Coats Group plc

2020 half year results presentation

Strong cash performance
Demand trend improving through Q2

Thursday 13 August 2020

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Rounding

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Agenda

2020 half year results presentation

- Introduction
- Financial performance
- Business review and outlook

Introduction: strong cash performance; demand trend improving through Q2

** Organic*

Our three group priorities during Covid-19

Our people

- Covid prevention at sites
- Providing PPE / enforcing social distancing / in-house track+trace app
- No redundancies – sites kept open
- Quick pivot to remote working – standalone offices remain shut
- Training / support provided (>200,000 hours training provided to employees)
- Maintaining pay for vulnerable / shielding employees

= EMPLOYEE HEALTH AND SAFETY

Supporting customers / suppliers

- Offering quality and reliability
- Leveraging our flexible global footprint
- Innovation: 13 new products launched
- Sustainability / responsibility remains key – targets remain on track
- Staying connected – digital first
- >400 customer technical webinars

= CUSTOMER WINS

Cash management

$

- Focus on collections / managing overdues
- Reduced CAPEX – selective investments
- Pension payments deferred
- Dividends suspended but remains under review
- Managing purchases / reduce stocks
- Managing group cash
- BoE CCFF available, if required

= HEADROOM INCREASED

Financial performance

Simon Boddie

Overview

$m unless otherwise stated	H1 2020	H1 2019	Reported change	CER change [1]	Organic [1]
Revenue	536	705	(24)%	(21)%	(26)%
Operating profit [2]	34	102	(67)%	(66)%	(66)%
Operating margin %	6.4%	14.5%	(810 bps)	(820 bps)	(780 bps)
EPS (cents) [2]	0.0	3.4c			
Free cash flow [3]	(5)	21			
Leverage	1.3x	0.9x			
ROCE	28%	40%			
Interim Dividend per share (cents)	-	0.55c			

1 On a CER basis (2019 restated at 2020 rates); organic excludes contribution from acquisitions made during the period
2 Excludes exceptional and acquisition related items, reported / CER includes contribution from bolt-on acquisitions
3 Adjusted for UK pension recovery payments, acquisitions and exceptional items

Operating review: COVID volume impact on margins

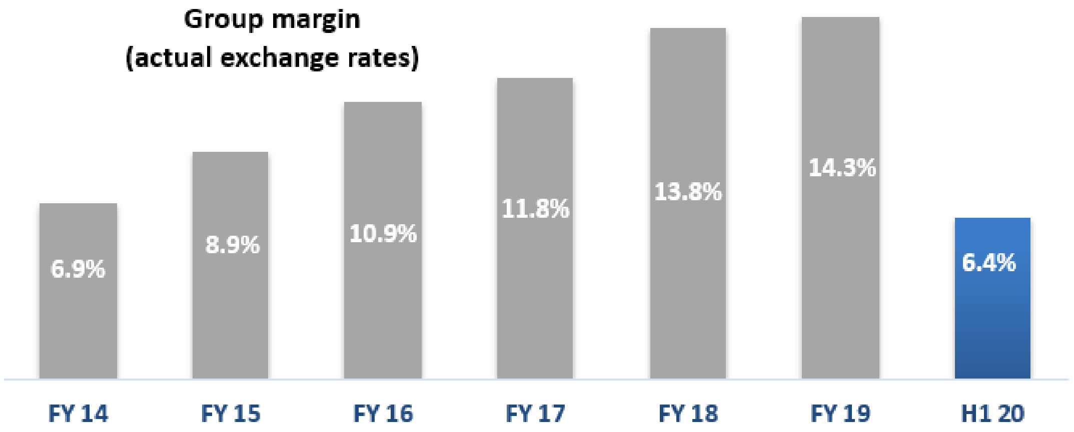
Revenue

- **Group** 26% organic decline – 8% decline in Q1 due to China COVID impact; 45% down in Q2; encouraging June exit rate (down 25%)
- **Asia** 27% decline – severe lockdown measures in key A&F markets (India / Bangladesh); some offset from Vietnam
- **Americas** 27% organic decline – 21% contribution from Pharr HP acquisition; NA Personal Protection relatively robust; weak A&F in key LatAm markets
- **EMEA** 24% decline – Italy (zips) impacted by lockdown; encouraging signs of recovery in a number of markets

$m	H1 2020	H1 2019	CER [1] change %	Organic [1] change %
Asia	283	388	(27)%	(27)%
Americas	149	158	(6)%	(27)%
EMEA	104	137	(24)%	(24)%
Total [2]	**536**	**683**	(21)%	(26)%
Operating profit [2,3]	**34**	**100**	(66)%	(66)%
Operating margin	6.4%	14.6%	(820 bps)	(780 bps)

Operating profit

- Operating profit down 66% – volume impact of COVID-19, with some offset from underpinning actions (including footprint flexibility) and raw material deflation
- Q2 SG&A down 21% year-on-year
- Bad debt charge remains low: <1% of revenue



1 On a CER basis (2019 figures restated at 2020 exchange rates); organic on CER basis 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

Segmental overview

- Organic revenue declines across both segments due to COVID-19 impacts
- Apparel and footwear down 29%: impacted marginally more due to severe lockdown measures in some key markets
- Performance Materials up 2%: relatively robust performance in Personal Protection and contribution from Pharr HP acquisition
- Both segment margins impacted by COVID-19 volume declines and some adverse mix
- Performance Materials also impacted by lower relative scale, and Pharr HP dilution (100bps)
- Group operating margins down 820bps to 6.4%; modest operating loss in Q2

