

Principal Risks & Uncertainties

Outlined below are the current principal potential risks and uncertainties to the successful delivery of the Group's strategic goals. The list is not exhaustive and other, as yet unidentified, factors may have an adverse effect.

ECONOMIC, MARKET AND ENVIRONMENTAL 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 (excluding the COVID-19 pandemic), 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 changing economic climates.
- The Group's balance sheet funding policy aims to provide operational and financial flexibility to facilitate continued investment in the business through different economic cycles.

Direction

- The COVID-19 pandemic has had a significant negative impact on demand for our products due to the overall economic impact of the pandemic as well as the resulting restrictions/concerns around meetings/gatherings
- International trade tensions and political instability have increased economic volatility in the US
- Brexit uncertainty in the UK has led to lack of business confidence
- Significantly increased

Markets & competition

Description of risk

The promotional products markets in which the business operates are intensely competitive. New or disruptive business models looking to break down the prevailing distributor/supplier structure may become a threat. Buying groups and online marketplaces may allow smaller competitors access to improved pricing and services from suppliers. Private equity interest in the promotional products industry has increased in recent years, offering potential funding for existing competitors or new entrants. The effects of the COVID-19 pandemic may reduce the use of promotional products in the future.

Potential impact

- Aggressive competitive activity or a disruptive new model could result in pressure on prices, margin erosion and loss of market share, impacting the financial results.
- The Group's strategy based on achieving organic revenue growth in fragmented markets may need to be reassessed.
- Customer acquisition and retention could fall, impacting revenue in current and future periods.

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. Negative customer feedback is investigated and addressed rapidly.
- Management regularly surveys customers and engages in research to monitor changing customer interests and perceptions. Merchandising and supply chain teams, in collaboration with our suppliers, have experience in rapidly adapting the product range to meet evolving consumer demand. Management is prepared to test and/or add additional products to meet changing customer service requirements.

Direction

- The competitive landscape to date has been relatively consistent in our main markets
- No disruptive model has yet gained much traction in the industry
- Unchanged

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, purchases of own shares 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 and on translation of Sterling costs into US dollars.

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
- Robust financial structure

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 mainly 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 and trade tensions (US) and the consequences of Brexit (UK) have led to increased volatility in currency markets
- Increased

Climate change & environment

Description of risk

Climate change potentially affects our operations, facilities, supply chain, team members, communities and our customers in a variety of ways. As such, it presents a multitude of risks to the business and threatens our ability to achieve our strategic objectives.

Potential impact

- Extreme weather-related events that impact our customers and/or our suppliers can have 'episodic' negative impact on revenue, customer acquisition and retention, and they can also cause increases to our product and distribution costs. Some of our suppliers are located in geographic areas that are subject to increased risk for these events.
- The transition to a low-carbon economy presents several key risks:
- Potential for increased operational costs related to mitigation efforts, increased regulatory compliance and carbon taxes.
- Increased product costs charged by our suppliers due to increased input costs and regulatory compliance.
- Customers will increasingly require a wider range of low-carbon, sustainable product options that may be difficult to identify and source, negatively impacting demand.
- Increasingly stakeholders will demand that companies are actively and appropriately addressing climate change and there is an increased level of reputational risk for companies that are perceived not to be doing so.

Link to strategy

- Cash generation and profitability
- Building a sustainable business

Mitigating activities

- The flexible nature of our 'drop-ship' model allows for relatively rapid adjustment to episodes of extreme weather. The business has very low customer concentration which helps mitigate an element of the risk as well.
- The business has set a goal to become 'carbon neutral' by no later than December 2022 and management is actively monitoring and measuring progress towards this goal.
- Our merchandising teams actively collaborate with our suppliers to continuously curate our range of products to adapt and meet the needs and tastes of our customers.

Direction

- There is an increasing sense of urgency globally, and as such, the risks in this area will increase as well
- 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 pandemic, 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.
- A significant portion of our apparel orders are embroidered in-house at our distribution centre, therefore disruption at this facility would impact our ability to fulfil these orders.
- 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.
- Websites are cloud-based, and data is backed up immediately to off-site servers.
- Relationships are maintained with third party embroidery contractors to provide an element of back-up in the event of facility unavailability.
- A significant proportion of our office and customer service staff can work from home, mitigating some risk should offices become unavailable.

Direction

- The COVID-19 pandemic raises the risk of potential shutdown of one or all of our facilities
- Increased

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; (ii) a key supplier's own supply chain is compromised by 'force majeure' events in the country of original product manufacture, for example natural disasters, social/political unrest or pandemic; or (iii) 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.

Link to strategy

- Market leadership
- Organic revenue growth
- Cash generation and profitability
- Building a sustainable business

Mitigating activities

- A rigorous selection process is in place for key suppliers, with evaluation and monitoring of quality, production capability and capacity, ethical standards, financial stability and business continuity planning.
- Very close relationships are maintained with key suppliers, including a detailed shared knowledge of factory locations, operations and capabilities in the country of original product manufacture, allowing swift understanding of and appropriate reaction to events.
- Dialogue with key suppliers has been increased during the pandemic to monitor for signs of distress.
- Wherever possible, relationships are maintained with suitable alternative suppliers for each product category.
- Secondary relationships are in place with alternative parcel carriers.

Direction

- Risk inherent in increasing supplier concentration
- COVID-19 pandemic has increased risk
- 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. Pandemic conditions that lead to increased levels of people working from remote locations may diminish the effectiveness of this technique.
- **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.
- **TV/Video/Brand:** Fluctuations in available inventory may cause the price of this technique to increase beyond our acceptable thresholds. The evolving nature of how consumers access this type of content can change our ability to effectively access our audience.

In addition, the evolving landscape around data privacy legislation potentially affects our ability to access and analyse customer data information.

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.
- Restrictive data privacy legislation could decrease the yield on our marketing activities and might increase compliance costs and the possibility of lawsuits.

Link to strategy

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

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 platforms in the online space. Efforts are focused on anticipating changes and ensuring compliance with both the requirements of providers and applicable laws.
- **TV/Video/Brand:** Given that this is the newest element of our marketing portfolio, our utilisation of this technique is still in the early stages of its development, allowing for a high degree of flexibility.
- Data privacy requirements are monitored closely and assessed.

Direction

- Marketing diversification continues via the successful integration of a brand component to the marketing portfolio
- The COVID-19 pandemic has negatively impacted offline response rates
- Increased

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
- Building a sustainable business

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.
- Succession planning, both at Board and operational levels.

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, including through the COVID-19 pandemic with high levels of staff working from home
- Unchanged

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 identify and adopt 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
- Building a sustainable business

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

Cyber threats

Description of risk

Malware, ransomware and other malicious cyber threats can lead to system failure and/or unauthorised access to and misappropriation of customer data, potentially leading 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

- Revenue and profitability are directly related to order flow and would be adversely affected as a consequence of system compromise.
- 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 identify and mitigate IT security vulnerabilities. Investment in software and other resources in this area continues to be a high 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 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 incidence of malicious cyber activity during the current COVID-19 pandemic
- Increased