

Chair's statement



I am proud of what we have achieved – our innovation, our investment in our talented people, our bold strategic ambitions... everything that will help us to deliver value for all our stakeholders.”

Our purpose is to connect talent, textiles and technology to make a better and more sustainable world.

To support this, we have developed a new set of values that embody Coats' unique culture of collaboration, agility, 'can do' approach, passion and diversity. These are values that the company has long demonstrated, so I am delighted that we have formally framed these.

This provides the basis for our strategy whereby we will **accelerate** profitable sales growth and **transform** the business to improve margins and create sustainable **value** for our shareholders, customers, employees and the communities in which we operate.

2022 saw the world emerge from the challenges of Covid only to be confronted with the conflict between Russia and Ukraine, followed by an exceptional inflationary period. The resilience of our business model, execution of strategy, pricing power, with the support of all the dedicated people at Coats, have underlined our leading position.

In response to the situation between Russia and Ukraine, we took the decision to exit the Russian market. I am proud of the support provided to our colleagues in Ukraine. The safety of our employees and their families remains our top priority.

Our flexibility to change has been evident during these challenging years but as we enter 2023, we do so in a stronger position than ever.

Footwear acquisitions

Coats achieved a significant milestone in our M&A strategy, with the acquisitions of Rhenoflex and Texon. We created a new global market leader in footwear components, complementing our global leadership in threads. The addition of structural components and accessories into this exciting market underlined the Board's drive to grow the business and accelerate profitable sales growth.

I wish to thank our shareholders for the support and confidence they showed in us during the equity raise that funded the acquisition of Rhenoflex.

Footwear will now make up around a quarter of the revenues of the Group and, as such, from 1 January 2023 we will be reporting Apparel, Footwear and Performance Materials as three separate divisions.

Chair's statement cont.



A personal highlight was seeing first-hand the work of Asociación Orizaba Propone AC (AOPAC) who support children and adolescents in their cancer treatment from the nearby region of Orizaba.”

David Gosnell
Chair

8.2c

Adjusted EPS up 14% from 2021

2.43c

Total dividend up 15% from 2021

Strategic projects

We announced a series of strategic projects in March 2022. The objective was to optimise our portfolio and footprint and to improve the overall cost base efficiency of the Group. Significant momentum was gained over the year and we now expect to deliver \$70m of annual cost savings by 2024.

The opening of a new state-of-the-art manufacturing plant in Huamantla, Mexico, will address the labour availability issues we face in the USA and deliver higher margins in Performance Materials. I am excited to see the second new facility coming online in 2023 and the further momentum this will bring.

The plant opening was attended by the Board and executive Team members in October. A personal highlight, and one which I know touched all of the Coats leadership team, was seeing first-hand the work of Asociación Orizaba Propone AC (AOPAC) to support children and adolescents receiving cancer treatment in the nearby region of Orizaba. The pandemic of the last years meant campaigning had to be suspended so employees at Coats' Orizaba

plant collected PET caps that were then sold for recycling with Coats matching the proceeds. The courage shown by the young people affected by cancer and the hard work and dedication of AOPAC should serve as an example to us all.

Sustainability and innovation

In 2021, we established a Board-level Sustainability Committee, chaired by me, to enhance the Board visibility and governance over these very important milestones. In December of 2022, the Board, in conjunction with the Committee, approved new 2026 Science Based Targets, linked to senior management Long Term Incentive Plans (LTIP).

Pensions

I am delighted with the significant progress we have made on pensions during the year. We collaborated with the pension trustees, who completed a £350m buy-in of annuity policies to bring us closer to our medium term aim to remove the scheme from the Group's balance sheet. As a result of the improved funding position, we have agreed a mechanism to switch off / switch on the regular cash contributions to the Scheme based on monthly estimates of the latest funding position. This mechanism gives rise to the potential for significant Group free cash flow benefits from lower or eliminated cash contributions.

Board changes

I had great pleasure in welcoming two new additions to the Board, adding further depth to the team.

Steve Murray joined on 1st September as an Independent Non-Executive Director. Steve brings with him more than 30 years of experience in the apparel and footwear industry having most recently been Global Brand President of The North Face and previously CEO of Dr. Martens.

Heather Lawrence joined on 7th November as an Independent Non-Executive Director. Heather has more than 25 years of experience in banking and capital markets as well as holding a number of non-executive directorships. She will Chair the audit and risk committee following the AGM to be held in May.

Capital allocation policy and dividend

Our capital allocation policy remains unchanged and focusses on 4 key pillars (i) reinvesting in organic growth (ii) acquisitions in line with disciplined strategy (iii) supporting pensions and (iv) paying a progressive dividend. We implement these pillars whilst maintaining a strong balance sheet with a target leverage ratio of 1-2x.

The Board is mindful of the importance of returns to shareholders. To underline the strong progress we have made in 2022, we are pleased to propose a final dividend of the year of 1.73 cents per share, bringing the total dividend for the year to 2.43 cents per share, a 15% increase on the 2021 total dividend.

Subject to approval at the AGM, the total dividend will be paid on 25 May 2023 to ordinary shareholders on the register at 28 April 2023, with an ex-dividend date of 27 April 2023.

Looking ahead

Coats has scale, product and quality differentiation and a growing pipeline of innovative and sustainable products. This will enable revenue growth ahead of market. Looking further ahead, as a result of the transformational work done to date, we remain well-positioned to grow earnings and cash.

I would like to conclude by thanking, on behalf of the Board, our exceptional employees across the world.

