



**Delivering today**  
**Transforming for tomorrow**

# **Coats Group plc**

## **Capital Markets Day**

**London – 21 May 2018**



# Agenda

14:00	Arrivals / coffee	
14:15	Context and priorities	<b>Rajiv Sharma</b> , Group CEO
	Apparel and Footwear	<b>Adrian Elliott</b> , President Apparel and Footwear
	Performance Materials	<b>Shantanu Banerjee</b> , Group Head of Innovation
	Financial overview / approach to acquisitions	<b>Simon Boddie</b> , Group CFO
15.30	Coffee, incl. breakout sessions (1. Our approach to Innovation / Patrick Yarn Mill, 2. ESG / SRI, 3. Electronic sampling)	
16.00	Connecting for Growth	<b>Ronan Cox</b> , Chief Transformation Officer
		<b>Hizmy Hassen</b> , Chief Digital and Technology Officer
		<b>Michael Schofer</b> , Chief Supply Chain Officer
	Our people	<b>Simon Youngs</b> , Head of Talent and Learning
	Summary and Q&A	<b>Rajiv Sharma</b> , Group CEO
17.15	Drinks / further 1-2-1 Q&A	



# Objectives for the day

**Outline our growth strategy**

**Meet the management team**



# Corporate normalisation process complete

**Return to  
LSE**  
2015

**Acquisitions**  
2015/16/17

**De-listing  
AZX/NZX**  
2016

**Pension  
settlement**  
2017

**Dividends**  
2017

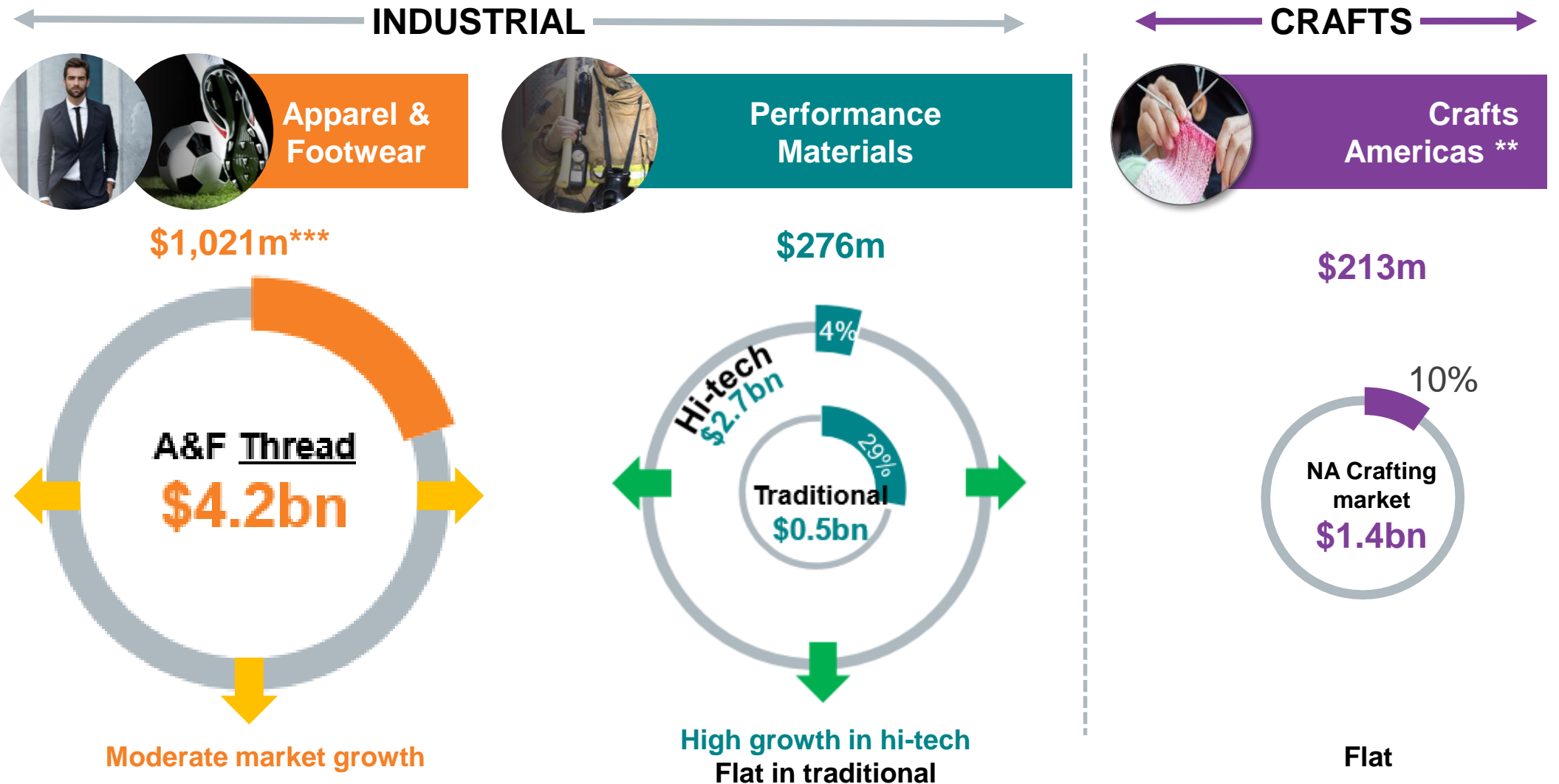
**FTSE 250**  
2017

**USPP**  
2017



# Strong market positions and growth opportunities

\* market shares and sizes Coats' estimates. \*\* NA Crafts and Latam Crafts \*\*\* Includes A&F thread, Zips, Trims and Services



# A global business

Sales in  
100+ countries

Manufacturing in  
30 countries

50 factories

19,000  
employees

40,000  
customers

25 nationalities  
in senior  
management



# The mega trends impacting our industry – we are well placed

**EMERGING  
MARKETS**

**URBANISATION**

**SUSTAINABILITY**

**DIGITAL**

**ONLINE  
RETAIL**

**INFLATION**



# Our strategy is clear

**‘Digital’**

**GROWTH  
SPEED  
AGILITY  
PRODUCTIVITY**

**‘Beyond the stitch line’**

**SCALE  
SPECIALISATION**



# The four key areas critical to delivering our strategy

**SIMPLIFICATION**

**DIGITISATION**



**INNOVATION**

**ACQUISITION**

# Experienced and diverse management team



*Rajiv Sharma*  
Group Chief Executive



*Simon Boddie*  
Chief Financial Officer



*Ronan Cox*  
Chief Transformation Officer



*Massimo Petronio*  
Chief Operating Officer –  
EMEA and LatAm



*Keith DuPont*  
President  
Performance Materials



*Adrian Elliott*  
President  
Apparel & Footwear



*Kevin Finn*  
Chief Operating Officer –  
Asia



*Michael Schofer*  
Chief Supply Chain Officer



*Hizmy Hassen*  
Chief Digital and  
Technology Officer



*Monica McKee*  
Chief Human Resources  
Officer



*Stuart Morgan*  
Chief Legal & Risk Officer and  
Group Company Secretary



*Shantanu Banerjee*  
Group Head of Innovation

**>180 years Coats  
experience**

**Global  
experience**

**Textile industry  
credentials / respect**

**Multi-industry  
experience**

**A wide and  
diverse skill set**





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**Transforming for tomorrow**

# **Apparel and Footwear**

## **Continuing share gains**

**Adrian Elliott, President, Apparel and Footwear**





# A global leader. Winning with the winners. Embracing change.

\* 2014 – 17 organic CER CAGR

**\$1bn sales**  
with **4%**  
**CAGR\***

→ Consistent  
share gains in  
thread

**Unrivalled  
customer  
connections**

4,000 brands;  
30,000 direct customers

**Operational  
scale with  
global  
reach**

**Compelling,  
value adding  
products and  
services**

(threads, engineered  
yarns, zips, trims,  
software solutions)



