

OUTLOOK

RISK AND OPPORTUNITIES REPORT

In the course of its business activities, TAKKT is exposed to opportunities and risks. The opportunities and risk management of the Group serve to detect and assess these early. It also adopts appropriate control measures. The Management Board and Supervisory Board are regularly informed of the current risk situation of the Group and all of the major Group companies. The relationship between opportunities and risks in 2021 remained largely unchanged from the previous year from the perspective of the TAKKT Management Board. The presentation of risks in this report only includes risks above relevant threshold values with regard to probability of occurrence and impact on earnings.

SYSTEMATIC OPPORTUNITIES AND RISK MANAGEMENT

TAKKT has an opportunity and risk management system that systematically identifies, quantifies, manages and monitors all material risks and opportunities. In accordance with German Accounting Standard 20, a risk is defined as the danger of a negative deviation from the goals of the company. An opportunity is defined as the possibility of exceeding these goals. TAKKT strives to achieve a balance of risks and opportunities in all activities for the purpose of sustainably increasing the value of the company in the interest of all stakeholders.

Organizationally, the opportunities and risk management is structured as follows:

- The Management Board is responsible for establishing and overseeing the opportunities and risk management system.
- It is supported by the division presidents, the managing directors of the Group companies and the Group functions of TAKKT AG such as Operations, Technology & Data, Finance, HR, Audit and Legal.
- Important components of the opportunities and risk management system are a uniform risk management directive, a process integrated into planning for the standardized recording, evaluation and reporting of risks and opportunities; the controlling of all companies, uniform rules of management and the two-man rule applied throughout the Group.
- The Supervisory Board deals with the effectiveness of the opportunities and risk management system within the scope of its monitoring function.

- As an independent entity, the external auditor reviews the setup and suitability of the early risk detection system according to section 317(4) HGB.

- The internal auditing department continuously supervises the major processes of all Group companies to ensure that they perform well, are cost-effective and satisfy internal directives.

UNIFORM STEERING AND CONTROL SYSTEMS

The TAKKT Group's management relies on a range of uniform steering and control systems to manage the various divisions with their operating companies. The Management Board holds discussions with the subsidiaries each year on the operational planning for the coming year and the results of the risk monitoring. It is also regularly informed about the current order intake levels. The analysis and discussion of the monthly reports between the Management Board and Controlling help to actively manage risks and opportunities, also with respect to gross profit. Special report formats that provide information on significant cost blocks such as personnel and marketing costs also provide a basis for the uniform management of cost risks. The long-term management rests on planning for several years ahead. This planning is carried out annually.

In principle, all control and reporting structures begin at the level of the subsidiaries and lead up to the Management Board and Supervisory Board. The Supervisory Board's approval is required for important decisions. Internal controls have been established at all levels and at every stage of the process. Companies that have been newly founded or acquired are included in the controlling system and in the risk and opportunity management system as part of a structured integration process. They are expected to meet the same requirements as the established companies in the Group.

INTERNAL CONTROL SYSTEM FOR ACCOUNTING PROCESS IN ACCORDANCE TO SECTIONS 289 (5), 315 (2)(5) HGB

The internal control system related to financial reporting extends to the financial reporting of the entire TAKKT Group. Its purpose is to ensure the correctness and reliability of the internal and external accounting, including the necessary consolidation processes for the consolidated financial statements. It is part of the entire internal control system of the TAKKT Group and is based on the internationally recognized "Internal Control – Integrated Framework" issued by COSO (the Committee of Sponsoring Organizations of the Treadway Commission).

The effectiveness of accounting processes is documented in a recurrent process comprising risk analysis, control analysis and an assessment of the effectiveness of these internal controls. In these processes, data is first collected, updated and reviewed in relation to key risk areas according to predefined qualitative and quantitative criteria. On this basis, existing controls are identified and new control measures that are designed to limit the risks are implemented. The effectiveness of the controls is reviewed and documented at regular intervals through a self-assessment of the control officers. The results are also verified by the auditor and presented to the Supervisory Board.

