Coats Group plc

2019 half year results presentation

Thursday 1 August 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

2019 half year results presentation

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

Introduction: good H1 performance and continued delivery of strategy

Sustainability report released

Strong growth from acquisitions

Connecting for Growth programme largely complete

Portfolio rationalised

Turkey and China Innovation Hubs open

Financial highlights: growth in all operational metrics

- **Revenue growth of 2%**; key strategic focus areas performing well
- **Operating profit growth of 8%**; continued margin expansion (80bps) due to self help initiatives
- **4% growth in EPS**; excluding non-operational one-offs
- **Continued strong cash generation**; up 24%
- **Balance sheet well placed** for organic and inorganic opportunities (leverage 0.9x)
- **10% dividend growth** reflects ongoing confidence in our future strategy

Business review

Rajiv Sharma

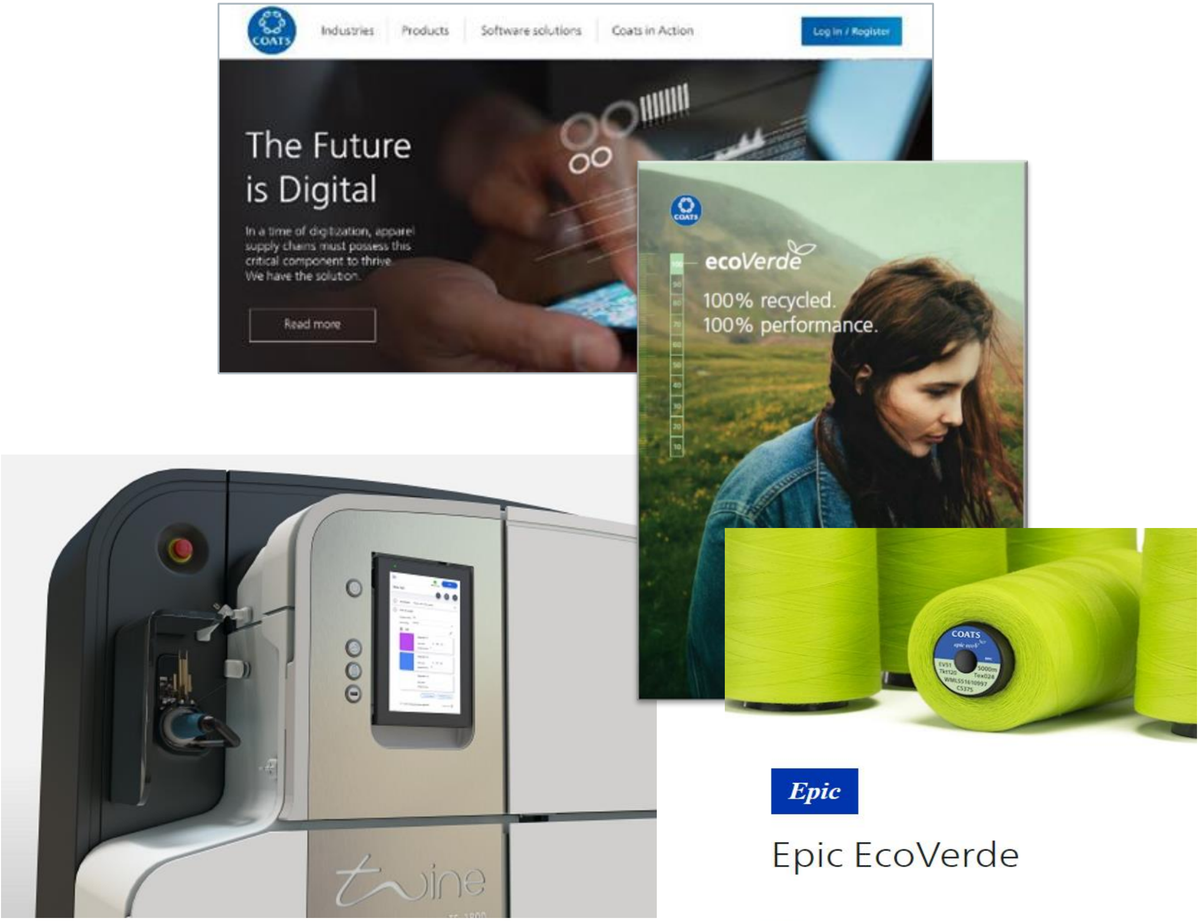
Our new reporting segments: an overview

	End-markets	Market position	Scale	Value proposition	Growth prospects
Apparel and Footwear	Apparel, Footwear and Accessories	Global market leader in A&F thread; >20% share	30,000 customers c.40 factories c.2m orders pa	Speed Personalisation Innovation Cost Quality Responsibility Sustainability	Low single digits market growth over medium term – Coats outperforming
Performance Materials	5 different end-use categories *	Building strong market positions organically and inorganically	8,500 customers 10 factories (most shared with A&F), c.140k orders pa	Innovative customer solutions Globalisation Specialisation	Faster market growth Exciting new market potential (eg composites)