	H1 2020	H1 2019 [1]	CER [1] change %	Organic [4] change %
Revenue [2] ($m)				
Apparel and footwear	372	523	(29)%	(29)%
Performance materials	164	160	2%	(19)%
Total	**536**	**683**	**(21)%**	**(26)%**
Operating profit ($m)[2,3]				
Apparel and footwear	27	78	(65)%	(65)%
Performance materials	7	22	(68)%	(69)%
Group	**34**	**100**	**(66)%**	**(66)%**
Operating margin (%)				
Apparel and footwear	7.3%	14.9%	(760bps)	(750 bps)
Performance materials	4.2%	13.6%	(940 bps)	(840 bps)
Group	**6.4%**	**14.6%**	**(820 bps)**	**(780 bps)**

1 2019 figures restated at 2020 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:** primarily relate to non-cash COVID-19 impairments; some offset from profits on sale of property
- **Finance costs** higher in the period primarily due to
  - Mark-to-market FX losses $5.7m; sterling depreciation
  - Exceptional interest credit in 2019 $1.5m
  - Some offset by lower interest on borrowings $1.5m
- **Effective tax rate** increase to 48% (2019 FY: 29%) due to
  - Adverse profit mix (incl. some unrecoverable losses) due to COVID-19
  - Continuing withholding taxes
  - Mark-to-market FX losses (underlying rate 41% excluding this)

$m	H1 2020 reported	H1 2019 reported
Adjusted operating profit	**34**	**102**
Exceptional / acquisition related items	(5)	(1)
Operating profit	**29**	**101**
Share of profit from JVs	0	1
Finance costs	(19)	(16)
PBT	**11**	**85**
Tax	(11)	(26)
Profit after tax	**(1)**	**60**
Discontinued operations	-	(3)
Profit for the period	**(1)**	**57**
Minority interest	(8)	(10)
Attributable profit / (loss)	**(9)**	**46**
Adjusted EPS (cents)	**0.0**	**3.4**
EPS (cents)	**(0.6)**	**3.4**

All data shown on a reported basis ie 2019 not CER basis

Cash flow and leverage

- $5m adj. free cash outflow: marginally below 2019; COVID-19 volume impact on EBITDA underpinned by tight control of NWC and lower Capex spend
- Working capital flat y-o-y at 13% of sales
- Capex spend $13m (2019: $22m) significantly down year-on-year
- Net debt (excl. IFRS16) of $207m: leverage 1.3x (Jun 2019 0.9x); $270m committed headroom (excludes BoE CCFF £300m)
- Increase in net debt since Dec 2019 of $58m: includes $37m Pharr HP consideration and Q1 pension payments ($9m)

H1 2020 Cashflow ($m)

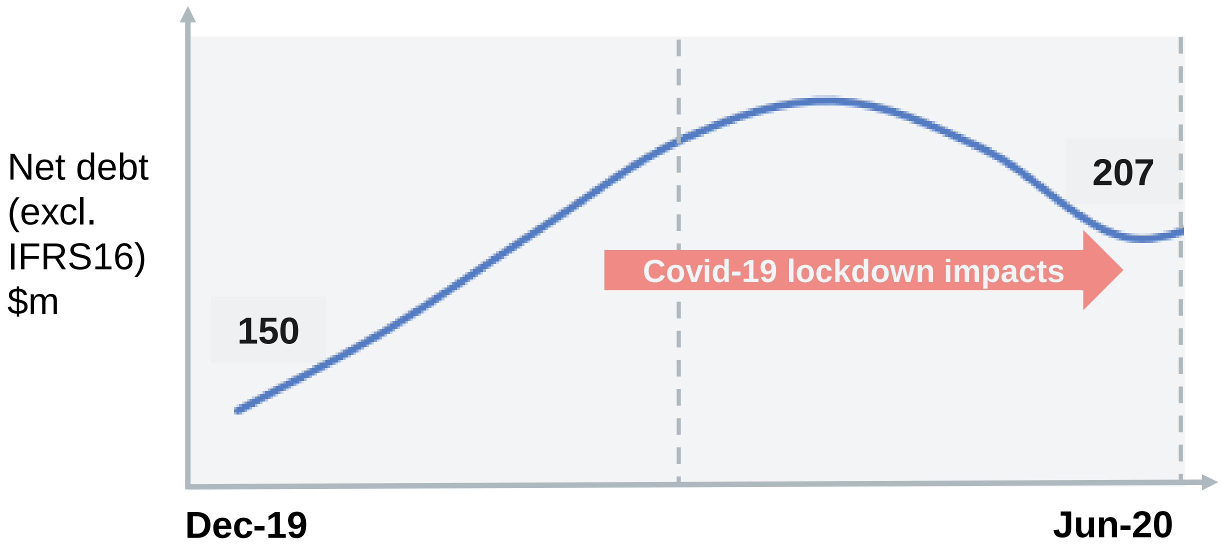
H1 2019	**120**	(41)	(22)	(8)	(27)	(8)	6	**21**