TAKKT ensures the Group-wide application of Generally Accepted Accounting Principles (GAAP) and the current International Financial Reporting Standards (IFRS) by means of mandatory requirements, including accounting guidelines that are updated on an ongoing basis, a standardized chart of accounts for reporting purposes, a Group-wide schedule for the preparation of financial statements, and various manuals. If necessary, external experts or qualified consultants are called in, for example for the evaluation of pension obligations or to obtain an expert opinion on the purchase price allocation for company acquisitions. All employees who are responsible for accounting and financial reporting receive regular training.

The preparation of financial statements of the individual companies as well as their consolidation for the consolidated financial statements are carried out using a modern standard software solution. Information for the preparation of the notes is recorded with a web-based application.

Extensive testing procedures are designed to ensure the completeness and reliability of the information contained in the consolidated financial statements. The IT systems in accounting are protected against unauthorized access. IT change management systems ensure that no data is lost when changes are made to the IT infrastructure. The internal control system is fundamentally based on the principle of cross-checking by a second person for all accounting-related processes. Within the scope of the audit of the consolidated financial statements, external auditors report on the most important audit results and weaknesses in the control system for the units audited in the context of the consolidated financial statements.

CONTINUOUS ANALYSIS AND MONITORING OF OPPORTUNITIES AND RISKS

The opportunities and risks relevant for the TAKKT Group are listed by topic in the table on page 70 and explained later in the risk report. The process for the evaluation of all opportunities and risks is as follows:

- The TAKKT Group continuously analyzes the market and competitive environment of the divisions and reviews its own potential to determine whether adjustments to the business model could lead to a better market position. This systematic observation enables it to identify opportunities and risks at an early stage.
- The goal of evaluating the individual opportunities and risks is to reveal the anticipated negative or positive effect on TAKKT. The evaluation is carried out based on the criteria of probability of occurrence and the extent of the loss or opportunity. Measures already taken by the company to manage opportunity or risk are taken into account in the evaluation. Materiality thresholds are used with respect to the potential gain or loss depending on the level of analysis. This is done in order to show the relevance of the opportunities and risks under discussion.
- Based on this analysis, TAKKT defines measures that can be applied in order to limit, manage or avert risks and allow the opportunities to be used.

The individual risks and opportunities of TAKKT are shown on the following page. The risks of the Group are explained in the following; the opportunities are discussed starting on page 77.

Overview of opportunities and risks

	Economy and competition	Corporate strategy and positioning	Operating processes	Finance and legal
Possible risks	<p>Economic downturn and pandemic</p> <p>Competition from established providers and new market participants</p>	<p>Structural changes in demand</p> <p>Implementation risk in relation to the transformation</p> <p>Integration risks associated with acquisitions</p> <p>Risks associated with disposals</p> <p>Loss of major customers</p> <p>Increasing dependence on e-commerce</p>	<p>Limited product availability and rising purchasing prices</p> <p>Disruption of operational business</p> <p>Limited availability and performance of the IT and communications systems</p> <p>Introduction of new IT systems</p> <p>Cybercrime</p> <p>Quality problems related to direct imports</p>	<p>Exchange rate risks: Transaction risks and translation risks</p> <p>Increased loss of receivables</p> <p>Legal and compliance risks</p> <p>Risks from tax and tariff changes</p> <p>More restrictive data protection regulations</p>
Possible opportunities	<p>Economic upswing</p>	<p>New strategic and organizational positioning</p> <p>Increasing market shares for distance selling and strong growth in e-commerce</p> <p>Value-creating acquisitions and start-ups</p> <p>Sustainability as a competitive advantage</p>	<p>Further development of IT applications</p> <p>Increased use of new technologies</p>	<p>Good access to capital</p>

ECONOMY AND COMPETITION

Economic downturn and pandemic

B2B distance selling for business equipment is generally dependent on the underlying economic conditions. TAKKT's business model is therefore subject to general economic risk. The Group has mostly managed to cushion the effects of economic fluctuations in individual countries, industries and fields through broadly diversified positioning.