** Telecoms and Energy, Personal Protection, Transportation (incl. automotive), Household and Recreation, and Other Industrial Applications*

Apparel and Footwear: resilient growth despite mixed retailer sentiment

- 1% revenue growth; 2% on like-for-like basis excluding portfolio rationalisation actions
- 3% A&F thread growth; ongoing exceptional service
- Continued fashion trends impacting zips
- 17% organic growth in software revenues
- Twine Solutions digital thread printer launched in June
- Corporate, Social and Responsibility credentials become an increasing Coats' differentiator
- Recycled product launches (cotton and PFC-free)



Epic

Epic EcoVerde

twine

a single thread of color

Performance Materials: our five new end-use categories

Updated reporting categories reflecting market dynamics and strategic focus

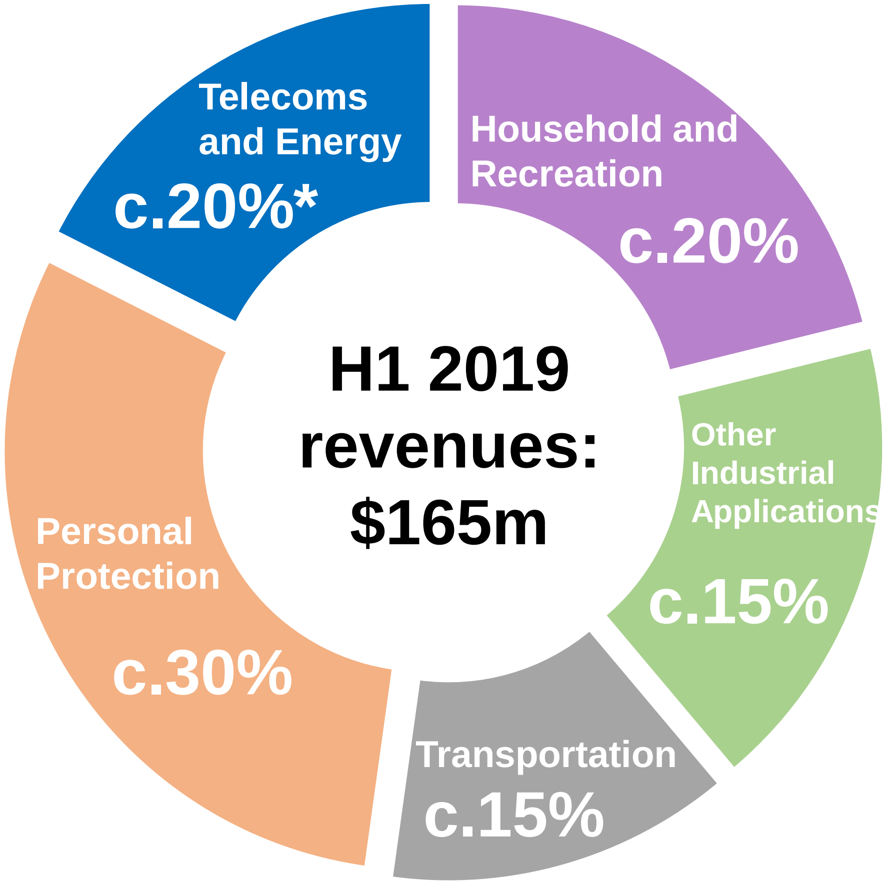
Telecoms and Energy: fast growing market (fibre optic connectivity trend) - protective layers for cables / steel replacement composites

Personal Protection: combining comfort and protection - fire retardant and cut resistant threads and yarns

Transportation: high performance threads and composites for various parts of automotive industry

Household and Recreation: everyday consumer applications, including bedding / quilting / tea bags

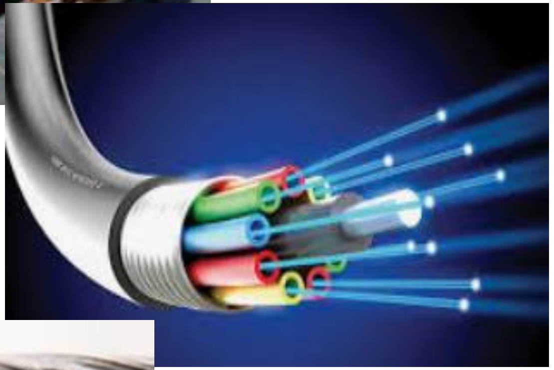
Other Industrial Applications: various other technical applications for light / strong / flexible / innovative threads



