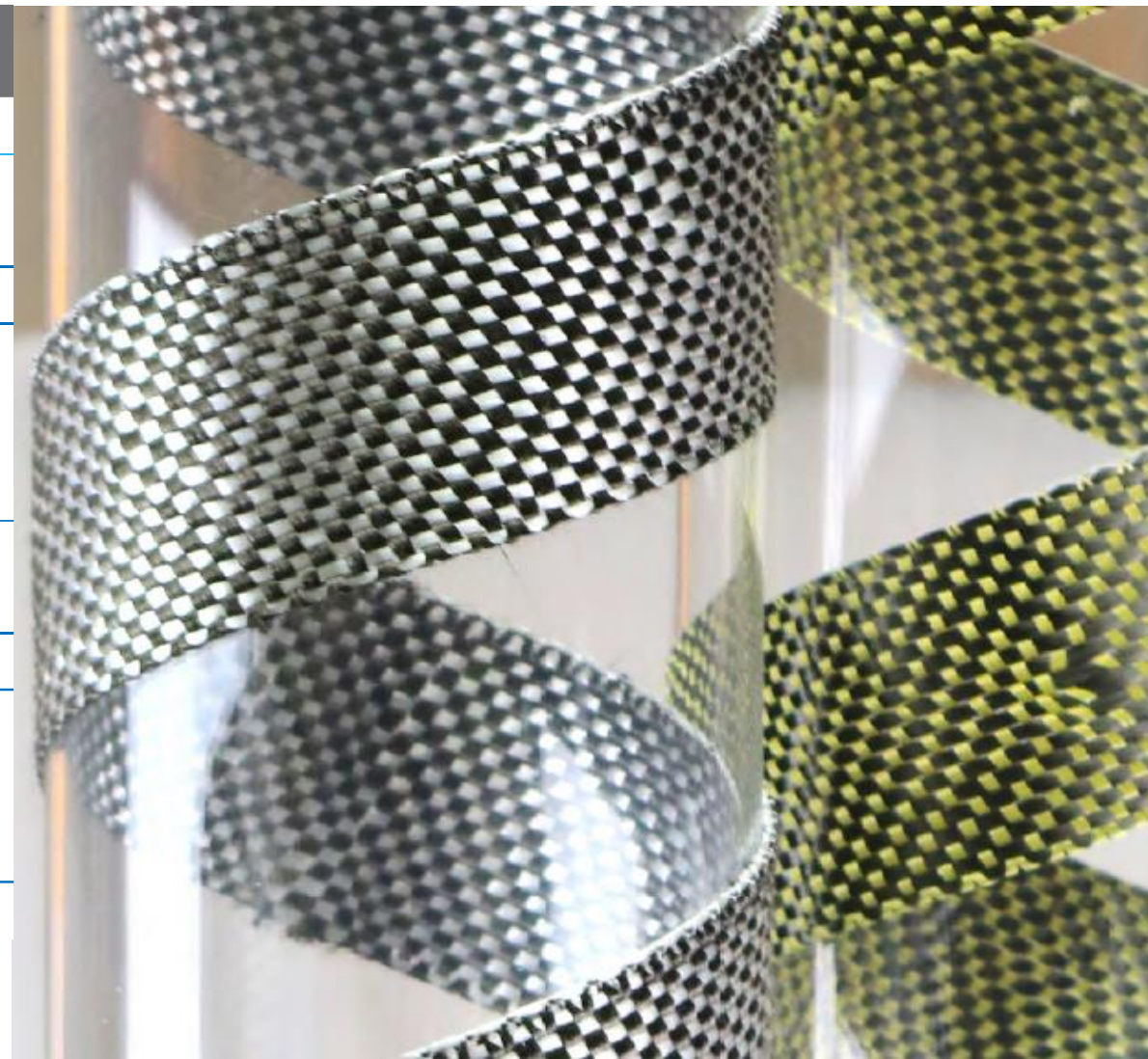
	H1 2018	H1 2017 ¹	CER ¹ change %	Organic ⁴ change %
Revenue ² (\$m)				
Industrial	695	653	7%	3%
Crafts Americas	93	97	(4)%	(4)%
Total	788	749	5%	2%
Operating profit (\$m)^{2,3}				
Industrial	103	89	16%	15%
Crafts Americas	1	5	(83)%	(83)%
	104	94		
UK pension admin	(4)	(4)		
Group	100	90	12%	11%
Operating margin (%)				
Industrial	14.8%	13.6%	130bps	160bps
Crafts Americas	1.0%	5.5%	(450bps)	(450bps)
Group	12.7%	12.0%	70bps	100bps

