Risk Management and Principal Risks continued

Strategic consequence

- Organic growth
- Value-adding acquisition
- Operational excellence

Likelihood key

Unlikely Possible Likely

Potential impact key

Low Medium High

1 Economic risk

Likelihood

Potential impact

Risk change
No change

Risk appetite
Cautious

Strategy link

Risk and impact
A decline in general economic activity and/or a specific decline in activity in the construction industry, including, but not exclusively, a decline caused by economic uncertainty, inflation, high interest rates and impacts of the Russian invasion of Ukraine.

Demand for our products serving the residential and commercial construction markets would decline. This would result in a reduction in revenue and profitability.

Our ability to achieve our ambition for continuing organic growth would be adversely affected.

Change during the year
Economic uncertainty in part as a result of post-Covid economic upheaval and the Russian invasion of Ukraine has continued across the world during FY23.

As a result of the high inflation environment, the UK and most of our geographies have continued to experience a "cost of living crisis".

Governments and central banks have taken strong actions to reduce inflation, primarily by raising key interest rates. This has had some success, with inflation now falling in most of our geographies. The primary source of global inflation – the invasion of Ukraine and the global price of energy and agricultural products – continues to be a risk, although wholesale prices have fallen for both.

There remains considerable uncertainty on the direction of inflation in the short and medium term, and hence the extent to which interest rates may rise further or stay higher for longer than expected. The impact on the housing and construction industry in uncertain.

As such, it is appropriate that "economic risk" remains our primary principal risk.

Risk mitigation
Geographic spread from our international acquisition strategy helps to mitigate the impact of local fluctuations in economic activity.

New product development, the breadth of our product portfolio and the strength and specialisation of our sales forces allows us to outperform against any general economic decline.

Our end-market diversity, with exposure to both residential and commercial and to new build and RMI provides mitigation to economic and housebuilding cycles. Our business is not capital intensive and our operational flexibility allows us to react quickly to the impact of any decline in volume.

Link to climate change risks
Over the longer term, a decline in general economic activity or economic disruption could be caused by physical or transitional risks of climate change. Relevant climate change risks described in further detail in our TCFD section include: Climate risk 1 – Physical risk, Climate risk 2 – Transition risk Reputation, Climate risk 3 – Transition risk policy and legal, and Climate risk 4 Policy and technology.

However, it is important to note that our sustainability ambition is to champion the energy saving potential of our products and solutions and support the net zero ambitions of the countries in which we operate. The regulatory tailwinds should significantly increase demand for our sustainable and innovative ventilation solutions, while our leadership position in the UK, Continental Europe and Australasia means that we are well positioned to seize this opportunity (Transition opportunity 1 – Products and Markets).

Strategic consequence

- Organic growth
- Value-adding acquisition
- Operational excellence

Likelihood key

Unlikely Possible Likely

Potential impact key

Low Medium High

2 Acquisitions

Likelihood

Possible

Potential impact

Medium

Risk change

No change

Risk appetite

Open

Strategy link

Value-adding acquisition

Risk and impact

We may fail to identify suitable acquisition targets at an acceptable price or we may fail to complete or properly integrate the acquisition.

Revenue and profitability would not grow in line with management's ambitions and investor expectations.

Failure to properly integrate a business may distract senior management from other priorities and adversely affect Group revenue and profitability.

Financial performance could be impacted by failure to integrate acquisitions and to secure intended synergies.

Our strategic ambition to grow by acquisition may be compromised.

Change during the year

Whilst the timing and opportunity landscape for acquisitions will vary from time to time, we are positive about the potential range of opportunities in the coming years as exemplified by the two transactions completed during the year ended 31 July 2023 and an additional acquisition in August 2023 (see pages 50 and 51).

Risk mitigation

The ventilation industry in Europe remains fragmented with many opportunities to court acquisition targets.

Senior management has a clear understanding of potential targets in the industry and a track record of acquisitions since IPO in June 2014.

Management is experienced in integrating new businesses into the Group.

Our policy of rigorous due diligence prior to acquisition and a structured integration process post-acquisition have been maintained.

Link to climate change risks

N/a

3 Supply chain and raw materials

Likelihood

Possible

Potential impact

Medium

Risk change

Reducing

Risk appetite

Open

Strategy link

Organic growth, Operational excellence

Risk and impact

Raw materials or components may become difficult to source because of material scarcity or disruption of supply including but not exclusively, as a consequence of economic uncertainty, the Russian invasion of Ukraine, supply interruptions in China, and the evolution of the relationship between the UK and the EU post Brexit.