- TAKKT addresses customers of all sizes from various industries with its three divisions, Industrial & Packaging, Office Furniture & Displays and FoodService.
- The TAKKT companies have a very wide range of products in different categories.
- Through its presence in over 25 countries in Europe and North America, TAKKT reduces its independence on individual markets.

In particularly severe economic crises such as the months following the outbreak of the coronavirus pandemic in 2020, TAKKT is only able to benefit from the diversification of its business to a limited

extent because most customer groups in nearly all industries and regions strongly refrain from making investments in these circumstances. A crisis triggered by a pandemic is particularly challenging because customer demand can decline much faster and more sharply than in the case of economic crises attributable to purely financial factors. There is also the risk that the operational processes in procurement, as well as in warehousing and logistics, will be severely restricted as a result of the pandemic and the protective measures that are implemented.

TAKKT is able to react relatively quickly to economic crises and flexibly adjust a large part of the costs and capital expenditures to new conditions. Accordingly, in 2020 TAKKT responded to the economic consequences of the coronavirus pandemic with cost-saving measures, particularly in the area of marketing costs and personnel expenses through the use of short-time labor and similar tools. TAKKT has also significantly reduced other expenses. The aforementioned savings helped TAKKT to offset the pandemic-related decline in gross profit by around a quarter for the year as a whole. Overall, EBITDA before one-time effects decreased by around one third year-on-year in 2020. As a consequence of the global financial and economic crisis, there was also a sharp decline

in sales in 2009, which came to a little more than 25 percent. With a margin of around ten percent, EBITDA decreased by around 50 percent compared to the previous year.

At the time of writing the annual report, the economic impact of the Russian invasion of Ukraine cannot yet be foreseen. TAKKT has no activities in Ukraine or Belarus. In addition, the volume of Russian business accounts for a negligible share of Group sales of well below one percent. The direct consequences of the conflict therefore do not pose a significant risk for the TAKKT Group. However, the mutual sanctions could put a noticeable damper on the economic climate and customers' willingness to invest, which would lead to a significant deterioration of economic conditions. If this is the case, negative effects on the TAKKT Group's sales and earnings can be expected. Besides economic risk, the consequences of the conflict can also affect risks in the areas of energy and purchasing prices, reliance on e-commerce, and cybercrime. The potential effects are shown in the corresponding sections of the risk report.

As in the previous year, TAKKT still considers the probability of occurrence of the risk of an economic downturn to be possible. The potential impact on earnings from this risk also remained unchanged compared to the previous year at over EUR 20 million. It therefore represents a significant risk for TAKKT.

Competition from established providers and new market participants

The activities of the TAKKT Group in their respective markets compete with other providers. An overview of the competitive environment can be found on page 38 of this annual report. The entry of new market participants or more aggressive competitive behavior by established providers could result in TAKKT losing market shares or at least falling short of its growth ambitions. However, market entry barriers exist both for traditional competitors and online-only retailers because setting up the supplier structures, logistics and customer base is costly and time-consuming. New competitors must expect many years of initial start-up losses. Compared to start-up companies, established providers like the TAKKT companies benefit from economies of scale in purchasing and distribution.

Supported by the new organizational structure in three divisions for specific work environments, the TAKKT companies aim to have an even more customer-oriented market positioning in the future and also stand out from the competition. Integrating different sales brands within one division and bundling sales and marketing activities will also allow TAKKT to address customers with cross-selling offers and meet their needs for a wide range of products. In addition, TAKKT's

offering stands out from the competition through its clear focus on sustainable products. Along with quality, prices, service and availability, the impact of production, marketing, delivery and the use and disposal of products on the environment and natural resources also play an increasingly decisive role in purchasing decisions in the B2B sector.

TAKKT rates the probability of occurrence of the risk from established providers and new market participants as possible, with a potential negative impact on earnings of more than EUR 20 million. This risk is therefore considered to be significant.

