3 March 2022

# Coats Group plc

# 2021 Full Year Results

***Accelerated sales growth with strong profit delivery and cash generation***

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, announces its audited results for the year ended 31 December 2021.

| | FY 2021 | FY 2020 | FY 2021 vs FY 2020 | | |
|---|---|---|---|---|---|
| | | | Reported | CER | Organic |
| Revenue | $1,504m | $1,163m | 29% | 29% | 29% |
| **Adjusted** [1] | | | | | |
| Operating profit | $193m | $111m | 75% | 74% | 75% |
| Basic earnings per share | 6.8c | 2.4c | | | |
| Free cash flow | $113m | $28m | | | |
| Net debt (excl. lease liabilities) | $147m | $181m | | | |
| **Reported** [2] | | | | | |
| Operating profit | $179m | $103m | 74% | 74% | 74% |
| Basic earnings per share | 6.1c | 1.8c | | | |
| Net cash generated by operating activities | $129m | $66m | | | |
| Final dividend per share | 1.50c | 1.30c | | | |

## Highlights

- Accelerating Group sales growth of 29% (6% vs 2019) with continued momentum:
  - Apparel & Footwear: 33% sales growth (5% vs 2019); demand recovery and positive end market sentiment across US, Europe and Asia
  - Performance Materials: 19% organic sales growth (8% vs 2019)
- Strong thread market share gains in A&F (up 2% to 23%) and customer share wins in PM, as customers prioritise reliability and flexibility of supply, sustainable products, quality, speed, and innovation
- EcoVerde revenues up 159% to $96 million; significantly enhanced sustainability ambitions announced
- Continued innovation focus; 21 new products contributing $37 million incremental revenue
- Adjusted operating profit $193 million (reported $179 million); inflationary pressures absorbed by successful pricing actions and self-help productivity programmes
- A&F adjusted operating margins 15%[1]; PM adjusted operating margins 7%[1], or 14%[1] excluding the US
- Adjusted EPS of 6.8c per share (reported 6.1c per share), vs 2.4c per share in 2020
- Strong cash generation; net debt (excl. lease liabilities) of $147 million and strong adjusted free cash flow of $113 million; 0.7x leverage[3]; building resilience and creating a strong platform for growth
- Final dividend of 1.50 cents per share proposed, +15% vs 2020 final dividend given the strong 2021 performance and a sign of the Board's confidence into 2022

**Strategy and Outlook**

- The Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. The resulting benefits are anticipated to deliver incremental adjusted operating profit of $50 million by 2024. Total cash exceptional costs expected to be around $35 million
- The Group expects continued growth in 2022, and FY 2022 performance is anticipated to be modestly ahead of our previous expectations

**Commenting on the results Rajiv Sharma, Group Chief Executive, said:**

*"2021 was a strong year for Coats with sales and cash exceeding 2019 levels and operating profit close to 2019 levels. Sales growth accelerated through the year, notably in the final quarter driven by demand recovery and good market share gains in threads. This was due to flexing our global supply chain, proactive inventory management, strong supplier relationships, strong local leadership and teamwork. Our ability to meet customer requirements for reliability, sustainability, innovation and quality was a point of major differentiation. I would like to thank all teams in Coats for their tireless work, remarkable resilience and fortitude.*

*"I am particularly pleased with the further strong growth of our EcoVerde range of recycled threads and our continued progress towards our 2024 target.*

*"We continue to evaluate acquisitions in line with our strategy and investment criteria and will remain disciplined in our assessment of these as they arise.*

*"The last two years have created opportunities to further improve customer service and margins. We have commenced a number of strategic projects that improve operational effectiveness and flexibility in key geographies while improving overall cost base efficiency. This will result in margin improvement over two years. Our focus is to accelerate profitable sales growth, and transform the company to be even more successful in a post-pandemic world."*

1 *Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 12. Constant Exchange Rate (CER) are 2020 and 2019 results restated at 2021 exchange rates. Organic vs 2020 on a CER basis includes like-for-like contributions from Pharr HP (post acquisition date of February 2020). Organic vs 2019 on a CER basis includes like-for-like contributions from ThreadSol (post acquisition date of February 2019) and excludes contribution from Pharr HP (acquired in February 2020). Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.*

2 *Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.*

3 *Leverage calculated on a frozen GAAP basis, and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt.*

This announcement contains inside information for the purposes of the Market Abuse Regulation. The person responsible for this announcement is Jackie Callaway, Chief Financial Officer.

## Conference Call

Coats Management will present its full year results in a webcast at 0930 GMT today (Thursday 3 March 2022). The webcast can be accessed via www.coats.com/investors/fy2021. The webcast will also be made available in archive form on www.coats.com.

## Sustainability Focus Session

Coats Management will host a Sustainability Focus Session for analysts and investors at 1400 GMT on Monday 21 March 2022. For more details, or to register, please contact victoria.huxster@coats.com.


**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 over 18,000 people across six continents. Revenues in 2021 were US$1.5bn. Coats provides complementary and value-adding products, services and software solutions to the apparel and footwear industries. It also applies innovative techniques to develop high technology performance materials threads, yarns, fabrics and composites in areas like personal protection, telecoms, energy, transportation, and household and recreation. Headquartered in the UK, Coats is a constituent of the FTSE 250 and FTSE4Good Index Series. It is a participant in the UN Global Compact, a member of the Ellen MacArthur Foundation, has approved short term Science Based Targets to 2030 and is committed to developing a long-term target to reach net-zero emissions by 2050, the highest level of ambition on climate change under the Science Based Target initiative. The pioneering history and innovative culture of Coats enable the delivery of its purpose to connect talent, textiles and technology to make a better and more sustainable world. For further information go to www.coats.com.

## Cautionary statement

Certain statements in this full year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## Appendix:

| | FY 2021 | FY 2020 | FY 2019 | FY 2021 vs FY 2020 | | | FY 2021 vs FY 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| *Continuing operations* [3] | | | | Reported | CER | Organic | Reported | CER | Organic |
| Revenue | $1,504m | $1,163m | $1,389m | 29% | 29% | 29% | 8% | 11% | 6% |
| **Adjusted** [1] | | | | | | | | | |
| Operating profit | $193m | $111m | $198m | 75% | 74% | 75% | (2)% | (1)% | (1)% |
| Basic earnings per share | 6.8c | 2.4c | 7.0c | | | | | | |
| Free cash flow | $113m | $28m | $107m | | | | | | |
| Net debt (excl. lease liabilities) | $147m | $181m | $150m | | | | | | |
| **Reported** [2,3] | | | | | | | | | |
| Operating profit | $179m | $103m | $191m | 74% | 74% | 74% | (6)% | (4)% | (4)% |
| Basic earnings per share | 6.1c | 1.8c | 6.7c | | | | | | |
| Net cash generated by operating activities | $129m | $66m | $144m | | | | | | |
| Final dividend per share | 1.50c | 1.30c | nil | | | | | | |

## Group Chief Executive's review

### Purpose and strategy

Our priorities are to accelerate profitable sales growth and to transform Coats to deliver sustainable stakeholder value.

### 2021 full year results overview

2021 was a year of demand recovery and strong market share gains. Coats delivered sales growth of 29% over 2020 and an organic sales growth of 6% over 2019. Momentum increased throughout the course of 2021 with the final two months of the year seeing growth of 20% vs 2019 in both Apparel & Footwear ("A&F") and Performance Materials ("PM"), vs 6% for the Group for the four months ended October and 1% in the first half of the year.

2021 was also a year of significant supply chain challenges. Our global scale, technology infrastructure, health and safety focus, talented teams and strong supplier relationships meant we were able to navigate Covid-related lockdowns in some of our key markets, as well as inflationary pressures, supply chain disruption and labour availability issues. We quickly identified and reacted to these challenges by successfully implementing pricing and self-help programmes to offset increased raw material, freight and labour costs and, at the same time, continuing to provide our customers with the high quality service they expect from Coats.

The Group saw strong thread market share gains in A&F (up 2% to 23%) and customer share wins in PM as customers prioritised sustainability, quality, speed, supply chain flexibility and innovation.

Adjusted operating profit was $193 million for the full year. Adjusted operating profit margin of 12.8% was well ahead of 2020 (9.5%) and slightly lower than 2019 (14.3%) primarily due to labour disruption in the wider US business, and lockdown impacts in Asia in Q2 and Q3. A&F adjusted operating margins were 15.0%, with PM adjusted operating margins of 7.1%, or 14.4% excluding the US. Earnings saw a strong recovery towards pre-Covid levels as operating profit recovery was accompanied by a normalisation of our tax rate and lower interest charges.

Strong adjusted free cash flow of $113 million has led to net debt (excl. lease liabilities) at the end of the period of $147 million, giving 0.7x leverage, below the lower end of our target leverage range of 1-2x, providing a strong platform to take advantage of attractive organic and inorganic investment opportunities to further accelerate growth in the future.

### Strategic enablers: Sustainability, Digital and Innovation

Our strategic enablers of Sustainability, Digital and Innovation underpin our strategy to accelerate profitable sales growth and to deliver sustainable stakeholder value.

### Sustainability

A key part of our company purpose is to make a better and more sustainable world. When we launched our sustainability strategy, 'Pioneering a sustainable future', in 2019, we laid out ambitious targets for 2022 and 2024. We remain committed to those targets and have significantly increased our ambitions in order to evolve our sustainability strategy and increase momentum, as well as to further enhance our competitive advantage. We will reduce emissions by 46% in this decade and reach net zero by 2050. By 2030, 70% of our global energy consumption will come from renewables. Our other new targets are:

- Eco materials: By 2030, all Coats products will be made completely independently of new oil-extraction materials such as polyester and nylon
- Circularity: We will shift to circularity, creating products and packaging solutions that enable recycling and reuse, both within our own operations and across the wider garment industry

We will continue to invest in our sustainability strategy and have earmarked $10m to fund the scaling up of green technologies and materials that are relevant to our industry supply chain. Our Asia Innovation Hub in Shenzhen, China is being re-purposed to focus on the application of biomaterials.