$m	H1 2020	H1 2019
Adj free cash flow	**(5)**	**21**
Pensions	(9)	(12)
Discontinued	(0)	30
Acquisitions	(37)	(4)
Dividends paid to equity shareholders	(0)	(16)
Exceptionals and other	(3)	(7)
FCF	**(54)**	**12**
FX and other movements	(3)	-
Change in net debt (excl. IFRS 16)	**(58)**	**12**
Movement in Leases (IFRS 16)	5	(58)
Change in net debt	**(53)**	**(46)**
Group net debt (excl. IFRS 16)	**(207)**	**(210)**
Leases (IFRS 16)	(60)	(59)
Group net debt (incl. IFRS 16)	**(267)**	**(269)**
Leverage (excl. IFRS 16)	**1.3x**	**0.9x**
Organic NWC % sales	**13%**	**13%**

EBITDA does not add-back for increased depreciation for right of use assets under IFRS 16 ($8m)

2020 net debt quarterly trends

Q1 | **Q2** | **H2**



Q1

- Normal Q1 working capital outflows
- $37m Pharr HP acquisition

Q2

- Some NWC unwind from lower activity
- Strong collections; bad debts remain low
- Cash underpinning measures

H2

- Likely some increase in net debt and leverage:
  - Q3 collections lower (Q2 sales)
  - Deferral of certain Q2 payments
- Improving GM% as sales recover
- Q4 net debt driven by sales recovery profile
- Some increases to NWC in order to support sales recovery

Key takeaways

Strong cash performance

Successfully flexing cost base

Demand improving during Q2

Headroom remains comfortable

1.3x leverage

Balance Sheet well placed for recovery

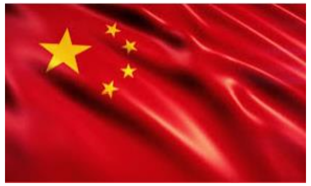
$270m headroom

Business review

Rajiv Sharma

A summary of the year so far

COVID-19: China event



- Encouraging start to the year
- COVID-19 impact in China - $8m sales impact in Jan/ Feb

Large scale global lockdowns commence

- Brands / retailers cancelling orders
- 15 factories closed
- Immediate actions taken to preserve costs / cash

Lockdown restrictions beginning to ease

- April sales down 58%
- Manufacturing footprint largely back open
- Cost / cash actions underpinning performance

Signs of gradual recovery

- Improving trend through Q2 (June exit rate: 25%)
- Orders increasing
- Cash / headroom further strengthened

FY19 results
5 Mar

Trading update
27 Mar

Trading update
20 May

Today

Q1 sales down 8%

Q2 sales down 45%

Encouraging June exit rate (25% down)

All sales numbers organic

Our response to COVID: quick and decisive action

Short-term actions balanced across stakeholders to underpin long-term success

Cash actions

- FY20 Capex down 70% to c.$15m
- Cancellation of 2019 final dividend; no interim dividend
- Agreement of deferral of UK pension payments ($17m)
- Headroom increased 20% through Q2
- Access to a further £300m of Bank of England CCFF funding if required

Cost actions

- Flexing manufacturing footprint to manage lower volumes
- Q2 20% pay reductions for Board, senior management and non-operational staff
- Significant reductions in SG&A: Q2 down 21% y-o-y
- Discretionary spend ceased
- Continued focus on operational efficiency

Apparel and Footwear

Customers migrating to trusted and dependable partners in times of uncertainty

- 29% revenue decline due to COVID-19
- Brand / retailer orders significantly impacted from March and during Q2 due to global lockdowns
- Demand improving throughout Q2; stronger recovery in:
  - Sporting goods / athleisure
  - Luxury (incl China)
  - Online channels
- Fast fashion / mid-market – more challenged at present
- Customer focused approach; delivering reliable products at speed; leading to incremental customer wins:
  - Leveraging global footprint
  - Flexible digital tools
  - Technical support
- Accelerated shift to recycled products (EcoVerde)

Performance Materials

Robust performance in Personal Protection

- Sales up 2% in the period; 19% organic decline
- COVID end-market themes:
  - Personal protection relatively resilient; fire protection and PPE
  - Telecoms and Energy; temporary pause on 5G roll out until 2021, and onshore energy dampened (commodity prices)
  - Transportation remains challenged; but light weighting / personal travel trends provide medium-term support
  - Other industrial applications: niche applications remain resilient
- Focus remains on customer service and delivering product solutions:
  - Innovation pipeline strong;
  - New product launches planned for H2
- Notable customer wins from competitors during period (eg a number of European automotive and global Telecoms companies)
- Pharr integration remains on track, despite some COVID disruption

Playing a responsible and leading role in the healthcare PPE industry

Accelerating industry trends

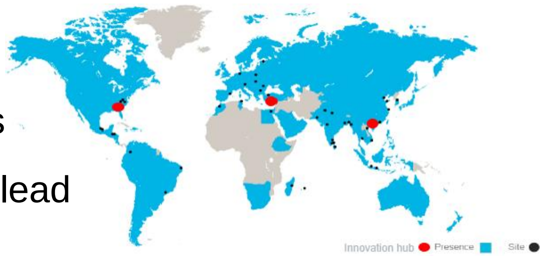
- Responsible action needed by industry leaders; aligned to our business DNA
- 60 million feet of thread donated for the manufacture of millions of facemasks
- Underpinned by the acceleration of the digital adoption trend:
  - Launch of Coats Fast Start; addressing global shortages in PPE
  - Member of Gerber PPE Task Force; connecting different parts of global supply chain
  - Online customer training webinars hosted; including 100 PPE related
- Coats Protect product range launched (incl. anti-microbial threads)
- Wide range of other products aligned to protective wear and medical supplies