** Proportion of HY revenues*

Performance Materials: continued growth

- 4% revenue growth to $165m
- Gotex and Patrick Yarn acquisitions performing well
- Telecoms and Energy (up 27%), and Personal Protection (up 8%) growing strongly
- Transportation revenues broadly flat; slowdown in global automotive production
- Household and Recreation, and Other Industrial Applications saw declines; US consumer durables remains relatively soft
- Innovation Hubs starting to generate new sales



Connecting for Growth: reinvestments stepping up to drive future growth

Actions now largely complete and programme set to close this year

Innovation

- 3 Innovation Hubs established: A&F and PM
- Driving incremental new product sales
- Creating immediate customer samples

Digital

- Factory of the future: delivering real-time manufacturing data via 150,000 new digital connections
- Data lake – 15TB of data driving insights

Talent

- 100+ new roles created
- 200+ received new training in business partnering / change management / sales

Cost of programme $30m **2019 FY net savings c.$25m** **Significant $ reinvestments**

ESG: significant progress to date and ambitious future targets

FTSE4Good

Progress to date

- 28% renewable energy / 20% water recycled or re-used
- New effluent treatment plant in Mexico in 2019
- Dedicated ESG Investor Event in June (London)

Future activities

- Ambitious 2022 targets formed
- Construction underway on 3 further effluent treatment plants
- Journey to Zero H&S programme

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

Overview

$m unless otherwise stated	**H1 2019**	**Reported change**	**Organic [1]**
Revenue	705	(3)%	**2%**
Operating profit [2]	102	3%	**8%**
Operating margin %	14.5%	80bps	80bps
EPS (cents) [2]	3.4	**(4)%**	
Free cash flow [3]	21	24%	
ROCE	**40%**	200 bps	
Interim Dividend per share (cents)	0.55c	10%	

KPI

1 On a CER basis (2018 restated at 2019 rates), and excludes contribution from acquisitions made during the period
2 Excludes exceptional and acquisition related items, reported / CER includes contribution from bolt-on acquisitions; 4% EPS growth excluding MTM FX, IFRS16 and legacy interest charges
3 Adjusted for UK pension recovery payments, acquisitions and exceptional items

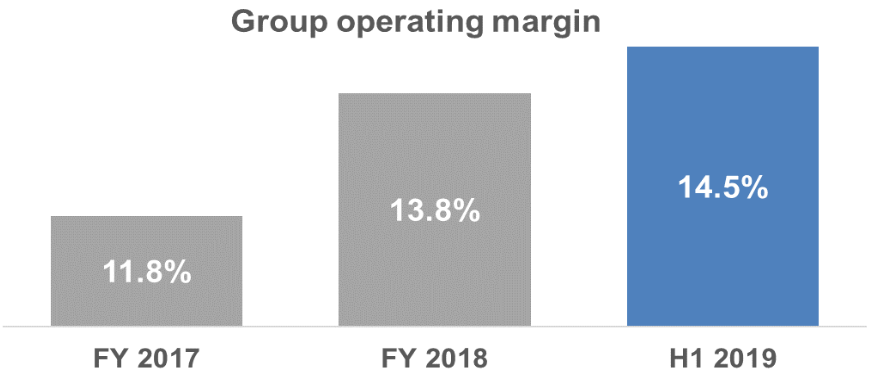
Operating review

Revenue

- **Asia:** 3% growth - good performance in key A&F markets
- **Americas:** 6% decline - difficult trading conditions in Latin America A&F and US consumer durables
- **EMEA:** 7% growth - driven by Performance Materials (Telecoms and Energy) and consistent A&F

Operating profit

- Operating profit up 8%: self help initiatives (price, productivity, procurement cost control and C4G) despite input cost inflation