Meanwhile we have made very good progress on our 2022 targets, in particular:

- One of our 2019 targets was to have external social certifications, such as Great Place to Work, across all our key sites, with over 80% of our employees in certified sites by 2022. Last year, we achieved 83%, reaching the target a year early

- We also saw excellent sales growth in EcoVerde, our range of 100% recycled products, with revenues for the full year up 159% to $96 million (FY2020 $37 million), on track for our 2024 target for all our premium polyester threads to be made from 100% recycled material
- We have almost achieved our energy reduction target of 7% (6.9% reduction) a year early, and expect to deliver substantially better than the target in 2022.

**Digital**

Our investment in technology infrastructure and digital tools has allowed us to flex our supply chain, react to situations with speed and ensure we are focused on customer, shareholder and employee value creation. In 2021 we enhanced our digital customer ecosystem, ShopCoats, through which customers can, for example, use automated bulk and sample ordering and status management. We onboarded valuable key accounts through system integration, refreshed our front-end order system and used Microsoft Dynamics CRM to further professionalise our sales and customer service systems. These tools give us speed, agility, lower cost and more customer satisfaction.

**Innovation**

We continue to create innovative new solutions to solve our customers' current and emerging challenges. During 2021 we launched 21 new products across both A&F and PM (FY2020 22 new products), delivering incremental revenues of $37 million (FY2020: $13 million). Examples of innovation within A&F include Lattice Lite Eco, a revolutionary fibre-laying technology using sustainable materials to create footwear composite materials for the next generation of high performance supershoe. We also launched EcoRegen during 2021, a biodegradable thread made from 100% lyocell, and part of Coats' Eco Journey roadmap to produce innovative sustainable products which support our drive towards a circular economy. In PM, the largest selling innovation was a new FlamePro product called FlamePro Orbit with lighter weight, higher performance and improved strength and protection qualities. We also developed Epic Patriot for US non-flame retardant military applications with a specially formulated lubricant. Our innovation pipeline to deliver further incremental revenues in the future remains strong and we will continue to accelerate our innovation credentials and solutions in order to deliver tailored solutions to meet customers' design requirements.

**Dividend**

The Board is mindful of the importance of returns to shareholders and, as a result of the strength of the Group's balance sheet, the strong growth and recovery out of the Covid pandemic, and its confidence in the strategy and growth outlook for the Group, it is pleased to propose a final dividend of 1.50 cents per share, +15% vs the 2020 final dividend (1.30c). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2022 to ordinary shareholders on the register at 29 April 2022, with an ex-dividend date of 28 April 2022. Alongside the interim dividend of 0.61 cents per share, this makes a total of 2.11 cents per share for the full year 2021.

**Strategic Projects**

The Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. These projects will result in anticipated incremental adjusted operating profit of $50 million by 2024. Total cash exceptional costs are expected to be around $35 million.

**Outlook**

The strong end to the year has continued into the start of 2022, and despite some evidence of stock replenishment from customers during this period, we expect continued growth for 2022 as a whole. We remain confident in our ability to offset inflationary pressures through pricing and productivity actions. We now anticipate the Group's FY 2022 performance to be modestly ahead of our previous expectations.

## Operating review

| | FY 2021 | FY 2020 | FY 2019 | FY 2021 vs FY 2020 Inc / (dec) | CER [1] inc/(dec) | Organic [1] inc/(dec) | FY 2021 vs FY 2019 Inc / (dec) | CER [1] inc/(dec) | Organic [1] inc/(dec) |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | % | % | % | % | % |
| **Revenue [2]** | | | | | | | | | |
| ***By segment*** | | | | | | | | | |
| A&F | 1,094 | 823 | 1,063 | **33%** | **33%** | **33%** | **3%** | **5%** | **5%** |
| PM | 409 | 341 | 326 | **20%** | **21%** | **19%** | **26%** | **29%** | **8%** |
| **Total** | **1,504** | **1,163** | **1,389** | **29%** | **29%** | **29%** | **8%** | **11%** | **6%** |
| ***By region*** | | | | | | | | | |
| Asia | 846 | 629 | 800 | 34% | 33% | 33% | 6% | 6% | 6% |
| Americas | 375 | 315 | 323 | 19% | 20% | 19% | 16% | 23% | 2% |
| EMEA | 282 | 219 | 266 | 29% | 31% | 31% | 6% | 10% | 10% |
| **Total** | **1,504** | **1,163** | **1,389** | **29%** | **29%** | **29%** | **8%** | **11%** | **6%** |
| **Adjusted operating profit [2,3]** | | | | | | | | | |
| ***By segment*** | | | | | | | | | |
| A&F | 164 | 96 | 156 | 72% | 72% | 72% | 5% | 6% | 6% |
| PM | 29 | 15 | 42 | 93% | 92% | 94% | (30)% | (28)% | (28)% |
| **Total adjusted operating profit** | **193** | **111** | **198** | **75%** | **74%** | **75%** | **(2)%** | **(1)%** | **(1)%** |
| Exceptional and acquisition related items | (14) | (7) | (7) | | | | | | |
| **Operating profit** | **179** | **103** | **191** | **74%** | **74%** | **74%** | **(6)%** | **(4)%** | **(4)%** |
| **Adjusted operating margin [2,3]** | | | | | | | | | |
| ***By segment*** | | | | | | | | | |
| A&F | 15.0% | 11.6% | 14.7% | 340bps | 340bps | 340bps | 30bps | 10bps | 10bps |
| PM | 7.1% | 4.4% | 12.8% | 270bps | 260bps | 280bps | (570)bps | (560)bps | (420)bps |
| **Total** | **12.8%** | **9.5%** | **14.3%** | **330bps** | **330bps** | **340bps** | **(140)bps** | **(160)bps** | **(100)bps** |

*1 Constant Exchange Rate (CER) are 2020 and 2019 results restated at 2021 exchange rates. Organic vs 2020 on a CER basis includes like-for-like contributions from Pharr HP (post acquisition date of February 2020). Organic vs 2019 on a CER basis includes like-for-like contributions from ThreadSol (post acquisition date of February 2019) and excludes contribution from Pharr HP (acquired in February 2020).*
*2 Includes contribution from bolt-on acquisitions made during the period.*
*3 On an adjusted basis which excludes exceptional and acquisition-related items.*

### FY 2021 Operating Results overview

In A&F we are growing faster than the market because of our excellent reputation for quality, our value proposition, our global footprint and our drive for innovative and sustainable products. In PM we continue to grow our customer share, and we see high growth opportunities in both Composites and Personal Protection, combining our innovative and differentiated product offerings.

Group revenues of $1,504m increased 29% vs 2020 on a reported basis as the business recovered from the Covid pandemic. Group revenues on an organic basis increased 6% vs 2019 with continued accelerating momentum, delivering a performance above pre-Covid levels; this included accelerating momentum throughout the year with 20% growth vs 2019 in November and December (vs 1% at the half year, and 6% in July to October).

Group adjusted operating profit of $193 million increased 75% (FY2020: $111 million, FY2019: $198 million). Adjusted operating margins were up 330bps to 12.8% (FY2020: 9.5%, FY2019: 14.3%).

Adjusted earnings per share ('EPS') for the period increased to 6.8 cents (2020: 2.4 cents, 2019: 7.0 cents), back towards pre-Covid levels as operating profits and tax rates normalised from the significant disruption seen in 2020.

**Apparel & Footwear ('A&F')**

Our A&F business benefited from a robust recovery in demand and saw strong thread market share gains (up 2% to 23%) as it leveraged its key customer relationships, its strong sustainability credentials, its market-leading product ranges and technical services, and its flexibility and agility in a turbulent supply chain environment.

The division saw strong growth of 33%, demonstrating the strength of our global footprint and ability to support customers during Covid lockdowns across Asia in Q2 and Q3. Our global accounts programme, in which we dedicate customer relationship resources to our key brands and retailers, saw excellent new customer and programme wins.

All of our regions (US, Europe and Asia) benefited from positive end market sentiment. Trends towards Sports and Athleisure as well as casualisation continued to accelerate through the second half whilst online adoption, a shift towards premium products and supply chain digitisation advanced further. Supplier consolidation, nearshoring and the customer need for speed were also prominent trends and unsurprisingly, our customers continue to place increasing emphasis on their own sustainability agendas. The ongoing demand shift from West to East and growth in domestic Asia also played to our strengths, with strong growth from domestic China brands and revenue for our China domestic business up 36% vs 2020.

All of the A&F sub-segments had strong revenue growth in 2021; A&F thread up 34%, zips and trims up 29%, Latin America Crafts up 8% and Coats Digital up 22%. Coats Digital, our Fashion Tech business, enables fashion brands, sourcing companies, and manufacturers to optimise, connect and accelerate business-critical processes seamlessly. In 2021 bookings saw high double-digit growth ahead of reported sales growth, indicating confidence for continued future growth. The order pipeline remains strong for 2022.

Adjusted operating profit for A&F increased 72% vs 2020. Adjusted operating margin was up 340bps to 15.0% vs 2020. This was as a result of excellent commercial and operational delivery, pricing actions and procurement self-help initiatives more than offsetting heightened inflationary pressures and the Covid disruptions during the year.

***2019 comparatives***

As noted above, our A&F business had a strong year with revenues up 5% vs 2019 levels despite Covid-related lockdowns in Asia. By sub-segment, A&F thread revenues (c.85% of segment revenue) were up 6% vs 2019, with zips and trims (c.9% of segment revenue) up 13% in the second half to end the year flat vs 2019.

A&F adjusted operating margins were 30bps ahead of 2019 despite Covid-related lockdowns in Asia as a result of excellent commercial and operational delivery, tight control of discretionary spend, and supported by volume recovery.

**Performance Materials ('PM')**

To more clearly align to the growth opportunities for the PM segment, the Group is changing the way in which it operates and reports the sub-segments of the division. From 2022 the Group will divide PM into Personal Protection (c.40% of divisional revenue), Composites (c.25%) and Performance Thread (c.35%). Performance Thread will be made up of the majority of the former Household & Recreation, Transportation and Other Industrial Applications sub-segments. The medium-term growth rates expected for each sub-segment are high single digits for Personal Protection, double-digit for Composites, and global GDP growth for Performance Thread. There is no change to the overall growth expectations of the division of mid-high single digit growth medium term.

