4 March 2021

Coats Group plc

2020 Full Year Results

Continued recovery in H2; dividend reinstated

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 2020.

Continuing operations [3]	FY 2020	FY 2019	Change	CER change [1]	Organic change [1]
Revenue	$1,163m	$1,389m	(16)%	(14)%	(19)%
Adjusted [1]					
Operating profit	$111m	$198m	(44)%	(43)%	(43)%
Basic earnings per share	2.4c	7.0c			
Free cash flow	$28m	$107m			
Net debt (excl. IFRS 16)	$181m	$150m			
Reported [2,3]					
Operating profit	$103m	$191m	(46)%	(45)%	(44)%
Basic earnings per share	1.8c	6.7c			
Net cash generated by operating activities	$66m	$144m			
Final dividend per share	1.30c	nil			

Highlights

- Improving sales momentum with Group organic sales exit rate down 5% for November and December (versus down 26% H1 2020 and down 15% four months to October 2020), following the impact of Covid earlier in the year.
- Continued share gains in Apparel & Footwear and customer wins in Performance Materials as customers' priorities pivot to reliability, speed and flexibility during Covid.
- Continued Innovation focus despite Covid disruption; 22 new products launched in the year, generating $13 million of incremental revenue, and with a rich pipeline of opportunities.
- Adjusted operating profit of $111 million, ahead of previous expectations, with solid recovery in H2; ability to significantly flex cost base leading to resilient margins of 12.2% in H2 (6.4% H1).
- Further advancement on Sustainability agenda; increased demand for EcoVerde product range with revenues up 6x year-on-year; signed up to Science Based Targets initiative, specifically to achieving Net-Zero emissions by 2050.
- Net debt (excl. IFRS 16) of $181 million, 1.2x leverage[4]; committed facility headroom of $330 million.
- Proposed final dividend of 1.30 cents per share as a result of the strength of the balance sheet, the encouraging recovery, and the Board's confidence in the strategy and outlook for the Group.

Commenting on the Full Year Results Rajiv Sharma, Group Chief Executive, said:
"During a turbulent year, which saw the emergence of Covid globally, we focused on four key priorities: the health and safety of our employees and their families, cash management, supporting our customers and maintaining the critical elements of our supply chain. We have delivered a strong operational performance despite a very difficult global backdrop. Our pace of innovation has not wavered, and we launched 22 new products in 2020. I am delighted that we have also continued to further our Sustainability agenda and, in particular, that we have committed to set science-based emissions reductions targets across the entire value chain.

"Throughout 2020 the Group moved quickly and prudently to put in place measures to underpin our future success and, through 2021, we will continue to invest in order to win the Covid recovery. We have a strong balance sheet, which provides strategic optionality and positions us well to navigate the ongoing challenging environment.

"We remain cautious around the recovery profile of our various global end markets and will be vigilant regarding inflationary pressures within the supply chain. Notwithstanding this uncertainty we are encouraged by our improved trading performance towards the end of last year as well as in the first two months of this year, and the Board expects to see continued recovery through 2021."

1 *Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 14. Constant exchange rate (CER) figures are 2019 results restated at 2020 exchange rates. Organic figures are results on a CER basis and excluding contributions from bolt-on acquisitions (Pharr HP and ThreadSol). 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 *All figures on a continuing basis, unless otherwise stated.*

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

Conference call

Coats Management will present its full year results in a webcast at 10:30am today (4 March 2021). The webcast can be accessed via www.coats.com/investors/fy2020. The webcast will also be made available in archive form on www.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 17,000 people across six continents. Revenues in 2020 were US$1.2bn. Coats' pioneering history and innovative culture ensure the company continues leading the way around the world. It provides complementary and value added products, services and software solutions to the apparel and footwear industries. It applies innovative techniques to develop high technology Performance Materials threads, yarns and fabrics in areas such as Transportation, Telecommunications and Energy, and Personal Protection. Headquartered in the UK, Coats is a FTSE 250 company, a constituent of the FTSE4Good Index Series, a participant in the UN Global Compact and a member of the Ellen MacArthur Foundation. It has also committed to developing a long-term target to reach net-zero emissions by 2050, the highest level of ambition on climate under the Science Based Target initiative. To find out more about Coats visit 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.

Group Chief Executive's review

2020 Covid priorities

In response to the emergence of Covid, we quickly pivoted to focus on four key priorities: the health and safety of our employees and their families, cash management, supporting our customers and maintaining the critical elements of our supply chain. We moved quickly to procure PPE for all our facilities world-wide. We implemented protocols to ensure social distancing and enhanced hygiene and sanitation. We invested in new touchless technologies, enhanced medical care for affected individuals, as well as maintaining our operating platform and safeguarding jobs. Our culture and values meant that we worked as a team and I am proud of how the whole Coats family pulled together.

We entered 2020 with a robust balance sheet, with healthy levels of cash generation, and with comfortable headroom on our banking covenants. This meant we were in a strong position to manage through the period of Covid uncertainty, and we maintained a relentless focus on cash management, which included cash collections, reducing capital expenditure and cutting discretionary spend. As a result of these actions we saw encouraging cash generation in the second half, and ended the year as we started; with a robust balance sheet and comfortable headroom which gives us the platform and optionality to invest in the most attractive opportunities in the Covid recovery phase.

As we 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 $35-40 million range for 2021. This includes around $7 million (alongside $5 million operating costs) in relation to supporting strategic growth initiatives primarily in our Asian operations.

Our customers remain at the heart of our approach and we will continue to dedicate ourselves to supporting our partners. Our long-standing and deep customer relationships with retailers and brands, and the "peace of mind" we provide as a supplier have all remained crucial, as supply decisions factor in quality, reliability and reputation, and more increasingly speed and flexibility, as time to market has decreased. We continued to leverage our global footprint, flexibility, innovation and sustainability credentials and digital tools to deliver exceptional customer service, and saw continued share gains from customers in Apparel & Footwear ('A&F') such as emerging online athleisure brands, growing Chinese sportswear players, and major manufacturing groups across Asia, as well as customer wins across all industry segments in Performance Materials ('PM'). We would not have been able to deliver this service to our customers without close collaboration with, and support from, the critical elements of our supply chain as we worked through the crisis together. These entrenched relationships, further strengthened through our shared Covid experience, place us well to succeed together in the recovery phase.

2020 results overview

We saw improving sales momentum through the second half, with the Group organic sales exit rate down 5% year-on-year for November and December versus down 26% in H1 2020 and down 15% for the four months to October 2020. We saw continued market share gains in A&F and customer wins in PM as priorities pivoted even more towards reliability, speed and flexibility during Covid. Adjusted operating profit was ahead of our previous expectations, with a solid recovery in the second half. Our ability to significantly flex our cost base meant our margins were resilient. Our balance sheet remains strong and we ended the year with gearing of 1.2x, which provides strategic optionality.

Purpose and strategy

We aim to connect talent, textiles and technology to make a better and more sustainable world. In A&F we will grow our market share by delivering innovative and value-adding product and service solutions to our global customer-base. In PM we are leading with innovation, developing highly-engineered products to create textile-based industry solutions for existing and new markets. We are also strengthening the core of our business by becoming even more customer-centric: this means we must relentlessly focus on the industry imperatives of speed, personalisation, innovation, cost, quality, reliability and sustainability. We are also investing in our employees so they can develop to their full potential within a safe, respectful and inclusive workspace. We will also maintain our disciplined use of capital to fund inorganic opportunities to build scale, and to acquire new capabilities, technology and talent. This strategy is underpinned by our strategic pillars of Digital, Innovation and Sustainability.

Strategic pillars: Digital, Innovation and Sustainability

Our Strategic Pillars of Digital, Innovation and Sustainability underpin our strategy and give us a competitive advantage. As with many existing trends, the Covid crisis has highlighted even further the critical need for digital adoption in our industry. We have benefited from being ahead of the curve in this space as a result of our previous investments; both in terms of customer facing tools (e.g. sampling and online ordering) and a fully integrated and global ERP environment allowing us to align supply chains to the volatile environment caused by Covid. As part of our factory of the future roadmap we complemented our camera network with Intenseye, a software using Artificial Intelligence and machine-learning to identify events and actions which could pose a risk to our employees, such as not wearing PPE or not social distancing. During 2020, we continued our investment in factory automation with a state-of-the-art pilot in one of our facilities in China, which we are expecting to complete by June 2021.

We remain focused on delivering high levels of customer service and creating innovative new solutions for our customers in order to deliver incremental market share over time. We launched 22 new products in the year, across both A&F and PM, and these delivered incremental sales of $13 million. Examples include a new engineered thread product for optimum down-jacket quality and a PFC-free environmentally friendly thread for outdoor performance-wear.

In PM we continued to build our Composites business with solutions for automakers, sporting goods manufacturers and the energy sector. For example, Coats used its unique expertise to work with one of the major US auto makers to develop a carbon fibre composite that can replace existing steel load floors with comparable or better crash performance. This composite technology has many advantages compared to traditional fabrics such as reduced part cycle time, reduced investment and labour costs, minimised direct material costs and minimised waste and lower part costs, as well as a significant reduction in overall carbon fiber use. 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 customer solutions to meet their design requirements.