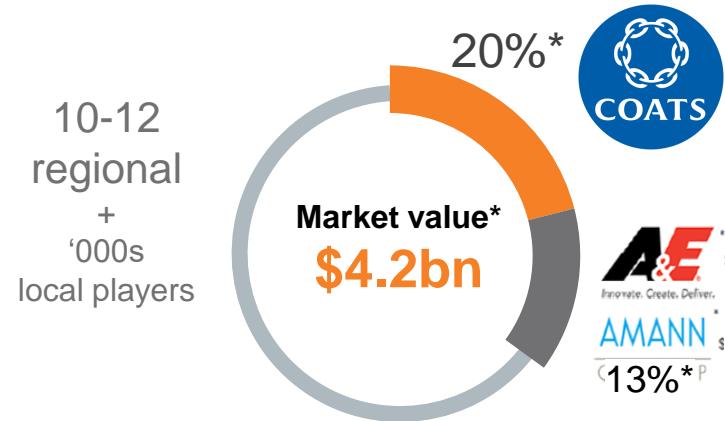
# In a fast-changing environment



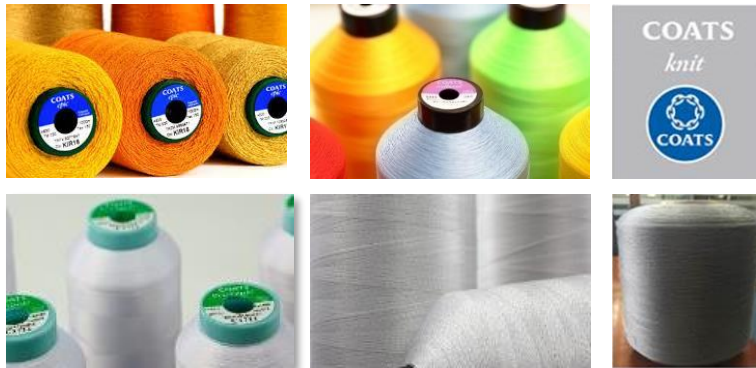
# Understanding the thread market landscape

## Size and structure

Consistent but moderate market growth

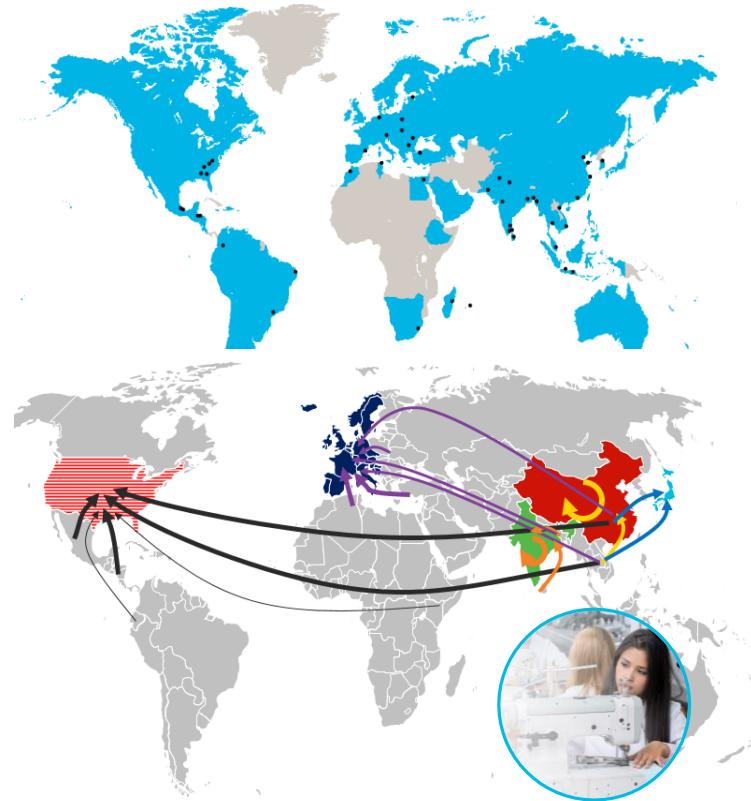


## Rich product variety



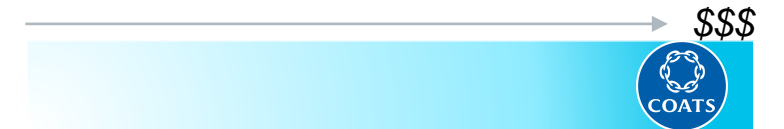
\* Coats' estimates

## A critical component in a global, agile industry



## Segmentation

Economy to premium



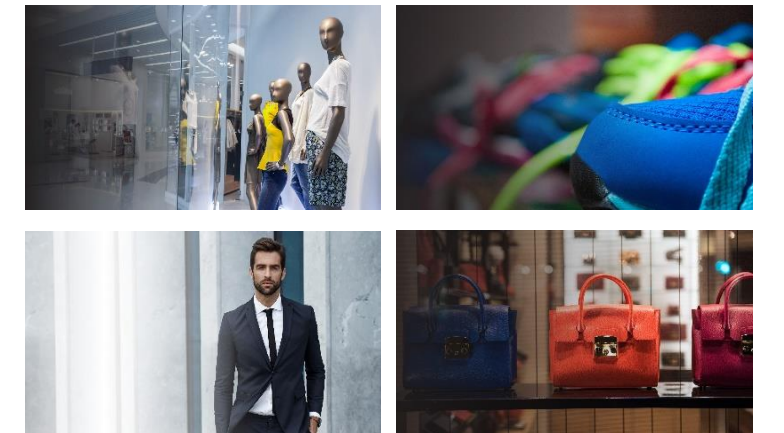
## Specification

Open spec

Specified



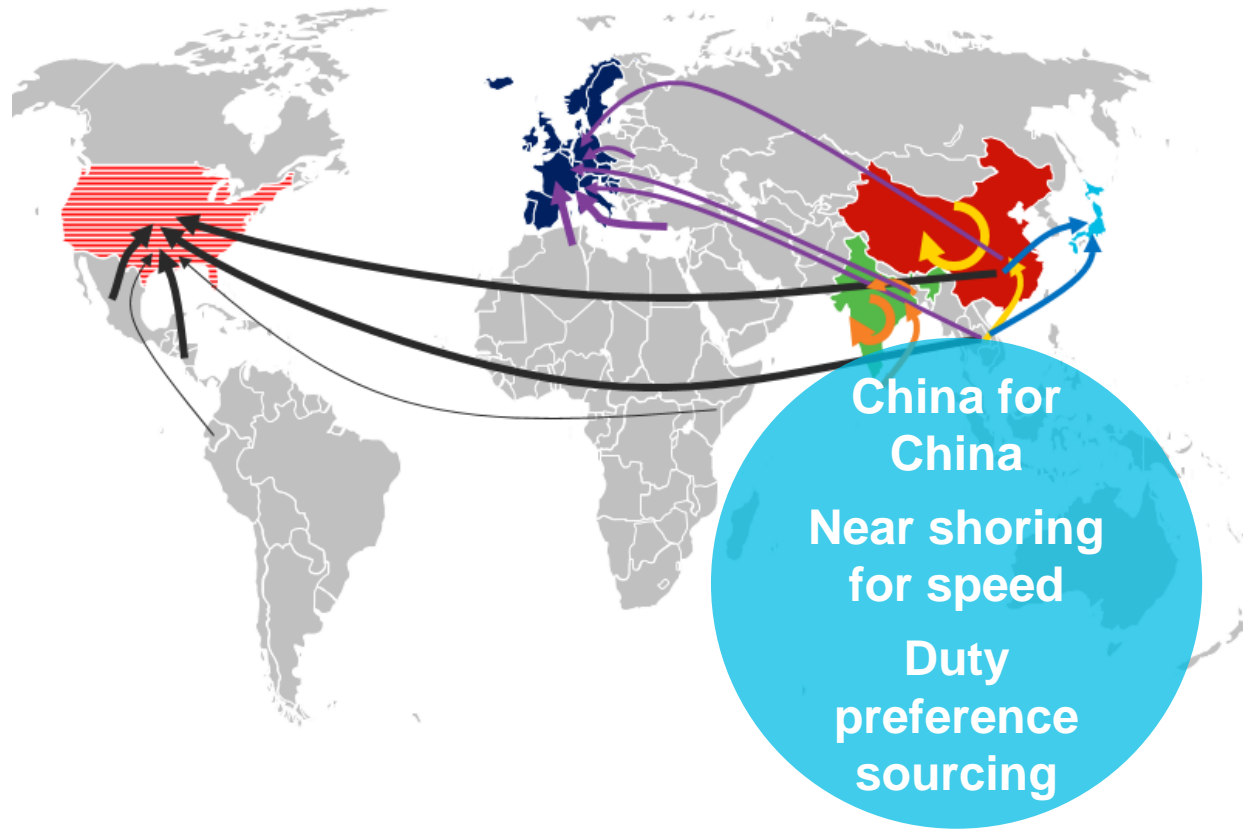
## End use





# Our customers' priorities are shifting

Sourcing patterns are changing...