Revenues recovered well in all segments, with organic growth of 19% vs 2020, including a recovery in Personal Protection which grew by 40% in November and December to end the year up 12% on an organic basis.

The division saw further customer share gains as well as new customer wins in the second half across all sub-segments, such as a Composites programme with a leading sports footwear manufacturer for its premium marathon shoe, increased share with automotive suppliers in Performance Thread, and Oil & Gas customers in Personal Protection.

Overall, PM revenues grew 21% on a CER basis (20% reported), consisting of organic growth of 19% and a 2% contribution from the acquisition of Pharr HP. Organic revenue growth performance vs 2020 was underpinned by all sub-segments with strong demand in Composites (+32%), Personal Protection (+12%) and Performance Thread (+20%).

Adjusted operating profit increased 92% on a CER basis to $29 million and at an adjusted operating margin level, PM margins were up 260 bps to 7.1%, in line with guidance of mid to high single digits. PM margins for the year were however adversely impacted in the US by labour availability issues and labour inflation. Excluding the US business, PM margins were 14.4% indicating a healthy recovery of margins elsewhere in the segment.

***2019 comparatives***

Compared to 2019 PM saw organic revenue growth of 8% with all segments performing strongly (and in line with the trends described above); Composites was up 15%, Performance Thread was up 10% and Personal Protection recovered in November and December to end the year flat vs 2019 on an organic basis.

Operating margins remained down on 2019 (560bps on a CER basis) primarily as a result of the operational impacts of labour disruption in the wider US business, but saw an improving trend in the second half.

**Geographical performance**

We saw strong recovery across all regions with significant growth vs 2020 driven by improving end market sentiment and Coats' strong customer proposition.

In Asia, we saw revenue increase by 33%, driven by key A&F markets. This was 6% up on 2019 revenue levels, as this region saw the fastest recovery from Covid, despite some ongoing impacts in the period, most notably in India which suffered lockdowns in the second quarter and in Vietnam in the third quarter. Performance in China saw strong sales to domestic brands and in Bangladesh sales to the apparel export market were healthy. PM also performed well in Asia with growth in China as well as in India which saw increased production due to US demand.

Our Americas business saw organic revenues grow by 19% vs 2020, with 2% organic growth vs 2019 after an improved second half and growth in Brazil and Colombia. Consumer demand remains strong in the US across all PM segments.

In Europe, which was also impacted significantly by Covid last year, we saw revenues grow by 31% vs 2020, and 10% above 2019. This strong recovery was driven by the recovery in PM in telecom composites and transportation as fibreoptics and automotive sales remained robust, led by our key markets in Spain and Turkey. Zips also saw a recovery in demand.

## Financial Review

**Revenues**

Group revenues increased 29% on a reported and organic CER basis, as all markets recovered strongly having been adversely impacted by the Covid pandemic in 2020. All commentary below is on a CER basis unless otherwise mentioned.

Compared to pre-Covid (2019) levels, revenues in the year were up 6% on an organic basis, as demand accelerated during the year, and this was despite the ongoing Covid disruption seen across Asia in Q2 and Q3.

**Operating profit**

At a Group level, adjusted operating profit increased from $111 million in 2020 to $193 million (2019: $198 million) and adjusted operating margins were up 330bps to 12.8% (2019: 14.3%). The table below sets out the movement in adjusted operating profit during the year:

| | $m | Margin % |
|---|---|---|
| **2020 adjusted operating profit** | **111** | **9.5%** |
| Volumes impact (direct and indirect) | 129 | |
| Price/mix | 37 | |
| Raw material inflation | (25) | |
| Freight inflation | (20) | |
| Other cost inflation (e.g. labour, energy) | (17) | |
| Productivity benefits (manufacturing and sourcing) | 22 | |
| Normalisation of SD&A costs | (34) | |
| Others (e.g. FX) | (9) | |
| **2021 adjusted operating profit** | **193** | **12.8%** |
| Exceptional and acquisition related items | (14) | |
| **2021 reported operating profit** | **179** | **11.9%** |

The direct and indirect volume impact of the Covid disruption, particularly in H1 2020, was a significant headwind on profits and margins in the prior year, as lower utilisation of factories led to an under recovery of manufacturing overheads. As a result of the ongoing strong Covid recovery, these volume impacts were largely reversed during the year, albeit there was some adverse impact felt, particularly in relation to Asia in Q2 and Q3 due to further lockdowns which produced manufacturing under recoveries in those quarters.

As a result of increasing oil prices in the latter part of 2020 and throughout 2021 we saw year-on-year inflationary headwinds on raw material costs, sea freight as a result of container availability and other costs such as labour and energy. As in previous periods we were successful in mitigating these inflationary pressures with productivity benefits and pricing / surcharges. We expect these inflationary pressures to continue into 2022; the pricing actions taken throughout 2021 position us well to continue to offset these.

We moved decisively to underpin our SD&A cost base during 2020 by minimising discretionary spend (for example travel, staff bonuses, Long Term Incentive Plans and consulting costs) and variable costs of selling. As expected, these savings normalised in the year as the business recovered, and resulted in a $34 million normalisation of our SD&A costs.

As a result of these factors, the Group's adjusted operating margins significantly increased to 12.8% (FY2020: 9.5%).

On a reported basis, Group operating profit (including exceptional and acquisition-related items) was $179 million (2020: $103 million). See below for a breakdown of these exceptional items. Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to above is on an adjusted basis only.

**Foreign exchange**
As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. For the full year, this impact was minimal on sales, and a marginal headwind on an adjusted operating profit, primarily due to movements in the Turkish Lira, Euro, and Colombian Peso. At current exchange rates (31 December 2021) we expect a c.2% headwind on revenues for the Full Year 2022.

**Free cash flow**
The Group delivered an adjusted free cash flow of $113 million in the year (2020: $28 million). This was a significant improvement on 2020 as the trading of the business continued to recover from the Covid disruption in 2020, as well as a disciplined approach to capital expenditure in the Covid recovery phase ($31 million), and despite some investment in working capital (inventory levels up $63 million year-on-year) to support our service levels during the strong demand recovery.

**Non-operating results**
Adjusted earnings per share ('EPS') for the year increased to 6.8 cents (2020: 2.4 cents). This significant increase was due to the recovery in adjusted profit before tax (up from $86.4 million to $172.5 million), and the expected normalisation in the underlying effective tax rate to 31% (2020: 39%) as profitability returned to pre-Covid levels. The increase in adjusted profit before tax was due to the increase in adjusted operating profit ($82 million increase), and a net interest charge which was $4 million lower year-on-year (see below for further details).

Net finance costs in the year were $21.8 million (pre-exceptional), a $3 million decrease year-on-year (2020: $24.8 million). The key drivers of the decrease in net finance costs in the year were a $0.5 million reduction in interest on bank borrowings due to lower interest rates, and lower corporate facility utilisation compared to 2020. In addition, there was a $2.6 million favourable movement year on year in relation to foreign exchange rate movements. These were partially offset by a $1.3 million increase in interest on lease liabilities due to certain new leases taken out during the year.

The taxation charge for the year was $54.4 million (2020: $37.4 million). Excluding the impact of exceptional and acquisition-related items and the impact of IAS19 finance charges, the effective tax rate on pre-tax profit was 31% (2020: 39%). As profitability normalised to pre-Covid levels in 2021, so did the effective tax rate, as expected.

The reported tax rate was 33% (2020: 47%), which includes the impact of exceptional and acquisition related items.

Profit attributable to minority interests was $19.7 million and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests). This was 25% above the 2020 level ($15.8 million), which is lower than the overall adjusted operating profit growth for the Group (up 75% on 2020), which reflects the relative strength of performance of those territories during 2020.

**Exceptional and acquisition-related items**
Net exceptional and acquisition-related items before taxation were $9.5 million (2021: $6.8 million). These include strategic project costs of $3.7 million and acquisition-related items of $15.8 million. Strategic project costs were offset by a credit in relation to the recognition of a historic indirect tax claim within Brazil which is now deemed virtually certain and resulted in a $5.8 million exceptional credit within operating profit and a further $4.2 million exceptional interest income.

Strategic project costs of $3.7 million relate to the commencement of a number of strategic initiatives during 2021. It is anticipated that cash exceptional costs in the order of $35 million will be incurred in relation to these and further strategic initiatives across 2022 and 2023 in total. The resulting benefits are anticipated to deliver incremental adjusted operating profit of $50 million by 2024.

Acquisition-related items of $15.8 million consisted of the amortisation of intangible assets acquired in previous acquisitions ($3.3 million), transaction costs in relation to the pursuit of strategic acquisition opportunities during the year ($12.4 million), and acquisition earnouts ($0.1 million). Growth through acquisitions is a key element of the Group's strategy and the Group will continue to be disciplined in the assessment of acquisition opportunities as they arise. The Group looks to identify companies with complementary capabilities that can further strengthen the core, technology, innovations, or Intellectual Property and which can be scaled to deliver growth and value for customers and shareholders.

**Cash flow**
The Group delivered $113 million of adjusted free cash flow in the year (2020: $28 million). This free cash flow measure is before annual pension deficit recovery payments, acquisitions and dividends, and excludes exceptional items.

This adjusted free cash flow performance was significantly ahead of 2020 as a result of the recovery of adjusted operating profit, alongside continued well controlled net working capital outflows ($15 million outflow) despite a number of inflationary pressures on our cost base and an investment in inventory to support supply chain disruption.

Capital expenditure was above 2020 ($15 million) at $31 million, as we invested selectively in the most appropriate opportunities in the Covid recovery phase. Minority dividend payments of $17 million were incurred (2020: $18 million) which relate to the repatriation of cash from local operations to the Group. Tax paid was $48 million, broadly in line with 2020, which was lower than the P&L charge as it reflects some timing benefit from the lower tax charge in 2020, which benefited the first half.

