3 November 2020

Coats Group plc

Trading Update

Continued improving sales trend; 2020 adjusted operating profit ahead of market expectations

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, today updates on trading for the period 1 July 2020 to 31 October 2020 ("the period").

Overview

- Group CER sales for the period down 9% year-on-year (H1: down 21%).
- Improving demand trend seen across both Apparel and Footwear and Performance Materials, notably into the start of the peak trading period of September to November.
- Further incremental new customer wins and share gains from competitors as we leverage our global footprint, flexibility and digital tools to deliver high levels of customer service.
- As a result of the improving trading performance seen in the period, we anticipate Group adjusted operating profit for 2020 to be ahead of market expectations and in the range of $100 – 110 million.
- Balance Sheet remains strong; cash generation in the period ahead of expectations; September net debt $211 million (excluding IFRS16).
- Continued encouraging trading performance in the period, although mindful that uncertainties remain around the recovery profile of our various global end markets into 2021.

Year-on-year sales performance

	July to October			**H1 2020**		
	Reported	**CER sales***	**Organic sales****	**Reported**	**CER sales***	**Organic sales****
Apparel & Footwear	(17)%	(15)%	(15)%	(31)%	(29)%	(29)%
Performance Materials	9%	10%	(13)%	(1)%	2%	(19)%
Group	**(11)%**	**(9)%**	**(15)%**	**(24)%**	**(21)%**	**(26)%**

Group CER sales for the period declined 9% year-on-year, which reflected 15% organic decline and a 6% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was bought in February. The 9% year-on-year CER decline consisted of 15% decline in Apparel and Footwear (A&F), with some offset from Performance Materials (PM) which grew 10% (including the initial contribution from Pharr HP). On a reported basis Group sales for the period declined 11%; the marginal headwind vs CER rates being due to the depreciation in the Indian Rupee, Brazilian Real, and Turkish Lira.

On an organic basis there was an improving trend during the period, including into the first 2 months of the peak trading period of September to November. The combined September and October organic decline at a Group level improved to around 11%, compared to 15% for the trading period.

Apparel and Footwear showed continued performance improvement throughout the period. This follows the first half in which sales were significantly impacted by brands and manufacturers cancelling or deferring orders from mid-March, as well as enforced government lockdowns affecting a number of our sites. Our manufacturing footprint is now effectively fully operational and we have seen an encouraging improvement in brand and manufacturer order confidence into the peak trading season of September-November where production is primarily for the spring/summer 2021 season. Heightened industry inventory levels from significant Covid-related market disruption in the first half appear to be clearing this year broadly as we anticipated.

Performance Materials reported CER sales growth in the period of 10% which comprised an organic sales decline of 13% and a 23% contribution from Pharr HP, which was acquired in February. Transportation achieved year-on-year growth, as demand improved along with the benefit of new customer wins. In addition, Household and Recreation sales were ahead of prior year, underpinned by improved demand for bedding and other home textiles. Sales in Personal Protection and Telecoms and Energy were slower in the period than in the first half of the year, but these sectors remain key medium-term growth drivers for the PM division, underpinned by attractive industry fundamentals (for example, the 5G infrastructure roll out).

Our unwavering focus on supporting customers through these difficult times continues to deliver incremental new customer wins as we are able to leverage our global footprint, flexibility and customer service offering to deliver high quality products at speed. The Apparel and Footwear industry continues to focus on accelerating its sustainability agenda, and as such we have seen significantly increasing levels of demand for our sustainable product range, EcoVerde, with year-to-date sales around 6 times higher than 2019 levels. In addition we have continued to make progress with our innovation programme with 9 further new product launches in the period (H1: 13 new product launches).

Balance Sheet and cash 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 the Covid uncertainty.

As expected in the trading period, we initially saw an increase to Group net debt in July and August, as lower levels of collections in Q3 (driven by lower Q2 sales levels) were exceeded by monthly recurring payments, as well as the impact of the deferral of $12 million indirect and direct tax payments (as part of government COVID schemes) from H1 into H2. Since that initial increase in net debt in July and August, we have seen an encouraging improvement in our cash generation due to the ongoing recovery in trading conditions and normalisation of working capital days, and as a result have seen a reduction in net debt during the month of September. As at 30 September 2020 our net debt (excluding IFRS16) was $211 million, which compared to $207 million at 30 June 2020.

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 $300 million of committed headroom against these banking facilities. Our close focus on cost and cash during 2020 will enable us to selectively invest in the most attractive organic and inorganic investments amidst the recovery from Covid, in order to drive incremental shareholder value.

Dividend

The Board is mindful of the importance of income to shareholders and as performance continues to progress, it will keep future dividends, including the final 2020 dividend, under review with any decision to be announced alongside the FY20 results in March 2021.

Outlook

As a result of the improving trading performance seen in the period, in particular the start of the peak trading period in September and October, we anticipate Group adjusted operating profit for 2020 to be ahead of market expectations and in the range of $100 – 110 million.

The improving performance seen to date and trading outlook for the remainder of 2020 remains encouraging, however, we are mindful that uncertainties related to Covid remain around the recovery profile of our various global end markets as we look into 2021.

This announcement contains inside information for the purposes of the Market Abuse Regulation.

* Constant exchange rate (CER) figures are 2019 restated at 2020 exchange rates.
**Organic growth is on a CER basis excluding contributions from bolt-on acquisitions (Pharr).

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.