

Economic and market risks

Macroeconomic conditions

Description of risk

The business conducts most of its operations in North America and would be affected by a downturn in general economic conditions in this region or negative effects from tension in international trade. In previous economic downturns, the promotional products market has typically softened broadly in line with the general economy.

Potential impact

- Customer acquisition and retention could fall, impacting revenue in current and future periods.
- The growth and profitability levels called for in the Group strategic plan may not be achieved.
- Cash generation could be reduced broadly corresponding to a reduction in profitability.

Link to strategy

- Organic revenue growth
- Cash generation and profitability

Mitigating activities

- Management monitors economic and market conditions to ensure that appropriate and timely adjustments are made to marketing and other budgets.
- The customer proposition in terms of promotions, price, value and quality of product can be adjusted to resonate with customer requirements and budgets in the prevailing economic climate.
- The Group's balance sheet funding policy (see page X) aims to provide operational and financial flexibility to facilitate continued investment in the business through different economic cycles.

Direction

- On a broad level market conditions to date have remained quite stable
- = **Unchanged**

Competition

Description of risk

The promotional products markets in which the business operates are intensely competitive and the rapid development of internet commerce, digital marketing and online marketplaces may allow competitors to reach a broader audience. In addition, new or disruptive business models looking to break down the prevailing distributor/supplier structure in the promotional products industry may be developed by existing competitors or new entrants.

Potential impact

- Aggressive competitive activity could result in pressure on prices, margin erosion and loss of market share. All of these factors could impair the growth of the business and therefore impact the financial results.
- The Group's strategy based on achieving organic growth in fragmented markets may need to be reassessed.

Link to strategy

- Market leadership
- Organic revenue growth
- Cash generation and profitability

Mitigating activities

- An open-minded culture and an appetite for technology are encouraged, with the aim of positioning the business at the forefront of innovation in the industry.
- Management closely monitors competitive activity in the marketplace.
- Price, satisfaction and service level guarantees are an integral part of the customer proposition. Customer surveys and market research are used to gauge customer satisfaction and perception, and the causes of any negative indications are investigated and addressed rapidly.

Direction

- The competitive landscape to date has been relatively consistent in our main markets
- = **Unchanged**

Economic and market risks continued

Currency exchange

Description of risk

There is some exposure to currency exchange risk. Although the business trades predominantly in US dollars, it also transacts business in Canadian dollars, Sterling and Euros, leading to some currency risk on trading. In addition, Head Office costs, pension scheme commitments and dividends are payable in Sterling, consequently the business may be adversely impacted by movements in the Sterling/US dollar exchange rate when it repatriates cash to the UK.

Potential impact

- The financial results of trading operations, and therefore overall profitability, may be negatively affected.
- The financial condition and cash position of the Group may differ materially from expectations. In an extreme scenario, the Group's strategic objectives around capital structure and core dividend commitments could be disrupted.

Link to strategy

- Cash generation and profitability
- Capital structure
- Shareholder value

Mitigating activities

- The Group reports its results in US dollars, minimising currency impact on reported revenue, operating profit and net assets since trading operations are concentrated largely in North America.
- The Group can use forward contracts to hedge anticipated cash receipts from its overseas operations, giving some certainty of amounts receivable in Sterling.

Direction

- Political instability, interest rate policy (US) and Brexit concerns (UK) may lead to increased volatility in currency markets
- **↑ Increased**

Operational risks

Business facility disruption

Description of risk

The 4imprint business model means that operations are concentrated in centralised office and distribution facilities. The performance of the business could be adversely affected if activities at one of these facilities were to be disrupted, for example, by fire, flood, loss of power or internet/telecommunication failure.

Potential impact

- The inability to service customer orders over any extended period would result in significant revenue loss, deterioration of customer acquisition and retention metrics and diminished return on marketing investment.
- The Group's reputation for excellent service and reliability may be damaged.

Link to strategy

- Market leadership
- Organic revenue growth
- Cash generation and profitability

Mitigating activities

- Back-up and business continuity procedures are in place to ensure that customer service disruption is minimised. This includes customer service resource based at a separate location and team members working from home,
- Websites are cloud-based, and data is backed up immediately to off-site servers.
- Relationships are maintained with third party embroidery contractors to provide backup in the event of facility unavailability.

Direction

- No significant change in the nature or likelihood of these risks
- **= Unchanged**

Disruption to the product supply chain or delivery service

Description of risk

As a consequence of the Group's drop-ship distribution model, trading operations could be interrupted if (i) the activities of a key supplier were disrupted and it was not possible to source an alternative supplier in the short term; or (ii) the primary parcel delivery partner used by the business suffered significantly degraded service levels. As the Group continues to grow, the volume of orders placed with individual suppliers becomes significant.

Potential impact

- Inability to fulfil customer orders would lead to lost revenue and a negative impact on customer acquisition and retention statistics.
- The Group's reputation for excellent service and reliability may be damaged.

Mitigating activities

- A rigorous selection process is in place for key suppliers, with evaluation and monitoring of quality, production capability and capacity, ethical standards and financial stability.
- Wherever possible, relationships are maintained with suitable alternative suppliers for each product category.
- Secondary relationships are in place with alternative parcel carriers.