Potential future commercial opportunity

Unwavering customer focus: a trusted and dependable partner

Quality and reliability

- Premium thread provider
- Global footprint – supports customer supply chain shifts
- Largest footprint – reducing lead times of delivery



Innovation

- Creating tailored solutions to solve customer problems
- Three Innovation Hubs fully operational
- 13 new products launched in H1; H2 pipeline strong

Sustainability / responsibility

- Accelerated shift to recycled products (EcoVerde)
- 2022 sustainability targets being progressed
- Responsible industry leader
- Continued progress in ESG ratings

Digital solutions and technical support

- Prior investments in digital sales and sampling platforms
- Hosting customer technical webinars
- Digital trend accelerating

Delivering customer wins now – opportunity for accelerated share gains in the future

Outlook

- We have seen an improving sales trend in recent, albeit low-season, months with organic sales declines reducing to 25% in June and 18% in July.

- As we look to the remainder of the second half we are mindful of the ongoing wider macro-economic uncertainty caused by COVID-19 and the importance of trading in the peak months of September, October and November.

- The Board remains confident in the Group's ability to continue to successfully manage through the current challenging macro-economic environment. As a Group we are in robust financial shape and a market leader with an unrivalled global footprint, which alongside our enhanced operational agility leaves us well placed to benefit from the acceleration in demand and emerge as a stronger business once COVID-19 passes.

- We will continue to underpin our near-term financial performance with the necessary prudent mitigating cost and cash actions, whilst balancing the investment opportunities available to us in order to position ourselves to take full advantage of future growth opportunities.

Focus now on winning the recovery

Improving demand trend
despite continued uncertainty

Flexing supply chain to deliver
speed, agility and reliability

Acceleration of existing trends:
digital, sustainability
and near shoring

Strong Balance Sheet

Talent and technology
key differentiators

In a crisis, customers depend on trusted and dependable partners like Coats that offer:

Quality
Reliability
Innovation
Sustainability
Digital solutions
Technical support

Appendices

Financial guidance

Area	Guidance
Capital expenditure	• c.$15m in 2020
Foreign exchange	• 2.5% translation headwind (reported vs CER) in H1 • Based on 30/6/20 rates, similar translation headwind expected for full year 2020 • Primary FX rates to consider (local operations reporting their books in these currencies); INR, CNY, TRL, EUR, BRL • Some exposure to GBP cost base and pension payments
UK pension deficit recovery payments, and admin costs	• Latest 2018 triennial valuation deficit recovery payments effective from April 2019 onwards until 2028 (10 year recovery schedule); $31m (£24m) deficit recovery payments, including administrative costs and levies per annum • As part of Covid-19 underpinning measures April-December 2020 deficit recovery payments deferred (admin costs and levies to be paid); normal deficit recovery payments to resume in January 2021; 2020 deferred payments expected to commence from mid-2021 until late 2022. • As a results, total payments in 2020 expected to be c.$12m, and $38m in 2021 • Next triennial review effective date 31 March 2021; to be agreed by 30 June 2022
Pension finance charge	• 2020 pension finance charge c.$4m (based on closing 2019 IAS19 position); 2019: $5.5m
Underlying effective tax rate	• 48% for FY2020 (41% excluding H1 mark-to-mark impacts); heightened due to Covid-19 impacts on profit mix and ongoing withholding taxes • Expect to return to historic rates over time (2019: 29%) as Covid-19 impacts subside
Shareholder dividends	• Currently suspended due to Covid-19 uncertainty; remains under Board review
Capital allocation priorities	• See later slide
Leverage	• Maintain a strong Balance Sheet with a target leverage (net debt / EBITDA, pre. IFRS 16) of 1-2x

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

London Stock Exchange 1891

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

J&P Coats Sewing Cotton

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

1900s machinery

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

1960s manufacturing

GPG
GUINNESS PEAT GROUP PLC

COATS VIYELLA

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

2004
GPG acquisition completed and company de-listed

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 three 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

Coats today: the world's leading industrial thread manufacturer

A lean and focused B2B business

Customers include

vf
GAP
next
BURBERRY
lululemon athletica
adidas
UNI QLO

Apparel and Footwear (A&F)

- Apparel, footwear and accessories thread
- Zips and trims products
- Coats Digital