The Group generated a free cash flow of $33 million in the year (2020: $23 million outflow), which primarily reflects the adjusted free cash flow of $113 million, offset by UK pension payments of $42 million (being $33 million of ongoing deficit recovery payments and administrative expenses, and $9 million catch up of deferred 2020 payments), shareholder dividends ($27 million), and exceptional costs of $11 million.

As a result of the above free cash flow, net debt (excluding the impact of lease liabilities) as at 31 December 2021 was $147 million (31 December 2021: $181 million). Including the impact of lease liabilities, net debt as at 31 December 2021 was $246 million (31 December 2020: $247 million).

**Capital expenditure**
Capital expenditure for the year was $31 million (2020: $15 million). As we continue to recover out of Covid, and in order to continue to support our longer-term growth strategy and further reinforce our strong environmental compliance credentials, we anticipate capital expenditure to be in the $35-45 million range for 2022.

**Pensions and other post-employment benefits**
The net surplus for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS19 financial reporting basis, was $21 million as at 31 December 2021, which was $247 million lower than 31 December 2020 ($226 million liability). This decrease was primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, showed a $108 million IAS19 surplus at 31 December 2021 (£80 million), which was $237 million better than at 31 December 2020 (deficit of $129 million, or £94 million). This improvement predominantly relates to net actuarial gains of $203 million (higher discount rate due to higher corporate bond yields, experience gains and asset outperformance), and $37 million employer contributions (excluding administrative expenses).

In agreement with the trustees of the Coats UK Pension Scheme, and as part of the wider Covid underpinning actions, in 2020 we agreed to defer the remaining deficit recovery payments for that year (April-December inclusive), to provide an additional c.$21 million of headroom cover. The catch up of these payments commenced in May 2021 and will be evenly spread over a period of around 18 months. As a result, total payments in 2021 were $42 million (which includes $9 million in relation to the start of the catch-up of the 2020 deferred contributions).

*UK triennial update*
The effective date for the latest UK scheme triennial valuation was 31 March 2021. This valuation was successfully completed and agreed with the Trustees during the year, ahead of schedule, with a resulting Technical Provisions deficit of £193 million which is £59 million lower than the previously agreed valuation in 2018. As a result of this valuation, future contributions remain at the previously agreed levels of £22 million ($29 million) per annum (indexing) up until 2028, and result in the pay down of the deficit slightly earlier than originally planned. The Group will continue to pay the scheme administrative expenses and levies of around $5 million per annum. Together with the remaining catch up of deferred 2020 contributions, 2022 payments are expected to be around $46 million.

**Balance sheet and liquidity**

Group net debt (excluding lease liabilities) as at 31 December 2021 was $147 million ($246 million including lease liabilities), which was lower than 31 December 2020 ($181 million), and reflects strong cash management as noted above.

At 31 December 2021, our leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 0.7x and remains well within our 3x covenant limit, and slightly below the lower end of our target leverage range of 1-2x. Our interest cover covenant also maintained significant headroom at 31 December 2021 at 28x vs a covenant of 4x. These covenants are tested twice annually at June and December, and are monitored throughout the year. Committed headroom on our banking facilities was around $330 million at 31 December, which remains at a comfortable level allowing us strategic optionality to consider the most attractive organic and inorganic investments in the post Covid recovery phase.

**Going concern**

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for at least the next 12 months and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements. Further details of our going concern assessment, financial scenarios and conclusions can be seen in note 1.

## Coats Group plc

## Consolidated income statement

| For the year ended 31 December | Notes | **Before exceptional and acquisition related items US$m** | **Exceptional and acquisition related items (see note 3) US$m** | **2021 Total US$m** | **Before exceptional and acquisition related items US$m** | **Exceptional and acquisition related items (see note 3) US$m** | **2020 Total US$m** |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Revenue** | | **1,503.8** | **-** | **1,503.8** | 1,163.3 | - | 1,163.3 |
| Cost of sales | | **(1,025.3)** | **5.8** | **(1,019.5)** | (806.6) | (4.9) | (811.5) |
| **Gross profit** | | **478.5** | **5.8** | **484.3** | 356.7 | (4.9) | 351.8 |
| Distribution costs | | **(135.3)** | **-** | **(135.3)** | (116.1) | - | (116.1) |
| Administrative expenses | | **(150.1)** | **(19.5)** | **(169.6)** | (130.0) | (4.0) | (134.0) |
| Other operating income | | **-** | **-** | **-** | - | 1.4 | 1.4 |
| **Operating profit** | | **193.1** | **(13.7)** | **179.4** | 110.6 | (7.5) | 103.1 |
| Share of profits of joint ventures | | **1.2** | **-** | **1.2** | 0.6 | - | 0.6 |
| Finance income | **4** | **0.4** | **4.2** | **4.6** | 0.7 | 0.7 | 1.4 |
| Finance costs | **5** | **(22.2)** | **-** | **(22.2)** | (25.5) | - | (25.5) |
| **Profit before taxation** | | **172.5** | **(9.5)** | **163.0** | 86.4 | (6.8) | 79.6 |
| Taxation | **6** | **(53.5)** | **(0.9)** | **(54.4)** | (35.2) | (2.2) | (37.4) |
| **Profit for the year** | | **119.0** | **(10.4)** | **108.6** | 51.2 | (9.0) | 42.2 |
| **Attributable to:** | | | | | | | |
| **EQUITY SHAREHOLDERS OF THE COMPANY** | | **99.3** | **(10.4)** | **88.9** | 35.4 | (9.0) | 26.4 |
| Non-controlling interests | | **19.7** | **-** | **19.7** | 15.8 | - | 15.8 |
| | | **119.0** | **(10.4)** | **108.6** | 51.2 | (9.0) | 42.2 |
| **Earnings per share (cents)** | **7** | | | | | | |
| Basic | | | | **6.10** | | | 1.81 |
| Diluted | | | | **6.07** | | | 1.81 |
| Adjusted earnings per share | **12** | **6.81** | | | 2.42 | | |

## Coats Group plc

## Consolidated statement of comprehensive income

| Year ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| **Profit for the year** | **108.6** | 42.2 |
| **Items that will not be reclassified subsequently to profit or loss:** | | |
| Actuarial gains/(losses) on retirement benefit schemes | **212.8** | (39.7) |
| Tax on items that will not be reclassified | **(1.0)** | 0.1 |
| | **211.8** | (39.6) |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Net change in fair value of cash flow hedges | **-** | (2.4) |
| Exchange differences on translation of foreign operations | **(17.0)** | (13.3) |
| | **(17.0)** | (15.7) |
| **Other comprehensive income and expense for the year** | **194.8** | (55.3) |
| **Net comprehensive income and expense for the year** | **303.4** | (13.1) |

| Attributable to: | | |
|---|---|---|
| **EQUITY SHAREHOLDERS OF THE COMPANY** | **284.2** | (28.9) |
| Non-controlling interests | **19.2** | 15.8 |
| | **303.4** | (13.1) |

## Coats Group plc

### Consolidated statement of financial position

| | Notes | 31 December 2021 US$m | 31 December 2020 US$m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **282.9** | 288.6 |
| Property, plant and equipment | | **244.5** | 254.4 |
| Right-of-use assets | | **91.6** | 60.7 |
| Investments in joint ventures | | **12.0** | 11.1 |
| Other equity investments | | **6.0** | 6.0 |
| Deferred tax assets | | **20.7** | 22.7 |
| Pension surpluses | | **159.7** | 11.4 |
| Trade and other receivables | | **28.7** | 19.0 |
| | | **846.1** | 673.9 |
| **Current assets** | | | |
| Inventories | | **250.1** | 187.0 |
| Trade and other receivables | | **302.7** | 274.5 |
| Other equity investments | | **-** | 0.1 |
| Pension surpluses | | **5.2** | 4.8 |
| Cash and cash equivalents | **11(f)** | **107.2** | 71.9 |
| | | **665.2** | 538.3 |
| **Total assets** | | **1,511.3** | 1,212.2 |
| **Current liabilities** | | | |
| Trade and other payables | | **(346.8)** | (255.7) |
| Current income tax liabilities | | **(16.5)** | (13.9) |
| Bank overdrafts and other borrowings | | **(19.2)** | (22.8) |
| Lease liabilities | | **(17.8)** | (16.4) |
| Retirement benefit obligations: | | | |
| - Funded schemes | | **(41.9)** | (35.3) |
| - Unfunded schemes | | **(6.1)** | (7.1) |
| Provisions | | **(8.1)** | (8.2) |
| | | **(456.4)** | (359.4) |
| **Net current assets** | | **208.8** | 178.9 |
| **Non-current liabilities** | | | |
| Trade and other payables | | **(24.2)** | (18.1) |
| Deferred tax liabilities | | **(6.8)** | (9.0) |
| Borrowings | | **(235.1)** | (229.7) |
| Lease liabilities | | **(81.2)** | (49.6) |
| Retirement benefit obligations: | | | |
| - Funded schemes | | **(5.6)** | (100.1) |
| - Unfunded schemes | | **(90.2)** | (99.5) |
| Provisions | | **(27.7)** | (27.9) |
| | | **(470.8)** | (533.9) |
| **Total liabilities** | | **(927.2)** | (893.3) |
| **Net assets** | | **584.1** | 318.9 |
| **Equity** | | | |
| Share capital | **8** | **90.1** | 90.1 |
| Share premium account | | **10.5** | 10.5 |
| Own shares | **8** | **(0.5)** | (3.2) |
| Translation reserve | | **(105.7)** | (89.2) |
| Capital reduction reserve | | **59.8** | 59.8 |
| Other reserves | | **246.3** | 246.3 |
| Retained profit/(loss) | | **252.5** | (23.8) |
| **EQUITY SHAREHOLDERS' FUNDS** | | **553.0** | 290.5 |
| Non-controlling interests | | **31.1** | 28.4 |
| **Total equity** | | **584.1** | 318.9 |

