



20 May 2020

Coats Group plc

Trading Update

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, today announces a trading update for the period 1 January 2020 to 30 April 2020 ("the period").

Overview

- Group sales for the period down 17% year-on-year.
- April sales down around 50%, as anticipated in our base scenario, due to demand and supply impacts from COVID-19 which included c.15 manufacturing sites under enforced government closure (now only 2).
- Immediate management actions yielding cost and cash benefits; anticipate around 40% year-on-year reduction in Q2 like-for-like operating cost base (including CoGS, administration and distribution costs) due to management actions and lower activity levels.
- Balance Sheet remains strong with comfortable liquidity and headroom.
- Group remains well placed to navigate through the current challenging environment and emerge stronger when it passes.

In light of the ongoing COVID-19 effects, the Group continues to be focused on three key priorities, namely; continuing to ensure the health and safety of our employees; cash, liquidity and working capital management; and supporting our customers and maintaining the critical elements of our supply chain.

Current trading

Group sales for the period declined 17% year-on-year on a CER basis, which reflected 21% organic decline and a 4% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was bought in February. The 17% year-on-year decline on a CER basis consisted of 23% decline in Apparel and Footwear (A&F), with some offset from Performance Materials (PM) which grew 6% (including the initial contribution from Pharr HP). On a reported basis Group sales for the period declined 19%; the marginal headwind vs CER rates being due to the recent depreciation in the Indian Rupee, Brazilian Real, and Turkish Lira. The 17% CER decline in Group sales for the period included a decline of 50% in April as the wider demand and supply disruptions from COVID-19 impacted the Group, as anticipated.

The Apparel and Footwear decline for the period reflected the impact of brands and manufacturers cancelling or deferring orders from mid-March which significantly impacted demand into April. In addition enforced government closures of our facilities impacted some of our major Apparel and Footwear markets throughout April, for example India / Bangladesh, which remained closed across the whole month. We have, however, started to see a number of these enforced government closures now being lifted, and at present only 2 of our c.50 manufacturing sites (across A&F and PM) around the globe are now subject to enforced closure (against 15 in the March Trading Update).

Performance Materials organic sales in the period declined 12%. The reported CER growth of 6% included an 18% contribution from Pharr HP. Demand in April was impacted by COVID-19 albeit not to the same magnitude as Apparel and Footwear. Heavily reduced order levels were seen in the end use area of Transportation as global car production continues to decline, and orders were also affected by some of the enforced government site closures noted above. However, certain end use areas such as Telecoms and Energy, and Personal Protection, performed more resiliently as demand for critical infrastructure and safety products remained relatively buoyant.

Our unwavering focus on supporting customers through these difficult times has already delivered incremental new customer wins as we are able to leverage our global footprint, flexibility and customer service offering successfully to deliver high quality products at speed. We are also providing help and support as part of a global effort to fight COVID-19. For example, we are providing excess threads for free to enable production of vital pieces of PPE, and launched Coats Fast Start, a digitally enabled initiative, which supports manufacturers switching parts of their production facilities and supply chains to help address the global shortage of PPE.

Management actions

As noted in our March trading update, we are taking the necessary actions to manage our cost base and cash resources prudently in order to manage net debt and keep a good level of headroom. We therefore anticipate that our Q2 like-for-like (i.e. excluding Pharr HP) operating cost base (which includes Cost of Goods Sold, administration and distribution costs) will be around 40% lower than 2019 due to strong management actions and lower activity levels. In addition, our projected full year capital expenditure will reduce by c.70%. We also remain focused on managing our working capital closely, including the heightened credit risk that these times of uncertainty presents.

In agreement with the trustees of the Coats UK Pension Scheme, we have agreed to defer the remaining deficit recovery payments for 2020 (April – December inclusive), to provide an additional c.\$17 million of headroom cover during this year. The catch up of these payments are currently anticipated to commence in mid-2021 and be evenly spread over a period of around 18 months. We will continue to pay the scheme administrative expenses during this time (c.\$5 million p.a.).

Balance Sheet update

We entered 2020 with a robust Balance Sheet, generating healthy levels of cash, and with comfortable headroom on our banking covenants, which place us in a strong position to manage through this period. As at 30 April 2020 our net debt (excluding IFRS16) was \$253 million.

Our committed debt facilities total \$575 million across our Banking and US Private Placement group, with a range of maturities from late 2022 through to 2027, and we currently have around \$235 million of committed headroom against these banking facilities. This is broadly in line with the \$230 million committed headroom we noted in our March trading update (as at the end of February) and is largely as a result of the prudent actions we are taking to manage our liquidity position through this initial period of uncertainty in March and April.

Future prospects

The Board remains confident in the Group's ability to successfully manage through the current challenging environment. We enter this phase of our 250+ year history in robust shape and as a market leader with an unrivalled global footprint. Alongside our enhanced operational agility this leaves us well placed to benefit from the acceleration in demand and emerge as a stronger business once COVID-19 passes.

Conference call

Coats Management will present its trading update on a conference call at 0800 BST today (20 May 2020). The conference call can be accessed by dialling +44 (0) 800 358 9473 (toll-free) or +44 (0) 333 300 0804, with participant access code '92810888#'.

Enquiry details

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About Coats Group plc

Coats is the world's leading industrial thread company. At home in some 50 countries, Coats has a workforce of 17,000 people across six continents. Revenues in 2019 were US\$1.4bn. Coats' pioneering history and innovative culture ensure the company continues leading the way around the world. It provides complementary and value added products, services and software solutions to the apparel and footwear industries. It applies innovative techniques to develop high technology Performance Materials threads, yarns and fabrics in areas such as Transportation, Telecommunications and Energy, and Personal Protection. Headquartered in the UK, Coats is a FTSE 250 company, a constituent of the FTSE4Good Index Series and a participant in the UN Global Compact. To find out more about Coats visit www.coats.com.