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



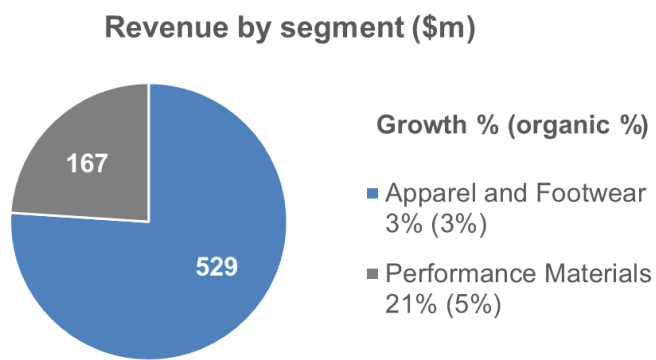
Industrial

Revenue

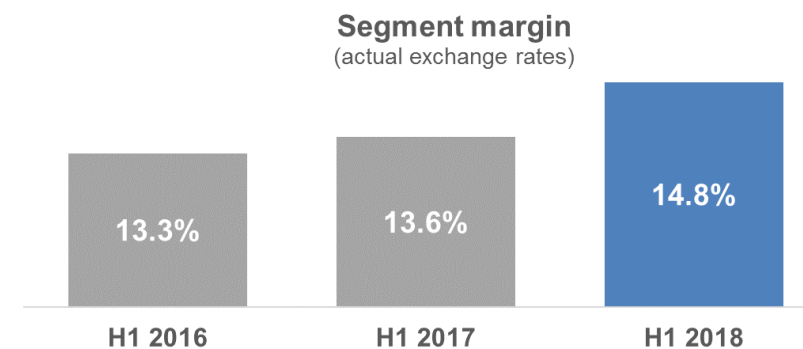
- **Asia:** 5% growth reflecting continued momentum in key A&F markets
- **Americas:** 17% growth including first contribution from Patrick Yarn Mill; encouraging performance in certain Latam markets, offset by continued softness in US consumer durables
- **EMEA:** 1% growth against tough 2017 comparator; lower fashion zips sales in Europe, and peripheral market exits (part of C4G)

Segmental profit

- Margins up 130bps as self help initiatives (price, productivity, procurement, cost control and C4G) more than offset input cost increases and other structural inflation



\$m	H1 2018	H1 2017	CER ¹ change %	Organic ⁴ change %
Asia	397	377	5%	5%
Americas	150	129	17%	0%
EMEA	148	147	1%	1%
Total²	695	653	7%	3%
Segment profit^{2,3}	103	89	16%	15%
Segment margin	14.8%	13.6%	130bps	160bps



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

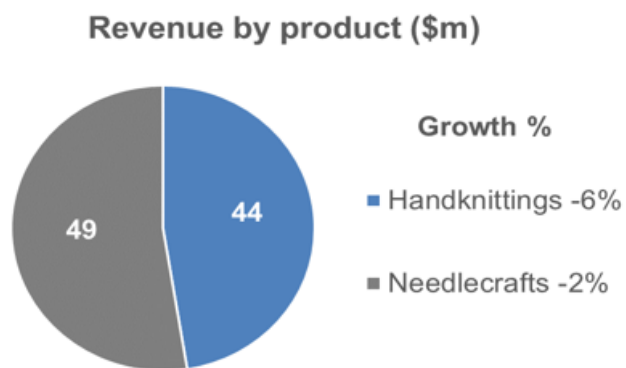
Crafts Americas

Revenue

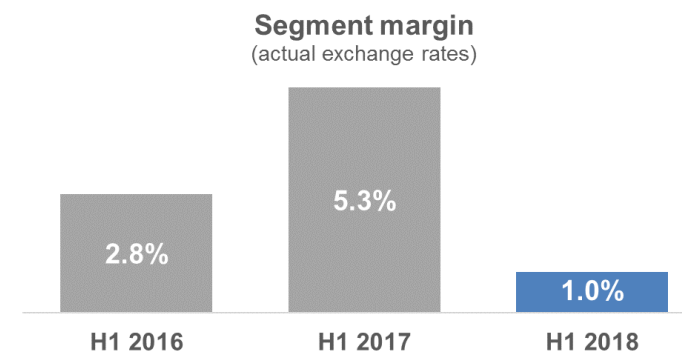
- **North America:** down 2% (FY 2017 decline 15%) - impacted by own-label handknitting products introduced at major customer (from H2 2017). 2017 impacted by \$10m tornado lost sales.
- **LatAm:** 8% decline – market softness in key markets of Brazil and Argentina

