

## CEO's statement



**RAJIV SHARMA**  
GROUP CEO



Coats has delivered a very strong financial and operational performance in 2022 and continues to transform the business with significant momentum on strategic projects and creation of a global footwear champion.”

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### 2022 HIGHLIGHTS

**10%**  
Organic revenue growth

**\$20m**  
Strategic projects savings in 2022  
On track to deliver \$70m in 2024

**14.8%**  
Adjusted EBIT margin

**37%**  
Recycled sales growth

**\$235m**  
Adjusted EBIT

**\$114m**  
Adjusted Free cash flow

## CEO's statement cont.



We continue to accelerate innovation to deliver tailored solutions to meet our customers' design requirements and to transform Coats for the future. I would personally like to thank everyone at Coats, for executing with speed and precision while maintaining our high ethical standards."

**Rajiv Sharma**  
Group CEO

**\$150m**

Pricing and self-help initiatives to more than offset inflation

2022 has been a year of significant macro economic and geo political challenges for the world. High inflation, high volatility and continuing supply chain disruption characterised the macro environment in which Coats had to operate.

Despite this, and because of the talented team at Coats, 2022 has been a hugely successful year. We continued to accelerate innovation to deliver tailored solutions to meet our customers' design requirements and to transform Coats for the future. I would personally like to thank everyone at Coats, for executing with speed and precision while maintaining our high ethical standards.

We entered 2022 prepared and ready to **accelerate** profitable sales growth and **transform** the business to improve margins. Our business model, strategy, tactics, employees and eco system remained vibrant and resilient. Coats was able to create and seize opportunities. By thinking big, being bold and acting fast we stayed ahead of the challenges.

Coats is now the global market leader in footwear components as well as in apparel threads. To drive focus and clarity, we have announced the creation of a new Footwear division that will sit alongside Apparel and Performance Materials. This means that from 2023, Coats will have 3 distinct strategic divisions, each addressing attractive markets.

#### Accelerate profitable sales growth

For the full year 2022, Coats delivered 10% organic sales growth over 2021 and improved adjusted margins by over 100 bps. Adjusted Free Cash Flow was \$114m (2021: \$124m) and pro forma leverage ended at 1.4x (2021: 0.7x), well within our stated 1 to 2x range.

The quality of our products and services in conjunction with our operational delivery, allowed us to win incremental customer business. Our disciplined approach to pricing, productivity and strategic projects allowed Coats to more than offset high inflation and demand/supply challenges to grow overall margins.

Coats has a successfully tested playbook to "Win with the winners" and offset inflation through price and productivity. We leverage our extensive global footprint, technology capabilities and teams to deliver world class service to customers. Apparel & Footwear and Performance Materials divisional performance in 2022 is stated below:

**Apparel & Footwear:** Revenue \$1,163m and adjusted margin 17.3%

**Performance Materials:** Revenue \$420m and adjusted margin 8.1%

#### Transforming the business to improve margins

##### Footwear acquisitions

With the acquisition of Texon and RhenoFlex, we have created a global leader in footwear components that complements our existing leading position in footwear threads. This expands the addressable market by 3 times to \$1.8 billion. Both Texon and RhenoFlex offer complementary products that allow Coats to further expand in the fast-growing athleisure and sports footwear market. It also gives us a stronger presence with European luxury footwear and accessories brands. Sustainability and innovation are at the heart of Texon and RhenoFlex, aligning with Coats' strategy. Over the medium term, we forecast 8% sales CAGR and over 20% operating margins for the Footwear division.



## WELCOME TEXON AND RHENOFLEX

These back-to-back acquisitions have helped Coats become a global leader in premium structural components and materials for the footwear and lifestyle industries.

In FY22 (full year effect), this has meant an additional \$87m revenue, \$9.2m EBIT and post-acquisition pro forma leverage of 1.4x.