...and significant themes have emerged

Five horizontal panels, each with an icon, an image, and a text label in a white circle:

- Speed:** Icon of a gear and stopwatch; image of a city at night with light trails.
- Productivity:** Icon of a bar chart with an upward arrow; image of a blue shoe on a production line.
- Innovation:** Icon of a lightbulb with a gear inside; image of a woman looking at a digital interface.
- Quality:** Icon of a ribbon award; image of a sewing machine stitching fabric.
- CR and Sustainability:** Icon of a recycling symbol; image of water flowing through pipes.

# We are the value adding partner. Winning with the winners

## Unrivalled customer connections



## Leading product, solutions and technical services



## Global operational footprint



## Global brand and trusted reputation





# Dialling up for continued share gains

## Sustainability



## Innovation



## Capability

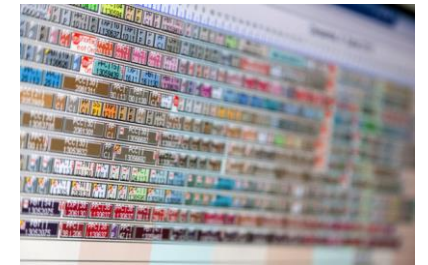
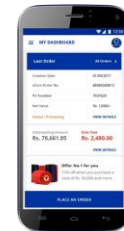
Talent

Capacities

New Horizons



## Powered by Digital



# New Horizons – adding value through software solutions

Capability

## 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



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



Apparel product lifecycle management



Industry standard for bill of labour for transparent costing

## Case study

# bodynits



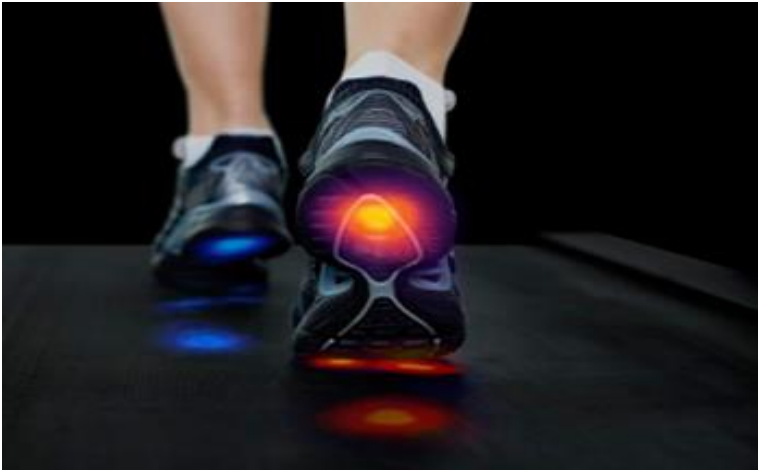
**Bodynits** achieved faster and more realistic planning process resulting in **+20% efficiency gain** after implementing Fast React's Evolve

Planning time reduced from **5 days to 1 day**



# Winning share through innovation

Innovation





# Leading in sustainability

Sustainability

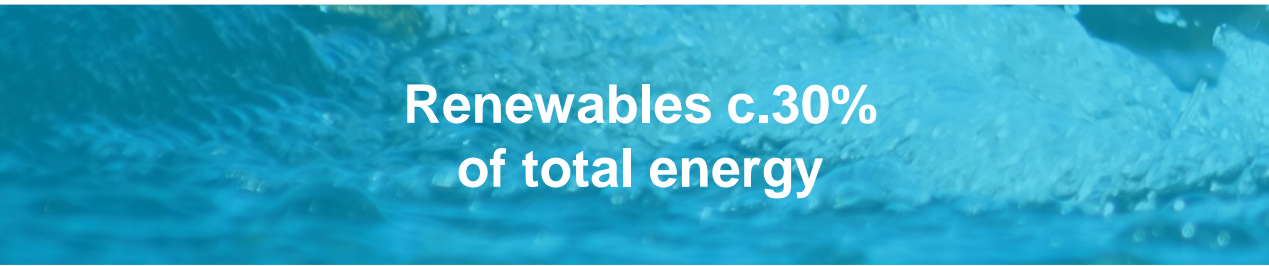
\* In last 5 years



Restricted substances



Water/kilo  
Down 26% \*



Renewables c.30%  
of total energy



Energy/kilo  
Down 20% \*



Effluent treatment  
investment



Recycled products





# In summary

**Global leader**

**Unrivalled differentiation**

**Winning with the winners.  
Embracing change**

**Dialling up for continued share gains**

**Strategy that is working – growing and delivering**





**Delivering** today  
**Transforming** for tomorrow

## **Performance Materials**

Achieving scale in  
hi-tech sectors

**Shantanu Banerjee, Group Head of Innovation**



ELMENTAL

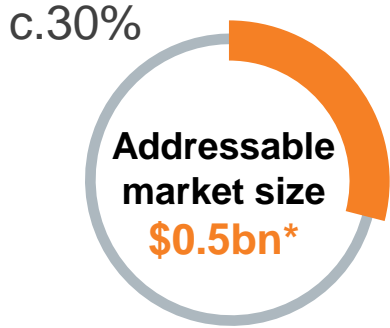


# Performance Materials – our markets

\* Market sizes are Coats' estimates of addressable markets

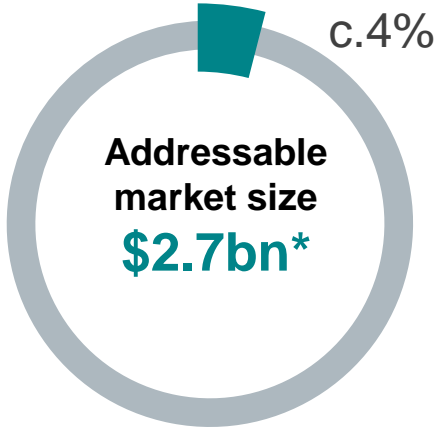
**Traditional sewing thread: 50% of 2017 revenues**

**Hi-tech engineered yarns: 50% of 2017 revenues**



Flat markets  
→

High growth markets  
↗



**Strategic focus areas**

Outdoor 	Home Textiles 	Tea Bags 
Bedding & Quilting 	Upholstered Furniture 	Feminine Hygiene 