CORPORATE STRATEGY AND POSITIONING

Risk from structural changes in demand

The way in which people collaborate is also changing as a result of the digital transformation of the business world. Given the established use and further development of technologies like video conferencing systems, it is likely that more flexible forms of working will become more common and remote working will increase. This already existing trend has been accelerated further by the coronavirus pandemic. As a result, there is the risk that the need for traditional office space and thus corporate demand for traditional office equipment will decrease in the medium term. However, there is also the potential to profit from the increased demand for products for new office concepts, remote work and to facilitate working from home.

Similar to the growing prevalence of flexible formats in daily collaboration, the changes brought about by the coronavirus pandemic will have a lasting impact on conferences, trade shows and other event formats. TAKKT believes that in-person events will not have the same importance after the pandemic as they did before. Instead, it can be expected that conferences and trade fairs will continue to be held virtually in some cases or in a hybrid format with both on-site and virtual participation possible. A long-term decline in the number and importance of in-person events could mean a permanent lower demand for advertising banners and displays.

TAKKT is observing these trends and the demand behavior of customers and continuously adapting the product ranges to the new circumstances. TAKKT also has diversified positioning both internationally and in terms of its products. This reduces its dependence on individual product groups such as office equipment or displays. TAKKT considers the probability of occurrence of the risk from structural changes as possible with a potential impact on earnings of more than EUR 20 million. TAKKT therefore classifies this risk as significant.

Implementation risk in relation to the transformation

TAKKT wants to accelerate and intensify the transformation that was started in 2020. The goal is to have an even more integrated structure and further improve the focus on customers. Further information on the new structure can be found in the sections "Organization and business areas" starting on page 34 and "Corporate goals and strategy" starting on page 39 of this report. TAKKT expects the transformation to result in stronger organic growth. Delays could occur during the course of this change process, causing goals or partial goals to be achieved late or results to be unsatisfactory. This mainly involves the creation of new structures for the group functions and the bundling of the sales and marketing activities in the divisions. In addition, the implementation could incur higher costs than expected or not have the desired effect on sales and earnings figures.

In order to address these risks, the organizational and strategic transformation will be planned and managed centrally. The Group relies on experts within the company. At the same time, it also receives support from external specialists for organizational transformation. For planning and controlling, TAKKT uses project management methods to implement the strategy and organizational realignment across the entire hierarchy. This allows TAKKT to keep a close eye on the implementation and success of the transformation and take early countermeasures if there are impending deviations from target.

There are also personnel risks associated with this change. As part of the organizational transformation, TAKKT will realign the functions and areas of responsibility. This could mean that employees may have to give up their previous roles, while elsewhere employees may be needed for newly established functions. Recruiting employees with digital skills and knowledge about the implementation and management of continuous improvement processes represents a particularly challenging task. TAKKT considers the probability of occurrence of the implementation risk from the transformation to be possible. The potential loss could come to over EUR 20 million. TAKKT therefore considers this risk to be significant.

Integration risks associated with acquisitions

The TAKKT Group makes targeted acquisitions to strengthen the existing businesses and to expand the value proposition. This is, on the one hand, associated with a host of opportunities. These are covered further on in this section. On the other hand, acquisition and integration risks could, for example, result from the following:

- the integration of acquired companies or their products and services into TAKKT's business activities may take longer or incur higher costs than expected,
- the development of growth and earnings that was assumed would take place with the acquisition may not occur,
- goodwill and other intangible assets need to be written down due to business performance being worse than originally predicted.

The annual impairment tests performed on goodwill in the year under review once again confirmed the value of these assets. No impairments had to be carried out in the past year.

TAKKT has decades of experience with acquisitions. Acquisitions are carefully prepared and reviewed and carried out only if there is a sufficient likelihood of the acquired company contributing to the success of the TAKKT Group in the long run. In view of this, the Group imposes stringent requirements and conducts thorough due diligence before the acquisition. Furthermore, companies are integrated into the Group according to defined processes that are based on past experience.

