

# Operating review

*Coats – 2000 showed a significant improvement in performance. Overall sales were £966 million, up 6% on a like for like basis and operating profit increased from £74 million in 1999 to £103 million in 2000. The significant turnaround seen in the first half-year was followed by continued but steadier progress in the second half.*

Coats (% of Group sales)

60.5%

	2000 £m	1999 £m
Sales	966	848
Operating profit before reorganisation costs	103	74
Net assets	617	565
Return on year end net assets	17%	13%
Capital spend	36	30
Employees at year end	28,954	29,569

The current softness in the US economy began to be felt in the fourth quarter but performances continued strongly in Asia. The year has also seen real benefits from recent restructuring. Profitability in Europe improved significantly as a result of reorganisation spend in 1999 and 2000. Sales in Europe also showed some modest growth. The integration of the Barbour Specialty Thread business, acquired with Hicking Pentecost PLC in September 1999, has proceeded according to plan. One manufacturing unit in Ireland and another in the USA were closed to achieve cost synergies while sales growth has been particularly strong in China.

**Industrial** The improved performance reflects Coats' successful strategic response to the accelerating migration of apparel and footwear manufacturing from high cost locations in Europe, North America and Japan to low cost locations in Eastern Europe, Mexico, Central America and Asia.

Coats is unique in that it has the widest global spread and most comprehensive service capability of any company in the apparel supply chain. It is well positioned to capture the migrating business through its global network of operations which has been strengthened during the year by opening new manufacturing facilities in Honduras to service contractors who supply the US market under the Caribbean Basin Initiative and in Dalian, China to service suppliers to leading Japanese retailers.

Coats' customers are the suppliers to global retailers and brand owners such as Tommy Hilfiger, Marks and Spencer, Adidas, Levi Strauss and Reebok whose reputations rely upon the consistent quality of their products around the world. Coats has developed unique innovative services for such customers which it is able to provide throughout the world. The *Coats Global Retailer Services Programme* and The *Coats Global Offer Programme* give an assurance of uniformity in the quality, shade range, appearance and performance of Coats thread anywhere in the world. *Coats Sewing Solutions* helps customers to improve sewing productivity, reduce wastage and enhance the quality of their products. Coats' proprietary colour management system, *Coats Colourtalk*, guarantees customers global colour accuracy and ensures an excellent speed of response. The system includes services from electronic colour visualisation and transmission to computerised dye recipe prediction.

Coats' global presence and size have allowed it to build strategic partnerships with global suppliers: through these collaborative relationships it has been able to optimise its cost base and guarantee the consistent quality of its products worldwide. In addition, Coats is continuing to invest in communications and e-business solutions to further improve its customer and supplier relations. Coats' new website will be launched in the summer in order to improve its customer interface.

**Crafts** Demand in the USA was buoyant and the North American business continued to perform well. In Europe there was a modest increase in sales, reversing the recent trend. Sales of consumer products in Asia continued their steady growth.

**Outlook** The slowdown in the USA is anticipated to continue to impact North American industrial sales in the first half of 2001. The migration of apparel manufacturing to Asia, Mexico and Central America will present further opportunities for growth in these markets, while there will be a continuous need to adjust capacity in Europe and North America. Further growth in speciality thread is expected. The industrial thread businesses of Dollfus Mieg et Cie were purchased in January 2001 and these businesses which operate in Europe, North Africa and South America, will further strengthen Coats' network, while enabling Coats to offer the benefits of its global service capability to their strong French customer base.

*Fashion Retail Business — After two years of operational change, the Division this year began to see the benefits of past years' hard work. The appointment of a new Chief Executive in Spring brought focus and vigour into both the Jaeger and Viyella brands.*

**Fashion Retail** (% of Group sales)

**9.3%**

	2000 £m	1999 £m
Sales	149	145
Operating profit before reorganisation costs	5	1
Net assets	52	64
Return on year end net assets	9%	1%
Capital spend	3	3
Employees at year end	3,088	3,449

In Jaeger an improvement in like-for-like sales of 8% was driven by a renewed emphasis on design and product development.

This improvement started in the first half of the year and has carried through at increasing rates into the second half of the year. Viyella, however, suffered in the early part of the year from a poorly focused product range. Autumn sales were strong, reflecting improvements in the collection. However, the increase was not sufficient to compensate for the first half performance.

With focus on sound business disciplines, and continuing emphasis on supply chain efficiencies, there has been better stock management. This has resulted in an increase in sales and has benefited margin to the extent of another 3% improvement this year. In addition, the tight working capital management has released cash which is now being reinvested into the business, and particularly into rebuilding the Jaeger brand through brand marketing and redesign of the store portfolio.

This encouraging year has continued the process of building a platform for future growth. The challenge in both brands is to continue the process of reinvigorating both Jaeger and Viyella through the development of brand strategies that are driven by clear insight into each brand's target consumer. Jaeger will develop a core range of "Modern Classics", thus redefining the brand's reputation for quality, luxury and style. The continuing aim is to attract new customers without alienating existing ones.

The outlook for the business is encouraging. The challenge lies in delivering the respective brand strategies to the customers of the respective brands. Efforts will, therefore, be concentrated on putting more investment behind brand marketing and the redesigning of the store portfolio. This will build on the significant progress that has been made to date on enhancement of the management, the product and the retail disciplines. The determination to succeed is undoubted.

## *Discontinued and Discontinuing Businesses*

It has been a difficult market for all the Viyella businesses.

The Contract Clothing business in particular suffered from the very difficult trading of its customer, Marks and Spencer plc, and the announcement of our intention to withdraw affected the business further until its disposal on 4 December 2000.

The Home Furnishings business was equally affected by tough High Street trading conditions and price discounting. Whilst sales of the Dorma bedwear brand were in line with last year, margins were adversely affected by the discounting undertaken by the host stores. The Contract Bedwear operation had mixed fortunes, with exceptionally good sales to its main client, Marks and Spencer plc, but sales of other own label products, together with margin pressures, more than counteracted the good performance. The towels business, Stott & Smith, lost its main contract to overseas competition in 1999 and, as a result and despite significant reorganisation, suffered a steep decline in profits. A focus on inventory management in the Division reduced inventory levels and released cash which has been partially utilised in continuing the restructuring of the UK manufacturing base.

The sales of the Branded Clothing business were in line with last year and, in particular, an excellent turnaround in profitability was achieved by the branded Western European clothing operations of Berghaus.

Apart from the Contract Clothing business, several other businesses and brands were sold at the end of 2000 and in early 2001. In December £16.5 million was raised from the sale of the Ladybird brand and smaller brands. In early 2001, a further £22.5 million was raised from the sale of Ewart Liddell, Stott & Smith, the Van Heusen shirt brand and several of the commission finishing operations. The programme of refocusing is therefore advanced.