We made good progress on our Sustainability agenda and are moving towards our 2022 targets, as set out in our latest Sustainability Report, despite some obvious disruption from Covid during the year. Demand for our EcoVerde product range (100% recycled threads) continued to increase at pace and revenues were up 6x year-on-year (to $37 million). We also recently committed to set science-based emissions reduction targets, across the entire value chain, that are consistent with keeping global warming to 1.5°C above pre-industrial levels. We have also committed to developing a long-term target to reach net-zero emissions by 2050, the highest level of ambition on climate under the Science Based Target initiative (SBTi). A key part of our company purpose is to make a better and more sustainable world. We have already laid out an ambitious set of targets in our sustainability strategy. Making commitments like this to address our emissions builds on our sustainability strategy and demonstrates our resolve to be a role model for change in the area of climate change. For example, our continued commitment to upgrading our effluent treatment plants means that 74% of our effluent is now compliant with the Zero Discharge of Hazardous chemicals standard both for effluent and sludge, up from 34% in 2019.

Board changes

As previously reported, Mike Clasper has advised the Board that he will retire as Chairman and from the Board of Coats, at the conclusion of the Annual General Meeting scheduled for 19 May 2021, after nearly eight years with the Company. Mike will be succeeded as Chairman by David Gosnell who is currently an Independent Non-Executive Director of Coats.

Jackie Callaway joined Coats on 1 December 2020 as Chief Financial Officer Designate and as an Executive Director. Jackie's appointment follows the announcement on 1 April 2020 that Simon Boddie, Chief Financial Officer, is to retire from Coats with effect from 31 March 2021 to pursue further non-executive opportunities. At that point Jackie will become Chief Financial Officer.

Dividend

The Board is mindful of the importance of income to shareholders and as a result of the strength of the Group's balance sheet, the encouraging recovery out of the Covid pandemic, and its confidence in the strategy and outlook for the Group, is pleased to propose a final dividend of 1.30 cents per share (2019 final dividend: nil). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2021 to ordinary shareholders on the register at 30 April 2021, with an ex-dividend date of 29 April 2021.

Going forward, the Board will continue to aim to use the free cash flow the Group generates to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. As underlying earnings and cash flows continue to recover from the impact of Covid, the Board intends to return to its previously published progressive dividend policy.

Outlook

Throughout 2020 the Group moved quickly and prudently to put in place measures to underpin our future success and, through 2021, we will continue to invest in order to win the Covid recovery. We have a strong balance sheet, which provides strategic optionality and positions us well to navigate the ongoing challenging environment.

We remain cautious around the recovery profile of our various global end markets and will be vigilant regarding inflationary pressures within the supply chain. Notwithstanding this uncertainty we are encouraged by our improved trading performance towards the end of last year as well as in the first two months of this year, and the Board expects to see continued recovery through 2021.

Operating review

	2020 $m	2019 $m	Inc / (dec) %	2019 CER [1] $m	CER [1] inc/(dec) %	Organic [1] inc/(dec) %
Revenue [2]						
By segment						
Apparel and Footwear	823	1,063	**(23)%**	1,038	**(21)%**	**(21)%**
Performance Materials	341	326	**5%**	318	**7%**	**(14)%**
Total	**1,163**	**1,389**	**(16)%**	**1,356**	**(14)%**	**(19)%**
By region						
Asia	629	800	(21)%	790	(20)%	(20)%
Americas	315	323	(3)%	306	3%	(19)%
EMEA	219	266	(17)%	259	(15)%	(15)%
Total	**1,163**	**1,389**	**(16)%**	**1,356**	**(14)%**	**(19)%**
Adjusted operating profit [2,3]						
By segment						
Apparel and Footwear	96	156	(39)%	155	(38%)	(38)%
Performance Materials	15	42	(64)%	41	(63)%	(61)%
Total adjusted operating profit	**111**	**198**	**(44)%**	**195**	**(43)%**	**(43)%**
Exceptional and acquisition related items	(7)	(7)				
Operating profit [5]	**103**	**191**	**(46)%**		**(45)%**	**(44)%**
Adjusted operating margin [2,3,4]						
By segment						
Apparel and Footwear	11.6%	14.7%	(310)bps	14.9%	(330)bps	(330)bps
Performance Materials	4.4%	12.8%	(840)bps	12.8%	(830)bps	(700)bps
Total	**9.5%**	**14.3%**	**(470)bps**	**14.4%**	**(490)bps**	**(420)bps**

1 2019 figures at 2020 exchange rates. Organic on a CER basis excluding contributions from bolt-on acquisitions (Pharr HP and ThreadSol).
2 Includes contribution from bolt-on acquisitions made during the period.
3 On an adjusted basis which excludes exceptional and acquisition-related items.
4 Organic adjusted operating margin: Group 10.2%, Performance Materials 5.8%.
5 Reported operating profit margin 8.9%.

2020 Results overview

Group revenues decreased 16% on a reported basis, as all markets were impacted adversely by the Covid pandemic. On a CER basis, Group revenues reduced 14%, which was 2% better than the reported rate of decrease as a result of year-on-year currency translation headwinds (notably Brazilian Real, and Turkish Lira). On an organic CER basis, revenues declined 19% as a result of the 5% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was completed in February. In the second half of the year we saw a continued improving trend in demand with organic revenues down 12%, including most recently an exit rate in November/December of 5% down year-on-year on an organic basis.

Group adjusted operating profit decreased 43% to $111 million on a CER basis (2019: $195 million on a CER basis). Adjusted operating margins were down 490bps to 9.5% (2019: 14.4% on a CER basis) and included an improving trend in the second half (H2 12.2%). Group organic adjusted operating profit also declined 43%, in line with the CER decline due to the small loss made by Pharr HP in the period since ownership, as the volume impacts seen at a Group level also impacted Pharr HP.

Excluding the expected dilutive effect on overall Group margins from Pharr HP (4% operating margin business pre-acquisition), Group organic operating margins decreased by 420bps to 10.2% (vs a 490 bps reduction to 9.5% on a CER basis).

Adjusted earnings per share ('EPS') for the year decreased to 2.4 cents (2019: 7.0 cents). This reduction was due to the significant decline in adjusted profit before tax (down 50% year-on-year), and the increase in the effective tax rate to 39% (2019: 29%).

Apparel & Footwear ('A&F')

A&F segment overview
Our Apparel & Footwear business demonstrated market leading resilience and agility as the industry suffered the significant impact of Covid which saw large scale order cancellations from retailers, manufacturing slowdowns and accelerated high street bankruptcies. We pivoted quickly to supporting our customers, to cash management and to ensuring a safe operational environment for our employees and then, as conditions improved, to customer engagement and service leadership. Revenues were 21% below 2019 but in spite of this we broadly maintained price, realised customer wins and made progress in the China domestic market. As the year progressed, sales started to improve, with the exit rate down 7% (on a CER basis) for November and December vs down 29% in H1 2020 and down 15% in the four months to October 2020. Our relationships with key customers, retail segments and geographies position us strongly to win the recovery.

During the course of 2020 several recent market trends accelerated. These include the polarisation of demand (for example due to casualisation and digital online adoption), demand shift from West to East with the domestic China Apparel & Footwear market expected to outgrow both Western Europe and North America by 2024, continued supplier consolidation, an enhanced sustainability focus with recyclable fibres and threads to become part of 'standard' demand, nearshoring, changing customer needs ("speed") and aggressive digitisation of the supply chain.

Customers need to build greater resilience in their sourcing networks, to rebalance their supply chains geographically, to fast-track digital investments and to increase their commitment on sustainability. Coats, as the global leader and trusted partner of the industry's biggest names, is uniquely positioned to benefit from these accelerated trends. They align to our existing strengths and further confirm our operating model as we leverage our global footprint, flexibility, innovation and sustainability credentials and digital tools to deliver exceptional customer service.

A&F revenue
Revenues in our A&F business were down 21% (down 23% reported) as a result of the impacts of Covid seen firstly during H1 as wider global lockdown measures took hold. As the pandemic spread around the globe, we saw large scale order cancellations / deferrals from brands and retailers which had a significant impact on demand from late March and throughout Q2. In April and May the business was also significantly impacted by lockdown measures in some of our key markets including India and Bangladesh. However as global lockdown measures eased, we saw an encouraging and consistent improvement in demand throughout the second half as production restarted at manufacturers and confidence gradually returned. Demand through our second half peak season was encouraging, and most recently we saw a further improvement in the November/December exit rate of 7% down year-on-year.

Despite the very difficult market conditions we faced from Covid, we took a customer focused approach throughout the year in order to support our partners and provide reliable sourcing. Our long standing and deep customer relationships with retailers and brands and the "peace of mind" we provide as a supplier is even more important at times such as this, as supply decisions increasingly factor in quality, reliability, reputation and sustainability credentials. A number of our existing key competitive differentiators have come even more to the forefront, such as our speed of supply, both through geographical proximity of our sites to our customers (Coats has the largest manufacturing footprint globally with c.40 A&F sites) and our digital tools (e.g. the Coats digital sampling tool and online ordering platform) which take human touch points out of the supply process.