Automotive 	Personal Protection 
Telecommunications 	Mechanical Rubber Goods 

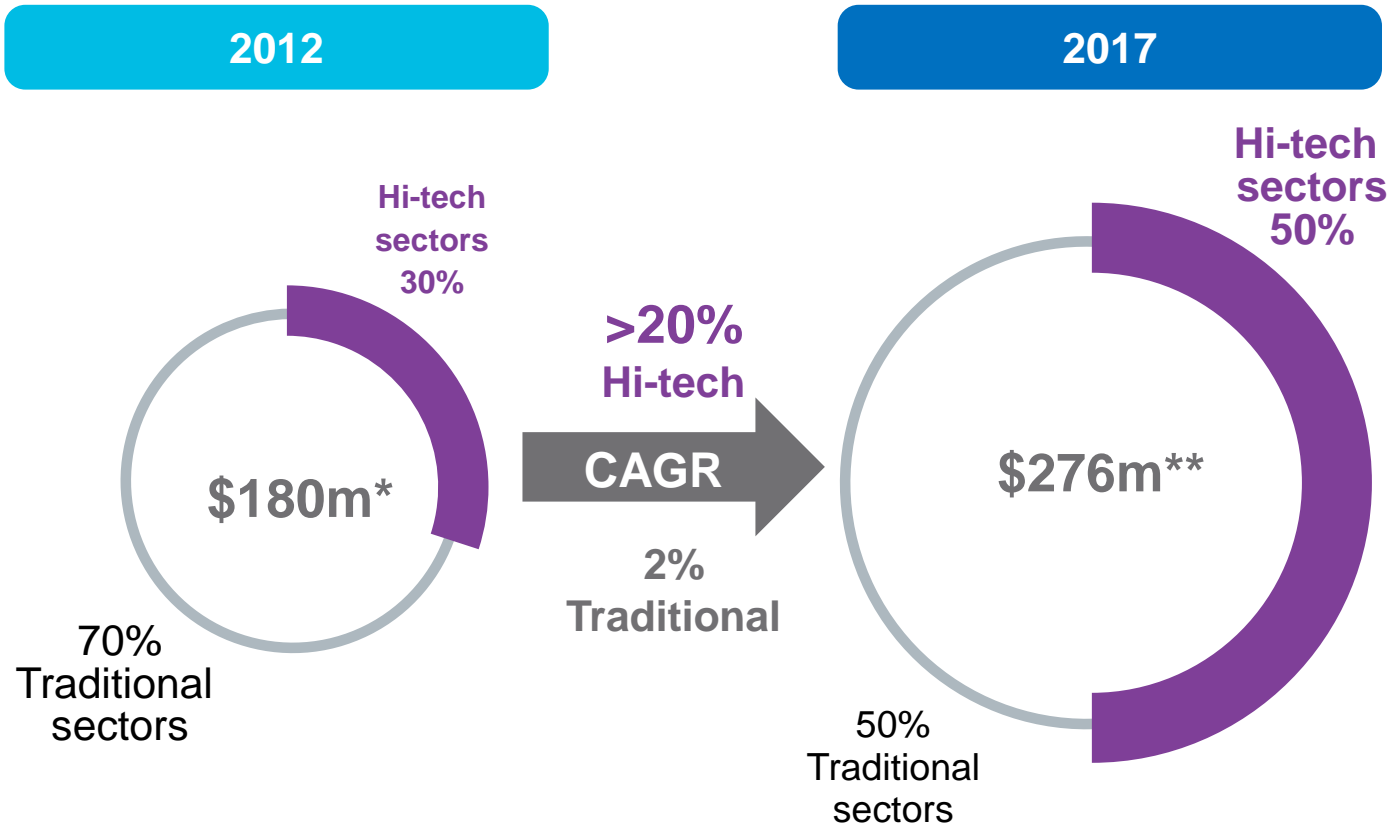
**New technologies**

Composites 
Conductive 



# Hi-tech sectors driving the growth – an evolution of our traditional base

Significant opportunities in hi-tech sectors – innovating new technologies and aligning to macro trends



- Natural extension of core competencies
  - Blending technology
  - Chemistry/coating expertise
  - Design capability
  - Machinery innovation
  - Process excellence
- Matrix of design, cost and performance that meets emerging customer needs

\* PM sales at 31/12/17 FX rates \*\* 2017 sales as reported in FY17 financials



# 4 clear strategic avenues to drive future growth



1 Globalisation of existing products



2 New sector growth in Personal Protection and Telecommunications



3 New technologies in Composites and Conductive



4 Bolt-on acquisitions to build technology expertise and scale

Expand beyond the core by creating value through innovation and best-in-class service

# Globalising products in Performance Materials

\* CER organic sales growth (excl M&A)

**+11%**

*EMEA sales CAGR 2012-17 \**

**+13%**

*Asia sales CAGR 2012-17 \**

**Geographic market entry  
through M&A (Gotex)**

**New Gotex plant  
in India**

**New Innovation Hubs  
in Turkey and China**



# Personal protection – how we built a \$90m Flamepro business in 6 yrs

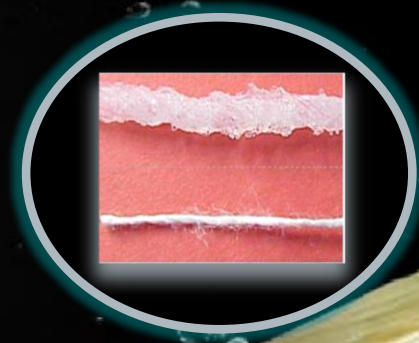
\* Market sizes are Coats' estimates

- **\$350m** addressable market \*
- *'Beyond the stitch line'*
- Protection with comfort trend
- Digital blend innovation – desktop design capability in front of the customer
- Flamepro brand: Scientific blending >5 fibers
- \$50m organic sales in 6 years
- **Enhanced growth through acquisition of Patrick Yarn Mill – now a \$90m+ business**



# Telecommunication cables – small player to a market leader in 3 years

- Growing market – connectivity trend
- Market need: ‘Dry’ cables with no gel
- Water-swollable chemistry innovation
- Ultrabloc protects cables from rain/salt water
- Successful organic entry
- Acquisition of Gotex (\$14m p.a.) in 2016
- \$30m sales in telecommunications in 2017



• **Small player to market leader in 3 years**



# New technologies: Composites – the big prize

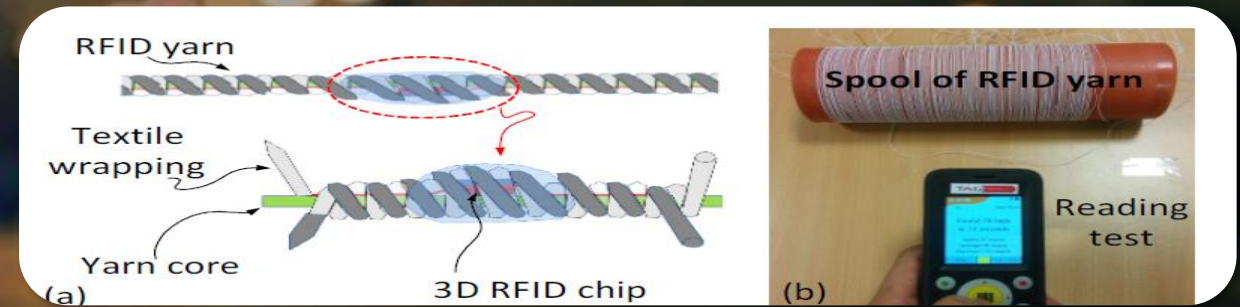
*\* Market sizes are Coats' estimates*

- **\$1.7bn** estimated addressable market \*
- Metal replacement by carbon textile fibre
- Synergex Lattice tailored fibre technology
- Talent acquired for engineering design capability
- OEM Part development: automotive, oil & gas
- Journey from thread to yarn to composite parts
- **A transformational long term opportunity**



# New technologies: Conductive – where textile meets electronics

- Next-gen technology trend
- Precision design of conductive circuits in smart apparel
- Conductance, insulation, sew, wash

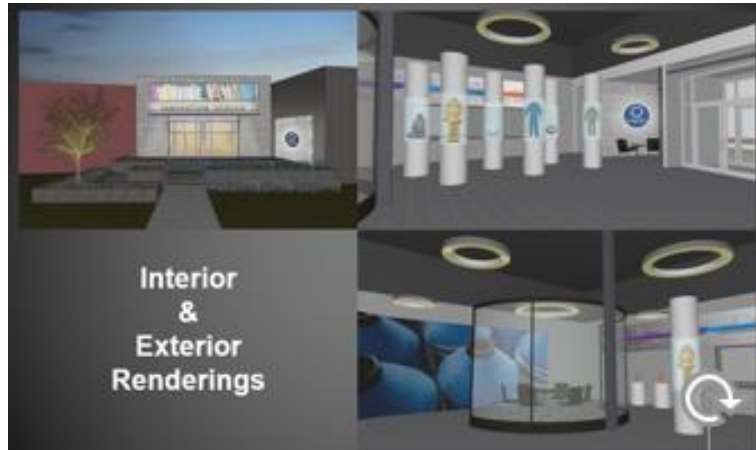




# Innovation – central underpinning for growth and differentiation

## Innovation plan

### 3 Innovation Hubs



- Global Innovation Forum
- University partnerships
- Supplier innovation
- Technology knowledge sharing
- Digital
- Recruit 'A' team new talent
- New product development targets





**Delivering today**  
**Transforming for tomorrow**

## Financial overview / approach to acquisitions

Simon Boddie, Group CFO



# Latest trading update (16 May)

## Year-on-year sales performance (January to April)

	Reported	CER	Organic
Industrial	9%	6%	3%
<i>Apparel &amp; Footwear</i>	6%	3%	3%
<i>Performance Materials</i>	24%	19%	4%
Crafts	(4%)	(4%)	(4%)
<b>Group</b>	<b>8%</b>	<b>5%</b>	<b>2%</b>

