

# PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

## Strategic risks

### Macroeconomic conditions

#### RISK AND DESCRIPTION

The Group 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.

#### STRATEGIC RELEVANCE

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

#### MITIGATION

- ▶ 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 product range can be adjusted to resonate with customer requirements and budgets in changing economic climates.
- ▶ The Group's balance sheet funding policy provides operational and financial flexibility to facilitate continued investment in the business through different economic cycles.

#### DIRECTION

- ▶ **Whilst concerns remain with respect to potential new COVID-19 virus variants, the risk of a negative effect on demand for our products arising from the pandemic is considered to have receded.**
- ▶ **A challenging macroeconomic and geopolitical environment continues to cause uncertainty in our North American and UK markets, posing downside risks to general economic conditions and growth.**
- ▶ **Persistent inflationary pressures could drive up product, transportation and labour costs.**

➡ **Unchanged**

### Markets & competition

#### RISK AND DESCRIPTION

The promotional products markets in which the business operates are intensely competitive. New or disruptive business models looking to break down our industry's 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.

#### STRATEGIC RELEVANCE

- ▶ Aggressive competitive activity or a disruptive new model could result in pressure on prices, margin erosion and loss of market share, impacting the Group's 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.

#### MITIGATION

- ▶ Service level, price and satisfaction guarantees are an integral part of the customer proposition. Negative or changing customer feedback is investigated and addressed rapidly. Customers are surveyed regularly to monitor changing customer interests and perceptions.
- ▶ Merchandising and supply chain teams have extensive experience in rapidly adapting the product range to meet evolving consumer demand.
- ▶ Our aim is to position the business at the forefront of innovation in the industry, driven by an open-minded culture that is customer-focused, embraces collaborative supplier relationships, and has an appetite for technology.
- ▶ Management closely monitors competitive activity in the marketplace including periodic market research studies.

#### DIRECTION

- ▶ **The competitive landscape to date has been relatively consistent on the distributor side in our main markets.**

➡ **Unchanged**

## Effectiveness of key marketing techniques and brand development

### RISK AND DESCRIPTION

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:

- **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 could change our ability to effectively access our audience.
- **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.
- **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.

The evolving landscape around consumer data privacy preferences and data privacy legislation potentially affects all marketing techniques if it compromises our ability to access and analyse customer information or results in any adverse impacts to our brand image and reputation.

### STRATEGIC RELEVANCE

- ▶ 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 in future years.
- ▶ Restrictive data privacy legislation or changes in consumer demands around data privacy could decrease the yield on our marketing activities and might increase compliance costs and the possibility of lawsuits.

### MITIGATION

- ▶ **TV/Video/Brand:** Given that this is the newest element of our marketing portfolio, our utilisation of this technique is still at a relatively early stage of its development, allowing for a high degree of flexibility.
- ▶ **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.
- ▶ **Offline:** Developments in the US Postal Service are closely monitored through industry associations and lobbying groups. Alternative parcel carriers are continuously evaluated.
- ▶ Data privacy requirements and consumer data preferences are monitored closely and assessed.

### DIRECTION

- ▶ **Marketing diversification continues via the successful integration of a brand component to the marketing portfolio.**
- ▶ **The trend towards 'work-from-home', accelerated by the COVID-19 pandemic, has negatively impacted response rates for print catalogues. This has resulted in a successful redeployment of offline/print budget towards further investment in brand and online marketing.**
- ▶ **The business has significantly reduced the amount of data it shares, increasingly relying on first party data.**

➡ **Unchanged**

## PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

# Operational risks

## Business facility disruption

### RISK AND DESCRIPTION

The 4imprint business model means that operations are concentrated in centralised office, distribution and production 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.

### STRATEGIC RELEVANCE

- ▶ 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.

### MITIGATION

- ▶ Back-up and business continuity infrastructure is in place to ensure the risk of customer service disruption is minimised.
- ▶ Websites are cloud-based, and data is backed up continuously 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.
- ▶ Our recently acquired screen-printing operations have been located separately to our existing distribution centre to diversify the risk of disruption to our facilities.
- ▶ A significant proportion of our office and customer service staff can work from home, mitigating some risk should offices become unavailable.

### DIRECTION

- ▶ **Whilst concerns remain with respect to potential new COVID-19 virus variants, the risk of potential shutdown of one or all of our facilities from a return to 'lockdown' type restrictions is considered to have receded.**

➡ Decreased

## Domestic supply and delivery

### RISK AND DESCRIPTION

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.

### STRATEGIC RELEVANCE

- ▶ 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, leading to potential erosion of the value built up in the 4imprint brand.

### MITIGATION

- ▶ 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 the supply end of the value chain, allowing swift understanding of and appropriate reaction to events.
- ▶ Wherever possible, relationships are maintained with suitable alternative suppliers for each product category.
- ▶ Secondary relationships are in place with alternative parcel carriers.

### DIRECTION

- ▶ **The significant growth in demand experienced during the year has led to increased volumes being placed with certain individual suppliers. This has led to an increase in the inherent risk of supplier concentration, although the Group continues to manage this risk through relationships with alternative suppliers.**
- ▶ **The disruption to global and local supply chains, initially caused by the impact of the pandemic, continues to persist. The lessening impact from COVID-19 on the Group's ability to fulfil customer orders on a timely basis has been offset with ongoing challenges in the recruitment of staff by both the Group and our supply partners, the risk of strikes at our parcel delivery partners, and elevated order levels experienced during the period.**
- ▶ **Whilst the residual risk continues to remain elevated, it is considered to have stabilised in comparison to the prior year.**

➡ Unchanged

## Failure or interruption of information technology systems and infrastructure

### RISK AND DESCRIPTION

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.