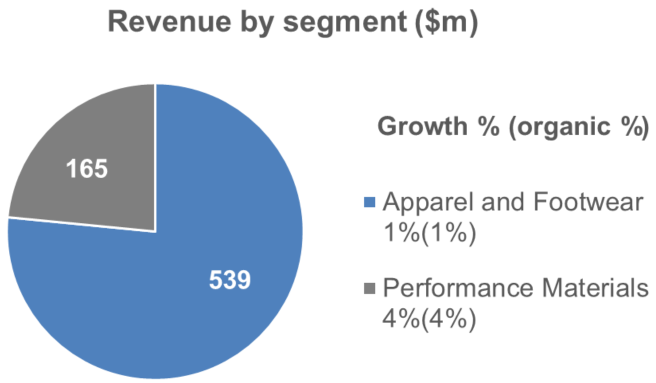


$m	H1 2019	H1 2018 [4]	Organic [1] change %
Asia	395	383	3%
Americas	167	177	(6)%
EMEA	142	133	7%
Total [2]	**705**	**692**	**2%**
Operating profit [2,3]	**102**	**95**	**8%**
Operating margin	**14.5%**	**13.7%**	**80bps**

1 On a CER basis (2018 figures restated at 2019 exchange rates) and excluding contributions from bolt-on acquisitions
2 Includes contributions from bolt-on acquisitions made in the year
3 On an adjusted basis which excludes exceptional and acquisition related items
4 Restated for NA Crafts and IFRS15

Segmental overview

- Revenue and operating profit growth across both segments
- Apparel and footwear profit up 9%; slightly ahead of the overall Group
- Performance Materials profit up 4% to $23m; margins flat at 13.7% a result of specific impacts:
  - Bad debt / inventory write downs $1m
  - Innovation Hub costs



	H1 2019	H1 2018 [1]	Organic change % [4]
Revenue [2] ($m)			
Apparel and footwear	539	533	1%
Performance materials	165	159	4%
Total	**705**	**692**	**2%**
Operating profit ($m)[2,3]			
Apparel and footwear	79	73	9%
Performance materials	23	22	4%
Group	**102**	**95**	**8%**
Operating margin (%)			
Apparel and footwear	14.7%	13.7%	110bps
Performance materials	13.7%	13.7%	0bps
Group	**14.5%**	**13.7%**	**80bps**

1 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

2018 FY margins: A&F 13.7%, PM 14.1% PM (Group 13.8%)

Income Statement

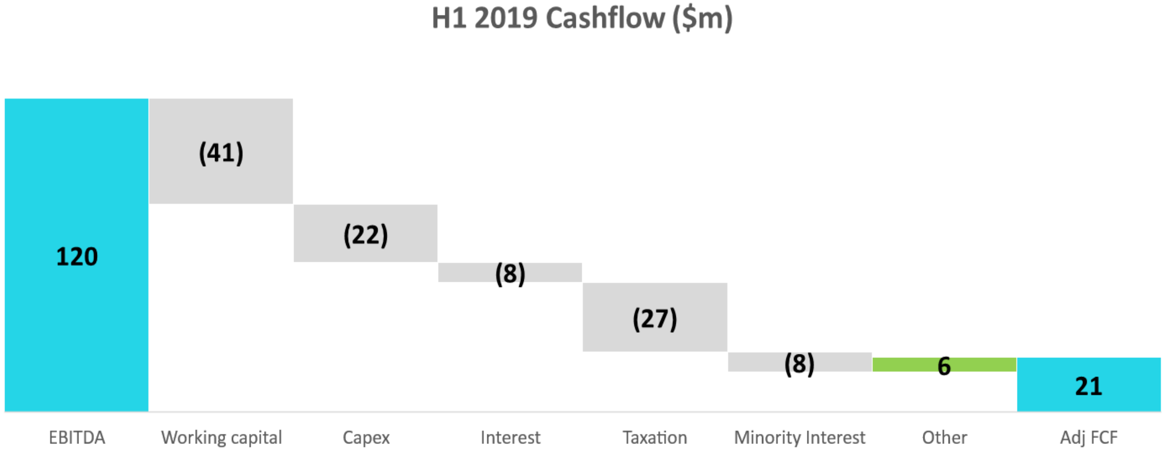
- **Exceptional / acquisition related items:** significantly reduced year-on-year due to the reduction in C4G reorganisation spend ($1m; H1 2018: $17m) and a historic legacy tax credit in Brazil ($3m)
- **Finance costs:** higher in the period primarily due to:
  - Mark to market FX $2.4m (2018: $0.4m)
  - IFRS16 accounting standard adoption $1.8m
  - Legacy interest impacts $1.7m
- **Underlying tax rate:** further reduction to 30% (2018: 31%)
- **Discontinued operations:** NA Crafts (Feb completion)
- **Minority interests:** predominantly operations in Vietnam and Bangladesh
- **Adjusted EPS:** down 4% (up 4% excluding IFRS16, MTM FX and legacy interest impacts)
- **Interim dividend per share:** 10% growth to 0.55c