## Coats Group plc

### Consolidated statement of changes in equity

### For the year ended 31 December 2021

| | Share capital US$m | Share premium account US$m | Own shares US$m | Translation reserve US$m | Capital reduction reserve US$m | Other reserves US$m | Retained profit/ (loss) US$m | Total US$m | Non-controlling interests US$m | Total equity US$m |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2020 | 89.6 | 10.5 | (5.7) | (75.9) | 59.8 | 248.7 | (5.9) | 321.1 | 30.4 | 351.5 |
| Profit for the year | - | - | - | - | - | - | 26.4 | 26.4 | 15.8 | 42.2 |
| Other comprehensive income and expense for the year | - | - | - | (13.3) | - | (2.4) | (39.6) | (55.3) | - | (55.3) |
| Dividends | - | - | - | - | - | - | - | - | (17.8) | (17.8) |
| Issue of ordinary shares | 0.5 | - | - | - | - | - | (0.5) | - | - | - |
| Movement in own shares | - | - | 2.5 | - | - | - | (5.8) | (3.3) | - | (3.3) |
| Share based payments | - | - | - | - | - | - | 1.6 | 1.6 | - | 1.6 |
| Balance as at 31 December 2020 | 90.1 | 10.5 | (3.2) | (89.2) | 59.8 | 246.3 | (23.8) | 290.5 | 28.4 | 318.9 |
| Profit for the year | - | - | - | - | - | - | 88.9 | 88.9 | 19.7 | 108.6 |
| Other comprehensive income and expense for the year | - | - | - | (16.5) | - | - | 211.8 | 195.3 | (0.5) | 194.8 |
| Dividends | - | - | - | - | - | - | (27.6) | (27.6) | (16.5) | (44.1) |
| Movement in own shares | - | - | 2.7 | - | - | - | (0.8) | 1.9 | - | 1.9 |
| Share based payments | - | - | - | - | - | - | 3.9 | 3.9 | - | 3.9 |
| Deferred tax on share schemes | - | - | - | - | - | - | 0.1 | 0.1 | - | 0.1 |
| **Balance as at 31 December 2021** | **90.1** | **10.5** | **(0.5)** | **(105.7)** | **59.8** | **246.3** | **252.5** | **553.0** | **31.1** | **584.1** |

## Coats Group plc

### Consolidated statement of cash flows

| For the year ended 31 December | Note | 2021 US$m | 2020 US$m |
|---|---|---|---|
| **Cash inflow from operating activities** | | | |
| Cash generated from operations | **11 (a)** | **189.0** | 128.0 |
| Interest paid | | **(12.5)** | (16.1) |
| Taxation paid | **11 (b)** | **(47.9)** | (46.3) |
| **Net cash generated by operating activities** | | **128.6** | 65.6 |
| **Cash outflow from investing activities** | | | |
| Investment income | **11 (c)** | **0.3** | 0.9 |
| Net capital expenditure and financial investment | **11 (d)** | **(30.3)** | (12.3) |
| Acquisitions and disposals of businesses | **11 (e)** | **-** | (36.9) |
| **Net cash absorbed in investing activities** | | **(30.0)** | (48.3) |
| **Cash outflow from financing activities** | | | |
| Purchase of own shares | | **-** | (3.1) |
| Dividends paid to equity shareholders | | **(27.4)** | (0.2) |
| Dividends paid to non-controlling interests | | **(16.5)** | (17.8) |
| Payment of lease liabilities | | **(22.1)** | (19.4) |
| Net increase/(decrease) in borrowings | | **8.4** | (58.7) |
| **Net cash absorbed in financing activities** | | **(57.6)** | (99.2) |
| **Net increase/(decrease) in cash and cash equivalents** | | **41.0** | (81.9) |
| Net cash and cash equivalents at beginning of the year | | **52.1** | 135.9 |
| Foreign exchange losses on cash and cash equivalents | | **(2.3)** | (1.9) |
| **Net cash and cash equivalents at end of the year** | **11 (f)** | **90.8** | 52.1 |
| **Reconciliation of net cash flow to movement in net debt** | | | |
| Net increase/(decrease) in cash and cash equivalents | | **41.0** | (81.9) |
| Net (increase)/decrease in other borrowings | | **(8.4)** | 58.7 |
| **Change in net debt resulting from cash flows (Free cash flow)** | | **32.6** | (23.2) |
| Net movement in lease liabilities during the period | | **(33.0)** | (0.3) |
| Movement in fair value hedges | | **3.0** | (5.4) |
| Other non-cash movements | | **(1.3)** | (0.7) |
| Foreign exchange losses | | **(0.8)** | (2.1) |
| **Decrease/(increase) in net debt** | | **0.5** | (31.7) |
| **Net debt at the start of the year** | | **(246.6)** | (214.9) |
| **Net debt at the end of the year** | **11 (f)** | **(246.1)** | (246.6) |

# Coats Group plc

## Notes to the consolidated financial information for the year ended 31 December 2021

### 1. Basis of preparation

The financial information set out in this statement does not constitute the Coats Group plc's statutory accounts for the years ended 31 December 2021 or 2020. The financial information for the year ended 31 December 2020 and 2021 is derived from the statutory accounts for 2020 (which has been delivered to the Registrar of Companies) and 2021 (which will be delivered to the Registrar of Companies following the AGM in May 2022). The auditors have reported on the 2020 and 2021 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

The statutory accounts for the year ended 31 December 2021 are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the United Kingdom Endorsement Board (UKEB), and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The accounting policies adopted by the Group are consistent with those set out in the 2020 Annual Report. A full list of accounting policies is presented in the 2021 Annual Report. For details of new accounting policies applicable to the Group in 2021 and their impact please refer below.

Whilst the financial information included in this statement has been compiled in accordance with the recognition and measurement principles of applicable IFRS, this statement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the 2021 Annual Report; these will be available to shareholders in March 2022.

**Critical accounting judgements and key sources of estimation uncertainty**

The principal accounting policies adopted by the Group are set out in 2021 Annual Report. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible over time the actual results could differ from the estimates based on the assumptions and judgements used by the Group. Due to the size of the amounts involved, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the year and/or the carrying values of assets and liabilities in the consolidated financial statements:

**Critical judgements in applying the Group's accounting policies**

In the course of preparing the financial statements, the below critical judgements have had a significant effect on the amounts recognised in the financial statements for the year ended 31 December 2021. For the year ended 31 December 2020 there were no judgements that were made in the process of applying the Group's accounting policies, other than those involving estimations that had a significant effect on the amounts recognised in the financial statements.

**Exceptional and acquisition related items**

As set out in in the Group's accounting policy below, judgement is used to determine those items which should be separately disclosed as exceptional and acquisition related items to allow an understanding of the underlying trading performance of the Group. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities. Please see note 3 for further details.

**UK pension surplus recognition**

The Group has recognised a net defined benefit pension surplus for the Coats UK Pension Scheme under IAS 19 of $108.0 million at 31 December 2021 (2020: deficit of $128.5 million). Judgement has been applied when determining whether the Group can recognise this surplus asset amount on the statement of financial position or whether any economic benefits available as a refund are contingent upon factors beyond the Group's control and instead require an adjustment to be made to restrict the amount of the surplus recognised and reflect a liability arising from future committed contributions to the Coats UK Pension Scheme under IFRIC 14. The Group has determined that it has an unconditional right to a refund of the surplus assuming the gradual settlement of liabilities over time and therefore has recognised the full amount of the net defined benefit pension surplus. Please see note 13 for further details.

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

## 1. Basis of preparation (continued)

### Critical accounting judgements and key sources of estimation uncertainty (continued)

### Key sources of estimation uncertainty

The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### UK retirement benefit obligations

The UK retirement benefit surplus recognised in the consolidated statement of financial position is the net of the fair value of scheme assets less the present values of the defined benefit obligations at the year end. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and inflation rates. Changes in any or all of these assumptions could materially change the employee benefit surplus recognised in the consolidated statement of financial position.

The gross actuarial value of the UK pension scheme liabilities at 31 December 2021 was $3,034.9 million (2020: $3,338.7 million) and the total market value of assets at 31 December 2021 was $3,142.9 million (2020: $3,210.2 million). At 31 December 2021 the UK pension scheme net surplus was $108.0 million (2020: net deficit of $128.5 million).

Sensitivities regarding the discount rate and inflation assumptions used to measure the liabilities of the UK pension scheme, along with the impact they would have on the scheme liabilities, are set out below. Interrelationships between assumptions might exist and the analysis below does not take the effect of these interrelationships into account:

| | | **2021** | | 2020 |
|---|---|---|---|---|
| | **+0.25%** | **-0.25%** | +0.25% | -0.25% |
| **Year ended 31 December** | **US$m** | **US$m** | US$m | US$m |
| Discount rate | **(108.8)** | **115.0** | (127.3) | 135.2 |
| Inflation rate | **74.6** | **(72.0)** | 89.6 | (99.3) |

An increase of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities decreasing by $401.4 million (2020: $467.2 million). A decrease of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities increasing by $502.7 million (2020: $594.6 million). The above sensitivity analysis (on a IAS 19 basis) considers the impact on the scheme liabilities only and excludes any impacts on scheme assets from changes in discount and inflation rates. As noted in the 2021 Annual Report, the Coats UK Pension Scheme is currently over 85% hedged against interest rate and inflation rate movements. Therefore on a Technical Provision basis, to the extent there is a change in the scheme liabilities due to movements in discount and inflation rates there would be offsetting impacts from the scheme assets due to the hedging in place.

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by $105.8 million (2020: $157.8 million).

Further details of the carrying values of the Group's pension obligations and sensitivities relating to changes in discount rates, beneficiary mortality and inflation rates are included in the 2021 Annual Report.

In preparing the consolidated financial statements for the year ended 31 December 2021, the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2020.

### New IFRS accounting standards, interpretations and amendments adopted in the year

Except for the changes arising from the adoption of new accounting standards, interpretations and amendments (as detailed below), the same accounting policies, presentation and methods of computation have been followed in the financial information set out in this statement as applied in the Group's annual financial statements for the year ended 31 December 2020.

## 1. Basis of preparation (continued)

### New IFRS accounting standards, interpretations and amendments adopted in the year (continued)

During the year, the Group adopted the following standards, interpretations and amendments:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).