Our global footprint also proved advantageous as country-wide lockdowns meant even more accelerated shifts in country sourcing patterns and this was seen throughout the year, such as during the initial Q1 shutdowns in China, which saw accelerated shifts in volumes to Vietnam. Furthermore, our in-house technical expertise provided significant support to our customers, and our industry reputation for reliability (including compliance and sustainability) meant we became even more of a trusted partner during this difficult period. Whilst revenues were significantly impacted, our approach yielded a number of customer share gains.

By sub-segment, we saw a broadly consistent impact across our portfolio. A&F thread revenues (c.85% of segment revenue) were down 21% year-on-year, and Zips and Trims revenues (c.10% of segment revenues) were down 22%, both in line with the wider segment sales decline. Latin America Crafts (4% of A&F sales) performed resiliently, with revenues down 10% year-on-year, and with growth in the second half of the year. Our Coats Digital business (1% of A&F revenue) was down 30% year-on-year, primarily due to the impact of Covid, but current booking levels are showing an encouraging improving trend.

A&F profit and margin

Adjusted operating profit for A&F declined 38%, compared to the Group decline of 43% and organic adjusted operating margin was down 330bps to 11.6% compared to the Group decline of 420bps to 10.2%.

A&F margins were less impacted in the year despite higher volume declines as a result of Covid, due to the relative larger scale of the A&F business and the ability to greater flex the manufacturing footprints of these sites accordingly to limit the downside volume impact. This led to significant margin normalisation within A&F in the second half (H2 operating margin: 15.2%), albeit included some benefit from non-recurring items in relation to discretionary cost saving actions.

Performance Materials ('PM')

PM segment overview

Our PM business operates in five key market segments; Telecoms and Energy (15% of segment sales), Personal Protection (40%), Transportation (10%), Household and Recreation (20%), and Other Industrial Applications (15%). Revenues were heavily impacted by Covid during the year, albeit to a lesser extent than in Apparel and Footwear, due to the portfolio of end uses that the business is exposed to.

PM organic growth since 2013 of mid-high single digits (excluding 2020 which was impacted by Covid) has been driven by strong growth in Personal Protection and Telecoms and Energy. In February 2020 we acquired Pharr HP, which is exposed to a number of cyclical end uses. The Personal Protection segment is a naturally volatile component of the business due to its end-uses, but it remains a structural medium-term growth driver for PM, underpinned by attractive industry fundamentals such as increased worker protection, industry regulation as well as the need for comfort with multi-hazard protection. The cyclicality in Personal Protection has been exacerbated by Covid disruption which has led to a slowdown in spending on flame-retardant protective garments for military and firefighters as capital is redeployed to address the pandemic.

Other end uses such as Telecoms and Energy, Transportation and Household and Recreation performed resiliently, returning to strong growth in the latter part of the year. Our customer focused approach continued to yield benefits with a number of notable customer wins, for example in the Transportation sector with customers such as a major European Tier 1 automotive supplier as part of a new platform for a well-known German OEM, where we won the thread contract for a new front-wheel drive platform vehicle programme which we expect to last c.10 years.

In 2021, we will continue to lead with innovation, developing highly-engineered products to create solutions for our customers in both existing and new markets. We expect that the recovery in PM will be driven by trends such as the 4G and 5G roll out (Telecoms & Energy) and increasing demand for light-weighting and electrification from automotive customers (Transportation). This will be offset somewhat by a slower recovery in Personal Protection, as this is partly dependent upon the recovery of both military and firefighter spend.

PM revenue

PM revenues grew 7% on a CER basis (5% reported), consisting of an organic decline of 14% and a 21% contribution from the acquisition of Pharr HP which was acquired in February. As with A&F, PM was significantly impacted throughout the year by the demand and supply disruption from Covid but has also seen an encouraging and improving trend with year-on-year organic sales exit rate down only 2% in November/December.

Organic sales growth performance in the year was underpinned by relatively robust performance in Household and Recreation as demand for home-based products remained resilient during the year (e.g. bedding). Transportation revenue showed an encouraging improving trend, returning to growth in the second half of the year, as the industry saw some restocking alongside the impact of new customer wins. In addition, the Other Industrial Applications end-use sub-segment performed well as demand for products used in a number of these niche areas remained robust (e.g. feminine hygiene). Telecoms and Energy, having had a slower Q3 returned to growth in Q4 as demand returned quickly to the sector. Sales in Personal Protection were slower in the second half as set out above.

PM profit and margin

Organic adjusted operating profit declined 61%, compared to the Group decline of 43% and at an organic adjusted operating margin level, PM margins were down 700bps to 5.8%, compared to the Group decline of 420bps to 10.2%.

PM organic margins (down 700bps to 5.8%) were affected by significant volume impacts from Covid, the relatively lower scale compared to A&F, some negative customer/product mix, as well as industry labour availability issues in the US in H2. Furthermore, the dilutive effect of Pharr HP (140bps on segment margins and 70bps on Group margins) resulted in PM margins being 840bps down year-on-year to 4.4%. Whilst some recovery in 2021 is expected, margins will continue to be impacted by the relatively lower scale compared to A&F, industry labour availability issues in the US, and the Pharr HP margin dilution. As a result, it is anticipated that 2021 operating margins in PM will be in the mid to high single digits range.

Geographical performance

By geography, we saw broadly similar organic declines across all territories due to the Covid impact. Alongside the direct demand impact on our end-markets, we also saw significant supply disruption during Q2, with 18 of our c.50 manufacturing facilities being subject to enforced government closure at the peak of the global lockdowns in April. Since early May the vast majority of sites were open for the remainder of the year.

In Asia, which is predominantly an A&F business, we saw revenue decline by 20%, driven by key Apparel and Footwear markets, although performance varied quite widely country by country. For example, in India, there was a period of around six weeks where all six of our manufacturing facilities were subject to enforced closure, and demand was still being heavily impacted during Q2 and Q3; however, we saw an encouraging improvement in demand later in the year. Our China operations were significantly affected in Q1 as the initial Covid impact occurred, and continued to see some impact throughout Q2, but saw a relatively stronger recovery in H2 as the country started to recover out of the pandemic. Conversely, our Vietnam operations performed relatively well throughout 2020 as a result of being less impacted by the pandemic and being a reliable and attractive alternative sourcing solution to other key Asia A&F markets during the most significant disruption from the pandemic. Our Bangladesh operations were significantly impacted by the lockdowns in the European retail markets which they are reliant upon as well as rolling local lockdowns for a significant part of the year but showed encouraging signs of a recovery in H2.

Our America business showed organic declines of 19% in the year, which was initially driven by weak A&F sales in Latin America (in particular Mexico and Brazil), however in the second half of the year we saw a strong improvement particularly in the Crafting business which returned to year-on-year growth, as well as in Brazil and Mexico. Having performed relatively robustly in the first half, PM revenues were slower in the second half of the year mainly due to demand in the Personal Protection business (primarily a North America business), as referred to earlier.

In EMEA, revenue declined by 15%, driven by PM which performed slightly better than A&F, as well as near-shoring in A&F as customers sought to bring their supply chains closer to home. Certain markets were hit hard by the pandemic such as our Italian and German zips businesses. We saw encouraging signs of recovery in a number of markets in the second half, in particular within Telecoms and Energy and in Transportation, and in markets such as Turkey, Spain, Hungary and Poland.

Financial Review

Revenues

Group revenues decreased 16% on a reported basis, as all markets were impacted adversely by the Covid pandemic. On a CER basis, Group revenues reduced 14%, which was 2% better than the reported rate of decrease as a result of year-on-year currency translation headwinds (notably Brazilian Real, and Turkish Lira). On an organic CER basis, revenues declined 19% as a result of the 5% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was completed in February. All commentary below is on a CER basis unless otherwise mentioned.

As previously reported, Group H1 organic revenues were down 26%, which was primarily driven by the impact of Covid in Q2 where revenues at a Group level were down 45% on an organic basis, as we faced severe demand and supply impacts. In the second half of the year we saw a continued improving trend in demand with organic revenues down 12%, including most recently an exit rate in November/December of 5% down year-on-year on an organic basis.

Operating profit

At a Group level, adjusted operating profit decreased 43% to $111 million on a CER basis (2019: $198 million on a reported basis) and adjusted operating margins were down 490bps to 9.5% (2019: 14.3% on a reported basis). The table below sets out the movement in adjusted operating profit during the year:

	$m	Margin %
2019 adjusted operating profit	**198**	**14.3%**
Volumes impact (direct and indirect)	(144)	
Pricing / Mix	(7)	
Raw material deflation	15	
Other inflation	(13)	
Productivity benefits (manufacturing and sourcing)	16	
Lower SD&A	47	
2020 adjusted operating profit (organic)	**112**	**10.2%**
Impact of Pharr HP dilution	(1)	
2020 adjusted operating profit	**111**	**9.5%**
Exceptional and acquisition related items	(7)	
2020 reported operating profit	**103**	**8.9%**

The direct and indirect volume impact of the Covid disruption, particularly in H1, was a significant headwind on margins in the year, as lower utilisation of factories led to an under recovery of manufacturing overheads. Management took quick and decisive actions over the manufacturing cost base to minimise the impact of these volume headwinds, and as activity increased in the second half this significantly reversed the H1 negative leverage impact on our operations, particularly in A&F. These actions included temporarily flexing our manufacturing footprint to ensure the lower volume levels were most efficiently run through the site network (including flexing opening days and numbers of shifts).