## Connecting for Growth

- Programme on track to deliver anticipated gains

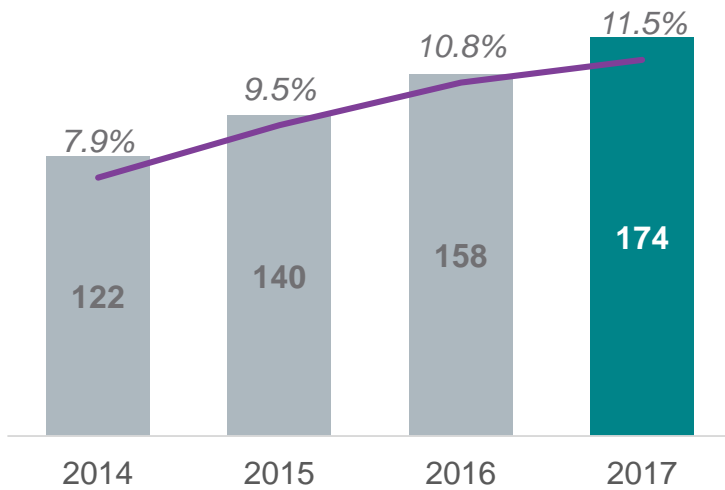
- **+5%** Group sales growth at CER
- Driven by Industrial division **+6%**:
  - Apparel and Footwear **+3%** (thread **+4%**)
  - Performance Materials **+19%**;
    - **+4%** organic; double digit growth in hi-tech end uses
    - **+15%** contribution from Patrick Yarns; in line with business case
- Crafts **-4%** sales decline driven by NA Crafts

## Outlook

- The Group continues to perform well; 2018 full year results in line with expectations

# A track record of delivery: improving earnings and consistent cash flows

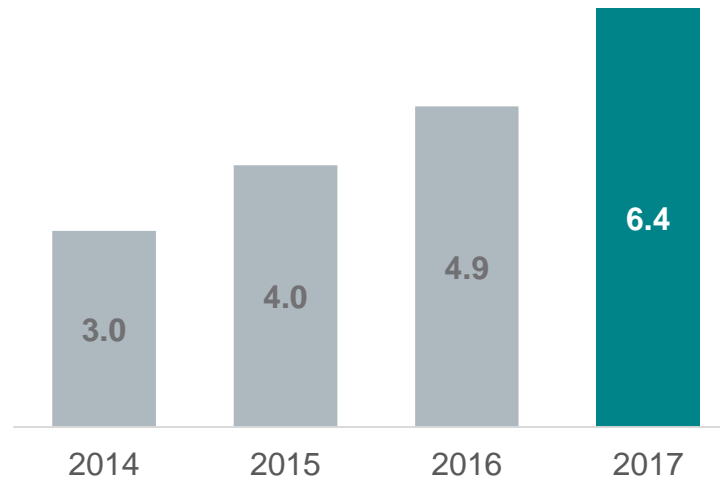
## Operating profit \$m



Operating Profit — Operating Margin %

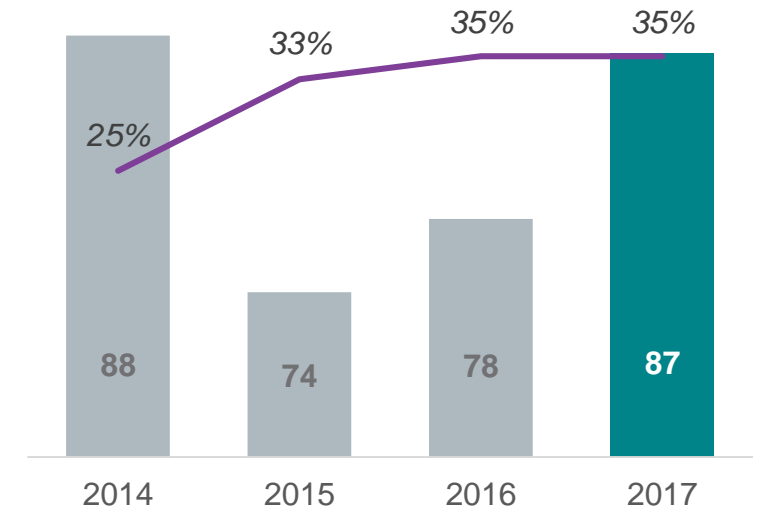
**13% CAGR**

## EPS (c)



**28% CAGR**

## Free cash flow \$m



Free Cash Flow — ROCE%

**\$82m ave. FCF p.a.**

Operating profit, EPS and FCF on an adjusted basis, 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.

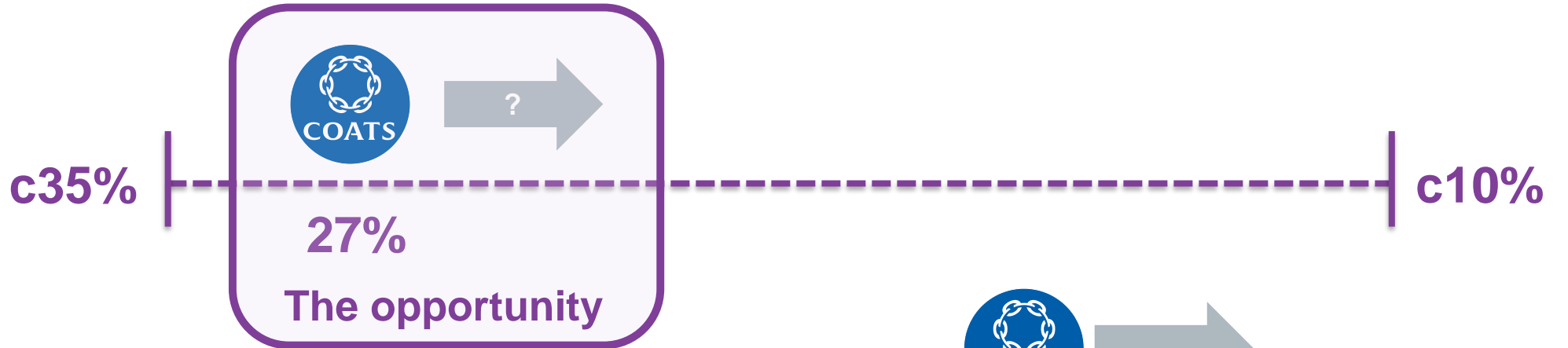


# Coats has a margin improvement opportunity via SG&A when benchmarked to peers

**GM %**



**SG&A %**



**EBIT %**



**Bottom of the pack**

**Top performers**

*Coats metrics based on 2017 financials  
Peer group based on sample of public quoted UK/ European industrial businesses*



# Opportunities to drive sales growth and increase margins further

We have built strong foundations in last 4 years

Sales

**+2%**  
CAGR\*\*

- A&F\*\* +4%
- PM \*\* +6%
- Crafts - 8%

GM%

**38%\***  
(+70bps pa)

- Top quartile vs peer group
- Productivity / procurement / pricing

SG&A%

**27%\***  
(flat)

- Disciplined approach to cost
- Corporate cost reductions post EMEA Crafts sale

EPS

**+28%**  
CAGR

- Effective tax rate reduction
- De-leveraged (low end of target range)

And have a clear future path to deliver growth

- Continued A&F share gains
- Achieve scale in high growth hi-tech PM
- Stabilise / grow Crafts

- Hold margins in top quartile
- Continue to drive supply chain efficiencies
- Maintain effective price recovery mechanism

- Deliver C4G net savings of \$15m by 2020
- Continued general cost discipline
- EBIT growth > sales growth