The adoption of these standards and amendments has not had a material impact on the financial statements of the Group.

### Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

In assessing the Group's going concern position, the Directors have considered a number of factors, including the current balance sheet position and available liquidity, the principal and emerging risks which could impact the performance of the Group and compliance with borrowing covenants.

In order to assess the going concern status of the Group management has prepared:

- A base case scenario, aligned to the latest Group budget for 2022 as well as the Group's Medium Term Plan for 2023;
- A severe but plausible downside scenario, which assumes that the global economic environment is severely depressed over the assessment period; and
- A reverse stress test flexing sales to determine what circumstance would be required to either reduce headroom to nil on committed borrowing facilities or breach borrowing covenants, whichever occurred first.

The severe but plausible downside scenario includes further management actions that would be deployed if required (for example further reduction in costs).

The reverse stress test also includes further controllable management actions that could be deployed if required. The outcome of the reverse stress test was that the interest cover covenant would be breached, however, at the breaking point in the test the Group still maintained a comfortable level of liquidity on committed borrowing facilities. The Directors consider the likelihood of the condition in the reverse stress test occurring to be remote.

#### *Liquidity headroom*

As at 31 December 2021 the Group's net debt excluding leases liabilities was $147.1 million (2020: $180.6 million). The Group's committed debt facilities total $585 million across both its Banking and US Private Placement group, with a range of maturities from late 2024 through to 2027, as of 31 December 2021 the Group has around $330 million of headroom against these committed banking facilities.

In both the base case and the severe but plausible downside scenario liquidity is comfortable throughout the assessment period.

#### *Covenant testing*

The Group's committed borrowing facilities are subject to ongoing covenant testing. Covenants are measured twice a year, at full year and half year and are measured under frozen accounting standards and therefore exclude the effects of IFRS 16. The financial covenants under the borrowing agreements are for leverage (net debt / EBITDA) less than 3.0 and interest cover (EBITDA / interest charge) to be in excess of 4.0.

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

## 1. Basis of preparation (continued)

### Going concern (continued)

***Covenant testing (continued)***

All banking covenants tests were met comfortably at 31 December 2021, with leverage of 0.7x and interest cover of 28.4x. The base case forecast indicates that banking covenants will be comfortably met throughout the assessment period. Under the severe but plausible downside scenario covenant compliance is still projected to be achieved throughout the assessment period, although with reduced but adequate headroom**.**

***Conclusion***

In conclusion, after reviewing the base case, the severe but plausible downside scenario and considering the remote likelihood of the scenario in the reverse stress test occurring, the Directors have formed the judgement that, at the time of approving the consolidated financial statements, there are no material uncertainties that cast doubt on the Group’s going concern status and that it is appropriate to prepare the consolidated financial statements on the going concern basis.

### Principal exchange rates

The principal exchange rates (to the US dollar) used are as follows:

| | | **2021** | 2020 |
|---|---|---|---|
| Average | Sterling | **0.73** | 0.78 |
| | Euro | **0.85** | 0.88 |
| | Brazilian Real | **5.40** | 5.16 |
| | Chinese Renminbi | **6.45** | 6.90 |
| | Indian Rupee | **73.92** | 74.11 |
| | Turkish Lira | **8.89** | 7.02 |
| Period end | Sterling | **0.74** | 0.73 |
| | Euro | **0.88** | 0.82 |
| | Brazilian Real | **5.57** | 5.19 |
| | Chinese Renminbi | **6.35** | 6.53 |
| | Indian Rupee | **74.47** | 73.04 |
| | Turkish Lira | **13.32** | 7.43 |

## 2. Segmental analysis

Operating segments are components of the Group’s business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Group Executive Team) in deciding how to allocate resources and in assessing performance. The Group’s customers are grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

## 2. Segmental analysis (continued)

### Segment revenue and results

| Year ended 31 December 2021 | Apparel & Footwear US$m | Performance Materials US$m | Total US$m |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | **1,094.4** | **409.4** | **1,503.8** |
| **Segment profit** | **163.9** | **29.2** | **193.1** |
| Exceptional and acquisition related items (note 3) | | | **(13.7)** |
| **Operating profit** | | | **179.4** |
| Share of profits of joint ventures | | | **1.2** |
| Finance income | | | **4.6** |
| Finance costs | | | **(22.2)** |
| **Profit before taxation from continuing operations** | | | **163.0** |

| Year ended 31 December 2020 | Apparel & Footwear US$m | Performance Materials US$m | Total US$m |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 822.7 | 340.6 | 1,163.3 |
| **Segment profit** | 95.5 | 15.1 | 110.6 |
| Exceptional and acquisition related items (note 3) | | | (7.5) |
| **Operating profit** | | | 103.1 |
| Share of profits of joint ventures | | | 0.6 |
| Finance income | | | 1.4 |
| Finance costs | | | (25.5) |
| **Profit before taxation from continuing operations** | | | 79.6 |

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Exceptional and acquisition related items are not allocated to segments. In addition, no measures of total assets and total liabilities are reported for each reportable segment as such amounts are not regularly provided to the chief operating decision maker. The accounting policies of the reportable operating segments are the same as the Group's accounting policies as set out in the 2021 Annual Report.

## 2. Segmental analysis (continued)

### Disaggregation of revenue

The following table shows revenue disaggregated by primary geographical markets with a reconciliation of the disaggregated revenue with the Group's reportable segments.

| Year ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| **Continuing operations** | | |
| **Primary geographic markets** | | |
| Asia | **846.2** | 629.4 |
| Americas | **375.4** | 314.5 |
| EMEA | **282.2** | 219.4 |
| **Total** | **1,503.8** | 1,163.3 |
| **Continuing operations** | | |
| Apparel & Footwear | **1,094.4** | 822.7 |
| Performance Materials | **409.4** | 340.6 |
| **Total** | **1,503.8** | 1,163.3 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **1,492.7** | 1,154.8 |
| Software solution services transferred over time | **11.1** | 8.5 |
| **Total** | **1,503.8** | 1,163.3 |

The software solutions business is included in the Apparel & Footwear segment.

The Group had no revenue from a single customer which accounts for more than 10% of the Group's revenue.

## 3. Exceptional and acquisition related items

The Group's consolidated income statement format is presented before and after exceptional and acquisition related items. Adjusted results (also referred to as underlying performance) exclude exceptional and acquisition related items on a consistent basis with the previous reporting period to provide a more meaningful comparison of how the performance of the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 12.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, non-actuarial gains or losses arising from significant one off changes to defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

Total exceptional and acquisition related items charged to operating profit for the year ended 31 December 2021 were $13.7 million (2020: $7.5 million) comprising exceptional items for the year ended 31 December 2021 of a $2.1 million credit (2020: charge of $3.5 million) and acquisition related items for the year ended 31 December 2021 of $15.8 million (2020: $4.0 million). Tax in respect of exceptional and acquisition related items is set out in note 6.

## 3. Exceptional and acquisition related items (continued)

### Exceptional items

Exceptional items (credited)/charged to operating profit during the year ended 31 December 2021 are set out below:

| Year ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| **Exceptional items:** | | |
| *Cost of sales:* | | |
| Brazil indirect taxes | **(5.8)** | - |
| Impairment charges | **-** | 4.9 |
| *Administrative expenses:* | | |
| Strategic project costs | **3.7** | - |
| *Other operating income:* | | |
| Profit from sale of property | **-** | (1.4) |
| **Total exceptional items (credited)/charged to operating profit from continuing operations** | **(2.1)** | 3.5 |

**Brazil indirect taxes –** During the year ended 31 December 2021 the Brazilian Supreme Federal Court concluded its judgement that Brazilian ICMS (indirect tax on goods and services) should not be included in the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes.

As a result, estimated refunds have been recognised in the results for the year ended 31 December 2021 of $5.8 million (2020: $nil) which has been included in cost of sales and in addition exceptional interest income has been recognised of $4.2 million (2020: $0.7 million).

These refunds date back to 2003 and the estimated tax credit amounts are expected to be utilised over a period of approximately six years, based upon current assumptions, once the Group has received a favourable Court ruling, which is considered virtually certain.

**Strategic project costs** – The Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. Exceptional costs of $3.7 million were incurred during the year ended 31 December 2021 which includes advisors' costs of $0.9 million, impairment charges relating to plant and equipment in North America of $2.0 million and closure and other related costs of $1.7 million. This was offset by an exceptional credit of $0.9 million relating to the closure of a small business in Australia in a prior year. It is anticipated that cash exceptional costs in the order of $35 million will be incurred in relation to these and further strategic initiatives across 2022 and 2023 in total.

## 3. Exceptional and acquisition related items (continued)

### Exceptional items (continued)

Exceptional items during the year ended 31 December 2020 are set out below:

**Impairment charges -** At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets are estimated in order to determine the extent of the impairment loss, if any. During the year ended 31 December 2020, following this review impairment charges totalling $4.9 million were made in smaller markets in EMEA ($4.1 million relating to property, plant and equipment and $0.8 million relating to right-of-use assets). The impairment charges were attributable to the increased economic uncertainty as a result of Covid. The impairment charges in these markets represented a full write down of property, plant and equipment and right-of-use assets, except for owned land and buildings of $1.7 million which is not considered to be impaired. None of the cash generating units for which an impairment charge was recognised during the year ended 31 December 2020 included goodwill or intangible assets with indefinite useful lives.

**Profit from sale of property** - During the year ended 31 December 2020 a profit of $1.4 million was made from the sale of a property in a non-core market.

### Acquisition related items

Acquisition related items are set out below:

| Year ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| **Acquisition related items:** | | |
| *Administrative expenses:* | | |
| Acquisition earnouts and contingent consideration | **0.1** | 0.8 |
| Acquisition transaction costs | **12.4** | - |
| Amortisation of acquired intangible assets | **3.3** | 3.2 |
| **Total acquisition related items before taxation** | **15.8** | 4.0 |

The Group pursed several acquisition opportunities during the year ended 31 December 2021 and as a result incurred transaction costs of $12.4 million (2020: $nil). Growth through acquisitions is a key element of the Group's strategy and the Group will continue to be disciplined in the assessment of acquisition opportunities as they arise. The Group looks to identify companies with complementary capabilities that can further strengthen the core, technology, innovations, or Intellectual Property and which can be scaled to deliver growth and value for customers and shareholders.