We experienced negative mix in the period, in particular in PM, alongside broadly maintaining price despite raw material deflationary benefits from the lower oil price. Other structural inflationary pressures continued (e.g. wages and energy), which were again more than offset by productivity benefits across manufacturing and sourcing. In 2021, as a result of increasing oil prices in the latter part of 2020 we now expect to incur some year-on-year inflationary headwinds on raw material costs, in addition to the ongoing structural inflationary pressures we face. As in previous years we will look to offset these inflationary pressures with productivity benefits and pricing, although we also expect to see some pressure on freight costs as a result of container availability which may be more difficult to offset.

The above impacts, albeit predominantly the negative volume impact, severely impacted gross margins in the period which were down 300bps on an organic basis (480bps down on a CER basis including the anticipated initial dilutive effect of the Pharr HP acquisition). In addition to gross margin actions, we also moved decisively to underpin our SD&A cost base by minimising discretionary spend (for example travel, staff bonuses, Long

Term Incentive Plans and consulting costs) and variable costs of selling, although we expect most of these savings to reverse in 2021.

Despite these significant actions, and largely as a result of the large volume decline in Q2, the Group's operating margins were significantly impacted in H1 (H1 6.4%). However, as volumes returned to the business, we saw a significant increase in profitability with $76 million of adjusted operating profit delivered in H2 (at an operating margin of 12.2%).

Group organic adjusted operating profit declined 43% in the year, in line with the CER decline due to the small loss made by Pharr HP in the period since ownership, as the volume impacts seen at a Group level also impacted Pharr HP. Including the expected dilutive effect on overall Group margins from Pharr HP (4% operating margin business pre-acquisition), Group operating margins decreased by 490 bps to 9.5% on a CER basis (vs a 420bps reduction to 10.2% on an organic basis).

On a reported basis, Group operating profit (including exceptional and acquisition-related items) decreased 46% to $103 million (2019: $191 million). See below for a breakdown of these exceptional items, which primarily relate to non-cash impairment 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

The Income Statement on a reported basis was impacted by the relative strength of the US Dollar compared to 2019. 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. This resulted in a decline of 16% in reported revenues year-on-year, which is a 2% translation headwind when compared to the 14% revenue decline on a CER basis. At an adjusted operating profit level, the translation impact was less where the reported decline of 44% compared to a 43% decline on a CER basis. The main currency impact on adjusted operating profit was the strengthening US Dollar against the Indian Rupee and Turkish Lira. At current exchange rates (31 December 2020) we expect a small translation tailwind on revenues for the Full Year 2021.

Free cash flow

The Group delivered an adjusted free cash flow of $28 million in the year (2019: $107 million) which despite being significantly down year-on-year was a robust performance in a period of significant operational disruption and reduced operating profits. Underpinning measures were quickly put in place, including reduced capital expenditure ($15 million in the year; 2019: $44 million), and a heightened focus on controlling working capital.

Acquisition of Pharr High Performance Yarns ('Pharr HP')

On 10 February 2020, the Group completed the acquisition of the business and assets of Pharr HP, a market-leading manufacturer of high-performance engineered yarns based in North Carolina, US, and as such the results for this year include around ten months of Pharr HP results ($67 million revenue).

Whilst revenues for Pharr HP in the period were severely impacted by Covid due to overall demand in the US Personal Protection sector, we remain confident in the opportunity this acquisition presents us to continue to build a leadership position and scale in this sector which over the medium term is expected to deliver attractive growth (as noted earlier). Despite the impact of Covid we have progressed our integration plans with the wider PM business and Group, including implementing SAP into the business from 1 January 2021.

Non-operating results

Adjusted earnings per share ('EPS') for the year decreased to 2.4 cents (2019: 7.0 cents). This reduction was due to the significant decline in adjusted profit before tax (down 50% year-on-year), and the increase in the effective tax rate to 39% (2019: 29%). The 50% decline in adjusted profit before tax was due to the decline in adjusted operating profit (44% at reported rates), and a net interest charge which was $3 million lower year-on-year (see below for further details).

Net finance costs in the year were $24.8 million (pre-exceptional), a $3.1 million decrease year-on-year (2019: $27.9 million). The key driver of the decrease in net finance costs in the year was a $3.3 million reduction in interest on bank borrowings due to lower interest rates and lower corporate facility utilisation compared to 2019. The $5.7 million mark-to-market foreign exchange loss on forward hedging contracts seen in the first half of the year (due to sterling weakness in H1) largely reversed in the second half as a result of subsequent sterling strengthening in the latter part of the year ($1.3 million loss at 31 December 2020) and only had a small adverse impact when compared to 2019.

The taxation charge for the year was $37.4 million (2019: $50.5 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 39% (2019: 29%). This rate increase was driven by the significant impact of Covid including withholding taxes that were still incurred at broadly historic levels as the payment of these amounts are not always directly linked to the lower level of operating profits. In addition, deferred tax assets in certain loss-making jurisdictions have not been recognised.

As the Group's operations and profit mix normalise following the Covid crisis, the Group's effective tax rate is expected to return to pre-crisis levels over time (2019 full year effective tax rate: 29%), and this was evidenced by the full year tax rate of 39% (H1 estimated full year tax rate: 48%). In 2021, at the current rate of anticipated normalisation of profit mix we would anticipate a full year effective tax rate in the range of 32-34%.

The reported tax rate was 47% (2019: 30%), which includes the impact of exceptional and acquisition related items (including non-cash impairment charges incurred in the year due to Covid, which attracts zero tax relief).

Profit attributable to minority interests was $15.8 million and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests). This was 21% below the 2019 level ($20.1 million) which reflects the relative strength of performance of those territories during the year (in particular Vietnam, which was relatively less impacted by the pandemic), compared to the wider Group.

Exceptional and acquisition-related items
Net exceptional and acquisition-related items before taxation were $6.8 million in 2020 (2019: $4.4 million). This consisted of a $4.9 million charge in relation to the non-cash impairment of assets (including Plant and Machinery) at certain smaller European markets whose short-term financial performance and medium-term outlook has been impacted by Covid, and acquisition related items of $4.0 million (2019: $2.2 million). These were offset by a $1.4 million profit ($2.8 million cash proceeds) in relation to the sale of surplus property in Korea (part of the Connecting for Growth reorganisation programme).

The acquisition-related items of $4.0 million consisted of the amortisation of intangible assets acquired ($3.2 million), and acquisition earnouts ($0.8 million).

In the taxation line, exceptional items of $2.2 million predominantly related to $1.9 million of deferred tax assets which are no longer recognised due to the impacts of Covid and $0.3 million tax on exceptional income in Brazil following a successful legacy tax claim last year.

Cash flow
The Group delivered $28 million of adjusted free cash flow in 2020 (2019: $107 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 lower than 2019 ($107 million) as a result of significantly lower adjusted operating profit, well controlled but higher net working capital outflows ($26 million outflow vs $6 million outflow in 2019), with some offset from lower capital expenditure of $15 million (2019: $44 million). Minority dividend payments of $18 million were incurred (broadly in line with 2019) as we accelerated the repatriation of cash from local operations to the Group in order to prudently manage corporate headroom and ensure comfortable levels of liquidity around the Group.

Tax paid was $46 million and in line with 2019, due to prior year tax settlements (for example a tax settlement in China that was provided for in 2019 and settled in Q1 2020) offsetting the benefit of the lower P&L tax charge.

The Group generated a free cash outflow of $23 million in the year (2019: $72 million inflow), which primarily reflects the adjusted free cash flow of $28 million referred to above, offset by the consideration paid for the Pharr HP acquisition of $37 million, as well as UK pension payments of $11 million.

As a result of the above free cash outflow, net debt (excluding the impact of IFRS 16) as at 31 December 2020 was $181 million (31 December 2019: $150 million). Including the impact of IFRS 16, net debt as at 31 December 2020 was $247 million (31 December 2019: $215 million).

Capital expenditure
As previously noted, capital expenditure was significantly reduced in the year ($15 million) due to Covid, and was related to ongoing maintenance requirements, critical new product development, health and safety, and environmental spend.

As we 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 $35-40 million range for 2021. This includes around $7 million (alongside $5 million operating costs) in relation to supporting strategic growth initiatives primarily in our Asian operations.

Pensions and other post-employment benefits
The net obligation for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS19 financial reporting basis, was $226 million as at 31 December 2020, which was higher than 31 December 2019 ($181 million). This increase is primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, shows a $129 million IAS19 deficit at 31 December 2020 (£94 million), which is $37 million higher than at 31 December 2019 ($92 million, £69 million). This increase predominantly relates to net actuarial losses of $37 million (lower discount rate assumption due to lower corporate bond yields which more than offset asset increases), $7 million employer contributions (excluding administrative expenses), with some offset from other items (e.g. FX). The IAS19 discount rate remains underpinned by AA corporate bond yield spreads, unlike the Technical Provisions basis of valuation (relevant for the triennial valuation process) which is linked to gilt yields. The company, in conjunction with the pension trustees, regularly monitors the funding position of the UK Pension Scheme.