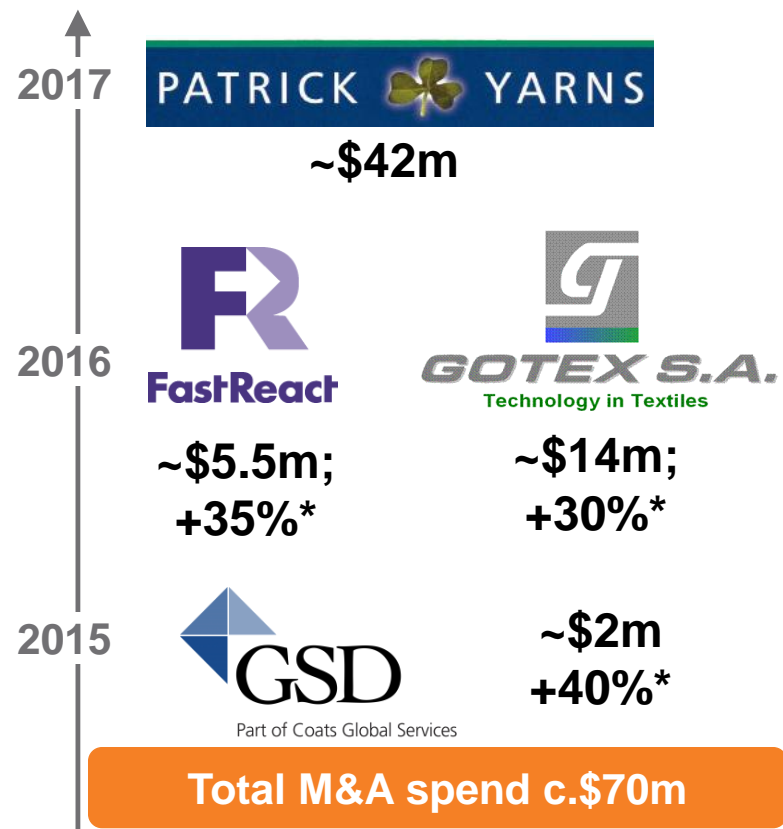
- Further ETR improvements to ~30%
- Maintain leverage in target range
- Earnings enhancing acquisitions

\* 2017 reported \*\* organic CER growth rates 2014-17 (excl. M&A)



# Targeted strategic focus areas for acquisitions

2015 - 2017



\*Sales at acquisition: Total sales growth under Coats vs 12 months prior to completion

Going forward



- **Performance Materials** – build scale in targeted hi-tech industry sectors
- **Global Services** – position Coats as a technology leader in the Apparel and Footwear (A&F) industry
- Strengthen the core **A&F** business with adjacent categories (eg trims) that lend themselves to higher technology and innovation

# A disciplined approach to executing transactions

A well defined set of financial and non-financial criteria to identify appropriate acquisition targets

## Strategic considerations

- Prioritise companies with technology, IP or unique capabilities
- No reputational risk (eg H&S, compliance)
- Must deliver customer and shareholder value;  $1+1 = 3$
- Performance based earn-out deal structures
- Key personnel retention

## Financial criteria

- Defined valuation metrics (eg multiples)
- Earnings accretion / margin growth
- 'Sweet spot' for future bolt-ons: sales of \$50m+ pa
- Larger acquisitions if opportunity occurs providing strong strategic logic
- Funding: 1) FCF, 2) debt headroom, 3) other options for larger opportunities



# M&A case study – a successful integration strategy

## Gotex – the Coats era

- Turned a growing business into a high growth business (>30% post-acq sales growth)
- Geographical expansion – new sales regions, new India line
- M&A business case being delivered
- Mutual benefits of technological expertise and R&D thinking
- Further penetration in existing local markets – leveraging Coats' brand
- Creation of market leader in Telecommunications



**Break**





# Break-out sessions

15:30

ESG / SRI

Our approach to innovation / Patrick Yarn Mill acquisition

Electronic thread sampling – create your own sample

**Andrew Morgan**

Head of Corporate Responsibility

**Shantanu Banerjee**

Group Head of Innovation

**Hizmy Hassen**

Chief Digital and Technology Officer

**Coffee also available! Group sessions recommence at 4pm**





**Delivering today**  
**Transforming for tomorrow**

## **Connecting for Growth**

**Ronan Cox, Chief Transformation Officer**

**Hizmy Hassen, Chief Digital and Technology Officer**

**Michael Schofer, Chief Supply Chain Officer**





# A constantly changing world



# Connecting for growth – why, and why now...

Consumers  
are  
changing  
the industry

We must act  
with or before  
our customers

We are  
repositioning  
to improve  
further

- Speed / agility
- Innovation
- Sustainability
- Productivity
- Compliance

To continue to grow  
ahead of the market

... and now  
is the right  
time for us to  
change

- Corporate normalisation complete
- Proven ability to drive change
- Already leading the change in our markets
- Strong financial platform - earnings, margin and cash growth

## CONNECTING FOR GROWTH

2 year programme and a key enabler to deliver the required change



# Coats in 2020

More integrated and leaner processes



Fitter for purpose organisation



Culture of greater speed and simplification



People more empowered and aligned



- Speed/agility
- Productivity
- Innovation
- Compliance
- Sustainability

Generating cost savings to drive next phase of our growth



# Connecting for Growth – the financials

## Total operating cost savings

**Delivering \$25m pa by 2020**  
(mainly SG&A)

**\$15m pa,**  
**after reinvestments, by 2020**

+100bps to EBIT%

**Net operating cost savings**

## Reinvestments in growth

**\$10m pa,**  
**in the areas of innovation,**  
**digital and people**

**\$30m**  
**over 2 years**  
**(exceptional reorg.)**

**Total costs to achieve**



**2018 impact: \$5m net operating cost savings, majority of reorg. cost**



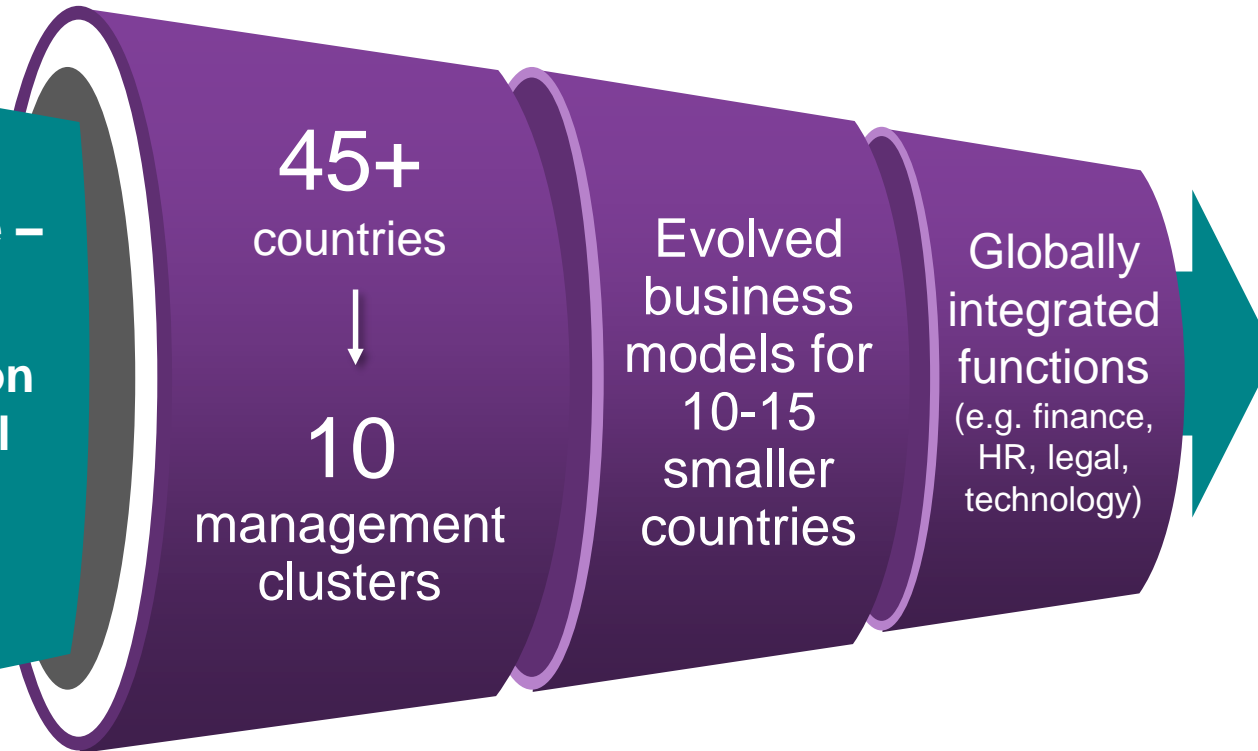
# Simplification – faster, more efficient, better service

2017 – progress made

From April 2018...

...leading to greater...