Segmental profit

- Profit margin reduced by 450bps principally due to the high 2017 comparator impacted by the tornado, lower sales and manufacturing volumes, and remaining duplicate tornado costs



\$m	H1 2018	H1 2017	CER ¹ change
Revenue			
North America	62	63	(2)%
Latin America	31	34	(8)%
Total	93	97	(4)%
Segment profit²			
	1	5	(83)%
Segment margin			
	1.0%	5.5%	(450bps)



¹ 2017 figures restated at 2018 exchange rates

² On an adjusted basis which excludes exceptional and acquisition related items

Income Statement

- **Exceptional / acquisition related items:**
 - \$17m reorganisation charge in relation to C4G (out of a total \$30m for the entire programme)
 - \$4m acquisition related items (intangible amortisation and contingent consideration)
 - \$2m pension credit following wind up of 3 UK pension schemes
- **Finance costs:**
 - \$3m reduction in pension finance charge
 - Offset by marginally higher interest on borrowings, and small MTM FX loss (vs \$1m gain in 2017)
- **Underlying tax rate:** further reduction in underlying ETR to 31% (2017 full year 32%)
- **Minority interests:** relates predominantly to operations in Vietnam and Bangladesh
- **Adjusted EPS:** 3.6c per share, 19% growth on 2017
- **Interim dividend per share:** 0.50c – 14% growth

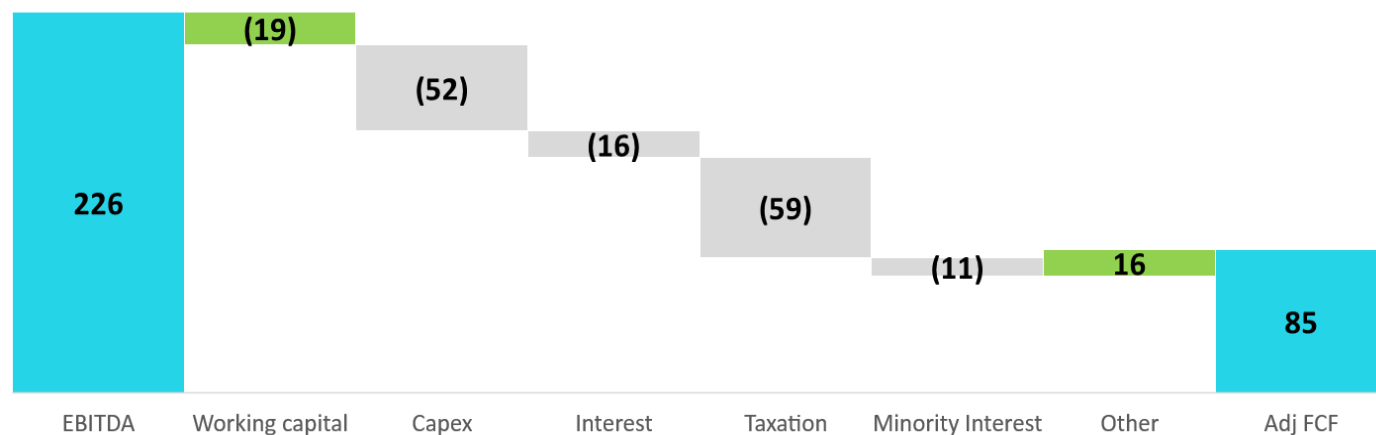
\$m	H1 2018 reported	H1 2017 reported
Adjusted operating profit	100	89
Exceptional / acquisition related items	(20)	(3)
Operating profit	81	86
Share of profit from JVs	(0)	1
Finance costs	(11)	(11)
PBT	70	76
Tax	(26)	(27)
Profit / (loss) after tax	44	49
Discontinued operations	-	-
Profit / (loss) for period	44	49
Minority interest	(10)	(8)
Attributable profit / (loss)	34	40
Adjusted EPS (cents)	3.6	3.1
EPS (cents)	2.4	2.9
DPS (cents) - interim	0.50	0.44

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

Cash flow and leverage

- \$18m adjusted free cash flow in H1 2018 (2017 \$21m); increased profitability offset by higher working capital outflow
- FCF expected to be weighted to H2 due to normal working capital cycles
- \$85m LTM free cash flow at June 2018 in line with full year 2017 (\$87m)
- Leverage of 1.2x (within target range of 1-2x), marginally improved on June 2017

