

February 4, 2020

Dear Clients and Colleagues:

It is common knowledge that the fashion industry has a significant negative impact on the environment, yet the extent may still be underestimated. Did you know that after the oil industry, fashion is one of the largest polluters in the world?¹ The fashion industry accounts for 10% of global carbon emissions². Some of the processes in the production of clothes are highly energy intensive and some of the facilities are still powered by coal. Synthetic fibers are more energy intensive than natural fibers, given they are made from fossil fuels. In this age of fast fashion, we are generating more textile waste than ever. The average western family discards around 30 kg of clothing each year³. Of this waste, almost all is landfilled, with synthetic fibers, such as polyester, taking decades to decompose, or it is incinerated. A small fraction is recycled or donated.

Additionally, another serious impact the fashion industry has on the environment is its consumption and pollution of water. An incredible amount of fresh water is used in the dyeing and finishing process of fabrics used for clothes; as much as 200 tons of fresh water is used to produce a ton of dyed fabric⁴. Cotton itself is an extremely water intensive crop to grow and 20,000 liters of water are needed to produce just 1kg of cotton⁵. In terms of pollution, it is not just the dyeing process that involves the heavy use of chemicals, bleaching and wet processing are also contributors. Unfortunately, the countries that produce the majority of the world's apparel and fashion products have either loose regulations or weak enforcement of said regulations. Wastewater from the dyeing process contains harmful substances, that when released into bodies of water is hugely damaging to the people and wildlife reliant upon them.

The encouraging news is that there is a greater focus on sustainability in fashion. There are solutions to combat some of these problems, and Coats (COA:LN), a recent addition to our portfolio, is doing its part. Coats is the world's leading industrial thread company and operates under two divisions – apparel and footwear, and performance materials. In apparel and footwear, Coats is a supplier of premium thread (as well as zips and trims) and services (software solutions) to the global apparel and

¹ [UN launches drive to highlight environmental cost of staying fashionable](#)

² [How Much Do Our Wardrobes Cost to the Environment? \(worldbank.org\)](#)

³ [Why clothes are so hard to recycle - BBC Future](#)

⁴ [Fixing the Fashion Industry](#)

⁵ [The cost of cotton in water-challenged India](#)

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footwear industry. In performance materials, Coats designs and supplies high tech and high performance threads and yarn used in a range of industries (automotive, household and recreation, medical, health and food, safety, telecoms, oil and gas, conductive and composites).

While thread is only 1% to 2% of the cost of a typical garment, it is a critical component in the overall performance of the garment and efficiency of the production process⁶. In apparel and fashion, Coats has a 21% market share by dollar value, more than double the nearest competitor⁷. This is a strong and defensible core business representing about 77% of group sales². The company has been consistently increasing market share in stable markets, experiencing steady yearly gains, due to a combination of reasons, such as trade tariffs, Environmental, Social, and Governance (ESG), and COVID. This means that customers are constantly reviewing their supply chain. Coats has the largest global footprint of any thread maker, and can accommodate changes a customer may wish to make.

With a Coats thread, customers can have confidence that the thread will be identical wherever it is sourced. The quality of the thread is vital. It has to be durable and long lasting as manufacturing processes for apparel and footwear are increasingly automated, and any breakages in threads results in costly downtime. Coats also has an advantage in terms of digitalization. Thread manufacturing is still a relatively antiquated industry. Coats was the first company to launch an e-commerce platform while most in the industry still take orders by telephone. The e-commerce platform also makes sample and delivery time quicker, which is very important for fast fashion.

As for ESG, there is an increased focus on sustainability within the apparel and footwear industry. Coats is a western company with western sustainability standards. Coats is considered the market leader in ESG with initiatives, as they make sustainable threads from plastic bottles. Sourcing threads from Coats provides companies with the assurance their manufacturing base is working with a responsible and environmentally compliant supplier. Further, the company has committed to a number of environmental targets, such as a 40% reduction in water usage by 2022, a 7% energy reduction while transitioning to a 100% renewable energy supply, and polyester being 100% recycled by 2024.

⁶ [Coats Group PLC Annual Report 2019](#)

⁷ [Coats 2019 Full Year Results](#)

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Moving forward, the increasing environmental restrictions and sustainability requirements are squeezing the long fragmented tail of thread suppliers. This should enable Coats to leverage its size and scale to gain further apparel and footwear market share. Consumers are willing to pay a premium for products containing environmentally friendly or sustainable materials, so the industry is making more of them. The shift from 'fast fashion' to 'sustainable fashion' is happening and Coats is at the forefront of meeting changing industry needs, such as speed, productivity, innovation, quality, responsibility and sustainability.

Have a great weekend.

The Global Alpha team

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