➤ Read more about these acquisitions on page 22

## CEO's statement cont.

### Strategic projects

In March 2022 we announced that we expected incremental Operating Profit of \$50m by 2024 from strategic projects. These projects include improving margins and service in the US Performance Materials business and optimising G&A cost base across the Group by moving activities closer to the customers in market. These projects were well executed and delivered \$20m savings in 2022, ahead of our initial projections of \$5–10m. We are now on course to deliver \$70m of savings by 2024.

During the year, Coats divested its Brazil and Argentina business, exited Russia and direct operations in South Africa. We have announced the closure of operations in Ujpest, Hungary and Hendersonville, USA and sold our units in Mauritius and Madagascar. A new factory with state-of-the-art proprietary equipment in Huamantla, Mexico was inaugurated in October. Our existing factory in Orizaba, Mexico has been upgraded with new manufacturing technology. These investments and expanded capability in Mexico will address the issue of labour shortages in the US that previously restricted operations and growth. We have also increased capacity in our performance material factory in Spain and apparel factory in Romania. Overall, these projects will play a big part in transforming Coats in the Americas and Europe.

### Sustainability

Sustainability is at the heart of our company purpose and strategy. For Coats, this means continually looking for ways to reduce consumption of materials, energy and water, to holistically take care of our employees and the communities in which we operate; and to reduce waste and emissions across the Group.

We set ourselves ambitious sustainability goals from 2019 to 2022, and I am thrilled to inform you that we have substantially delivered on these goals. You can read more about them in our [sustainability report](#).

We committed to reduce emissions by 46% in this decade. To deliver on this ambition we have launched a company-wide transition from oil-based materials to recycled and renewable materials. We are pushing forward with transitioning energy purchased from fossil fuel based power generation to renewable energy.

Sustainability is not only the right thing to do, but also a source of clear competitive advantage. After the successful delivery of sustainability projects and programs from 2019-2022, I am delighted to inform you that we have set out new Sustainability Targets for the period 2023-2026 that include energy, materials, water, waste and people.

For more details, please see the sustainability section and cases studies in this report, and our Sustainability Report which is now in its 5th year.

### Innovation

Innovation sits alongside sustainability in the centre of our strategy. We have three large Innovation Hubs in three continents that drive our new product pipeline. The Innovation Hubs allow Coats to collaborate with customers, suppliers, start-ups and academic teams to develop next generation products.

Our Innovation Hub in Shenzhen, China has been repurposed to focus on its new mission to accelerate the transition from oil-based to recycled and renewable materials. We announced a \$10m fund to advance green technologies and materials, including bio-materials relevant to our industry supply chain.



In 2022, we launched 17 new products across all our divisions (FY 2021 21 new products) generating \$34m incremental revenues (FY 2021: \$37m).

This report highlights just some of these exciting new products. I would draw your attention to the case studies on ProWeave, Rhenoprint 2.0, our Eco-range and developments in composites.

### A year of strong financial performance

Accelerating profitable sales growth and transforming the business delivers value to our shareholders. Adjusted earnings per share has increased by 14% and, by carefully managing financial pro forma leverage (2022 1.4x; 2021 0.7x) and generating healthy adjusted free cash flow (2022: \$114m; 2021: \$124m), we end the year in a strong position to propose the 1.73 cents per share final dividend.

This increase of 15% on 2022 total dividend, alongside the proposed interim dividend of 0.70 cents per share brings the full year 2022 to 2.43 cents per share (2021: 2.11 cents per share). This is a confirmation of our belief in the strategy that we are executing, the robust health of the company, and the outlook for the Group.



### Looking to 2023

Following a year of excellent progress in transforming the business, market share gains and increased profitability, we expect to deliver another year of strong strategic and operational progress. This is in a macroeconomic environment where there is a softening in demand and some destocking by customers, primarily in Apparel markets and to a lesser extent in Footwear markets. We continue to proactively respond to macroeconomic uncertainty and inflationary pressures using our well-defined and tested playbook that focuses on cash, costs, self-help and tactical pricing actions.

As a result, we continue to anticipate that full year 2023 performance will be in line with the Board's expectations, with a weighting to the second half. This performance will be underpinned by the contribution from acquisitions, in addition to associated synergies and efficiencies from strategic projects.