Last Twelve Months Cashflow (\$m)



	EBITDA	Working capital	Capex	Interest	Taxation	Minority Interest	Other	Adj FCF
FY 2017	216	(6)	(50)	(14)	(61)	(12)	15	87

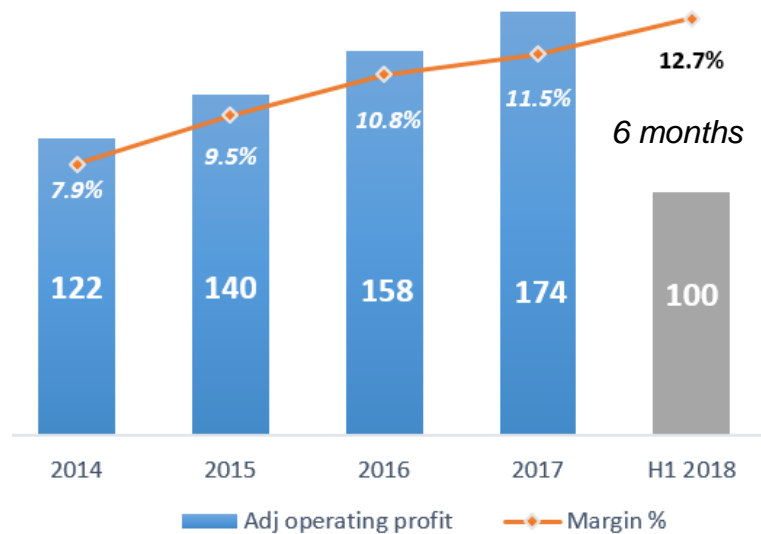
\$m	H1 2018	H1 2017
EBITDA	120	109
Working capital	(50)	(37)
Capital expenditure	(21)	(20)
Interest	(8)	(6)
Taxation	(26)	(28)
Minority Interest	(6)	(7)
Other	9	8
Adj free cash flow	18	21
Pensions	(11)	(353)
Discontinued	(0)	(1)
Acquisitions	(2)	-
Dividends paid to equity shareholders	(13)	(11)
Exceptionals and other	(18)	(1)
FCF	(26)	(345)
FX and other movements	(3)	7
Change in net cash	(29)	(339)

\$m	H1 2018	H1 2017
Group net debt	(270)	(261)