$m	H1 2019 reported	H1 2018 reported
Adjusted operating profit	**102**	**99**
Exceptional / acquisition related items	(1)	(20)
Operating profit	**101**	**80**
Share of profit from JVs	1	(0)
Finance costs	(16)	(11)
PBT	**85**	**69**
Tax	(26)	(26)
Profit after tax	**60**	**43**
Discontinued operations	(3)	1
Profit for the period	**57**	**44**
Minority interest	(10)	(10)
Attributable profit / (loss)	**46**	**34**
Adjusted EPS (cents)	**3.4**	**3.5**
EPS (cents)	**3.4**	**2.3**
DPS (cents) - interim	**0.55**	**0.50**

All data shown on a reported basis, i.e. 2018 not CER basis. 2018 restated for NA Crafts.

Cash flow and leverage

- $21m adj. free cash flow in H1; 24% Y-O-Y growth driven by operating profit growth and controlled NWC
- Lower cash flows in H1 reflect normal working capital flows
- On a LTM basis, adj. free cash flow of $100m (2018: $96m)
- Net debt (excl. IFRS16) reduced to $210m; leverage 0.9x (Dec 2018: 1.0x)
- One-time impact of adoption of IFRS 16 increases net debt by $58m to $269m (and associated uplift to EBITDA)