In agreement with the trustees of the Coats UK Pension Scheme, and as part of the wider Covid underpinning actions, we agreed to defer the remaining deficit recovery payments for 2020 (April-December inclusive), to provide an additional c.$21 million of headroom cover during this year. The catch up of these payments are currently anticipated to commence in mid-2021 and be evenly spread over a period of around 18 months. We continued to pay the scheme administrative expenses during this time (c.$5 million p.a.). As a result, total payments in 2021 are expected to be around $42 million (which includes $9 million in relation to the start of the catch-up of the 2020 deferred contributions).

The effective date for the next UK scheme triennial is 31 March 2021, and this will be required to be finalised by no later than 30 June 2022.

Balance sheet and liquidity
The Group continued to focus on cash, liquidity and working capital management as one of its priorities throughout the Covid crisis, in order to ensure it remained in a strong financial position, and to be well placed to navigate through the current environment safely and emerge even stronger when it passes.

Group net debt (excluding IFRS 16) as at 31 December 2020 was $181 million ($247 million including IFRS 16), which was higher than the same point in 2019 ($150 million), and reflects strong cash management, the acquisition of Pharr HP ($37 million), and UK pension payments ($11 million; being Q1 deficit recovery payments and full year administrative expenses). Excluding the acquisition of Pharr HP net debt reduced year-on-year.

When the Covid crisis initially hit, the Group moved quickly to take action to underpin liquidity and maintain comfortable levels of headroom. These actions include reducing our full year 2020 capital expenditure by c.65% to $15 million (2019: $44 million), cancelling our final FY19 dividend, and agreeing with our UK pension trustees the deferral of all remaining deficit recovery payments in the year from April (c.$21 million).

In addition to these specific cash actions we focused even more closely on working capital management during the year (including a heightened focus on managing our customer credit risk), reflective of the difficult macro-economic environment. Our net working capital remained well controlled in the year, and we saw an encouraging normalisation in our working capital metrics in the second half. In 2021 we expect a marginal working capital outflow as we invest to support the Covid recovery. In addition, bad debt charges remained at a low level ($3.1 million; 2019: $0.2 million) as a proportion of Group revenue (below 1%), albeit higher than recent years, reflective of the macro-economic conditions through the year.

At 31 December 2020, our leverage ratio (net debt to EBITDA; both excluding IFRS 16) was 1.2x and remains well within our 3x covenant limit, and towards the lower end of our target leverage range of 1-2x. Our interest cover covenant also maintained significant headroom at 31 December 2020 at 8.5x 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 $330 million at 31 December, a further increase from the comfortable levels we reported in the H1 results.

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.

Principal risks and uncertainties

Coats, like other companies, has since early this year been responding to and mitigating the immediate and ongoing impacts of the Covid pandemic, and preparing for the recovery period. As part of these activities we have reviewed our principal risk trends and mitigating actions and the details of these changes can be seen in our Annual Report.

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	2020 Total US$m	Before exceptional and acquisition related items US$m	Exceptional and acquisition related items (see note 3) US$m	2019 Total US$m
Continuing operations							
Revenue		**1,163.3**	**-**	**1,163.3**	1,388.7	-	1,388.7
Cost of sales		**(806.6)**	**(4.9)**	**(811.5)**	(898.1)	0.4	(897.7)
Gross profit		**356.7**	**(4.9)**	**351.8**	490.6	0.4	491.0
Distribution costs		**(116.1)**	**-**	**(116.1)**	(135.9)	(2.8)	(138.7)
Administrative expenses		**(130.0)**	**(4.0)**	**(134.0)**	(156.7)	(7.5)	(164.2)
Other operating income		**-**	**1.4**	**1.4**	-	2.9	2.9
Operating profit		**110.6**	**(7.5)**	**103.1**	198.0	(7.0)	191.0
Share of profits of joint ventures		**0.6**	**-**	**0.6**	1.1	-	1.1
Finance income	**4**	**0.7**	**0.7**	**1.4**	1.7	2.6	4.3
Finance costs	**5**	**(25.5)**	**-**	**(25.5)**	(29.6)	-	(29.6)
Profit before taxation		**86.4**	**(6.8)**	**79.6**	171.2	(4.4)	166.8
Taxation	**6**	**(35.2)**	**(2.2)**	**(37.4)**	(50.5)	-	(50.5)
Profit from continuing operations		**51.2**	**(9.0)**	**42.2**	120.7	(4.4)	116.3
Discontinued operations							
Profit/(loss) from discontinued operations	**13**	**-**	**-**	**-**	0.1	(0.6)	(0.5)
Profit for the year		**51.2**	**(9.0)**	**42.2**	120.8	(5.0)	115.8
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		**35.4**	**(9.0)**	**26.4**	100.7	(5.0)	95.7
Non-controlling interests		**15.8**	**-**	**15.8**	20.1	-	20.1
		51.2	**(9.0)**	**42.2**	120.8	(5.0)	115.8
Earnings per share (cents)	**7**						
Continuing operations							
Basic				**1.81**			6.66
Diluted				**1.81**			6.60
Continuing and discontinued operations							
Basic				**1.81**			6.63
Diluted				**1.81**			6.57
Adjusted earnings per share	**14**	**2.42**			6.97		

Coats Group plc

Consolidated statement of comprehensive income

Year ended 31 December	**2020 US$m**	2019 US$m
Profit for the year	**42.2**	115.8
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on retirement benefit schemes	**(39.7)**	(31.1)
Tax on items that will not be reclassified	**0.1**	7.3
	(39.6)	(23.8)
Items that may be reclassified subsequently to profit or loss:		
Net change in fair value of cash flow hedges	**(2.4)**	4.8
Transferred to profit or loss on cash flow hedges	**-**	(0.3)
Exchange differences on translation of foreign operations	**(13.3)**	(7.7)
	(15.7)	(3.2)
Other comprehensive income and expense for the year	**(55.3)**	(27.0)
Net comprehensive income and expense for the year	**(13.1)**	88.8

Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	**(28.9)**	69.0
Non-controlling interests	**15.8**	19.8
	(13.1)	88.8

Coats Group plc

Consolidated statement of financial position

	Notes	31 December 2020 US$m	31 December 2019 US$m
Non-current assets			
Intangible assets		**288.6**	291.0
Property, plant and equipment		**254.4**	276.3
Right-of-use assets		**60.7**	63.4
Investments in joint ventures		**11.1**	11.4
Other equity investments		**6.0**	6.1
Deferred tax assets		**22.7**	16.2
Pension surpluses		**11.4**	13.8
Trade and other receivables		**19.0**	20.1
		673.9	698.3
Current assets			
Inventories		**187.0**	172.5
Trade and other receivables		**274.5**	261.2
Other equity investments		**0.1**	0.1
Pension surpluses		**4.8**	4.7
Cash and cash equivalents	**11(f)**	**71.9**	177.4
Non-current assets classified as held for sale		**-**	1.5
		538.3	617.4
Total assets		**1,212.2**	1,315.7
Current liabilities			
Trade and other payables		**(255.7)**	(284.4)
Current income tax liabilities		**(13.9)**	(17.8)
Bank overdrafts and other borrowings		**(22.8)**	(43.8)
Lease liabilities		**(16.4)**	(14.1)
Retirement benefit obligations:			
- Funded schemes		**(35.3)**	(27.5)
- Unfunded schemes		**(7.1)**	(6.2)
Provisions		**(8.2)**	(12.8)
		(359.4)	(406.6)
Net current assets		**178.9**	210.8
Non-current liabilities			
Trade and other payables		**(18.1)**	(18.2)
Deferred tax liabilities		**(9.0)**	(8.2)
Borrowings		**(229.7)**	(283.5)
Lease liabilities		**(49.6)**	(50.9)
Retirement benefit obligations:			
- Funded schemes		**(100.1)**	(71.6)
- Unfunded schemes		**(99.5)**	(94.5)
Provisions		**(27.9)**	(30.7)
		(533.9)	(557.6)
Total liabilities		**(893.3)**	(964.2)
Net assets		**318.9**	351.5
Equity			
Share capital	**8**	**90.1**	89.6
Share premium account		**10.5**	10.5
Own shares	**8**	**(3.2)**	(5.7)
Translation reserve		**(89.2)**	(75.9)
Capital reduction reserve		**59.8**	59.8
Other reserves		**246.3**	248.7
Retained loss		**(23.8)**	(5.9)
EQUITY SHAREHOLDERS' FUNDS		**290.5**	321.1
Non-controlling interests		**28.4**	30.4
Total equity		**318.9**	351.5

Coats Group plc

Consolidated statement of changes in equity

For the year ended 31 December 2020

	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 loss US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2019	88.5	10.4	(6.8)	(68.5)	59.8	244.2	(56.7)	270.9	28.0	298.9
Profit for the year	-	-	-	-	-	-	95.7	95.7	20.1	115.8
Other comprehensive income and expense for the year	-	-	-	(7.4)	-	4.5	(23.8)	(26.7)	(0.3)	(27.0)
Dividends	-	-	-	-	-	-	(24.4)	(24.4)	(17.4)	(41.8)
Issue of ordinary shares	1.1	0.1	-	-	-	-	(1.1)	0.1	-	0.1
Movement in own shares	-	-	1.1	-	-	-	(0.2)	0.9	-	0.9
Share based payments	-	-	-	-	-	-	6.1	6.1	-	6.1
Deferred tax on share schemes	-	-	-	-	-	-	(1.5)	(1.5)	-	(1.5)
Balance as at 31 December 2019	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**