1. Simplified senior management structure – Group Executive Team
2. Commenced integration of Crafts and Industrial businesses in LatAm
3. Merger of Digital and Technology functions



Speed/agility



Service



Insights

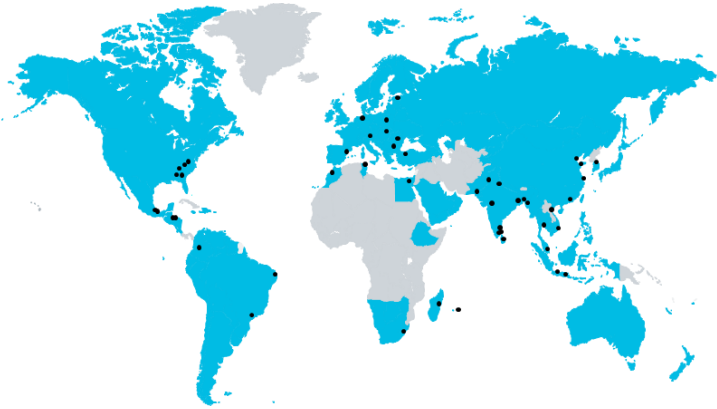


Productivity

# Simplification – 10 scalable management clusters

Previously

45+  
countries



Now

India

Vietnam

China

Bangladesh

EMEA

LatAm  
South

LatAm  
North

North  
America

Crafts  
NA

Services

10

clusters



# Digital – underpinning Connecting for Growth

Connecting Coats and providing a market leading online customer service experience



## Focus on Cyber Security and Data Protection

Today we have 9,000 devices connected to the internet – rising to 325,000 devices by end of 2019

**Profitable sales growth and margin improvement**

**95%+**  
On Time In Full

**5 days**  
Sales Order Lead Time

# Digital solutions – delivering speed, flexibility, customer service

## Our current solutions

**95%**  
of all sampling requests digitised



**83%**  
of orders through eComm  
(20,000 customers)





# Technology foundations are largely in place to deliver this

**Digital 2.0**  
**Coats.com**

**SAP R/3**  
managing core  
transactions

**Industry 4.0**  
Connected  
factory  
& Coats dye  
house system

**Specialised  
Warehousing &  
Distribution**  
applications

**SG&A**  
specialised  
systems

**Supplier  
Portal**

**Single Data Lake**

Artificial intelligence to transform data to common standard: feeding data analytics & reporting

Highly Scalable Infrastructure – the **FOUNDATIONS** are in place



Cloud computing and work  
place collaboration tools



Centrally managed network



Internet service providers

# 'Factory of the Future'... a compelling vision

Priorities for delivery in our factory of the future

1

Speed and agility

2

Increased productivity

3

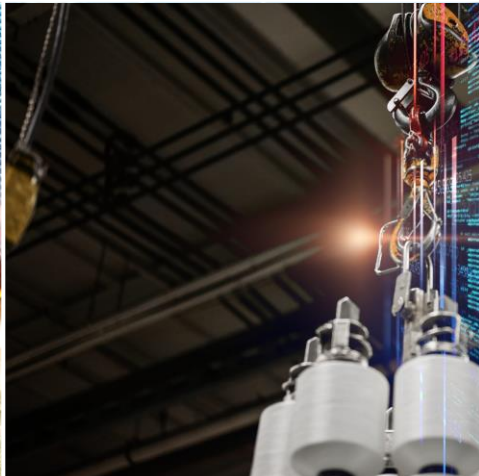
Higher service levels

4

Lower cost

5

Excellence in H&S and compliance

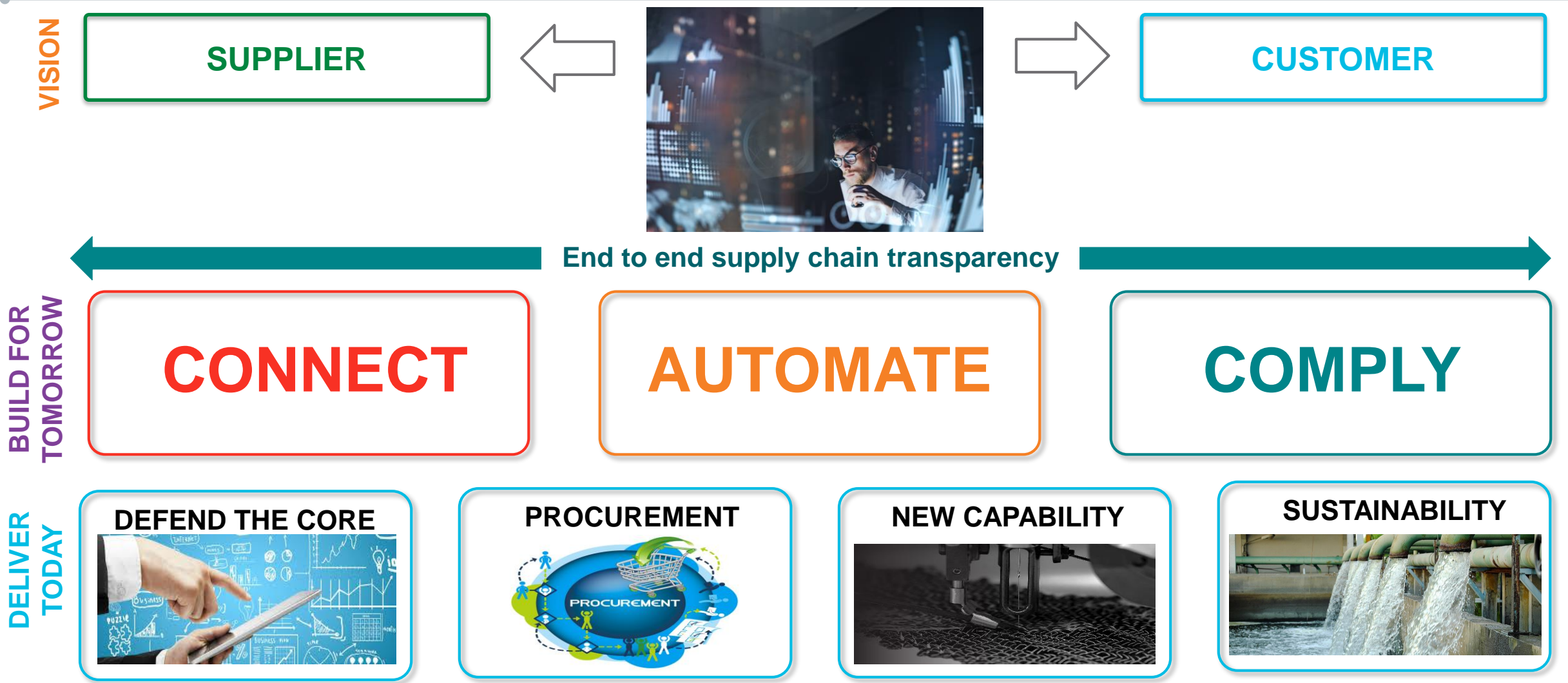


Health & Safety  
our #1 Priority

Fully integrated supply chain with end-to-end transparency

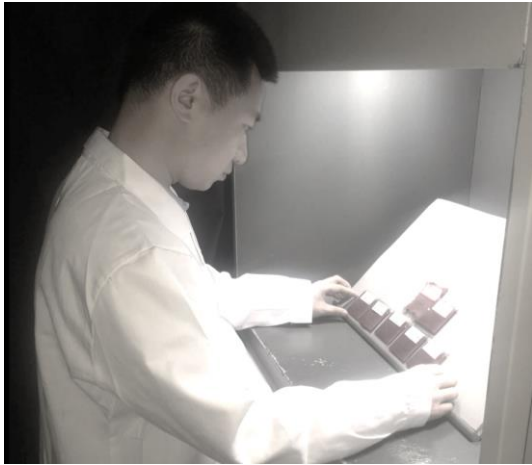


# 'Connecting Coats'... a Supply Chain for growth

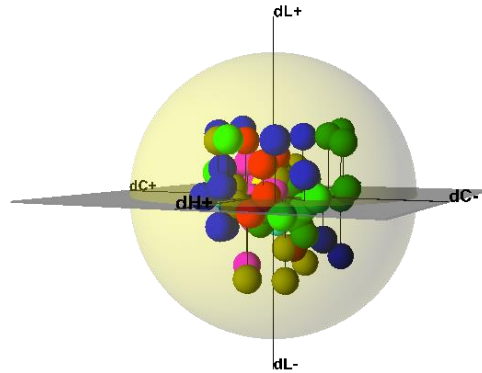


# Dyeing process digitisation – the reason to believe

From Art...



