

Principal Risks and Uncertainties



"We believe that effective risk management is critical to the achievement of our strategic objectives and the long-term sustainable growth of our business. The Board continues to take a proactive approach to recognising and mitigating risk with the aim of protecting its employees and customers and safeguarding the interests of the Group and its stakeholders".

Our approach to Risk Management

The Board has overall accountability for ensuring that risk is effectively managed across the Group and, on behalf of the Board, the Audit Committee coordinates and reviews the effectiveness of the Group's risk management process.

Risks are reviewed by all of our businesses on an ongoing basis and are measured against a defined set of likelihood and impact criteria. This is captured in consistent reporting formats enabling the Audit Committee to review and consolidate risk information and summarise the principal risks and uncertainties facing the Group. Wherever possible, action is taken to mitigate, to an acceptable level, the potential impact of identified principal risks and uncertainties.

| Risk Rating | Risk Level | Action |
|-------------|----------------|---------------|
| ● 20+ | Very High Risk | Stop |
| ● 12 to 16 | High Risk | Urgent Action |
| ● 8 to 10 | Medium Risk | Action |
| ● 4 to 6 | Low Risk | Monitor |
| ● 1 to 3 | Very Low Risk | No Action |

The Board formally reviews the most significant risks facing the Group at its February and August meetings, or more frequently should new matters arise. Throughout 2021, and other than as described below, the overall risk environment remained largely unchanged from that reported within the Group's 2020 Annual Report.

| | | | | | | |
|--------|---------------|------------|--------|----------|--------|----------------|
| | | 5 | 10 | 15 | 20 | 25 |
| IMPACT | Severe | 5 | 10 | 15 | 20 | 25 |
| | Significant | 4 | 8 | 12 | 16 | 20 |
| | Moderate | 3 | 6 | 9 | 12 | 15 |
| | Minor | 2 | 4 | 6 | 8 | 10 |
| | Insignificant | 1 | 2 | 3 | 4 | 5 |
| | | 1 | 2 | 3 | 4 | 5 |
| | | Improbable | Remote | Possible | Likely | Almost Certain |
| | | LIKELIHOOD | | | | |



Risk Appetite

The Board interprets appetite for risk as the level of risk that the Company is willing to take in order to meet its strategic goals. The Board communicates its approach to, and appetite for, risk to the business through the strategy planning process and the internal risk governance and control frameworks. In determining its risk appetite, the Board recognises that a prudent and robust approach to risk assessment and mitigation must be carefully balanced with a degree of flexibility so that the entrepreneurial spirit which has greatly contributed to the success of the Group is not inhibited. Both the Board and the Audit Committee remain satisfied that the Group's internal risk control framework continues to provide the necessary element of flexibility without compromising the integrity of risk management and internal control systems.

Emerging Risks

The Board has established processes for identifying emerging risks, and horizon scanning for risks that may arise over the medium to long term. Emerging and potential changes to the Group's risk profile are identified through the Group's risk governance frameworks and processes, and through direct feedback from management, including changing operating conditions, market and consumer trends.

COVID-19 Pandemic

The Group's operations have been significantly disrupted due to the COVID-19 pandemic and associated containment initiatives. As previously reported, the Board did not establish a specific principal risk in relation to the COVID-19 pandemic, or for future potential pandemics, but instead considered how each of our principal risks and uncertainties have been impacted by it. Detailed disclosures were set out on pages 39 and 40 of our 2020 Annual Report and Accounts and an update was provided within note 26 of our 2021 Interim Report.

The risks associated with the pandemic are reducing as the UK progresses with its vaccination programme and lifts the restrictions on its economy. Nevertheless, the current public health situation, the potential for future variants, and subsequent economic or operational disruption, remain factored into the Board's assessment of risk. We continue to manage the business to protect the interests of all our stakeholders, including our shareholders, our people, our customers and the communities in which we operate. The Board will continue to closely monitor the situation over the coming period and will take any required action to maintain control over the impact.

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The principal risks and uncertainties affecting the Group are set out below, together with details on how the Board takes action to mitigate each risk. These risks and uncertainties do not comprise all of the risks that the Group may face and are not necessarily listed in any order of priority. Additional risks and uncertainties not presently known to the Board, or deemed to be less material at the date of this Annual Report, may also have an adverse effect on the Group. For each principal risk we have set out the risk rating that has been attributed to each risk. Risk ratings are shown as 'net' i.e. the residual risk rating taking account of the controls and mitigation in place.