The Group has made acquisitions in prior years with earn-outs to allow part of the consideration to be based on the future performance of the businesses acquired and to lock in key management. Where consideration paid or contingent consideration payable in the future is employment linked, it is treated as an expense and part of statutory results. However, all consideration of this type is excluded from adjusted operating profit and adjusted earnings per share, as in management's view, these items are part of the capital transaction.

Acquisition transaction costs and amortisation of intangible assets acquired through business combinations are not included within adjusted earnings. These costs are acquisition related and management consider them to be capital in nature and they do not reflect the underlying trading performance of the Group.

Excluding amortisation of intangible assets acquired through business combinations and recognised in accordance with IFRS 3 "Business Combinations" from adjusted results also ensures that the performance of the Group's acquired businesses is presented consistently with its organically grown businesses. It should be noted that the use of acquired intangible assets contributed to the Group's results for the years presented and will contribute to the Group's results in future periods as well. Amortisation of acquired intangible assets will recur in future periods. Amortisation of software is included within operating results as management consider these cost to be part of the underlying trading performance of the business.

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

## 4. Finance income

| Year ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Income from investments | **0.1** | 0.1 |
| Other interest receivable and similar income | **4.5** | 1.3 |
| | **4.6** | 1.4 |

Other interest receivable and similar income for the year ended 31 December 2021 includes exceptional income of $4.2 million (2020: $0.7 million) relating to refunds for indirect taxes in Brazil (see note 3 for further details).

## 5. Finance costs

| Year ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Interest on bank and other borrowings | **10.7** | 11.2 |
| Interest expense on lease liabilities | **5.2** | 3.9 |
| Net interest on pension scheme assets and liabilities | **4.3** | 4.7 |
| Other finance costs including unrealised gains and losses on foreign exchange contracts | **2.0** | 5.7 |
| | **22.2** | 25.5 |

## 6. Tax on profit from continuing operations

| Year ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| UK Corporation tax at 19% (2020: 19%) | **-** | - |
| Overseas tax charge | **(56.3)** | (43.0) |
| Deferred tax credit | **1.9** | 5.6 |
| Total tax charge | **(54.4)** | (37.4) |

The overseas tax charge includes withholding tax charges and other taxes not based on profits for the year ended 31 December 2021 of $13.1 million (2020: $12.5 million).

Exceptional tax charges for the year ended 31 December 2021 were $0.9 million (2020: $2.2 million) relating to Brazil refunds of indirect taxes (see note 3).

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

## 7. Earnings per share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of Ordinary Shares in issue during the year, excluding shares held by the Employee Benefit Trust but including shares under share incentive schemes which are not contingently issuable.

The calculation of basic earnings per ordinary share from continuing and discontinued operations is based on the profit attributable to equity shareholders. The weighted average number of ordinary shares used for the calculation of basic earnings per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential Ordinary Shares: those shares relating to awards under the Group Deferred Bonus Plan which have been awarded but not yet reached the end of the three year retention period and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

| Year Ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Profit attributable to equity shareholders | **88.9** | 26.4 |

| Year Ended 31 December | **2021 Number of shares m** | 2020 Number of shares m |
|---|---|---|
| Weighted average number of ordinary shares in issue for basic earnings per share | **1,457.1** | 1,455.6 |
| Adjustment for share options and LTIP awards | **5.9** | 1.4 |
| Weighted average number of ordinary shares in issue for diluted earnings per share | **1,463.0** | 1,457.0 |

| Year Ended 31 December | **2021 cents** | 2020 cents |
|---|---|---|
| Basic earnings per ordinary share | **6.10** | 1.81 |
| Diluted earnings per ordinary share | **6.07** | 1.81 |

## 8. Issued share capital

During the year ended 31 December 2021 the Company issued 493,113 Ordinary shares of 5p each (2020: 7,261,231) following the exercise of awards under the Group's share based incentive plans as set out below:

| | **Number of Shares** | **US$m** |
|---|---|---|
| At 1 January 2021 | 1,452,077,272 | 90.1 |
| Issue of ordinary shares | 493,113 | - |
| **At 31 December 2021** | **1,452,570,385** | **90.1** |

The own shares reserve of $0.5 million at 31 December 2021 (2020: $3.2 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 31 December 2021 was 2,020,306 (2020: 7,010,248).

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

## 9. Dividends

| Year Ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| 2021 interim dividend paid – 0.61 cents per share | **8.8** | - |
| 2020 final dividend paid – 1.30 cents per share | **18.8** | - |
| | **27.6** | - |

The proposed final dividend of 1.50 cents per ordinary share for the year ended 31 December 2021 is not recognised as a liability in the consolidated statement of financial position in line with the requirements of IAS 10 Events after the Reporting Period and, subject to shareholder approval, will be paid on 25 May 2022 to ordinary shareholders on the register on 29 April 2022, with an ex-dividend date of 28 April 2022.

## 10. US environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Over 100 PRPs have been identified by EPA. Approximately 50 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation, including those that are the most responsible for its contamination.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR at an estimated cost of $1.38 billion on a net present value basis. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider a remedial alternative proposed by the CPG for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower 8 miles of the LPR. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC that covered the LPR, has been granted Chapter 11 bankruptcy protection, but OCC remains responsible for its remedial obligations even in the absence of Maxus' indemnity. The approved bankruptcy plan also created a liquidating trust to pursue potential claims against Maxus' parent entity, YPF SA, and potentially others, which could result in additional funding for the LPR remedy. While the ultimate costs of the remedial design and the final remedy are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the final allocation of remedial costs among those parties in a settlement or court ruling has not yet been determined.

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. EPA invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the allocation, CC presented factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis or even smaller de micromis party. The confidential allocation process concluded in December 2020. CC continues to believe that it should be a de minimis or even smaller de micromis party in an eventual settlement or court ruling allocating remedial costs.

## 10. US environmental matters (continued)

On 30 June 2018, OCC filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's continued belief that it is a de minimis or even smaller de micromis party.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. During the year ended 31 December 2018, an additional provision of $8.0 million was recorded as an exceptional item to cover legal and professional fees. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 31 December 2021, $13.8 million of this provision had been utilised. The remaining provision at 31 December 2021, taking into account insurance reimbursement, was $11.2 million (2020: $12.6 million). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis or even smaller de micromis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, it is nonetheless still possible that additional provisions could be recorded and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

Following the sale of the North America Crafts business, including CC, announced on 22 January 2019, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters, including the rights to the related insurance reimbursements.

## Coats Group plc

**Notes to the consolidated financial information for the year ended 31 December 2021 (continued)**

### 11. Notes to the consolidated cash flow statement

### a) Reconciliation of operating profit to cash generated from operations

| Year Ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| Operating profit | **179.4** | 103.1 |
| Depreciation of owned property, plant and equipment | **28.2** | 30.5 |
| Deprecation of right-of-use assets | **19.4** | 18.3 |
| Amortisation of intangible assets | **6.0** | 7.2 |
| (Increase)/decrease in inventories | **(76.0)** | 4.9 |
| (Increase)/decrease in debtors | **(49.8)** | 1.1 |
| Increase/(decrease) in creditors | **101.4** | (28.7) |
| Provisions and pension movements | **(34.5)** | (14.0) |
| Foreign exchange and other non-cash movements | **14.9** | 5.7 |
| Discontinued operations | **-** | (0.1) |
| **Cash generated from operations** | **189.0** | 128.0 |

### b) Taxation paid

| Year Ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| Overseas tax paid | **(47.9)** | (46.3) |

### c) Investment income

| Year Ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| Dividends received from joint ventures | **0.3** | 0.9 |

### d) Capital expenditure and financial investment

| Year Ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| Acquisition of property, plant and equipment and intangible assets | **(31.2)** | (15.4) |
| Acquisition of other equity investments | **0.1** | 0.1 |
| Disposal of property, plant and equipment | **0.8** | 3.0 |
| | **(30.3)** | (12.3) |

## 11. Notes to the consolidated cash flow statement (continued)

### e) Acquisitions and disposals of businesses

| Year Ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| Acquisition of businesses | - | (36.9) |

### f) Summary of net debt

| Year Ended 31 December | 2021 US$m | 2020 US$m |
|---|---|---|
| Cash and cash equivalents | **107.2** | **71.9** |
| Bank overdrafts | **(16.4)** | **(19.8)** |
| **Net cash and cash equivalents** | **90.8** | **52.1** |
| Borrowings | **(237.9)** | **(232.7)** |
| **Net debt excluding lease liabilities** | **(147.1)** | **(180.6)** |
| Lease liabilities | **(99.0)** | **(66.0)** |
| **Total net debt** | **(246.1)** | **(246.6)** |

For financial covenant purposes, the Group's leverage is calculated on the basis of net debt without IFRS 16 lease liabilities and at the Coats Group Finance Company Limited level. Net debt excluding IFRS 16 lease liabilities at the Coats Group Finance Company Limited level at 31 December 2021 for covenant purposes was $148.0 million (31 December 2020: $177.0 million).

## 12. Alternative performance measures

The financial information in this statement contains both statutory measures and alternative performance measures which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the Group's business is managed and measured on a day-to-day basis. The Group's definition of underlying performance is set out in note 3.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business. A number of these measures form the basis of performance measures for remuneration incentive schemes.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting Standards ('IFRS') as adopted by the UKEB and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies.

A reconciliation of alternative performance measures to the most directly comparable measures reported in accordance with IFRS is provided below.

**Notes to the financial information for the year ended 31 December 2021 (continued)**

## 12. Alternative performance measures (continued)

### a) Organic growth on a constant exchange rate (CER) basis

Organic growth measures the change in revenue and operating profit before exceptional and acquisition related items after adjusting for acquisitions. The effect of acquisitions is equalised by:

- removing from the year of acquisition, their revenue and operating profit; and
- in the following year, removing the revenue and operating profit for the number of months equivalent to the pre-acquisition period in the prior year.

