GROUP CHIEF EXECUTIVE’S STATEMENT

Rajiv Sharma
Group Chief Executive

‘WE ENTER 2019 WITH GREATER RESOLVE AND STRONG MOMENTUM.’

Dear Shareholder

Coats is entering 2019 with greater resolve and strong momentum enabled by an ongoing focus on innovation, world class service, digital solutions and sustainability. We have the largest global footprint and widest product selection of our industry. This gives our customers more choice and product consistency, as well as best in class colour management to differentiate their goods in store and online. We have made good progress on our growth strategy that focuses on simplification, digital, innovation, acquisitions and sustainability. That combined with the high quality of our talent enables us to adapt and future proof the business in an ever changing, hyper-connected world. Staying ahead of changing market and customer needs is at the heart of us transforming for growth.

2018 performance

Coats delivered a strong performance in 2018. Our Apparel and Footwear thread business delivered continued market share gains by providing on-going high service levels, and we saw increased momentum in our Performance Materials business. In an environment of rising input costs, we were able to grow our operating margins, through realising price increases, delivering productivity and procurement gains, as well as keeping tight control of our cost base and delivering significant savings from our Connecting for Growth programme in its first year.

For more information, see operating and financial review on pages 29 to 36.

Strategic progress

Our strategy has two key themes: ‘Digital’ and ‘Going beyond the stitch line’. Digital helps us to improve speed and agility, make smarter decisions faster, lower cost and enables new revenue streams. Advancing our digital strategy is connected to our business goals and clearly defined business outcomes. Going beyond the stitch line is a focused effort to bring scale, specialisation and new technologies within adjacencies. This results in sales growth and building of in-house specialist capabilities. We also recognise that in order to remain successful in the future we must continue to adapt with speed and scale.

The recent sale of our standalone North America Crafts business allows us to focus completely on our high performing business-to-business global Apparel and Footwear, and Performance Materials businesses. Now Coats is primarily a B2B global manufacturing business.

Connecting for Growth programme

Our Connecting for Growth global, strategic transformation programme is designed to leverage simplification and digitisation. This allowed us to take cost out and reinvest the savings in digital and talent, bringing enhanced capabilities and innovation.

During the year we have been implementing a new operating model – delayering the organisation by moving away from a country based model to one based around eight geographic clusters. While doing so, we changed the business model in seven smaller markets and discontinued manufacturing in two countries. We also moved to global functionalisation of finance, HR, legal, marketing, procurement and technology. This allows us to lower costs, have more control and compliance, and supports better decision making.

Connecting for Growth has also introduced a strong emphasis on using digital technology for automation and connecting of disparate processes. One example of this is deploying robotic process automation within our ‘order to cash’ financial transactions or the use of data science to predict late payments or processes.

Another example is our ‘Factory of the Future’ project where digitisation is again delivering efficiencies in our manufacturing. Through collecting data from spindles in our factories we are able to gain an understanding of the root causes of efficiency losses and so improve our final winding operations processes.

These successes are achieving savings which we are re-investing to build our innovation and technology capabilities. We are also investing in up-skilling, training and developing our people. Hiring new talent with new capabilities is core to our people strategy.

‘Transforming for growth by leveraging talent and technology.’
'We recognise that in order to remain successful in the future, we must adapt to the fast changing markets in which we operate.'

Digital

We put the needs of our customers at the heart of everything we do and recognise that digital can help offset the ongoing industry pressures to increase speed and improve sustainability. This year, we established the Digital Advisory Council, which was set up to bring in external expertise to help steer our digital and technology strategy, and advise on its execution. Leaders from the digital sector sit on the council and provide us with insights on emerging technology, digital business and change management. In December 2018, we put our digital strategy into action by investing in Twine Solutions, a company that has developed a revolutionary digital thread dyeing system. It will also feature in built colour software integrated with our proprietary Coats ColourStitch software. With this investment, we are using digital to disrupt traditional boundaries and putting us at the forefront of this emerging field.

Innovation

Innovation is also crucial to our success. As a pioneering company we continually aim to deliver further revenue growth from creating value enhancing new products that do not currently exist. We measure this progress through our vitality index and it is pleasing to note that over 20% of our organic Performance Materials revenues were in relation to products that did not exist some five years ago.

To structure our approach to innovation we have established an Innovation Hub in North America, and a further two will be completed by H1, 2019 in China and EMEA. These are dedicated centres to foster collaboration with a range of partners including customers, brands and suppliers. The rapid prototyping offered in the Hubs is helping us to understand how to assist our customers in solving their big problems with speed. This approach to innovation is also helping us develop an eco-system built around universities, start-ups and suppliers.

Acquisition

We see acquisition as a key part of our growth strategy and actively look for opportunities that will allow us to apply hi-tech solutions to our, at times, low tech industry. We will look to acquire specialisation rather than simply market share.

In December 2018, we announced we were acquiring ThreadSol, a cloud-based digital applications provider which uses proprietary algorithms built on artificial neural networks to optimise the purchasing and consumption of fabric which helps reduce costs and waste.

ThreadSol is an exciting acquisition for us and we will be able to draw upon our demonstrable track record of successfully integrating bolt-on companies following the acquisitions of Patrick Yarn Mill, Gotex, Fast React Systems and GSD, all of which are performing well under our ownership.

Sustainability

During the year we undertook a strategic review of our sustainability programme and agreed with the Board a new programme of investment to drive our development in this area over the next five years. ‘Pioneering a sustainable future’ will be increasingly central to our growth strategy and is aligned to the needs of our customers. It will move us away from a position of defending value to one of creating long-term value though transforming our business, investing in technologies and identifying new opportunities for sustainable growth.

We have five strategic priorities which we announced on 1 March 2019. For more details, see our Sustainability Report: [www.coats.com/sustainability](http://www.coats.com/sustainability)

Looking ahead

We enter 2019 in a strong position, with continued positive momentum in our core Apparel and Footwear and hi-tech Performance Materials businesses. The exit of our non-core North America Crafts business will ensure complete focus on growing our remaining businesses organically and identifying further value-add bolt-on acquisitions.

Whilst we are cautious around the current macroeconomic uncertainties, based on our current assessment of business trends we remain confident in delivering another year of improving performance through effective execution of our strategy.

Rajiv Sharma
Group Chief Executive
7 March 2019