...to Science



- Data driven approach
- Connected each machine to one plant system
- Created global Hub database
- Automated processes



- A state-of-the-art colour management system connecting 43 dye houses globally
- Centralised monitoring by global expert team
- Productivity increases of 20%
- Colour quality metrics doubled in 10 years



# Intelligent dashboard demonstration



**PLANTS**

COUNTRY	LOCATION	COD	OTIF	CLU
America	Sevier	(70)	(85)	(17)
Bangladesh	Chittagong	(93)	(87)	(17)
Bangladesh	Dhaka	(100)	(86)	(10)
Brazil	Ipiranga	(47)	(84)	(10)
Bulgaria	Bulgaria	(72)	(80)	(95)
China	Qingdao	(43)	(80)	(10)
China	Shanghai	(93)	(86)	(98)
China	Shenzhen	(100)	(83)	(17)
Colombia	Pereira	(53)	(80)	(17)
Egypt	Egypt	(100)	(87)	(10)
Honduras	Honduras	(72)	(87)	(10)
Hungary	Budapest	(93)	(82)	(10)
India	Ambalamudram	(53)	(84)	(17)
India	Faridabad	(100)	(84)	(17)
India	Panoli	(72)	(87)	(17)
India	Serampore	(100)	(86)	(95)
Indonesia	Bogor	(100)	(86)	(95)
Korea	Korea	(43)	(85)	(17)
Madagascar	Madagascar	(93)	(85)	(10)
Malaysia	Melaka	(97)	(86)	(97)
Mauritius	Mauritius	(97)	(85)	(17)
Mexico	Orizaba	(100)	(11)	(17)
Morocco	Morocco	(100)	(84)	(95)
Pakistan	Karachi	(93)	(86)	(17)
Pakistan	Lahore	(100)	(85)	(17)
Romania	Oderhei	(72)	(85)	(17)
South Africa	South Africa	(100)	(85)	(17)
Sri Lanka	Horana	(72)	(80)	(17)
Thailand	Thailand	(100)	(85)	(17)



# Connecting for Growth: In summary

**Our industry  
is changing**

**We are  
already  
changing in  
response**

**Complements  
strong gross  
margins with  
leaner SG&A  
costs**

**Delivering  
improved  
customer  
service**

**Digital  
connectivity  
across the  
supply chain**

**\$30m re-  
investments in  
innovation,  
digital and  
people**

**Unlocking  
value from the  
wealth of data  
we have**

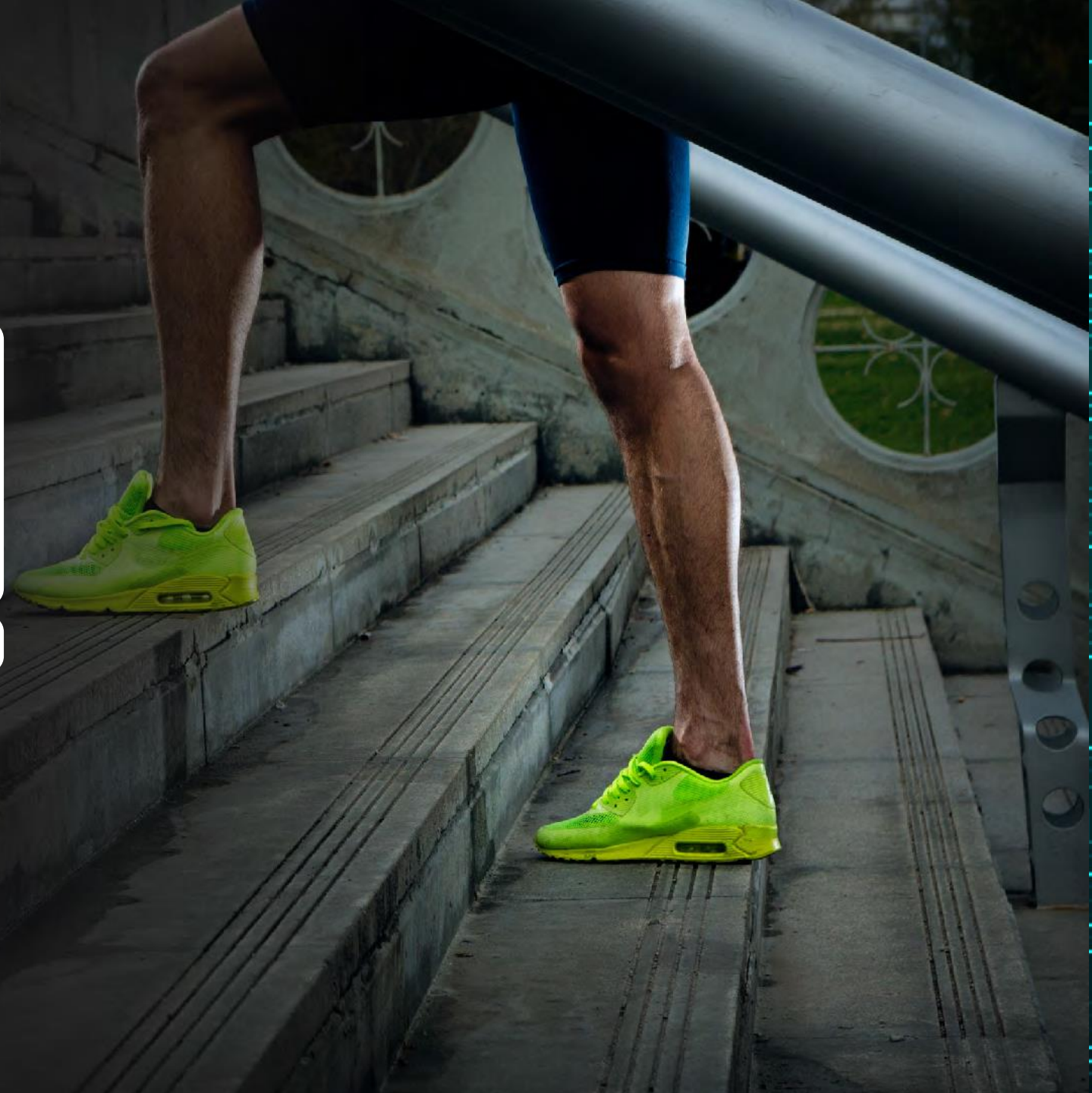




**Delivering** today  
**Transforming** for tomorrow

# Our people – making it happen

Simon Youngs, Head of Talent and Learning



# Our people

## People at Coats

c.19,000 employees



83% employee engagement (Top 10% of companies (IBM))



In some 50+ countries



25 nationalities represented in top 275 leaders



Proud. Engaged. Committed. Ethical. Talented.

## Externally recognised



WOMEN'S CHOICE AWARD<sup>®</sup>  
THE VOICE OF WOMEN



AMERICAN  
**ADVERTISING**  
AWARDS

GREAT  
PLACE  
TO  
WORK<sup>®</sup>





# A fast changing world – employees' demands are increasing

## Digital



**Talent acquisition:  
Cognitive recruitment**



**Leadership  
in the digital age**

## Learning



**Careers and learning:  
Real-time, all the time**



**Every day performance  
management**

## Culture



**The employee experience:  
Culture and engagement**



**Inclusion and  
diversity**

## Agility



**Organising for speed,  
agility and adaptability**



**The augmented  
workforce**

# How we will win

<p><b>Retaining our best people while acquiring specialist talent</b></p>	<p><b>Developing new capabilities</b></p>	<p><b>Being change-focused and agile</b></p>	<p><b>Enhancing our culture and mindset</b></p>	<p><b>Employing 'Glocal' ways of working</b></p>
				
<p><b>Buy it. Build it. Borrow it.</b></p>				



# In summary



Engaged Team

Speed & Agility

Winning Mindset



**Delivering today  
Transforming for tomorrow**

# Summary

**Rajiv Sharma, Group CEO**





# Our investment highlights

## 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

# Key takeaway... changing from a position of strength

**Global scale  
- industry  
leader**

**Future  
mega  
trend  
positive**

**Clear  
growth  
strategy**

**Strong  
management  
team**

**Emphasis on  
simplification,  
digitisation,  
innovation and  
acquisitions**





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**Transforming for tomorrow**

# Questions



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**For more information**

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