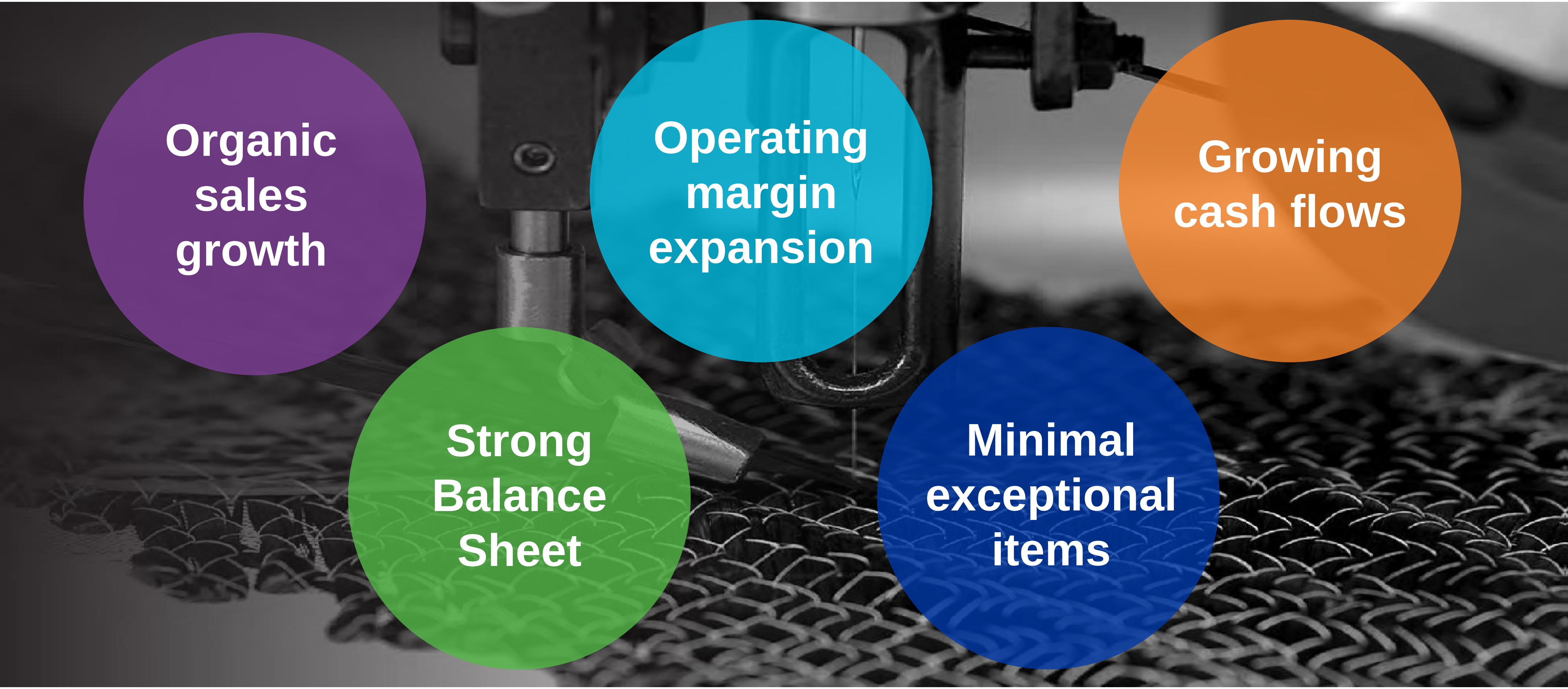


H1 2018	**118**	(42)	(21)	(8)	(26)	(6)	2	**17**

$m	H1 2019	FY 2018
Adj free cash flow	**21**	**96**
Pensions	(12)	(24)
Discontinued	30	7
Acquisitions	(4)	(7)
Dividends paid to equity shareholders	(16)	(21)
Exceptionals and other	(7)	(27)
FCF	**12**	**25**
FX and other movements	-	(6)
Change in net debt	**12**	**19**
Group net debt (excl. IFRS 16)	**210**	**223**
Adoption of IFRS 16	58	-
Group net debt (incl. IFRS 16)	**269**	**223**
Leverage (excl. IFRS 16)	**0.9x**	**1.0x**
Leverage (incl. IFRS 16)	**1.1x**	**n/a**

EBITDA does not add-back for increased depreciation for right of use assets under IFRS 16 ($7m)

Robust financial delivery



Outlook and summary

Rajiv Sharma

Outlook

- In the second half of the year we will continue to drive performance through our focus on customer service and building on our innovation and digital capabilities, supported by our self-help initiatives.
- Our full year earnings per share will be impacted by the highlighted foreign exchange movements, IFRS16 changes and certain legacy interest charges.
- However, whilst we remain mindful of current macroeconomic uncertainties, we anticipate delivering 2019 full year adjusted operating profit in line with our expectations.

Summary: delivering our strategy

Appendices

Financial guidance

Area	Guidance
Capital expenditure	• $45-55m in 2019
Connecting for Growth programme	• $25m net benefits in 2019, after reinvestments (innovation, digital, people) • $30m total reorg. costs (excluded from adjusted operating profit); $24m incurred to date, with remainder expected in 2019 • Programme scheduled to close this year
UK pension deficit recovery payments, and admin costs	• $30m p.a. (£24m) deficit recovery payments, including administrative costs and levies, from April 2019 onwards until 2028 (at latest FX). Next triennial review effective date 31 March 2021. • $28m (£22m) deficit recovery payments, including administrative costs and levies in 2019 (including Q1 at previous triennial agreed rates). • UK scheme admin costs – c.$1m annualised savings following UK scheme consolidation once fully realised
Pension finance charge	• 2019 pension finance charge $5-6m (based on closing IAS19 position, and impact of NA Crafts disposal) (2018: $3.8m)
Underlying effective tax rate	• 30% for FY2019 • 2019 effective cash tax rate > P/L effective rate (timing)
Shareholder dividends	• Progressive growth reflecting earnings and cash growth
Leverage	• Maintain a strong Balance Sheet with a target leverage (net debt / EBITDA, pre. IFRS 16) of 1-2x
IFRS 16 leases	• See next slide

IFRS16 – leases

- Accounting policy change effective for periods beginning on or after 1 Jan 2019
- Modified retrospective approach applied to restatement – no impact on prior years as a result
- Primary impact for Coats is requirement to replace previously termed operating leases with new “right-of-use” asset and associated liability
- Net increase to operating profit of $1m in the period; $2m increase to finance costs (interest charge on new lease liabilities)
- FY impact expect to be broadly pro-rata to the HY actual impact
- No impact on adjusted FCF or Balance Sheet leverage calculation for covenant purposes
- Leverage including lease liabilities and higher EBITDA of 1.1x at June 19 (0.9x excluding IFRS16)

Income statement $m	H1 2019	FY 2018
Eliminated operating lease charge	8.1	-
Increased depreciation charge - right-of-use assets *	(7.1)	-
Net impact to operating profit *	**1.0**	**-**
Increased interest charge - on associated new lease liability	(1.8)	-
Net impact to Profit Before Tax	**(0.8)**	**-**
Net impact to Profit After Tax	**(0.5)**	**-**

*** Total increase to EBITDA = $8.1m**

Balance Sheet $m	30 Jun 2019	31 Dec 2018
Increase in right-of use-assets	58.5	-
Increase in lease liabilities	(57.7)	-
Decrease in PPE	(0.2)	-
Decrease in provisions	1.3	-
Decrease in prepayments	(1.9)	-

World's leading industrial thread manufacturer

Customers include

VF, GAP, next, BURBERRY, Nike, lululemon athletica, adidas, UNIQLO

Apparel and Footwear (A&F)

