

# Coats operational review



Martin Flower

Coats (% of Group sales)

57.6%

Thread	1999 £m	1998 £m
Sales	848	907
Operating profit before reorganisation costs	74	73
Net assets	565	537
Return on year end net assets	16%*	14%
Capital spend	30	35
Employees at year end	29,569	29,909

\*Excludes Barbour

*Principal brands:* Anchor, Astra, Barbour, Coats, Epic, Koban, Opti, Patons, Red Heart, Sylko.

Other Indian Businesses	1999 £m	1998 £m
Sales	56	71
Operating profit before reorganisation costs	(2)	4
Net assets	37	40
Return on year end net assets	(6%)	10%
Capital spend	1	2
Employees at year end	5,810	6,144

## Thread

In the second quarter of 1999, an upturn in sales, particularly in North America and Asia resulted in an improved performance over the previous year. This increased demand continued in the second half of the year and, combined with the delivery of benefits from the reorganisation in Europe, led to a significant year on year improvement for the period. Results were impacted by weak demand in the first quarter, the effects of devaluation in Brazil and prolonged industrial action in India. Brazil recovered well towards the end of the year and the industrial dispute in India was resolved in the summer. Overall sales declined from £907 million to £848 million. Operating profit increased from £72.6 million in 1998 to £74.2 million in 1999.

In order to reflect its position as a truly global business, a new management structure has been put in place to enable better global response to our customers' needs.

**Industrial** The migration of apparel manufacture from Europe and North America to lower cost locations continued at a fast pace. As a result of this there has been good growth in our business in the key supply locations in Asia and Mexico. Further reorganisation of manufacturing capacity in Europe and North America has been necessary to adjust to the reduction of apparel manufacturing. These trends are set to continue over the next few years and with its global manufacturing infrastructure in place, Coats is well positioned to meet the increasingly global demands of major customers wherever they choose to locate production.

Coats entered into an agreement with Fuji and Gretag-MacBeth to commercialise ColourTalk, our proprietary system for the electronic transmission of colour. This will create an exciting opportunity to make our leading colour physics technology available for wider use by our customers in the textiles industry.

**Crafts** Demand in the USA was buoyant, particularly in the second half although the market in Western Europe showed some decline. The exit from manufacture of handknittings was completed so as to focus on our core sewing and handcraft businesses.

**Outlook** The integration of the Barbour Thread business of Hicking Pentecost PLC is proceeding well. Further benefits are expected as Barbour's manufacturing is fully integrated with Coats' international manufacturing and distribution infrastructure to exploit the unique combination of specialist products, leading technology and global distribution capability.

**Other Indian Businesses** The Madura Textiles results were badly hit by industrial action, although sales recovered well towards the end of the year.

The Madura Garments business was sold to Indian Rayon Ltd, part of the Aditya Birla group, and this was concluded with effect from 1 January 2000.