Link to strategy

- Market leadership
- Organic revenue growth
- Cash generation and profitability

Direction

- Risk inherent in increasing supplier concentration
- **↑Increased**

Disturbance in established marketing techniques

Description of risk

The success of the business relies on its ability to attract new and retain existing customers through a variety of marketing techniques. These methods may become less effective as follows:

Offline: The flow of print catalogues and sample packages would be disrupted by the incapacity of the US Postal Service to make deliveries, for example due to natural disasters or labour activism.

Online: Search engines are an important source for channelling customer activity to 4imprint's websites. The efficiency of search engine marketing could be adversely affected if the search engines were to modify their algorithms or otherwise make substantial changes to their practices.

Potential impact

- If sustained over anything more than a short time period, an externally-driven decrease in the effectiveness of key marketing techniques would cause damage to the customer file as customer acquisition and retention fall. This would affect order flow and revenue in the short term and the productivity of the customer file over a longer period, impacting growth prospects.

Mitigating activities

- *Offline:* Developments in the US Postal Service are closely monitored through industry associations and lobbying groups. Alternative parcel carriers are continuously evaluated.
- *Online:* Management stays very close to new developments and emerging technologies in the online space. Efforts are focused on anticipating changes and ensuring compliance with both the requirements of providers and applicable laws.
- The Marketing team constantly tests and evaluates new marketing techniques and opportunities in order to broaden the overall marketing portfolio and to reduce the dominance of any one constituent element. An example is the brand marketing campaign launched during 2018.

Link to strategy

- Market leadership
- Organic revenue growth
- Cash generation and profitability

Direction

- Successful marketing diversification in 2018 via the introduction of the brand marketing investment
- **↓Decreased**

Operational risks continued

Reliance on key personnel

Description of risk

Performance depends on the ability of the business to continue to attract, motivate and retain key staff. These individuals possess sales and marketing, merchandising, supply chain, IT, financial and general management skills that are key to the continued successful operation of the business.

Potential impact

- The loss of key employees or inability to attract appropriate talent could adversely affect the Group's ability to meet its strategic objectives, with a consequent negative impact on future results.

Link to strategy

- Market leadership/revenue growth
- Cash generation and profitability
- Shareholder value

Mitigating activities

- The business is proactive in aiming to deliver a first class working environment. In addition, competitive employment terms and incentive plans are designed with a view to attracting and retaining key personnel.

Direction

- The business has been able to attract and retain appropriate talent
- = **Unchanged**

Technological risks

Failure or interruption of information technology systems and infrastructure

Description of risk

The business is highly dependent on the efficient functioning of its IT infrastructure. An interruption or degradation of services at any 4imprint operational facility would affect critical order processing systems and thereby compromise the ability of the business to deliver on its customer service proposition.

Potential impact

- In the short term, orders would be lost and delivery deadlines missed, decreasing the efficiency of marketing investment and impacting customer acquisition and retention.
- Revenue and profitability are directly related to order flow and would be adversely affected as a consequence of a major IT failure.
- Depending on the severity of the incident, longer term reputational damage could result.

Link to strategy

- Market leadership
- Organic revenue growth
- Cash generation and profitability

Mitigating activities

- There is significant ongoing investment in both the IT team supporting the business and the hardware and software system requirements for a stable and secure operating platform.
- Back-up and recovery processes are in place, including immediate replication of data to an alternative site, to minimise the impact of information technology interruption.
- Cloud-based hosting for eCommerce and other back end functionality.

Direction

- The IT platform is mature, and performance has been efficient and resilient
- = **Unchanged**

Technological risks continued

Failure to adapt to new technological innovations

Description of risk

The operating platforms of the business may not be able to respond and adapt to rapid changes in technology. If the development of websites and customer-facing applications for alternative devices and platforms is slow or ineffective the business could lose competitive edge. In addition, the development of order processing, supplier-facing and data analytics technologies could fail to deliver the improvements in speed, ease and efficiency necessary to attract and retain a productive customer base.

Potential impact

- If the business fails to adapt to new technologies and therefore falls behind in the marketplace, it may fail to capture the number of new customers and retain existing customers at the rate required to deliver the growth rates called for in the Group's strategic plan.

Link to strategy

- Market leadership
- Organic revenue growth

Mitigating activities

- Management has a keen awareness of the need to keep pace with the rapidly changing and continuously evolving technological landscape.
- An appetite for technological innovation is encouraged in the business. Sustained investment is made in the development of both outward-facing and back office systems.

Direction

- Innovation remains a priority
- = **Unchanged**

Security of customer data

Description of risk

Unauthorised access to and misappropriation of customer data could lead to reputational damage and loss of customer confidence. This is a rapidly changing environment, with new threats emerging on an almost daily basis.

Potential impact

- A significant security breach could lead to litigation and losses, with a costly rectification process. In addition, it might be damaging to the Group's reputation and brand.
- An event of this nature might result in significant expense, impacting the Group's ability to meet its strategic objectives.

Link to strategy

- Cash generation and profitability
- Shareholder value

Mitigating activities

- The business employs experienced IT staff whose focus is to mitigate IT security violations. Investment in software and other resources in this area continues to be a priority.
- Due to the ever-evolving nature of the threat, emerging cyber risks are addressed by the IT security team on a case-by-case basis.
- Technical and physical controls are in place to mitigate unauthorised access to customer data and there is an ongoing investment process in place to maintain and enhance the integrity and efficiency of the IT infrastructure and its security.

Direction

- The general incidence and publicity around cyber-crime continues to increase
- ↑ **Increased**