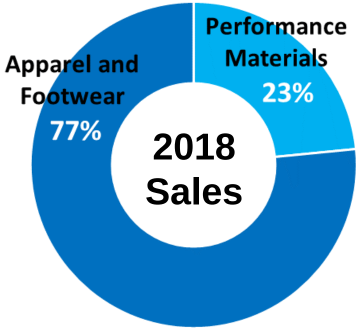
- Apparel, footwear and accessories thread
- Zips and trims products
- Software solutions

Performance Materials

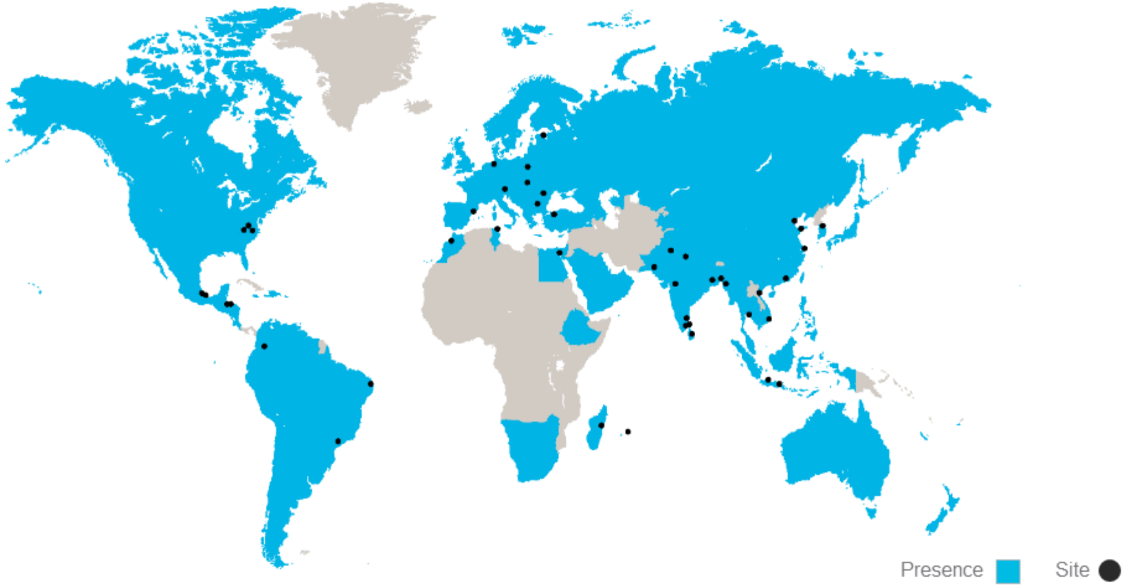
- High technology threads and yarns from performance materials

Customers include

DECATHLON, MICHELIN, P&G, IKEA



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



Global footprint

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

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 Paisley

1890
Coats' initial share offering takes place on London Stock Exchange

London Stock Exchange 1891

1896
Coats and Clark family business merger forms: J. & P. Coats, Ltd

J&P Coats Sewing Cotton

1912
One of the world's largest companies by market capitalisation

1900s machinery

1980s-1990s
Period of manufacturing decline: Acquired by Vantona Viyella. M&A with Tootal, Barbour, and DMC

1960s manufacturing

COATS VIYELLA

2004
GPG acquisition completed and company de-listed

GPG
GUINNESS PEAT GROUP PLC

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
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 3 UK pensions schemes achieved and regulatory action ceased