2019 sales: $1,063m

Performance Materials

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

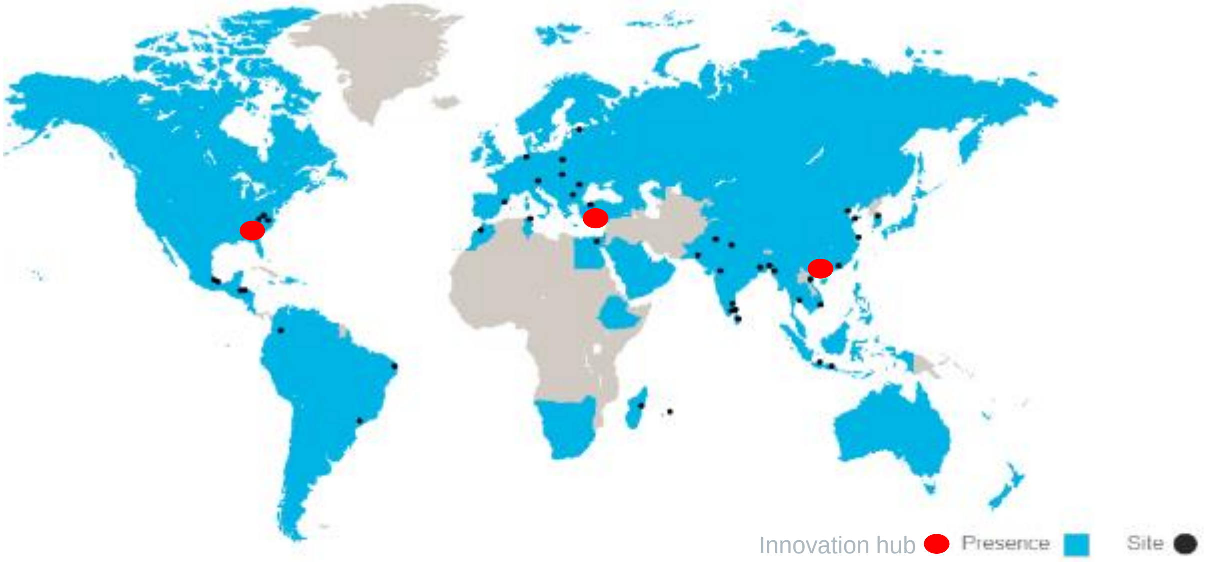
2019 sales: $326m

Customers include

MICHELIN
P&G
IKEA

Portfolio rationalisation actions

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



Global footprint

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

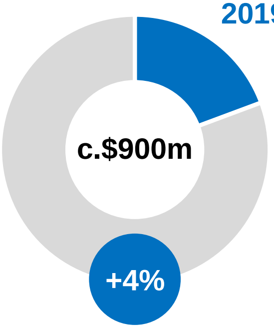
Apparel and Footwear: $1bn business and global market leader

Apparel and Footwear Threads

Estimated Coats share:

2019 Coats sales:

5 year sales CAGR *:



Continued market share gains

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

Coats Digital

Large opportunity - $400bn factory gate prices

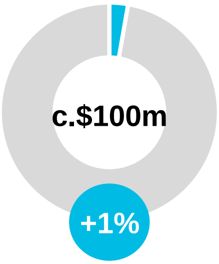
$12m

$1bn+ addressable market
Growing at 10%

Industry value through technology

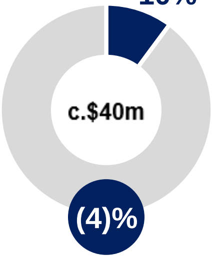
- Compelling market opportunity – waste, speed, complexity
- Providing a suite of solutions for our customers

Zips and Trims



Increase margins and cash

LatAm Crafts



Stabilise and grow

** 2014-18 CAGR (ie excludes 2019 which was impacted by specific macro headwinds and portfolio rationalisation actions)*

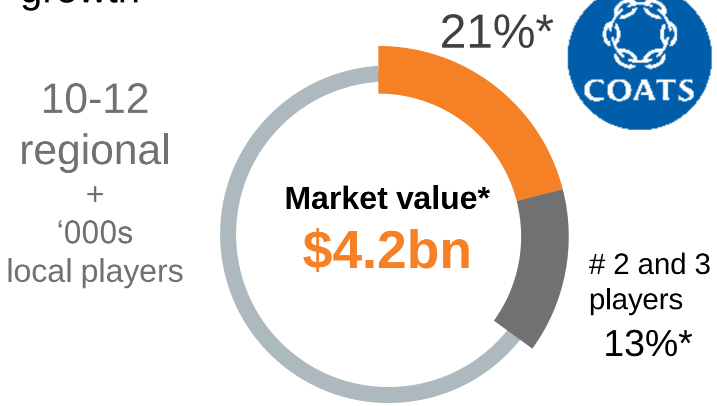
Apparel and Footwear: a global leader – winning with the winners