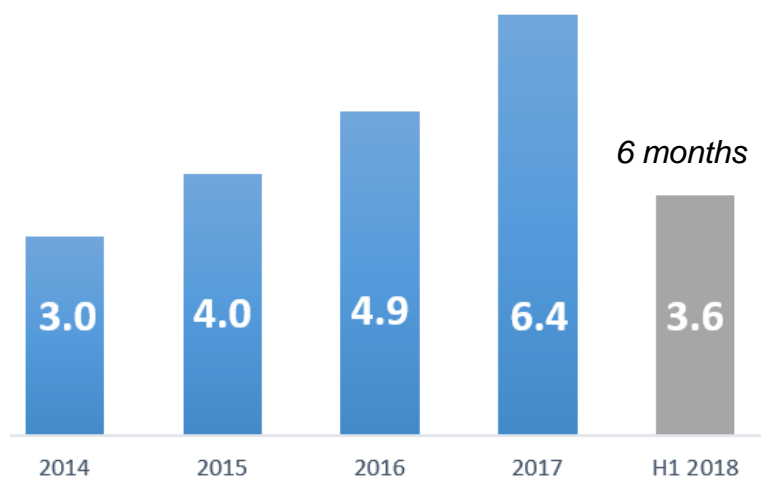
Leverage	1.2x	1.3x
NWC % sales	13%	13%

Record of delivering improving earnings and consistent cash flows

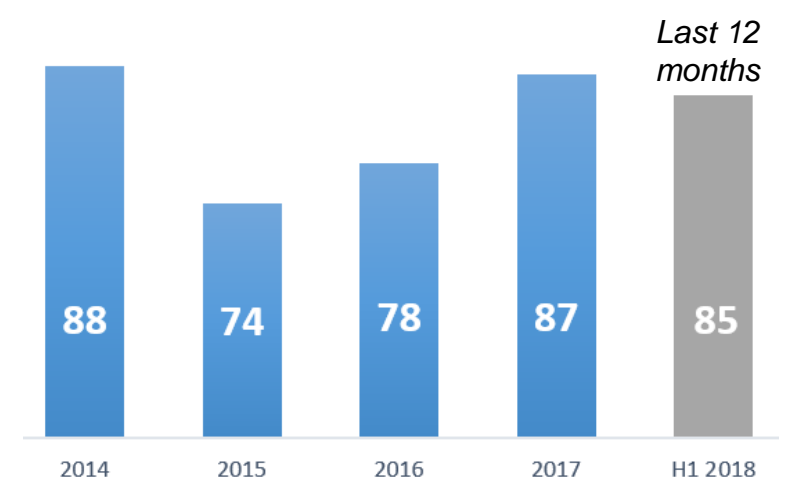
Operating profit \$m



EPS (c)



Free cash flow \$m



13% CAGR

28% CAGR

\$80m+ ave. FCF p.a.

Operating profit, EPS and FCF on an adjusted basis, 2014-17 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.

A dynamic background image showing several fiber optic cables splashing into water. The cables are black with colorful protective jackets (blue, green, orange, white) and their internal fibers are visible, creating a rainbow-like effect. The water is splashing and bubbling, set against a dark background.

Outlook and summary

Rajiv Sharma

Outlook

- We look to build on a strong first half of the year by continuing to outperform the market, deliver productivity improvements, and maintaining tight control of our cost base, whilst investing in our growth opportunities.
- Encouraging progress has been made on the Connecting for Growth programme, and as a result, initial net benefits are being realised faster than initially anticipated. After reinvestments, the net benefits in the full year 2018 are now expected to be \$10 million (previously \$5 million).
- As a result of the faster delivery of the net benefits from the Connecting for Growth programme, we now anticipate delivering a full year performance slightly ahead of management's previous expectations.

Summary: delivering our strategy

A&F

**Continued
out-
performance**

PM

**Higher
growth in
hi-tech**

**Simplification
Digital
Innovation
Acquisitions**

C4G

**Acceleration of
benefits**

Profits

**Double-
digit
growth**

Cash

**Consistent
generation**

Appendices



Financial guidance

Area	Guidance
Capital expenditure	<ul style="list-style-type: none"> • \$50-60m in 2018
Connecting for Growth programme	<ul style="list-style-type: none"> • \$10m net benefits in 2018 (previously \$5m) • \$15m net benefits by 2020, after \$10m p.a. reinvestments (innovation, digital, people) • \$30m total reorg. costs (excluded from adjusted operating profit); majority to be incurred in 2018
UK pension deficit recovery payments, and admin costs	<ul style="list-style-type: none"> • \$23m p.a. (£17.5m p.a.) deficit recovery payments in 2018 at current FX rates • \$6m p.a. UK scheme admin costs in 2018 (at current FX rates) – c.\$1m annualised savings following UK scheme consolidation once fully realised
Underlying effective tax rate	<ul style="list-style-type: none"> • Expect to reduce to c.30% in the medium term
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

World's leading industrial thread manufacturer and major player in Americas textile crafts



Apparel and Footwear (A&F)

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



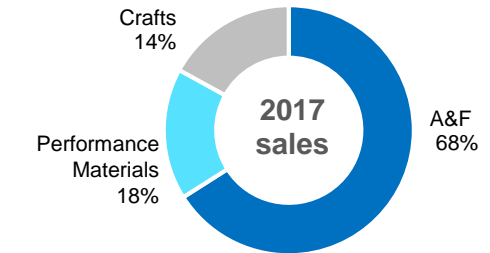
Performance Materials

- High technology threads and yarns from performance materials



Crafts Americas

- Foundation and fashion handknitting
- Needlecrafting



Global footprint	
-	19,000 employees
-	Some 50 sites
-	Sales in 100+ countries
-	Global distribution network
-	UK headquartered, COA:LSE
-	FTSE 250 member

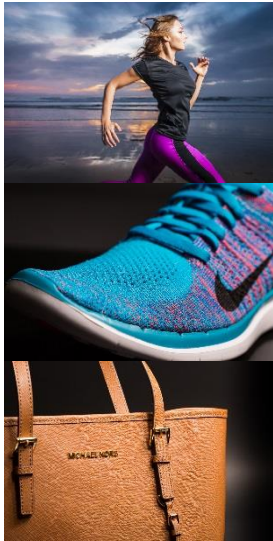
Group	2017
Sales	\$1.5bn
Operating profit	\$174m
Adj EPS growth	30%
Adj free cash flow	\$87m
ROCE <i>(restated)</i>	34%