Coats Group plc

Consolidated cash flow statement

For the year ended 31 December	Note	2020	2019
		US$m	US$m
Cash inflow from operating activities			
Cash generated from operations	**11 (a)**	**128.0**	205.4
Interest paid		**(16.1)**	(15.2)
Taxation paid	**11 (b)**	**(46.3)**	(46.3)
Net cash generated by operating activities		**65.6**	143.9
Cash outflow from investing activities			
Investment income	**11 (c)**	**0.9**	0.3
Net capital expenditure and financial investment	**11 (d)**	**(12.3)**	(39.1)
Acquisitions and disposals of businesses	**11 (e)**	**(36.9)**	25.8
Net cash absorbed in investing activities		**(48.3)**	(13.0)
Cash outflow from financing activities			
Purchase of own shares		**(3.1)**	-
Receipts from exercise of share options		**-**	0.2
Dividends paid to equity shareholders		**(0.2)**	(24.1)
Dividends paid to non-controlling interests		**(17.8)**	(17.4)
Payment of lease liabilities		**(19.4)**	(17.3)
Net decrease in borrowings		**(58.7)**	(52.3)
Net cash absorbed in financing activities		**(99.2)**	(110.9)
Net (decrease)/increase in cash and cash equivalents		**(81.9)**	20.0
Net cash and cash equivalents at beginning of the year		**135.9**	115.7
Foreign exchange (losses)/gains on cash and cash equivalents		**(1.9)**	0.2
Net cash and cash equivalents at end of the year	**11 (f)**	**52.1**	135.9
Reconciliation of net cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents		**(81.9)**	20.0
Net decrease in other borrowings		**58.7**	52.3
Change in net debt resulting from cash flows (Free cash flow)		**(23.2)**	72.3
Increase in lease liabilities on adoption of IFRS 16		**-**	(57.7)
Net movement in lease liabilities during the period following the adoption of IFRS 16		**(0.3)**	(6.8)
Movement in fair value hedges		**(5.4)**	-
Other non-cash movements		**(0.7)**	(0.7)
Foreign exchange (losses)/gains		**(2.1)**	0.7
(Increase)/decrease in net debt		**(31.7)**	7.8
Net debt at start of year		**(214.9)**	(222.7)
Net debt at end of year	**11 (f)**	**(246.6)**	(214.9)

Notes to the consolidated financial information for the year ended 31 December 2020

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 2020 or 2019. The financial information for the year ended 31 December 2019 and 2020 is derived from the statutory accounts for 2019 (which has been delivered to the Registrar of Companies) and 2020 (which will be delivered to the Registrar of Companies following the AGM in May 2021). The auditors have reported on the 2019 and 2020 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 2020 are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and complies with the disclosure requirements of the Listing Rules of the UK Financial Services Authority. The accounting policies adopted by the Group are consistent with those set out in the 2019 Annual Report. A full list of accounting policies are presented in the 2020 Annual Report. For details of new accounting policies applicable to the Group in 2020 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 2020 Annual Report; these will be available to shareholders in March 2021.

Critical accounting judgements and key sources of estimation uncertainty

The principal accounting policies adopted by the Group are set out in 2020 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, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations (which are dealt with separately below) that have had a significant effect on the amounts recognised in the financial statements.

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 obligations recognised in the consolidated statement of financial position are the present values of the defined benefit obligations at the year end less the fair value of any associated assets. 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 obligations recognised in the consolidated statement of financial position.

The gross actuarial value of the UK pension scheme liabilities at 31 December 2020 was $3,338.7 million (2019: $3,030.8 million) and the total market value of assets at 31 December 2020 was $3,210.2 million (2019: $2,939.2 million). At 31 December 2020 the UK pension scheme net deficit was $128.5 million (2019: $91.6 million).

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

1. Basis of preparation (continued)

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

UK retirement benefit obligations (continued)

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:

		2020		2019
	+0.25%	**-0.25%**	+0.25%	-0.25%
Year ended 31 December	**US$m**	**US$m**	US$m	US$m
Discount rate	**(127.3)**	**135.2**	(113.6)	112.9
Inflation rate	**89.6**	**(99.3)**	82.3	(90.2)

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 2020 Annual Report.

In preparing the consolidated financial statements for the year ended 31 December 2020, the critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2019.

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 2019.

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

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7);
- Definition of a Business (Amendments to IFRS 3); and
- Definition of Material (Amendments to IAS 1 and IAS 8).

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

Amendments to IFRS 16 'Leases' – Covid-Related Rent Concessions which is effective for annual periods beginning on or after 1 June 2020 has not been early adopted in 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.

1. Basis of preparation (continued)

Going concern (continued)

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 2021 as well as the Group's Medium Term Plan for 2022 and 2023;
- A severe but plausible downside scenario, 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 include 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

The Group entered 2020 with a robust Balance Sheet, generating healthy levels of cash, and with comfortable headroom on banking covenants, which places the Group in a strong position to manage through this period of uncertainty. As at 31 December 2020 the Group's net debt (excluding IFRS16 leases) was $180.6 million. The Group's committed debt facilities total $575 million across both its Banking and US Private Placement group, with a range of maturities from late 2022 through to 2027, as of 31 December 2020 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.

All banking covenants tests were met comfortably at 31 December 2020, with leverage of 1.2x and interest cover of 8.5x despite the significant impact on Group profitability from Covid in Q2. The base case forecast indicates that banking covenants will be comfortably met at the June 2021 and December 2021 testing dates.

Under the severe but plausible downside scenario covenant compliance is still projected to be achieved at both June 2021 and December 2021, 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 as well as having considered the uncertainty relating to Covid and the mitigating actions available, 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.

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

1. Basis of preparation (continued)

Principal exchange rates

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

		2020	2019
Average	Sterling	**0.78**	0.79
	Euro	**0.88**	0.90
	Brazilian Real	**5.16**	3.95
	Chinese Renminbi	**6.90**	6.91
	Indian Rupee	**74.11**	70.41
	Turkish Lira	**7.02**	5.78
Period end	Sterling	**0.73**	0.75
	Euro	**0.82**	0.89
	Brazilian Real	**5.19**	4.02
	Chinese Renminbi	**6.53**	6.96
	Indian Rupee	**73.04**	71.35
	Turkish Lira	**7.43**	5.95

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.

Segment revenue and results

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**

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

2. Segmental analysis (continued)

Year ended 31 December 2019	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	1,063.1	325.6	1,388.7
Segment profit	156.3	41.7	198.0
Exceptional and acquisition related items (note 3)			(7.0)
Operating profit			191.0
Share of profits of joint ventures			1.1
Finance income			4.3
Finance costs			(29.6)
Profit before taxation from continuing operations			166.8

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.

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	**2020 US$m**	2019 US$m
Continuing operations		
Primary geographic markets		
Asia	**629.4**	799.7
Americas	**314.5**	323.2
EMEA	**219.4**	265.8
Total	**1,163.3**	1,388.7
Continuing operations		
Apparel & Footwear	**822.7**	1,063.1
Performance Materials	**340.6**	325.6
Total	**1,163.3**	1,388.7
Timing of revenue recognition		
Goods transferred at a point in time	**1,154.8**	1,376.6
Software solution services transferred over time	**8.5**	12.1
Total	**1,163.3**	1,388.7

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

Revenue of Pharr HP of $66.8 million which was acquired in February 2020 (see note 12) is included in the amounts above for the Americas geographical market and the Performance Materials 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 exclude exceptional and acquisition related items on a consistent basis with the previous reporting period to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 14.

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, gains or losses arising from significant one off changes to the assumptions underlying the 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 2020 were $7.5 million (2019: $7.0 million) comprising exceptional items for the year ended 31 December 2020 of $3.5 million (2019: $4.8 million) and acquisition related items for the year ended 31 December 2020 of $4.0 million (2019: $2.2 million).

Exceptional items

Exceptional items charged/(credited) to operating profit during the year ended 31 December 2020 are set out below:

Year ended 31 December	**2020 US$m**	2019 US$m
Exceptional items:		
Cost of sales:		
Impairment charges	**4.9**	-
Brazil indirect taxes	**-**	(3.5)
Connecting for Growth programme reorganisation costs:		
- Cost of sales	**-**	3.1
- Distribution costs	**-**	2.8
- Administrative expenses	**-**	5.3
	-	11.2
Profit from sale of property:		
- Other operating income	**(1.4)**	(2.9)
Total exceptional items charged to operating profit from continuing operations	**3.5**	4.8

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 (2019: $nil) 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 are attributable to the increased economic uncertainty as a result of Covid. The impairment charges in these markets represent 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. In determining the recoverable amount of these assets, the most recent trading activity was considered and projected cash flows reflected the economic uncertainty resulting from the Covid pandemic. None of the cash generating units for which an impairment charge was recognised during the year includes goodwill or intangible assets with indefinite useful lives.

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

3. Exceptional and acquisition related items (continued)

Connecting for Growth programme – property disposals - During the year ended 31 December 2020 a profit of $1.4 million (2019: $2.9 million) was made from the sale of property in a non-core market. This related to the strategic Connecting for Growth transformation programme which was completed during 2019.