* 2014 – 18 organic CER CAGR

Understanding the thread market landscape

Size and structure

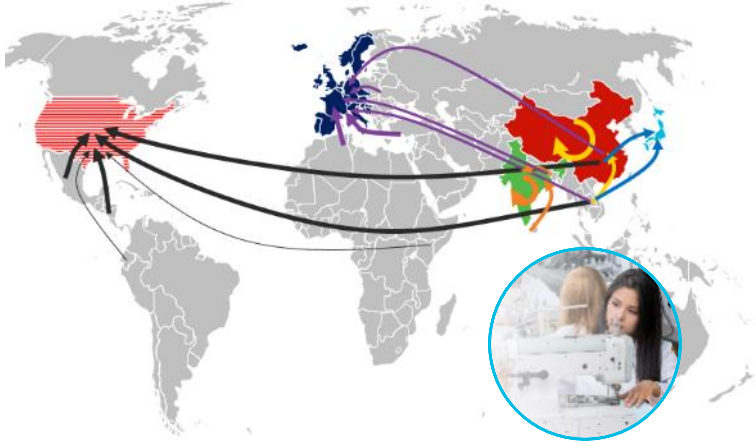
Consistent but moderate market growth



Rich product variety

** Coats estimates*

A critical component in a global, agile industry



Segmentation

Economy to premium

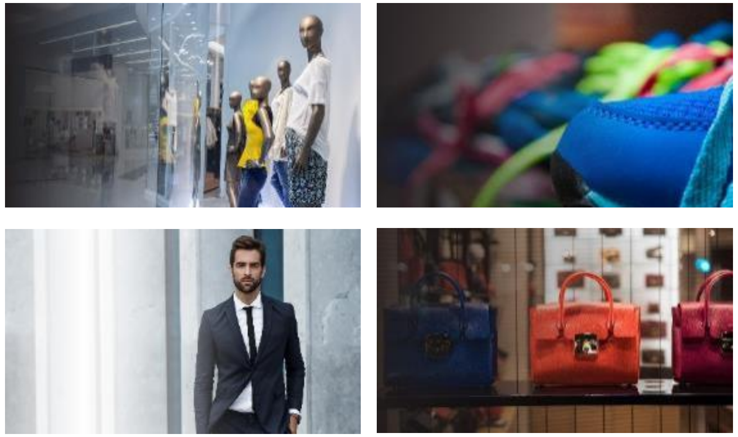
$$$

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

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

Vision – 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**

Performance Materials: five attractive and different end-use segments

Building scale and presence

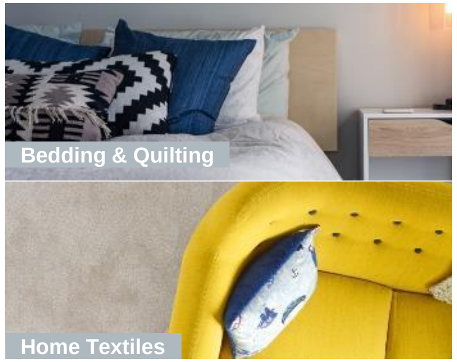
Personal Protection

pharr hp HIGH PERFORMANCE

Telecoms and Energy

Transportation

Household and Recreation



Other Industrial Applications

	Personal Protection	Telecoms and Energy	Transportation	Household and Recreation	Other Industrial Applications
2019 Coats' sales:	c.$100m	c.$60m	c.$40m	c.$70m	c.$50m
6 year sales CAGR ** :	+23%	+34%	+3%	flat	flat
Growth drivers / trends	Safety, defence, industrial production	Telecoms / O&G infrastructure investment, light-weighting	Global automotive production, light-weighting, safety	Multiple mature markets	GDP

* Excludes significant automotive composites opportunity
** 2014-19 organic CAGR

Acquisitions: building a strong track record

May 2015

May 2016

June 2016

December 2017

February 2019

February 2020

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

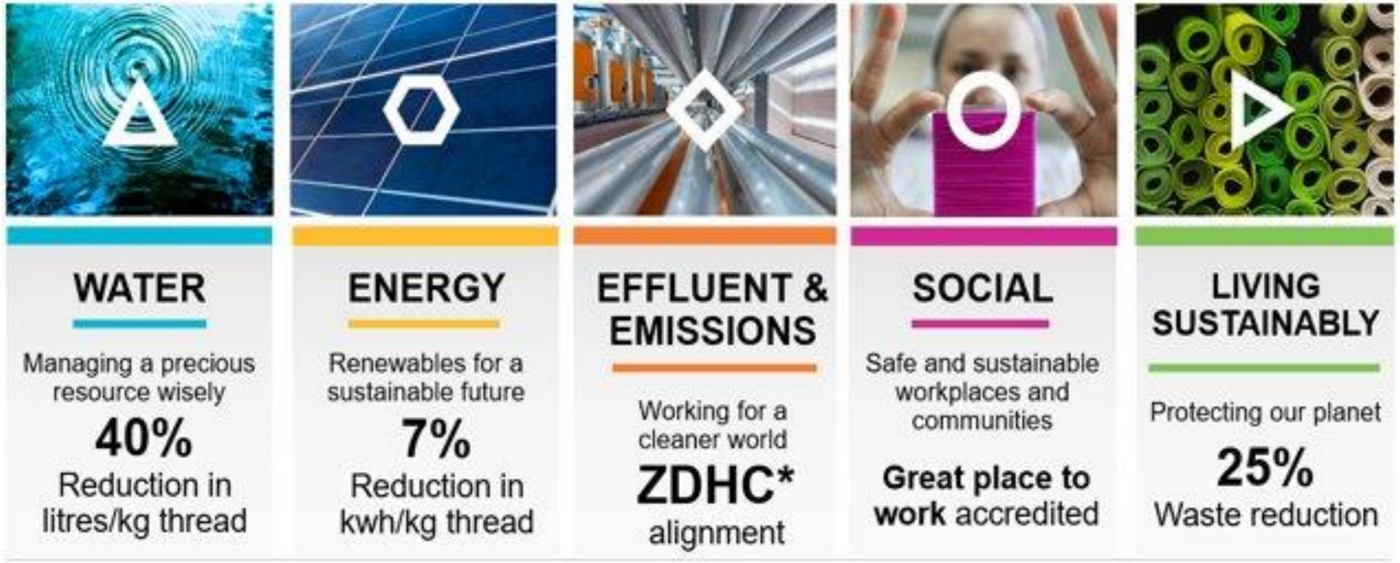
** On a normalised pro-forma 2019 basis and excludes initial post-acq Threadsol operating losses*

Sustainability: significant commercial differentiator – on track for 2022 targets