Markets and global customers

INDUSTRIAL

Apparel and Footwear

End uses include

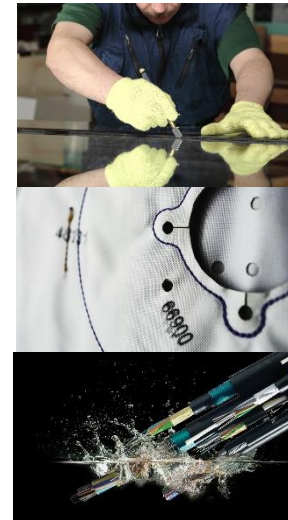


Customers include



Performance Materials

End uses include

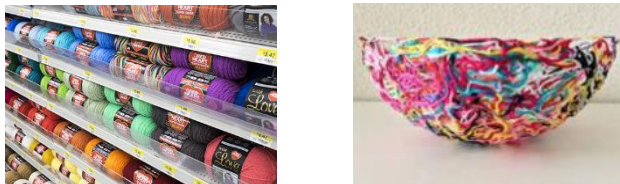


Customers include



CRAFTS

End uses include

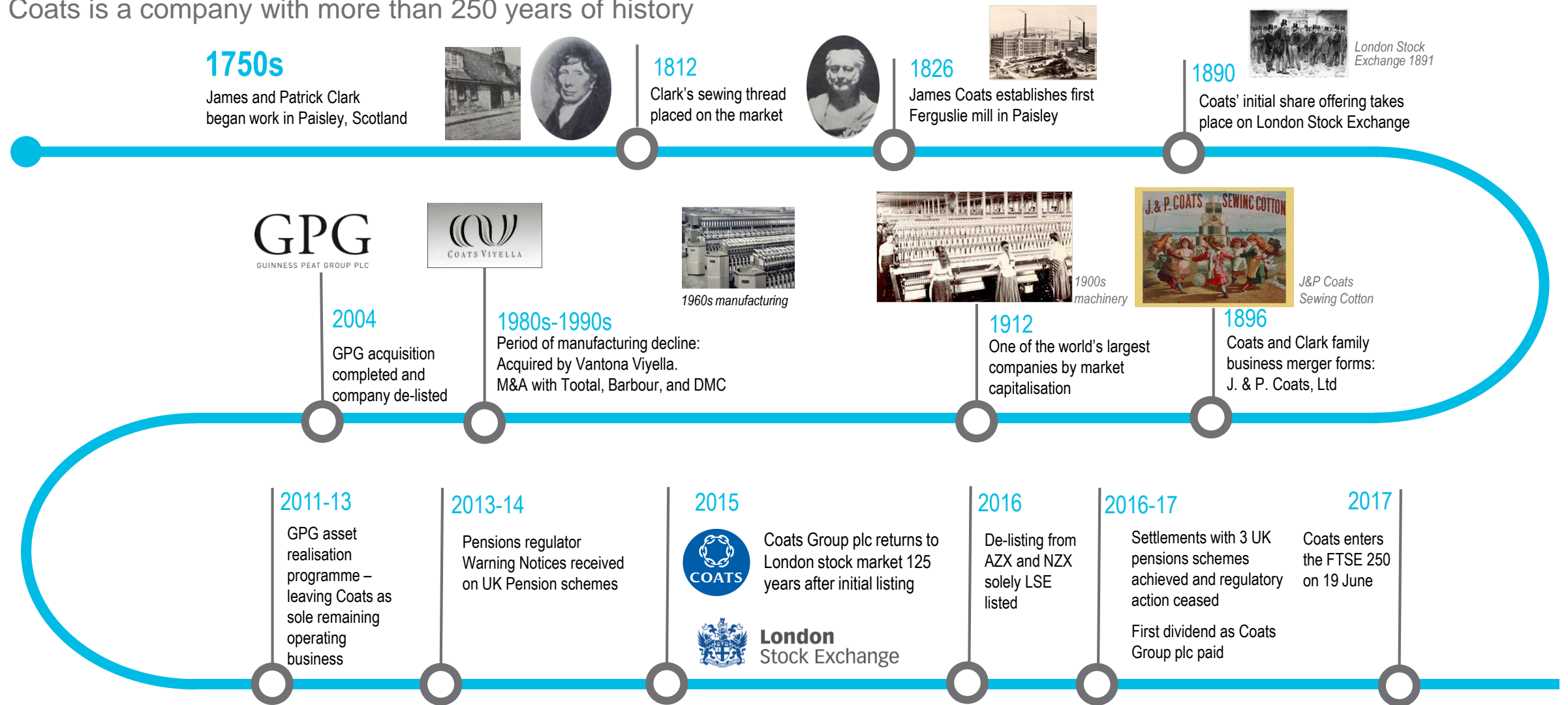


Brands include



Corporate timeline: a rich heritage

Coats is a company with more than 250 years of history



Our investment case

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

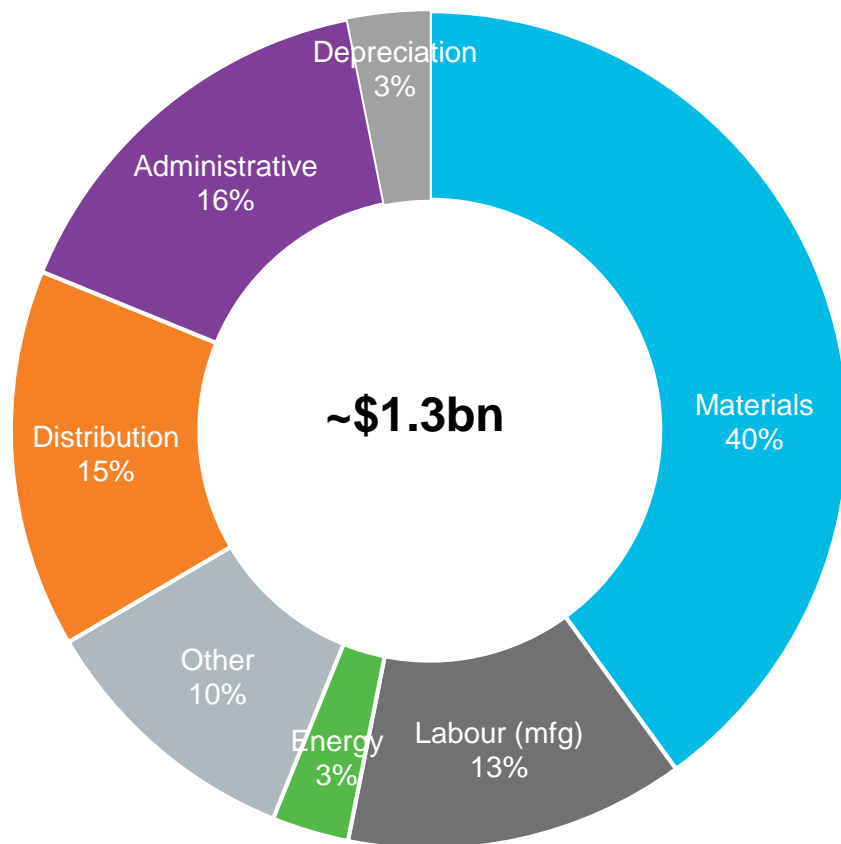
Delivering consistent free cash flow

Allowing investment in:

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

Cost base

Full year 2017 - 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

The launch of the new www.Coats.com



Corporate Responsibility is at the heart of our business



FTSE4Good

- A focussed corporate responsibility strategy to identify the highest materiality issues to our Group, factoring in all stakeholders. For example:

<p>Environmental footprint</p> <ul style="list-style-type: none"> • Renewable energy sources (e.g. solar) – 29% in 2017 • 23% reduction in GHG emissions in 5 years • Member of Zero Discharge Hazardous Chemicals Group • Investment in Effluent Treatment Plants 	<p>H&S and employment conditions</p> <ul style="list-style-type: none"> • Global H&S management system • Global accident rates 83% below US textile industry rates • Global top decile for Employee Engagement (83%) with 99% survey participation • 20% increase in women in senior management in last 5 years 	<p>Use of natural resources</p> <ul style="list-style-type: none"> • Investment in more efficient equipment and development of processes • 26% decline in water usage in 5 years • 20% decline in energy usage in 5 years • Launch of 100% post consumer recycled premium thread (EcoVerde) • 75% waste reused or recycled
<p>Human rights</p> <ul style="list-style-type: none"> • Human Rights policy updated and extended • Supplier code implemented • Training in 2018 for key staff to identify signs of modern slavery within employees 	<p>Ethics</p> <ul style="list-style-type: none"> • Bi-annual training in key areas (>4500 people) • “Doing the right thing” global campaign • “Ethical champions” in units • Updated Whistleblowing policy and reporting system 	<p>Reporting and transparency</p> <ul style="list-style-type: none"> • Balance between financial / non-financial KPIs • 5 year published reporting history • Meet reporting obligations of listed company • “Best online report: AIM / small cap”