The increased friction and potential for a trade war or other geopolitical disputes including between the US and China could destabilise supply chain activity.

Prices for input materials may increase and our sales and profitability may be impacted during any period of constraint.

Organic growth may be reduced. Our product development efforts may be redirected to find alternative materials and components.

Change during the year

Potential for disruption to supply chains, especially relating to products and materials sourced from China, continues to be a specific risk that we are managing very closely. Potential impacts could include inability to service customer demand due to non-availability of products as well as input cost increases due to the need to airfreight.

Risk mitigation

We establish long-term relationships with key suppliers to promote continuity of supply and where possible we have alternative sources identified.

We continue to monitor stock levels and order patterns and where deemed necessary will adjust inventory levels to help mitigate any disruptions in supply.

Link to climate change risks

Over the longer term, supply chain issues could be caused by physical or transitional risks of climate change. Relevant climate change risks described in further detail in our TCFD section include: Climate risk 1 – Physical risk, Climate risk 2 – Transition risk Reputation, Climate risk 3 – Transition risk policy and legal, and Climate risk 4 Policy and technology.

Risk Management and Principal Risks continued

Strategic consequence

Organic growth

Value-adding acquisition

Operational excellence

Likelihood key

Unlikely Possible Likely

Potential impact key

Low Medium High

4 Regulation

Likelihood

Potential impact

Risk change
No change

Risk appetite
Cautious

Strategy link

Risk and impact
Laws or regulation relating to the carbon efficiency of buildings, the efficiency of electrical products and compliance may change.

The shift towards higher value-added and more energy efficient products may not develop as anticipated resulting in lower sales and profit growth.

If our products are not compliant and we fail to develop new products in a timely manner, we may lose revenue and market share to our competitors.

Our organic growth ambitions may be adversely affected.

We may need to review our acquisition criteria to reflect the dynamics of a new regulatory environment.

We may have to redirect our new product development activity.

Change during the year
We believe that the already supportive regulatory drivers around energy efficiency and improving indoor air quality will continue to be enhanced over time.

There is a risk that the current economic uncertainty could, in the extreme, lead Governments to lessen or pause green deal commitments and regulations to support energy efficient solutions, in the short term, but we deem this risk to be low and only in the short term.

Risk mitigation
We participate in trade bodies that help to influence the regulatory environment in which we operate and therefore we are well placed to understand future trends in our industry. Favourable regulatory tailwinds have continued to develop.

We are active in new product development and have the resource to react to and anticipate necessary changes in the specification of our products.

Link to climate change risks
Our sustainability ambition is to champion the energy saving potential of our products and solutions and support the net zero ambitions of the countries in which we operate. The regulatory tailwinds should significantly increase demand for our sustainable and innovative ventilation solutions, while our leadership position in the UK, Continental Europe and Australasia means that we are well positioned to seize this opportunity (Transition opportunity 1 – Products and Markets).

5 IT systems including cyber breach

Likelihood

Potential impact

Risk change
Increasing

Risk appetite
Cautious

Strategy link

Risk and impact
We may be adversely affected by a breakdown in our IT systems or a failure to properly implement any new systems.

We could temporarily lose sales and market share and could potentially damage our reputation for customer service.

Change during the year.
The risk of cyber-attack and cyber fraud continues to increase for all businesses. During the year, a failed ransomware attack in one of our businesses, was dealt with efficiently and effectively, and demonstrated our ability to deal with such attacks.

Risk mitigation
Disaster recovery and data backup processes are in place, operated diligently and tested regularly.

Our decentralised IT systems mean that it is unlikely that a material proportion of the Group could be compromised at any one time.

We have a three-layered system of network security protection against cyber-attacks or breaches of security. This infrastructure is maintained to withstand increasingly sophisticated worldwide cyber threats. We also undertake regular cyber security testing and training of our employees. We have a process of annual internal and external penetration testing with quarterly monitoring checks and have carried out an audit review of all third-party IT suppliers.

Link to climate change risks
N/a

Strategic consequence

- Organic growth
- Value-adding acquisition
- Operational excellence

Likelihood key

Unlikely Possible Likely

Potential impact key

Low Medium High

6 People

Likelihood

Potential impact

Risk change
No change

Risk appetite
Cautious

Strategy link

Risk and impact
Our continuing success depends on retaining key personnel and attracting skilled individuals.