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

Coats customer

2022 targets



FTSE4Good

UN GLOBAL COMPACT

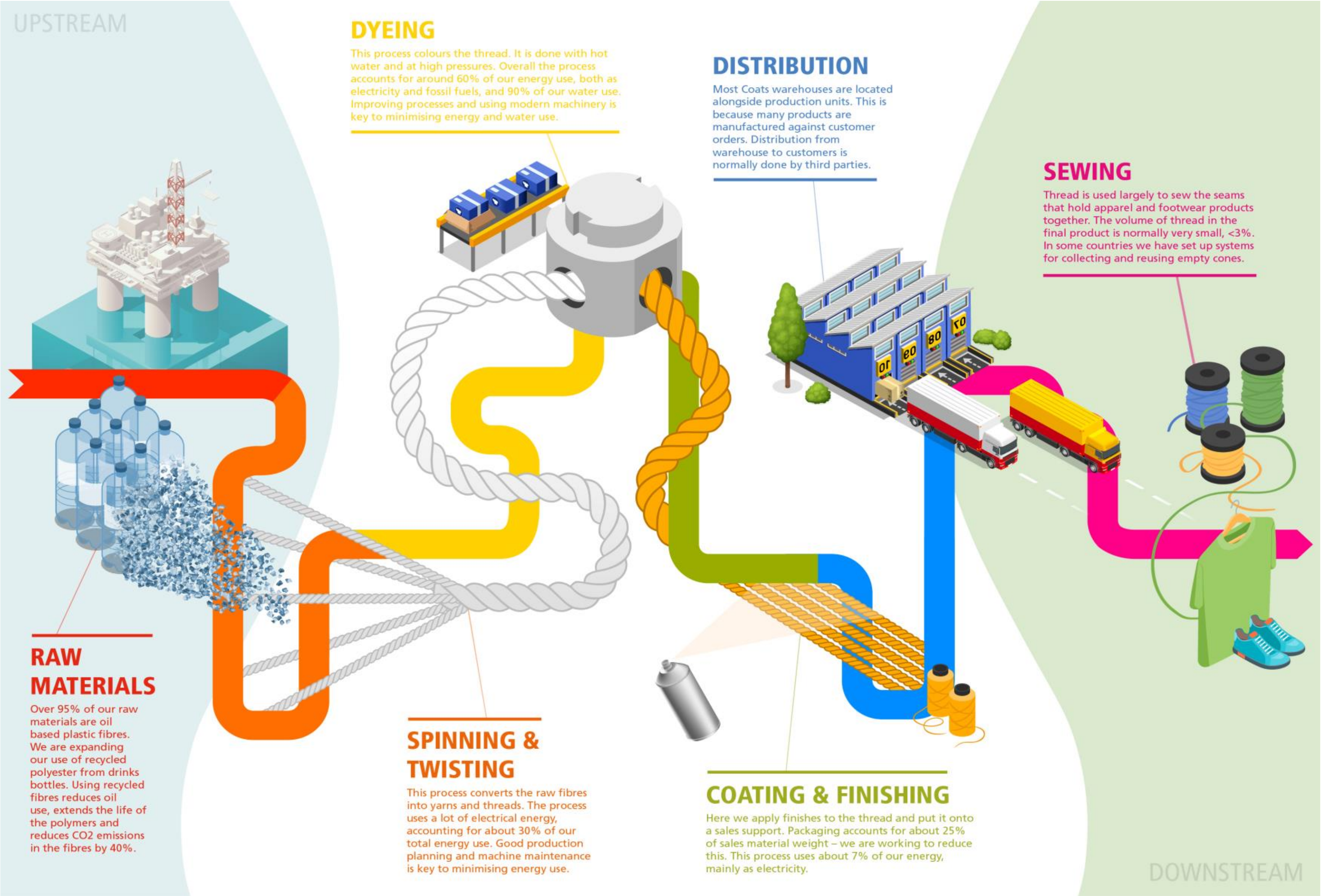
- This is the right thing to do – aligned to Coats' values over 250 years
- Seeing commercial benefits eg share gain / protection
- Aligned to customers' ambitions / goals