In accordance with the provisions of the UK Corporate Governance Code, the Board has taken into consideration the principal risks and uncertainties in the context of determining whether to adopt the going concern basis of preparation and when assessing the future prospects of the Group.

Key



Increased risk



Static risk

| Risk | Mitigation |
|---|---|
| <p>ECONOMIC CONDITIONS Risk Rating: High</p> <p>Our business could be susceptible to adverse changes in, inter alia, economic conditions, employment levels and customer spending habits, all of which could impact our profitability and cash flow.</p> <p>The extraordinary and unprecedented events during 2020 and 2021 enhanced this risk as a result of the various lockdowns and restrictions imposed across the UK in response to COVID-19 pandemic.</p> | <p>Given the diversity of our customer base and the various industries which we serve, it is generally possible to contain the impact of these adverse conditions. Each business continually reviews its routes to market, changes in customer demands and expectations and cost base so that it can react appropriately to the impact of the wider economy. We quickly reacted to current pressures in the wider labour market by proactively increasing wages to attract and retain employees.</p> <p>Any adverse impact on cash flow could be mitigated in the short term by controls over capital expenditure and other discretionary spend.</p> <p>In response to COVID-19, we implemented action plans to protect the liquidity of the Group and to reduce the cost base.</p> |
| <p>FAILURE OF STRATEGY Risk Rating: High</p> <p>Our current business model sets out our intentions to expand the Group by actively pursuing strategic acquisition opportunities within the textile services market. Failure to identify suitable targets, or failure to successfully integrate them, would adversely impact our growth plans and potentially lead to lower investor confidence.</p> | <p>There is considerable knowledge and expertise within the Group with regard to acquisitions. An experienced acquisition team, together with external advisors where appropriate, is involved in all acquisition activity and we have a proven track record of successfully integrating businesses into the wider Group.</p> <p>Whilst the main challenge, particularly given the current economic environment, is in identifying suitable targets and determining an appropriate level of consideration on acceptable terms, our knowledge of and relationships with other market participants leaves us well positioned to take advantage of opportunities.</p> |

| Risk | Mitigation |
|--|---|
| <p>RECRUITMENT, RETENTION AND MOTIVATION OF EMPLOYEES Risk Rating: High</p> <p>As a service orientated Group, attracting, retaining and motivating the best people with the right skills, at all levels of the organisation, is key to the long-term success of the Group.</p> <p>The Group has faced resourcing challenges in some parts of its businesses due to a lack of industry experience amongst candidates and appropriately qualified people as well as the seasonal nature of some of our business. These challenges were exaggerated in the wake of COVID-19 and BREXIT. The recent changes to the UK's immigration system could have an impact on employee availability in certain regions where we operate.</p> <p>Short term disruption could occur if a key member of our team was unavailable at short notice, either on a temporary or permanent basis. The current economic conditions may increase the risk of attrition in critical senior management positions.</p> | <p style="text-align: right;">Trend: ↑</p> <p>The Group aims to mitigate this risk by time critical targeted resource management and has established training, development, performance management and reward programmes to attract, retain, develop and motivate our people. We quickly reacted to current pressures in the wider labour market by proactively increasing wages to attract and retain employees.</p> <p>The Group has also embarked on a process of employee engagement reviews, led by an external consultant, and operates a number of well-established initiatives in response to our people's needs. One initiative arising from the employee engagement review is an 'introduce a friend scheme' which we successfully rolled out during 2021.</p> <p>The Group regularly reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given such that there is not an over reliance on any one individual.</p> <p>Furthermore, the Group has continued to develop succession planning as part of the development programmes for our people.</p> |
| <p>LOSS OF A PROCESSING FACILITY Risk Rating: High</p> <p>The loss of a key processing facility could result in significant disruption to our business.</p> | <p style="text-align: right;">Trend: →</p> <p>A wide geographic spread of processing facilities mitigates the effect of a temporary loss of any single facility as our estate provides us the ability to relocate the processing of work. Detailed business continuity plans are in place for the processing to be relocated quickly and efficiently, as demonstrated in January 2020 following a fire at our Johnsons Workwear site in Exeter.</p> <p>Furthermore, insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered.</p> |
| <p>COST INFLATION Risk Rating: High</p> <p>Our objective is always to deliver the right level of service in the most efficient way. An increase in the cost of labour or supplies could constitute a risk to our ability to do this.</p> | <p style="text-align: right;">Trend: ↑</p> <p>We seek to manage the impact of cost inflation by continuing to drive greater efficiencies through supplier rationalisation, labour scheduling and productivity improvements, the latter of which is evidenced by our ongoing investment in state of the art, energy efficient machinery.</p> <p>Cost indexation in certain of our contracts also gives us the contractual right to review pricing with our customers.</p> <p>Along with many other businesses, we are seeing inflationary pressures on some of our costs, particularly in respect of labour and energy, however, our existing scale and focus on operational excellence means we are well placed to address these challenges proactively without compromising our market share opportunity. Furthermore, we are protected to a large extent from the current volatility in gas prices with over 80% of our requirements at fixed prices throughout 2022, with reducing amounts fixed into 2023.</p> |

