

Chair's statement



Resilient Coats/performance

This year has been no less challenging for the world than we have seen in recent years. The conflict in Ukraine, followed by the escalated situation in the Middle East have served to remind us of these various global challenges.

During the pandemic Coats utilised its global footprint to maintain service to all our customers, and were prepared and ready to capture the return in demand. 2023 saw a year of unprecedented destocking, along with cost of inventory, continued inflation and elevated interest rates. Coats once again responded and focussed on controlling the controllable to deliver cash and margin. Our resilience in the face of such challenges underlines the importance and effectiveness of our business model.

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Coats has always thrived on the foundations of its culture and the people who make it special, and I am proud that we have been externally recognised as one of the top 25 workplaces globally.”

Destocking has been a theme across the industry and whilst in 2023 Coats was no different in this regard, it is a great credit to our customer focus and agility that we continued to grow market share alongside margin enhancement.

Transformation

Last year saw the double acquisition of Texon and Rhenoflex, which has been pivotal in Coats' most recent evolution. I am delighted with the way both companies have seamlessly integrated to create another world-class business in our new Footwear division. This is testament to the closely aligned cultures and goals of all three businesses and has resulted in the delivery of synergies in excess of those announced on acquisition.

Our programme of Strategic Projects, announced in 2022, is on course to deliver as Coats continued to demonstrate its ability to execute on large-scale projects. Importantly, we have completed the majority of our US and Mexican manufacturing footprint projects, and we are currently in the process of ramping up utilisation.

2023 also saw the sale of tail markets in Mauritius and Madagascar as well as the disposal of our EMEA Zips business, further streamlining our operations and allowing management to focus on delivering value to the Group. I wish those businesses all the best for the future.

Capital allocation

Our capital allocation policy remains unchanged and focusses on four key pillars (i) reinvesting in organic growth (ii) acquisitions in line with disciplined strategy (iii) supporting pensions and (iv) paying a progressive dividend. We implement these pillars whilst maintaining a strong Balance Sheet with a target leverage ratio of 1–2x.

Following on from the £350 million buy-in in 2022, we have made significant progress on UK Pensions by agreeing with the UK Pension Trustees to switch off our deficit repair payments. These payments will remain off so long as the pension scheme assets remain above 99% of its technical provisions. We remain focussed on removing the risk from our Balance Sheets and optimising our Capital Allocation to enable additional growth opportunities.

The Board is mindful of the importance of returns to shareholders. To underline the strong progress we have made in 2023, we are pleased to propose a final dividend for the year of 1.99 cents per share, bringing the total dividend for the year to 2.80 cents per a share, a 15% increase on the 2022

total dividend. Subject to approval at the AGM, the final dividend will be paid on 30 May 2024 to ordinary shareholders on the register at 3 May 2024, with an ex-dividend date of 2 May 2024.

Sustainability

Sadly, the human impact on the world is not confined to conflict. The recurrence of natural disasters correlated to climate change has only reinforced the importance of our longstanding industry-leading commitment to the environment. We continue to deliver on our stretching sustainability goals, adding further momentum in the last year with the opening of the Madurai, India Innovation hub, established to accelerate the development of sustainable materials, and the addition of solar panels to a key site in Bangladesh are among many examples of our investment.

I was also delighted to see Coats receive the Cradle to Cradle Certified Material Health Certificate, and to be recognised with such positive feedback at the Shenzhen Fashion week, where we showcased garments made with 100% EcoVerde, which is a part of our sustainable thread range. As consumers become ever more aware of the impact on the environment, and ever more inclined to change their behaviours, Coats stands well positioned to deliver, having been a pioneer and consistently invested in Sustainability for many years.

Innovation

Sustainability also leads our Innovation strategy, the four Global Innovation hubs being prime examples of this. Coats has a rich history of new and innovative products, and as we witness the transition to recycled, circular materials we are again at the leading edge in our industry.



Chair's statement cont.



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The selfless efforts of the rapid response team in Turkey who reacted to the earthquake reflects our core values of collaboration, agility, can-do, passion and diversity and gives me great pride and admiration.”

David Gosnell, Chair

8.0c

Adjusted EPS: earnings maintained despite industry destocking environment

2.80c

Total dividend up 15% from 2022

As the world looks towards energy conservation, lightweighting and material replacement, it will continue to drive demand for product innovation, while the trend towards casualisation and athleisure provides continued momentum for the highest quality threads, especially those that are produced from environmentally friendly materials and manufactured in factories that have an ever lower impact on the world. It is not just what we make, but how we make it.

Our network of Innovation hubs around the world will continue to differentiate Coats as an unparalleled leader in Innovation in our industry.

Great Place To Work®

Coats has always thrived on the foundations of its culture and the people who make it a special place to work. It therefore gives me great pleasure that in 2023, Coats was named as one of the world's top 25 workplaces by the Great Place To Work® (GPTW®) organisation and Fortune.

The community that drives our performance is why Coats delivers, year on year. I am extremely proud of this achievement and for the recognition that it brings to everyone around the Group.

'Coats Cares'/culture

My admiration for the people of Coats was again brought to the fore as our team in Turkey reacted to the devastating earthquakes in the south-east of the country. A Rapid Response Team of 11 volunteered to engage in rescue and relief mission coordinated by local NGOs, providing much needed vital supplies as well as operating essential equipment to locate and free those trapped. The selfless efforts of these brave individuals demonstrates our core values; collaborative, agile, can-do, passionate and diverse.

The roll-out of our 'Coats for Her' programme is an example of how seriously a diverse workforce with equal opportunities for all sits at the heart of the current and future success of the Group and is among the reasons why we have 17 countries where we are certified as a Great Place To Work®.

Board changes

Nicholas Bull will leave the Coats Board following the AGM to be held in May 2024. I wanted this opportunity to express my most sincerest of thanks to Nicholas, both on behalf of myself, the Board, the Executive Team and everyone at Coats. Nicholas has been a guiding light and foundation of the Coats Board for the past nine years. His insights and leadership have been immeasurable as the Group has transformed itself during his tenure.

In November, Sarah Highfield joined the Board as Non-Executive Director. Sarah's strategic and financial background, having previously served as CEO, CFO and COO at Elvie, and prior to that as CFO at Costa Coffee, will bring valuable insights to Coats. Subject to her election at the 2024 AGM, Sarah will become the Chair of the Audit and Risk Committee, replacing Nicholas. In addition, Sarah will join the Sustainability Committee along with all three Divisional CEOs as we focus on executing our plans in 2024.

Steve Murray will also be appointed Senior Non-Executive Director following the AGM, succeeding Nicholas. Steve joined the Board in September 2022 as a Non-Executive Director, and he is a member of the Audit and Risk Committee, the Nomination Committee and the Remuneration Committee.

On behalf of everyone at Coats, I wish Nicholas, Sarah and Steve all the very best.

Looking ahead

The Group's long-term track record of outperforming the markets we serve is based on our scale, global footprint, innovation, strong digital platform and technical support capabilities, all of which are becoming more relevant to customers and supportive of our revenue growth ambitions. We expect these growth drivers to be augmented by a gradual market recovery and by continued investment in sustainability and operational efficiency which together give us confidence in delivering strong profit growth and cash generation over the medium term.

I would like to conclude by thanking, on behalf of the Board, the contribution of our exceptional teams across the world.