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

For more info: www.coats.com/sustainability

** Top quartile with Sustainalytics and FTSE4Good. MSCI A rated.*

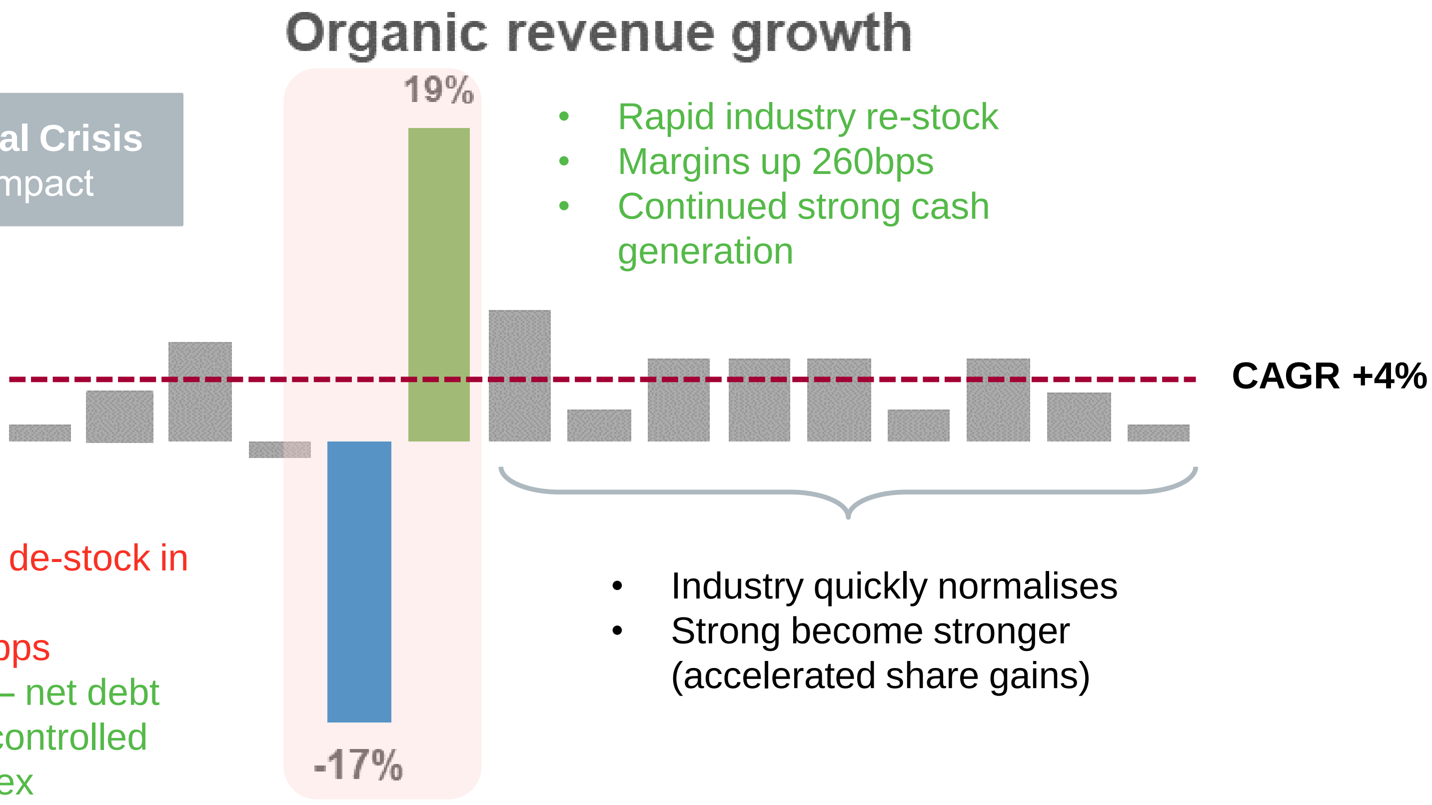
Our key production steps



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

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

Global Financial Crisis
“V-shaped” impact



- Rapid industry re-stock
- Margins up 260bps
- Continued strong cash generation

- Significant industry de-stock in year 1
- Margins down 230bps
- Managed for cash – net debt reduced $100m – controlled stocks / capex / opex

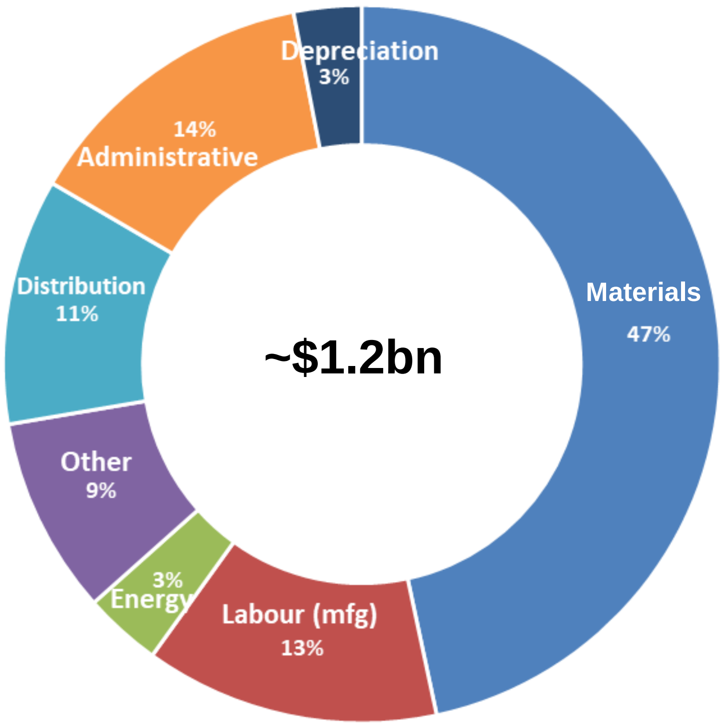
- Industry quickly normalises
- Strong become stronger (accelerated share gains)

$1.1bn **2005** -------- **2009 – 2010** -------------------------- **2019** ***$1.4bn***

Based on Industrial division (A&F / PM) – as reported organic growth

Cost base

Full year 2019 pre-exceptional costs



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

Continuing operations

Dividend and capital allocation

- The Group aims to use the free cash flow it generates to balance its various capital demands
- Whilst maintaining its strong Balance Sheet position (target leverage 1-2x)
- We have adopted a progressive dividend policy where we aim to grow dividends along with underlying earnings and cash
- Dividends currently suspended due to Covid-19 uncertainty, but remains under Board review

For more information

Rob Mann

Head of Investor Relations

+44 20 8210 5175

rob.mann@coats.com

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