Exceptional items in the year ended 31 December 2019 also included the following:

Connecting for Growth programme – Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation. The programme finished in 2019. The programme focused on simplification across many aspects of the organisation and included transitioning from market-focussed support functions to realigned globally integrated support functions.

Exceptional reorganisation costs of $11.2 million were incurred in the year ended 31 December 2019 comprising severance costs of $7.4 million, fixed asset disposals and write offs of $2.2 million and closure and other one off costs of $1.6 million.

Brazil indirect taxes - During the year ended 31 December 2019 a final and unappealable Supreme Court decision was received by one of the Group's subsidiary companies in Brazil relating to payments of indirect taxes dating back to 2005. This Supreme Court decision grants the company the right to exclude Brazilian ICMS (indirect tax on goods and services) from 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 were recognised in the results for the year ended 31 December 2019 with an exceptional credit of $3.5 million included in cost of sales and exceptional interest income recognised of $2.6 million. A further $0.7 million of exceptional interest income has been recognised during the year ended 31 December 2020 (see note 4).

Legal filings have been made in respect of the Group's other subsidiary in Brazil in respect of the same matter which dates back approximately 15 years but the Supreme Court ruling has not yet been received. This represents a contingent asset and no amounts have been recognised in the results for this. At this stage it is not practicable to quantify the potential amount of this contingent asset.

Exceptional items: Discontinued operations – During the year ended 31 December 2019 exceptional charges in relation to discontinued operations were $0.6 million. See note 13.

Acquisition related items

Acquisition related items are set out below:

Year ended 31 December	**2020 US$m**	2019 US$m
Acquisition related items:		
Administrative expenses:		
Acquisition earnouts and contingent consideration	**0.8**	(1.7)
Acquisition transaction costs	**-**	1.0
Amortisation of acquired intangible assets	**3.2**	2.9
Total acquisition related items before taxation	**4.0**	2.2

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

3. Exceptional and acquisition related items (continued)

Acquisition related items (continued)

The Group has made acquisitions 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 adjusted results as management consider these cost to be part of the underlying trading performance of the business.

4. Finance income

Year ended 31 December	**2020** **US$m**	2019 US$m
Income from investments	**0.1**	0.1
Other interest receivable and similar income	**1.3**	4.2
	1.4	4.3

Other interest receivable and similar income for the year ended 31 December 2020 includes exceptional income of $0.7 million (2019: $2.6 million) relating to refunds for indirect taxes in Brazil (see note 3 for further details).

5. Finance costs

Year ended 31 December	**2020** **US$m**	2019 US$m
Interest on bank and other borrowings	**11.2**	14.5
Interest expense on lease liabilities	**3.9**	3.7
Net interest on pension scheme assets and liabilities	**4.7**	5.5
Other finance costs including unrealised gains and losses on foreign exchange contracts	**5.7**	5.9
	25.5	29.6

6. Tax on profit from continuing operations

Year ended 31 December	**2020** **US$m**	2019 US$m
UK Corporation tax at 19% (2019: 19%)	**-**	-
Overseas tax charge	**(43.0)**	(48.3)
Deferred tax credit/(charge)	**5.6**	(2.2)
Total tax charge	**(37.4)**	(50.5)

The overseas tax charge includes withholding tax charges and other taxes not based on profits for the year ended 31 December 2020 of $12.5 million (2019: $14.4 million).

6. Tax on profit from continuing operations (continued)

Exceptional tax charges for the year ended 31 December 2020 were $2.2 million (2019: $nil) and includes a charge of $1.9 million following the write off of deferred tax assets which were recognised in previous periods but are no longer recoverable due to the impacts of Covid.

The deferred tax credit of $5.6 million for the year ended 31 December 2020 includes the exceptional charge of $1.9 million offset by deferred tax provision releases following remittance of dividends from subsidiaries, deferred tax credits arising from the expected recovery of current year losses in certain jurisdictions and other timing differences.

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 share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year 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	**2020 US$m**	2019 US$m
Profit from continuing operations attributable to equity shareholders	**26.4**	96.2
Profit from continuing and discontinued operations attributable to equity shareholders	**26.4**	95.7

Year Ended 31 December	**2020 Number of shares m**	2019 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,455.6**	1,443.8
Adjustment for share options and LTIP awards	**1.4**	13.7
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,457.0**	1,457.5

Year Ended 31 December	**2020 cents**	2019 cents
Continuing operations:		
Basic earnings per ordinary share	**1.81**	6.66
Diluted earnings per ordinary share	**1.81**	6.60
Continuing and discontinued operations:		
Basic earnings per ordinary share	**1.81**	6.63
Diluted earnings per ordinary share	**1.81**	6.57

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

8. Issued share capital

During the year ended 31 December 2020 the Company issued 7,261,231 Ordinary shares of 5p each (2019: 17,324,009) 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 2020	1,444,816,041	89.6
Issue of ordinary shares	7,261,231	0.5
At 31 December 2020	**1,452,077,272**	**90.1**

The own shares reserve of $3.2 million at 31 December 2020 (2019: $5.7 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 2020 was 7,010,248 (2019: 14,591,071).

9. Dividends

Year Ended 31 December	**2020 US$m**	2019 US$m
2019 interim dividend paid – 0.55 cents per share	-	7.8
2018 final dividend paid – 1.16 cents per share	-	16.6
	-	24.4

The proposed final dividend of 1.30 cents per ordinary share for the year ended 31 December 2020 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 2021 to ordinary shareholders on the register on 30 April 2021, with an ex-dividend date of 29 April 2021.

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.

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

10. US environmental matters (continued)

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.

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 2020, $12.0 million of this provision had been utilised. The remaining provision at 31 December 2020, taking into account insurance reimbursement, was $12.6 million (2019: $14.6 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, 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.

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

11. Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year Ended 31 December	**2020 US$m**	2019 US$m
Operating profit	**103.1**	191.0
Depreciation of owned property, plant and equipment	**30.5**	29.9
Deprecation of right-of-use assets	**18.3**	15.2
Amortisation of intangible assets	**7.2**	8.0
Decrease in inventories	**4.9**	10.4
Decrease/(increase) in debtors	**1.1**	(6.5)
Decrease in creditors	**(28.7)**	(13.8)
Provisions and pension movements	**(14.0)**	(33.5)
Foreign exchange and other non-cash movements	**5.7**	4.4
Discontinued operations	**(0.1)**	0.3
Cash generated from operations	**128.0**	205.4

b) Taxation paid

Year Ended 31 December	**2020 US$m**	2019 US$m
Overseas tax paid	**(46.3)**	(46.3)
	(46.3)	(46.3)

c) Investment income

Year Ended 31 December	**2020 US$m**	2019 US$m
Dividends received from joint ventures	**0.9**	0.3
	0.9	0.3

d) Capital expenditure and financial investment

Year Ended 31 December	**2020 US$m**	2019 US$m
Acquisition of property, plant and equipment and intangible assets	**(15.4)**	(44.3)
Acquisition of other equity investments	**0.1**	0.4
Disposal of property, plant and equipment	**3.0**	4.3
Discontinued operations	**-**	0.5
	(12.3)	(39.1)

Notes to the consolidated financial information for the year ended 31 December 2020 (continued)

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

e) Acquisitions and disposals of businesses

Year Ended 31 December	**2020 US$m**	2019 US$m
Acquisition of businesses	**(36.9)**	(4.9)
Disposal of businesses	**-**	30.7
	(36.9)	25.8

f) Summary of net debt

Year Ended 31 December	**2020 US$m**	2019 US$m
Total cash and cash equivalents	**71.9**	177.4
Bank overdrafts	**(19.8)**	(41.5)
Net cash and cash equivalents	**52.1**	135.9
Borrowings	**(232.7)**	(285.8)
Net debt excluding lease liabilities	**(180.6)**	(149.9)
Lease liabilities	**(66.0)**	(65.0)
Total net debt	**(246.6)**	(214.9)

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 2020 for covenant purposes was $177.0 million (31 December 2019: $152.6 million).

12. Acquisitions

On 26 November 2019 the Group announced a binding agreement to acquire the trade and assets of Pharr High Performance Yarns ("Pharr HP"), a market leading manufacturer of high performance engineered yarns, based in McAdenville, North Carolina, US. Pharr HP specialises in providing technical yarn solutions to the markets of Industrial Thermal Protection, Defence and Fire Service industries. Its manufacturing capabilities and customer base provide the Group with further expertise within Personal Protection, a key end-use market in the Performance Materials operating segment. Other parts of Pharr, such as the carpet yarns and speciality flooring products business were not included as part of the acquisition. The acquisition was completed on 10 February 2020.

The initial consideration transferred on the acquisition date to acquire the Pharr HP business was $37 million. An adjustment to the consideration of $0.1 million was received in June 2020 following finalisation of certain completion consideration adjustments based on the amount of net working capital at the acquisition date.