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| Risk | Mitigation |
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| <p>HEALTH AND SAFETY Risk Rating: Medium</p> <p>Trend: →</p> <p>Health and safety in the workplace is an extremely important consideration for an employer. Legislation is complex and failure to ensure that our employees remain safe at work may lead to serious business interruption and could result in criminal and civil prosecution, increased costs and potential damage to our reputation.</p> | <p>The Group has policies, procedures and standards in place, which are continuously updated, to ensure compliance with legal obligations and industry standards. Regular health and safety audits and risk assessments are undertaken across the Group. Regular training is provided to our people to ensure they are clear on their role and accountabilities with regards to health, safety and wellbeing practices. Prompt incident reporting procedures are maintained and all employees are encouraged to report 'near misses' in order that additional safety procedures are implemented where applicable.</p> <p>All Board and management meetings throughout the Group feature a health and safety update as an agenda item.</p> |
| <p>COMPLIANCE AND FRAUD Risk Rating: Medium</p> <p>Trend: →</p> <p>Ineffective management of compliance with increasingly complex laws and regulations, or evidence of fraud, bribery and corruption could have an adverse effect on the Group's reputation and could result in an adverse impact on the Group's performance and/or reputation if significant financial penalties are levied or a criminal action is brought against the Company or its Directors.</p> | <p>The Group's zero tolerance based Code of Ethics (the 'Code') governs all aspects of our relationships with our stakeholders and, in conjunction with our dedicated Whistleblowing Hotline, is aimed at promoting a strong culture of integrity throughout the Group. All alleged breaches of the Code, including any allegations of fraud, are investigated and action taken where appropriate.</p> <p>The Group's procedures include regular operating reviews, underpinned by a continual focus on ensuring the effectiveness of internal controls. The Group undertakes a robust risk management assessment that helps properly identify major risks and ensures the internal control framework remains effective through regular monitoring, testing and review. Emerging regulatory and compliance risks are included in this process to enable visibility and planning to address them.</p> <p>Regulation and compliance risk is also considered as part of our annual business planning process.</p> |
| <p>COMPETITION AND DISRUPTION Risk Rating: Medium</p> <p>Trend: →</p> <p>We operate in a highly competitive marketplace. Aggressive pricing from our competitors could cause a reduction in our revenues and margins.</p> <p>The levels of concentration and outsource penetration vary by region and by sector. Some markets are relatively concentrated with two or three key players whilst others are highly fragmented and offer significant opportunities for consolidation and penetration.</p> | <p>We aim to mitigate this risk by continuing to promote our differentiated propositions and focusing on our points of strength, such as transparency of our pricing, flexibility in our cost base, quality and value of service and innovation.</p> <p>Our diversified customer base and non-reliance on any one particular customer mitigates this risk to an extent.</p> |