Data as per FY17 results presentation

For more details see the Corporate Responsibility section of [Coats.com](https://www.coats.com)

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 an interim dividend of 0.50c per share – a 14% growth on 2017 interim dividend
- The full year 2017 dividend reflects earnings cover of 4.5x and cash cover (post recurring pension recovery payments) of 3.4x



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

UK pensions update

Current financials

- As at 30 June 2018, UK schemes IAS19 now in marginal (\$1m) surplus position (31 Dec 2017 \$106m deficit)
- Reduction in deficit driven by \$100m actuarial gains (discount rate and mortality assumptions)
- Expected 2018 deficit recovery payments \$23m (£17.5m), incl. administrative expenses and levees
- Note that for triennial valuation purposes (driver of deficit recovery payments), more prudent valuation methodology used than IAS19 method
- c.70% of interest / inflation linked liabilities are hedged
- Real interest rates reduced since last triennial

UK scheme consolidation

- Consolidation of the 3 UK schemes (Coats, Brunel and Staveley) into 1 single scheme (Coats UK Pension Scheme) on 1 July 2018
- Estimated administration cost savings of £1m p.a. once fully realised
- Cash lump sum option offered to smaller pensioner entitlements – accepted by c.1,600, resulting in a \$2m accounting (exceptional) gain
- New scheme triennial valuation date 30 June 2018
- Expect completion of triennial process in H1 2019, which will drive next schedule of deficit recovery payments

Pension schemes: H1 income statement and cashflow impact

\$m	Brunel		Staveley		Coats UK		UK Total		Coats other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Service charge	-	-	-	-	-	-	-	-	4	4	4	4
Administrative expenses ¹	1	1	1	1	2	2	4	4	1	1	4	4
Operating profit impact	1	1	1	1	2	2	4	4	4	5	8	9
Finance charge	-	1	-	1	1	4	1	5	1	-	2	5
Total income statement impact	1	2	1	2	3	6	5	9	5	5	10	14
UK contributions for active members	-	-	-	-	-	-	-	-	-	-	-	-
Cash payments to pensioners and other	-	-	-	-	-	-	-	-	4	4	4	4
Cash outflow within adjusted FCF	-	-	-	-	-	-	-	-	4	4	4	4
UK settlement lump sum payments ²	-	43	-	45	-	252	-	340	-	-	-	340
UK recovery contributions and admin expenses paid ²	2	3	2	3	7	7	11	13	-	-	11	13
Total cash outflow	2	45	2	48	7	259	11	352	4	4	15	357

1. Administrative expenses of Brunel, Staveley and Coats UK plan equate to UK Pension admin charge in segmental operating profit split on slide 13

2. As per pensions recovery payments line in adjusted FCF to change in net cash reconciliation table on slide 17

Pension schemes: balance sheet positions

	Brunel		Staveley		Coats UK		Other		Total	
	Jun 2018	Dec 2017	Jun 2018	Dec 2017	Jun 2018	Dec 2017	Jun 2018	Dec 2017	Jun 2018	Dec 2017
<i>\$m</i>										
Assets	211	221	337	359	2,291	2,417				
Liabilities	(230)	(251)	(330)	(357)	(2,278)	(2,495)				
Net surplus/(deficit)	(19)	(30)	7	2	13	(78)				
Unrecognised asset	-	-	-	-	-	-				
Net deficit recognised	(19)	(30)	7	2	13	(78)	(56)	(57)	(55)	(163)
<i>£m</i>										
<i>Equities</i>	39	38	26	36	398	450			463	524
<i>Bonds</i>	65	63	128	134	1,000	1,004			1,193	1,201
<i>Other</i>	56	63	101	96	336	334			493	493
Total assets	160	164	255	266	1,734	1,788			2,149	2,218
Liabilities	(174)	(186)	(250)	(265)	(1,725)	(1,846)			(2,149)	(2,297)
Net asset/(obligation)	(14)	(22)	5	1	9	(58)			-	(79)
Discount rate (%) ¹	2.65	2.35	2.65	2.35	2.65	2.35				
Inflation (%) ²	3.15	3.20	3.15	3.20	3.15	3.20				
Rate of increase in pensions in payment (%)	3.00	3.05	3.00	3.05	3.00	3.05				
Life expectancy	25.9	26.0	25.2	25.4	26.4	25.7	For male retiring today at 60			

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



Delivering today
Transforming for tomorrow

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