First dividend as Coats Group plc paid

2017
Coats enters the FTSE 250 on 19 June

2019
Sale of North America Crafts

Apparel and Footwear: A global leader - winning with the winners

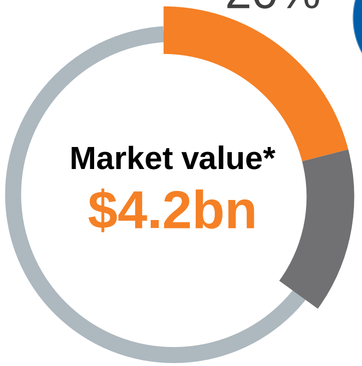
* 2014 – 17 organic CER CAGR

Understanding the thread market landscape

Size and structure

Consistent but moderate market growth

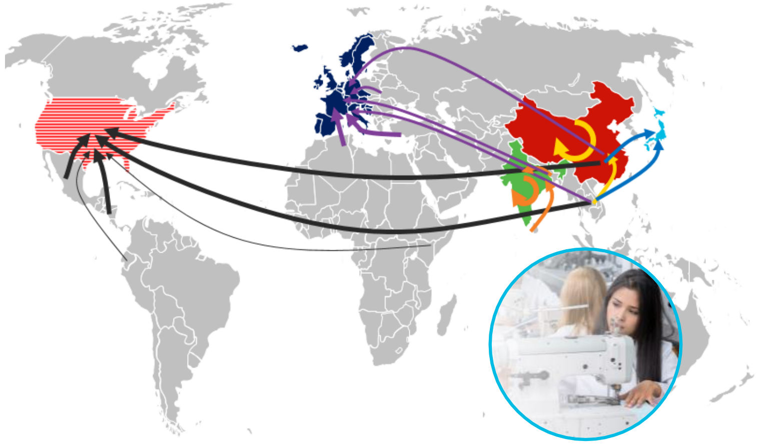
10-12 regional
+
'000s local players



Rich product variety

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

A critical component in a global, agile industry



Segmentation

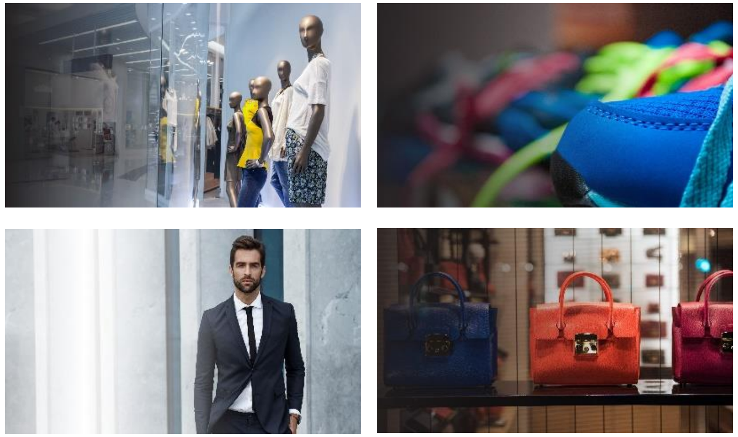
Economy to premium

$$$

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

FastReact

GSD
Part of Coats Global Services

Evolve
efficient manufacturing for fashion

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

Vision
global sourcing made simple

Apparel product lifecycle management

GSD
Part of Coats Global Services

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**

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

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

By 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

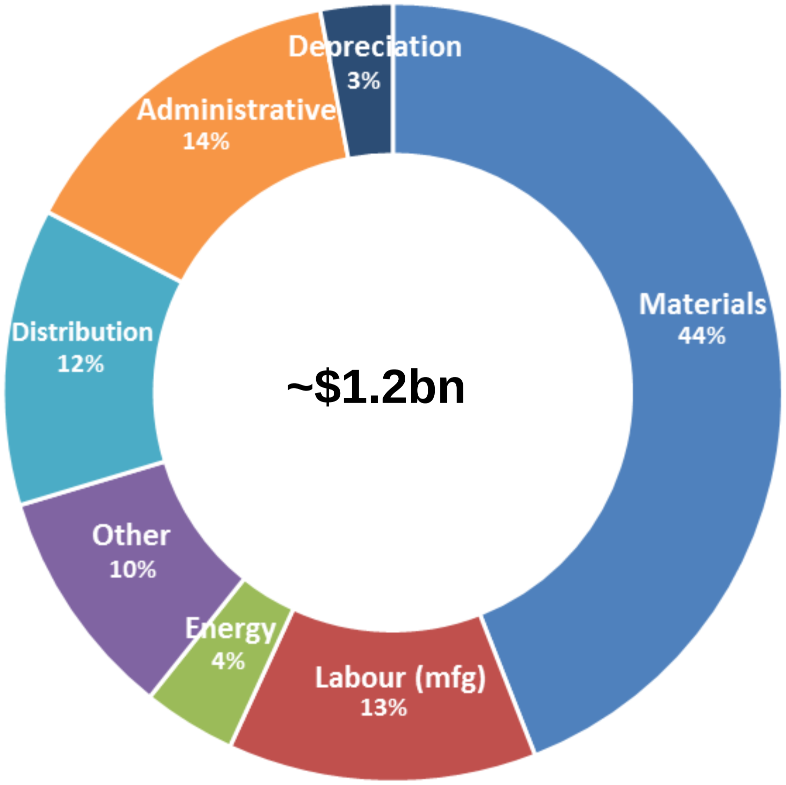
25%

Waste reduction

* Zero Discharge Hazardous Chemicals effluent standards

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 declared an interim dividend for 2019 of 0.55c per share – a 10% growth on 2018
- 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

For more information

Rob Mann
Head of Investor Relations
+44 20 8210 5175
rob.mann@coats.com

Coats Group plc
www.coats.com

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