Skilled and experienced employees may decide to leave the Group, potentially moving to a competitor. Any aspect of the business could be impacted with resultant reduction in prospects, sales, and profitability.

Our competitiveness and growth potential, both organic and inorganic, could be adversely affected.

Operational excellence may be adversely affected.

Change during the year
The direct risk of Covid-19 causing widespread colleague sickness has largely ended, although we remain mindful of the potential risk of resurgence and continue to ensure the utmost priority is given to the health and wellbeing of our employees.

A high inflation environment and "cost of living crisis" may impact our ability to retain talent.

Our continuing growth has increased the size and complexity of our business.

Risk mitigation
Regular employee appraisals allow two-way feedback on performance and ambition.

A Management Development Programme is run periodically to provide key employees with the skills needed to grow within the business and to enhance their contribution to the business.

The Directors regularly review succession planning and key roles.

Link to climate change risks
N/a

7 Innovation

Likelihood

Potential impact

Risk change
No change

Risk appetite
Cautious

Strategy link

Risk and impact
We may fail to innovate commercially or technically viable products to maintain and develop our product leadership position. Scarce development resource may be misdirected and costs incurred unnecessarily.

Failure to innovate may result in an ageing product portfolio that falls behind that of our competition.

Our organic growth ambitions depend in part upon our ability to innovate new and improved products to meet and create market needs. In the medium term, failure to innovate may result in a decline in sales and profitability. Operational excellence may be adversely affected.

Change during the year
The focus of our capital expenditure investment this year was in new product development which, when taken together with the product portfolios and R&D capability of our two new business acquisitions, demonstrates our continued focus on product innovation.

Risk mitigation
Our product innovation is driven by a deep understanding of the ventilation market and its economic and regulatory drivers. The Group starts with a clear marketing brief before embarking on product development.

Link to climate change risks
N/a

Risk Management and Principal Risks continued

Strategic consequence

Organic growth

Value-adding acquisition

Operational excellence

Likelihood key

Unlikely Possible Likely

Potential impact key

Low Medium High

8 Customers

Likelihood

Potential impact

Risk change
No change

Risk appetite
Open

Strategy link

Risk and impact
A significant amount of our revenue is derived from a small number of customers and from our relationships with heating and ventilation consultants. We may fail to maintain these relationships.

Any deterioration in our relationship with a significant customer could have an adverse significant effect on our revenue from that customer.

Our organic growth ambitions and operational excellence would be adversely affected.

Change during the year
The current macroeconomic uncertainty means that certain customers could fall into financial difficulties. However, we have not yet seen a material increase in the number of customers failing or of bad debt.

Risk mitigation
We have strong brands, recognised and valued by our end users, and this gives us continued traction through our distribution channels and with consultants and specifiers.

We have a very wide range of ventilation and ancillary products that enhance our brand proposition and make us a convenient "one-stop-shop" supplier.

We continue to develop new and existing products to support our product portfolio and brand reputation.

We focus on providing excellent customer service.

Link to climate change risks
Our sustainability ambition is to champion the energy saving potential of our products and solutions and support the net zero ambitions of the countries in which we operate. The regulatory tailwinds should significantly increase demand for our sustainable and innovative ventilation solutions, and strengthen the industry as a whole, including our customers (Transition opportunity 1 – Products and Markets).

9 Foreign exchange risk

Likelihood

Potential impact

Risk change
No change

Risk appetite
Cautious

Strategy link

Risk and impact
Foreign exchange rates between currencies that we use may move adversely.

The commerciality of transactions denominated in currencies other than the functional currency of our businesses and/or the perceived performance of foreign subsidiaries in our Sterling denominated consolidated financial statements may be adversely affected by changes in exchange rates.

Our ambition to grow internationally through acquisition exposes us to increasing levels of translational foreign exchange risk.

Change during the year
The current macroeconomic uncertainty has led to large movements in exchange rates and continued volatility is likely.

Risk mitigation
Significant transactional risks are hedged by using forward currency contracts to fix exchange rates for the ensuing financial year.

Revaluation of foreign currency denominated assets and liabilities is partially hedged by corresponding foreign currency bank debt.

Link to climate change risks
How each government and economy respond to the risks of climate change over the long term may impact the macroeconomic outlook for the countries in which we operate, and hence move foreign exchange rates adversely.