### STRATEGIC RELEVANCE

- ▶ 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.

### MITIGATION

- ▶ There is continuous 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 elements of back-office functionality.
- ▶ IT infrastructure in place to support working from home for our office-based team members.

### DIRECTION

- ▶ **The IT platform is mature, and performance has been efficient and resilient, including through the COVID-19 pandemic and more recently with higher levels of staff working from home.**
- ▶ **The rollout of our home working computer solution is now complete, enabling the vast majority of our office-based team members to work from home.**

➡ Unchanged

# PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

## Reputational risks

### Cyber threats

#### RISK AND DESCRIPTION

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.

#### STRATEGIC RELEVANCE

- ▶ 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.

#### MITIGATION

- ▶ 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.
- ▶ 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.
- ▶ 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.
- ▶ Third party cyber security consultants are employed as and when appropriate.

#### DIRECTION

- ▶ **The expected frequency, sophistication and publicity around cyber crime continues to increase. Accordingly, a high residual risk assessment continues to be maintained.**

➡ **Unchanged**

## Supply chain compliance & ethics

### RISK AND DESCRIPTION

Our business model relies on direct (tier 1) and indirect (tier 2 & 3) relationships with suppliers located both within our primary markets and at overseas locations. 4imprint has for many years had very high ethical expectations for supply chain compliance, but there is always a risk that our wider supply chain partners may, from time to time, not comply with our standards or applicable local laws.

### STRATEGIC RELEVANCE

- ▶ Significant or continuing non-compliance with such standards and laws could result in serious damage to our reputation and brand image.
- ▶ This could have an adverse effect on our ability to acquire and retain customers and therefore our longer-term revenue prospects and financial condition.

### MITIGATION

- ▶ Key tier 1 suppliers must commit to cascading our ethical sourcing expectations down to their tier 2 and tier 3 supply chain partners.
- ▶ Specifically, we require our suppliers to comply with our supplier compliance documentation, including the '4imprint Supply Chain Code of Conduct' and the '4imprint Factory & Product Compliance Expectations' document.
- ▶ We are active in promoting audit coverage of our supply chain at many levels, and in ensuring that product safety and testing protocols are adequate and up to date.

### DIRECTION

- ▶ **Our supplier compliance programme is well established.**
- ▶ **Whilst visits to, and audits of, both domestic and overseas suppliers have increased since the start of the COVID-19 pandemic, challenges in visiting certain locations continue to persist.**

➡ **Unchanged**

## Legal, regulatory and compliance

### RISK AND DESCRIPTION

We are subject to, and must comply with, extensive laws and regulations, particularly in our primary US market. An example is data privacy legislation.

### STRATEGIC RELEVANCE

- ▶ If we or our employees, suppliers and other partners fail to comply with any of these laws or regulations, such failure could subject us to fines, sanctions or other penalties that could negatively affect our brand, reputation and financial condition.

### MITIGATION

- ▶ Consultation with subject matter experts, specialist external legal advisers and Government agencies as appropriate.
- ▶ US General Counsel recruited during 2022.

### DIRECTION

- ▶ **Obligations continue to be complied with and monitored.**

➡ **Unchanged**

## PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

# Environmental risks

## Climate change

### RISK AND DESCRIPTION

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.

### STRATEGIC RELEVANCE

- ▶ 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 of these events.
- ▶ Further, if the business is not seen to be taking deliberate and tangible actions to reduce its GHG emissions, the Group's reputation and brand may be damaged.

### DIRECTION

- ▶ **There remains a global sense of urgency in relation to climate change. As such, the risks in this area remain elevated, albeit they are considered stable over the period.**

➡ **Unchanged**

### MITIGATION

- ▶ 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 became 'carbon neutral' in 2021 in respect of Scopes 1 and 2 and meaningful elements of Scope 3, a year earlier than originally targeted.
- ▶ Our solar array project at the Oshkosh distribution centre became fully operational during 2022, significantly increasing the portion of the Group's power requirements generated from renewable sources.
- ▶ Management is actively monitoring and measuring progress towards further environmental goals, most notably further GHG reductions in Scopes 1 and 2 and meaningful elements of Scope 3.

## Products and market trends

### RISK AND DESCRIPTION

The transition to a low carbon economy may lead to changing product trends or consumer preferences that render certain products undesirable or obsolete whilst increasing demand for others.

### STRATEGIC RELEVANCE

- ▶ Failure to anticipate accurately, and respond to, trends and shifts in consumer preferences by adjusting the mix of existing product offers may lead to lower demand for our products, impacting our market position and ability to generate revenue growth.

### MITIGATION

- ▶ Our merchandising teams actively collaborate with our suppliers to continuously curate our range of products to adapt to and meet the needs and tastes of our customers.
- ▶ Our Better Choices™ initiative has been launched to highlight promotional products that have sustainable attributes, giving our customers the ability to research product attributes and supplier standards and certifications related to sustainability, environmental impact, workplace culture and more.

### DIRECTION

- ▶ **The transition to a low carbon economy is driving changes in consumer preferences towards sustainable products.**
- ▶ **However, the fact that most of the products in our broad range are also sold unbranded in the retail setting, and with the launch of our Better Choices™ initiative, the pace of the transition towards sustainable choices is likely to remain quite manageable.**

▼ Decreased