The effects of currency changes are removed through restating prior year revenue and operating profit at current year exchange rates. The principal exchange rates used are set out in note 1.

Organic revenue growth on a CER basis measures the ability of the Group to grow sales by operating in selected geographies and segments and offering differentiated cost competitive products and services.

Adjusted organic operating profit growth on a CER basis measures the underlying profitability progression of the Group.

Adjusted operating profit is calculated by adding back exceptional and acquisition related items (see note 3 for further details).

| **Year Ended 31 December** | **2021 US$m** | 2020 US$m | % Growth |
|---|---|---|---|
| Revenue from continuing operations | **1,503.8** | 1,163.3 | 29% |
| Constant currency adjustment | **-** | 0.6 | |
| **Revenue on a CER basis** | **1,503.8** | 1,163.9 | 29% |
| Revenue from acquisitions[1] | **(4.3)** | - | |
| **Organic revenue on a CER basis** | **1,499.5** | 1,163.9 | **29%** |

| **Year Ended 31 December** | **2021 US$m** | 2020 US$m | % Growth |
|---|---|---|---|
| Operating profit from continuing operations[2] | **179.4** | 103.1 | 74% |
| Exceptional and acquisition related items (note 3) | **13.7** | 7.5 | |
| Adjusted operating profit from continuing operations | **193.1** | 110.6 | 75% |
| Constant currency adjustment | **-** | 0.1 | |
| **Adjusted operating profit on a CER basis** | **193.1** | 110.7 | 74% |
| Operating loss from acquisitions[1] | **0.2** | - | |
| **Organic adjusted operating profit on a CER basis** | **193.3** | 110.7 | **75%** |

[1] Revenue and operating loss from acquisitions of $4.3 million and $0.2 million respectively relates to Pharr High Performance Yarns ("Pharr HP") for the month of January 2021. Pharr HP was acquired in February 2020.

[2] Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

## 12. Alternative performance measures (continued)

### b) Adjusted EBITDA

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation of owned fixed assets and right-of-use assets, amortisation and impairments and excluding exceptional and acquisition related items.

Operating profit from continuing operations before exceptional and acquisition related items and before depreciation of owned fixed assets and right-of-use assets and amortisation (Adjusted EBITDA) is set out below:

| Year Ended 31 December | **2021**<br>**US$m** | 2020<br>US$m |
|---|---|---|
| Profit before taxation from continuing operations | **163.0** | 79.6 |
| Share of profit of joint ventures | **(1.2)** | (0.6) |
| Finance income (note 4) | **(4.6)** | (1.4) |
| Finance costs (note 5) | **22.2** | 25.5 |
| Operating profit from continuing operations[1] | **179.4** | 103.1 |
| Exceptional and acquisition related items (note 3) | **13.7** | 7.5 |
| Adjusted operating profit from continuing operations | **193.1** | 110.6 |
| Depreciation of owned property, plant and equipment | **28.2** | 30.5 |
| Amortisation of intangible assets | **2.7** | 4.0 |
| Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis) | **224.0** | 145.1 |
| Depreciation of right-of-use assets | **19.4** | 18.3 |
| **Adjusted EBITDA** | **243.4** | 163.4 |

[1] Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

Net debt including lease liabilities under IFRS 16 at 31 December 2021 was $246.1 million (2020: $246.6 million).

This gives a leverage ratio of net debt including lease liabilities to adjusted EBITDA at 31 December 2021 of 1.0 (2020: 1.5).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2021 was $147.1 million (2020: $180.6 million).

This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2021 of 0.7 (2020: 1.2).

For the definition and calculation of net debt including and excluding lease liabilities see note 11 (f).

### c) Underlying effective tax rate

The underlying effective tax rate removes the tax impact of exceptional and acquisition related items and net interest on pension scheme assets and liabilities to arrive at a tax rate based on the underlying profit before taxation.

**Notes to the financial information for the year ended 31 December 2021 (continued)**

## 12. Alternative performance measures (continued)

### c) Underlying effective tax rate (continued)

A significant proportion of the Group's net interest on pension scheme assets and liabilities relates to UK pension plans for which there is no related current or deferred tax credit or charge recorded in the income statement. The Group's net interest on pension scheme assets and liabilities is adjusted in arriving at the underlying effective tax shown below and, in management's view, were this not adjusted it would distort the alternative performance measure. This is consistent with how the Group monitors and manages the underlying effective tax rate.

| Year Ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Profit before taxation from continuing operations | **163.0** | 79.6 |
| Exceptional and acquisition related items (note 3) | **9.5** | 6.8 |
| Net interest on pension scheme assets and liabilities | **4.3** | 4.7 |
| **Underlying profit before taxation from continuing operations** | **176.8** | 91.1 |
| Taxation charge from continuing operations | **54.4** | 37.4 |
| Tax charge in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities | **(0.4)** | (1.7) |
| **Underlying tax charge from continuing operations** | **54.0** | 35.7 |
| **Underlying effective tax rate** | **31%** | 39% |

### d) Adjusted earnings per share

The calculation of adjusted earnings per share is based on the profit from continuing operations attributable to equity shareholders before exceptional and acquisition related items as set out below. Adjusted earnings per share growth measures the underlying progression of the benefits generated for shareholders.

| Year Ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Profit from continuing operations | **108.6** | 42.2 |
| Non-controlling interests | **(19.7)** | (15.8) |
| Profit from continuing operations attributable to equity shareholders | **88.9** | 26.4 |
| Exceptional and acquisition related items net of non-controlling interests (note 3) | **9.5** | 6.8 |
| Tax charge in respect of exceptional and acquisition related items | **0.9** | 2.2 |
| **Adjusted profit from continuing operations** | **99.3** | 35.4 |
| Weighted average number of Ordinary Shares | **1,457,076,765** | 1,455,587,353 |
| **Adjusted earnings per share (cents)** | **6.81** | 2.42 |
| **Adjusted earnings per share (growth %)** | **181%** | |

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2021 is 1,457,076,765 (2020: 1,455,587,353), the same as that used for basic earnings per ordinary share from continuing operations (see note 7).

**Notes to the financial information for the year ended 31 December 2021 (continued)**

## 12. Alternative performance measures (continued)

### e) Adjusted free cash flow

Net cash generated by operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below.

Consistent with previous periods, adjusted free cash flow is defined as cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, purchase of own shares by the Employee Benefit Trust and payments to the UK pension scheme.

Adjusted free cash flow measures the Group's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.

| Year Ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Change in net debt resulting from cash flows (free cash flow) | **32.6** | (23.2) |
| Acquisition of businesses | **-** | 37.3 |
| Net cash outflow from discontinued operations | **-** | 0.1 |
| Payments to UK pension scheme | **42.4** | 10.9 |
| Net cash flows in respect of other exceptional and acquisition related items | **10.5** | (1.1) |
| Purchase of own shares by Employee Benefit Trust | **-** | 3.1 |
| Dividends paid to equity shareholders | **27.4** | 0.2 |
| Tax outflow in respect of adjusted cash flow items | **-** | 0.7 |
| **Adjusted free cash flow** | **112.9** | 28.0 |

## 12. Alternative performance measures (continued)

### f) Return on capital employed

Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items divided by period end capital employed as set out below. ROCE measures the ability of the Group's assets to deliver returns.

| Year Ended 31 December | **2021 US$m** | 2020 US$m |
|---|---|---|
| Operating profit from continuing operations before exceptional and acquisition related items [1] | **193.1** | 110.6 |
| **Non-current assets** | | |
| Acquired intangible assets | **36.8** | 41.8 |
| Property, plant and equipment | **244.5** | 254.4 |
| Right-of-use assets | **91.6** | 60.7 |
| Trade and other receivables | **28.7** | 19.0 |
| **Current assets** | | |
| Inventories | **250.1** | 187.0 |
| Trade and other receivables | **302.7** | 274.5 |
| **Current liabilities** | | |
| Trade and other payables | **(346.8)** | (255.7) |
| Lease liabilities | **(17.8)** | (16.4) |
| **Non-current liabilities** | | |
| Trade and other payables | **(24.2)** | (18.1) |
| Lease liabilities | **(81.2)** | (49.6) |
| **Capital employed** | **484.4** | 497.6 |
| **ROCE** | **40%** | 22% |

[1] Refer to note 3 for details of exceptional and acquisition related items.

## 13. Retirement and other post-employment benefit arrangements

The net surplus for the Group's retirement and other post-employment defined benefit arrangements (UK and other Group schemes), on an IAS 19 basis, was $21.1 million as at 31 December 2021 (2020: net obligation of $225.8 million). The decrease in the net obligation during the year ended 31 December 2021 is primarily due to movements on the Coats UK Pension Scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 31 December 2021 of $108.0 million (2020: deficit of $128.5 million). The reduction in the deficit during the year ended 31 December 2021 of $236.5 million predominantly relates to net actuarial gains of $202.7 million (increase in the discount rate assumption from 1.25% per annum at 31 December 2020 to 1.85% per annum at 31 December 2021 due to higher corporate bond yields) and employer contributions (excluding administrative expenses) of $37.4 million.

During the current year the Group carried out a "spin and termination" transaction in the Coats US Scheme whereby current retiree benefits were secured with an insurance company, whilst releasing a proportion of the surplus to the company to fund future 401k employer contributions. Due to favourable pricing the transaction resulted in a non cash settlement gain of $3.6 million which has been included in operating profit.

**Notes to the financial information for the year ended 31 December 2021 (continued)**

## 14. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2021 and up to the date of this report:

| | |
|---|---|
| D Gosnell OBE | |
| M Clasper CBE | (Resigned 19 May 2021) |
| R Sharma | |
| S Boddie | (Resigned 31 March 2021) |
| N Bull | |
| J Callaway | |
| A Fahy | |
| H Lu | |
| F Philip | |
| J Sigurdsson | |

On behalf of the Board

D Gosnell
Chairman
2 March 2022

**United Kingdom**
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