| Risk | Mitigation |
|---|--|
| <p>INSUFFICIENT PROCESSING CAPACITY Risk Rating: Medium</p> <p>In previous years, the Group has stated that as demand increases our facilities may not be able to process the increased volume or may not be able to process it efficiently. Whilst the impact of the COVID-19 pandemic has temporarily reduced demand for our services, this risk will return as markets recover.</p> <p>Production efficiencies reduce if plants are processing too much work, quality may decline and machinery break downs are likely to increase in frequency.</p> <p>We may not be able to tender for further work due to capacity issues.</p> | <p style="text-align: right;">Trend: →</p> <p>Our increasing geographic coverage allows for work transfers to ease short term processing gaps, however, the identification of suitable processing facilities in the right location remains a priority.</p> <p>The Group has adopted a lead strategy by adding capacity in anticipation of an increase in demand, for example, the recent construction of our new high-volume hotel linen site in Leeds.</p> <p>The rapid increase in volumes experienced in May and June 2021 initially caused some service challenges as we attempted to match resource to demand. These challenges were experienced across the whole laundry sector. We have, however, since returned our service levels to a more normalised level.</p> |
| <p>CUSTOMER SALES AND RETENTION Risk Rating: Medium</p> <p>For our businesses to grow organically, we are reliant on securing and retaining a diverse range of customers. A reliance on any one particular customer or group of customers may present a risk to the future cash flows of the Group should they not be retained.</p> <p>Adverse economic conditions may lead to an increased number of our customers and clients being unable to pay for existing or additional products and services.</p> | <p style="text-align: right;">Trend: →</p> <p>We have strategies which strengthen our long-term relationships with our customers based on quality, value and innovation. Regular customer feedback surveys are undertaken across the Group and, where applicable, appropriate action taken.</p> <p>Our business model is structured so that we are not reliant on one particular customer or group of customers.</p> <p>The Group has limited concentration of credit risk with regard to trade receivables given the diverse and unrelated nature of the Group's customer base.</p> |
| <p>INFORMATION SYSTEMS AND TECHNOLOGY Risk Rating: Medium</p> <p>The digital world creates many risks for a business including, but not limited to, technology failures, loss of confidential data and damage to brand reputation through, for example, the increased and instantaneous use of social media.</p> <p>Disruption caused by the failure of key software applications, security controls or underlying infrastructure could delay day to day operations and management decision making.</p> <p>The use of sophisticated phishing and malware attacks on businesses is rising with an increase in the number of companies suffering operational disruption and loss of data.</p> <p>The increase in remote working has led to an increase in the risk of malware and phishing attacks across all organisations.</p> | <p style="text-align: right;">Trend: →</p> <p>We seek to assess and manage the effectiveness of our security infrastructure and our ability to effectively defend against current and future cyber risks by using analysis tools and experienced professionals to evaluate and mitigate potential impacts. We are currently working alongside external consultants to review and, where appropriate, strengthen our security infrastructure. Furthermore, we continually increase our employees' awareness of phishing and malware attacks through the circulation of regular educational materials.</p> <p>We also have in place appropriate crisis management procedures to handle issues in the event of our defences being breached. This is supported by using industry standard tooling, experienced professionals and partners and regular compliance monitoring to evaluate and mitigate potential impacts.</p> <p>We are focused on the need to maximise the effectiveness and security of our information systems and technology as a business enabler and to reduce both cost and exposure as a result.</p> |

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| Risk | Mitigation |
|--|---|
| <p>CLIMATE CHANGE & ENERGY COSTS Trend: → Risk Rating: Medium</p> | |
| <p>Climate change is increasingly becoming more significant and we foresee that, over time, it may have a greater impact on the Group's operations.</p> <p>For example, unpredictable weather patterns brought about by climate change are leading to increasingly more intense storms and flash flooding.</p> <p>The industry we operate in is, by its very nature, energy intensive. Climate change is important to us as a business and to our stakeholders and we are committed to energy efficiency improvement and reducing our greenhouse gas emissions, however, there remains the potential for us to see increases in both the cost of energy as well as the potential introduction of associated levies or taxation.</p> <p>Failure to appropriately demonstrate that as a business we are committed and moving towards net zero carbon emissions could negatively impact our brand and also impact our ability to operate and/or remain relevant to our customers and consumers.</p> | <p>Detailed business continuity plans are in place for the processing to be relocated quickly and efficiently, as demonstrated in February 2020 following a flood at our Johnsons Workwear site in Treforest. Furthermore, material damage and business interruption insurance cover is in place such that damage to property and the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered.</p> <p>The Group seeks to minimise volatility and manage price risk through hedging and forward buying arrangements for its diesel, electricity and gas requirements.</p> <p>Whilst we are unable to eradicate the risk of energy levies and/or taxes being introduced, we seek to mitigate such risk by continually investing in our sites and installing the latest technologically efficient machinery, for example, water and heat recovery systems.</p> <p>The launch of our refreshed Sustainability Strategy and Vision 2030 targets demonstrate the commitments we are making in this area.</p> <p>We have formed a Sustainability Committee to oversee our environmental commitments. The role of the Committee is to lend support, to monitor progress and provide guidance on our priority areas, ensuring that our targets are ambitious, realistic, and in the long-term interests of the Group, our stakeholders and the environment.</p> |