Notes to the financial information for the year ended 31 December 2020 (continued)

12. Acquisitions (continued)

Fair values of the identifiable assets and liabilities of Pharr HP as at the date of acquisition were as follows:

	Fair value recognised US$m
Assets	
Intangible assets	0.6
Property, plant and equipment	3.9
Right-of-use assets	3.7
Inventories	23.7
Trade and other receivables	14.3
	46.2
Liabilities	
Trade and other payables	(5.9)
Lease liabilities	(3.7)
Total identifiable net assets acquired at fair value	36.6
Goodwill recognised on acquisition	0.3
	36.9
Purchase consideration paid	36.9
Total consideration	36.9

In accounting for the acquisition, adjustments were made to the book values of the net assets of the business acquired to reflect their fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired was completed during the year ended 31 December 2020 within 12 months of the acquisition date.

Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial. There are no material contingent liabilities recognised in the amounts above in accordance with paragraph 23 of IFRS 3 (revised).

The excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired is represented by trade names of $0.6 million with residual goodwill arising of $0.3 million. Goodwill arising from the acquisition of Pharr HP has been allocated to the single cash generating unit of North America. The goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across the Group; and
- the ability to exploit the Group’s existing customer base.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

Revenues of $66.8 million and loss before tax of $0.7 million from the date of acquisition to 31 December 2020 has been included in the results from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been $79.0 million and the loss before tax would have been $0.5 million based on unaudited management accounts for the twelve months ended 31 December 2020.

Transaction costs relating to the acquisition of $0.9 million were expensed and included in administrative expenses in the condensed consolidated income statement for the year ended 31 December 2019. The total cash outflow in the year ended 31 December 2020 relating to the acquisition of Pharr HP was $37.3 million representing the consideration paid of $36.9 million and transaction costs paid of $0.4 million.

Notes to the financial information for the year ended 31 December 2020 (continued)

13. Discontinued operations and assets held for sale

a) Discontinued operations

The results of discontinued operations are presented below. Unless stated, all amounts relate to the North America Crafts business which was sold on 20 February 2019:

Year Ended 31 December	2020 US$m	2019 US$m
Revenue	-	14.8
Cost of sales	-	(10.4)
Gross profit	-	4.4
Distribution costs	-	(3.7)
Administrative expenses	-	(2.4)
Other operating income	-	1.6
Operating loss and loss before taxation	-	(0.1)
Tax on loss	-	0.2
Profit from discontinued operations	-	0.1
Exceptional loss on disposal of North America Crafts	-	(1.1)
Exceptional profit on disposal of legacy UK Crafts property	-	0.5
Total loss from discontinued operations	-	(0.5)

Following the sale of the North America Crafts business, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters (see note 10).

The loss per ordinary share from discontinued operations is as follows:

Year Ended 31 December	2020 cents	2019 cents
Loss per ordinary share from discontinued operations:		
Basic loss per ordinary share	-	(0.03)
Diluted loss per ordinary share	-	(0.03)

The table below sets out the cash flows from discontinued operations:

Year Ended 31 December	2020 US$m	2019 US$m
Net cash (outflow)/inflow from operating activities	**(0.1)**	0.3
Net cash inflow from investing activities	-	0.5
Net cash flows from discontinued operations	**(0.1)**	0.8

Notes to the financial information for the year ended 31 December 2020 (continued)

13. Discontinued operations and assets held for sale (continued)

b) Assets held for sale

There were no non-current assets held for sale at 31 December 2020 (2019: property, plant and equipment of $1.5 million).

14. 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 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 European Union 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 2020 (continued)

14. 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.

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	**2020 US$m**	2019 US$m	% Decline
Revenue from continuing operations	**1,163.3**	1,388.7	(16)%
Constant currency adjustment	**-**	(32.7)	
Revenue on a CER basis	**1,163.3**	1,356.0	(14)%
Revenue from acquisitions	**(66.8)**	-	
Organic revenue on a CER basis	**1,096.5**	1,356.0	**(19)%**

Year Ended 31 December	**2020 US$m**	2019 US$m	% Decline
Operating profit from continuing operations[1]	**103.1**	191.0	(46)%
Exceptional and acquisition related items (note 3)	**7.5**	7.0	
Adjusted operating profit from continuing operations	**110.6**	198.0	(44)%
Constant currency adjustment	**-**	(2.7)	
Adjusted operating profit on a CER basis	**110.6**	195.3	(43)%
Operating loss from acquisitions	**0.9**	-	
Organic adjusted operating profit on a CER basis	**111.5**	195.3	**(43)%**

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

14. 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	**2020 US$m**	2019 US$m
Operating profit from continuing operations[1]	**103.1**	191.0
Exceptional and acquisition related items (note 3)	**7.5**	7.0
Adjusted operating profit from continuing operations	**110.6**	198.0
Depreciation of owned property, plant and equipment	**30.5**	29.9
Amortisation of intangible assets	**4.0**	5.1
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**145.1**	233.0
Depreciation of right-of-use assets	**18.3**	15.2
Adjusted EBITDA	**163.4**	248.2

[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 2020 was $246.6 million (2019: $214.9 million).

This gives a leverage ratio of net debt including lease liabilities to adjusted EBITDA at 31 December 2020 of 1.5 (2019: 0.9).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2020 was $180.6 million (2019: $149.9 million).

This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2020 of 1.2 (2019: 0.6).

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.

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 would distort the alternative performance measure. This is consistent with how the Group monitors and manages the underlying effective tax rate.

Notes to the financial information for the year ended 31 December 2020 (continued)

14. Alternative performance measures (continued)

c) Underlying effective tax rate (continued)

Year Ended 31 December	**2020 US$m**	2019 US$m
Profit before taxation from continuing operations	**79.6**	166.8
Exceptional and acquisition related items (note 3)	**6.8**	4.4
Net interest on pension scheme assets and liabilities	**4.7**	5.5
Underlying profit before taxation from continuing operations	**91.1**	176.7
Taxation charge from continuing operations	**37.4**	50.5
Tax (charge)/credit in respect of exceptional and acquisition related Items and net interest on pension scheme assets and liabilities	**(1.7)**	0.4
Underlying tax charge from continuing operations	**35.7**	50.9
Underlying effective tax rate	**39%**	29%

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	**2020 US$m**	2019 US$m
Profit from continuing operations	**42.2**	116.3
Non-controlling interests	**(15.8)**	(20.1)
Profit from continuing operations attributable to equity shareholders	**26.4**	96.2
Exceptional and acquisition related items net of non-controlling interests (note 3)	**6.8**	4.4
Tax charge in respect of exceptional and acquisition related items	**2.2**	-
Adjusted profit from continuing operations	**35.4**	100.6
Weighted average number of Ordinary Shares	**1,455,587,353**	1,443,824,641
Adjusted earnings per share (cents)	**2.42**	6.97
Adjusted earnings per share (decline %)	**(65)%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2020 is 1,455,587,353 (2019: 1,443,824,641), 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 2020 (continued)

14. 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. Adjusted free cash flow measures the Group's underlying cash generation that is available to service capital demands.

Year Ended 31 December	**2020 US$m**	2019 US$m
Change in net debt resulting from cash flows (free cash flow)	**(23.2)**	72.3
Acquisition of businesses (note 12)	**37.3**	4.9
Disposal of businesses	**-**	(30.7)
Net cash outflow/(inflow) from discontinued operations (note 13)	**0.1**	(0.8)
Net cash flows in respect of Connecting for Growth programme	**(0.4)**	4.3
Payments to UK pension scheme	**10.9**	26.7
Net cash flows in respect of other exceptional and acquisition related items	**(0.7)**	6.2
Purchase of own shares by Employee Benefit Trust	**3.1**	-
Receipts from exercise of share options	**-**	(0.2)
Dividends paid to equity shareholders	**0.2**	24.1
Tax outflow in respect of adjusted cash flow items	**0.7**	-
Adjusted free cash flow	**28.0**	106.8

Notes to the financial information for the year ended 31 December 2020 (continued)

14. 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	**2020 US$m**	2019 US$m
Operating profit from continuing operations before exceptional and acquisition related items [1]	**110.6**	198.0
Non-current assets		
Acquired intangible assets	**41.8**	41.8
Property, plant and equipment	**254.4**	276.3
Right-of-use assets	**60.7**	63.4
Trade and other receivables	**19.0**	20.1
Current assets		
Inventories	**187.0**	172.5
Trade and other receivables	**274.5**	261.2
Current liabilities		
Trade and other payables	**(255.7)**	(284.4)
Lease liabilities	**(16.4)**	(14.1)
Non-current liabilities		
Trade and other payables	**(18.1)**	(18.2)
Lease liabilities	**(49.6)**	(50.9)
Capital employed	**497.6**	467.7
ROCE	**22%**	42%

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

Notes to the financial information for the year ended 31 December 2020 (continued)

15. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2020 and up to the date of this report:

M Clasper CBE	
R Sharma	
S Boddie	
N Bull	
J Callaway	(Appointed 1 December 2020)
A Fahy	
D Gosnell OBE	
H Lu	
F Philip	
A Rosling CBE	(Resigned 11 June 2020)
J Sigurdsson	(Appointed 1 October 2020)

M Clasper will retire as Chairman and from the Board at the conclusion of the Annual General Meeting scheduled for 19 May 2021 and will be succeeded as Chairman by D Gosnell. S Boddie is to retire from Coats with effect from 31 March 2021.

On behalf of the Board
M. Clasper
Chairman
3 March 2021

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Registered in England and Wales No. 103548