The TAKKT investment company holds shares in young companies with an innovative but not yet proven business model. The probability that these shareholdings turn out to have no substantial value is deemed to be higher.

Risks associated with disposals

Another risk could arise if a company in the Group does not develop satisfactorily and TAKKT recognizes this too late and therefore fails to take timely countermeasures. As a result of delays in the sale or discontinuation of activities, the Group may realize lower sales proceeds or incur higher costs. In order to prevent this, the development of the existing activities is continuously monitored and analyzed as part of various standard processes. In principle, all operational and strategic options are open in the event of difficulties in a Group company. These range from additional investments or changing the marketing strategy to repositioning, selling or phasing out the brand, i.e., the gradual discontinuation of marketing activities.

Loss of major customers

The customer structure of the business models in the TAKKT Group is relatively highly diversified. This includes companies from many different industries, such as the service sector, public

authorities and the manufacturing industry. Contributions to sales are also generated in part within the scope of larger project orders. TAKKT generates a low single-digit percentage of its sales in relation to Group sales with a very small number of corporate customers, which are each spread across different locations. Negative effects from the loss of individual corporate customers are therefore limited for the Group as a whole. On the level of the individual business units, and especially at Hubert or NBF, the loss of a single corporate customer can nevertheless have a noticeable effect on business performance.

TAKKT caters to customers of many different sizes – from self-employed people to hotel chains and public bodies as well as single workshops to large-scale manufacturing facilities. The TAKKT companies will also address a broad customer base in the future.

Increasing dependency on e-commerce

TAKKT is driving forward the expansion of the e-commerce business by continuously improving its websites and web shops. However, the operation of websites and web shops means that unauthorized persons could gain access to the company network and sensitive customer data. Targeted attacks on web shops and the company network could slow down or disrupt internal processes. An increase in the probability of occurrence of such attacks could result as an indirect consequence of the war in Ukraine and the sanctions against Russia.

This is counteracted by continuously monitoring web shop performance. In addition, regular penetration testing is carried out to reduce the risk of unauthorized access to internal systems. Technological progress also places constantly changing demands on the online presence. Consequently, the content and structure of the web shop have to be continuously adapted to the changing algorithms of the search engines so that the company's own website does not fall behind in the ranking, causing the shops to lose potential customers. The TAKKT companies counter this risk through the continuous management of online marketing measures and by optimizing them with regard to the constantly changing underlying conditions. Ongoing monitoring of developments in online marketing allows the TAKKT Group to seize and implement technical trends and new developments quickly in its own solutions. In addition, the company is in continual dialogue with search engine operators.

OPERATING PROCESSES

Limited product availability and rising purchasing prices

In the event of limited availability of products over a longer period of time as a result of fully utilized transport or manufacturing capacities, TAKKT would not be able to meet existing customer demand and incoming orders with the usual speed. This would lead to an increase in order backlogs as well as delayed recognition of sales and earnings. In addition, there is an increased risk of order cancellations and a decline in future orders. In order to minimize this risk, TAKKT continuously monitors the difference between order intake and sales and also adjusts its purchasing behavior with regard to suppliers and inventories if necessary. In the 2021 fiscal year, the order backlog also increased by EUR 55 million as a result of global delivery difficulties. Without the difficulties, TAKKT would have been able to achieve significantly higher sales and EBITDA in 2021.

In addition to product availability, a risk could also arise in the event of an exceptionally rapid increase in purchasing or transport prices. As a rule, TAKKT contracts external logistics companies for shipping. In general, the TAKKT companies pass on price increases for products or transport in full to customers in order to keep their gross profit margin stable. Particularly sharp or unexpected price increases, such as a rise in inflation, may only be passed on to customers with a time delay or not in full. A surge in energy and fuel prices, as is currently being triggered by the conflict in Ukraine, can significantly increase the costs associated with production and especially transport. This also means that a temporary negative impact on earnings cannot be ruled out.

In order to counter this risk, TAKKT can adjust its prices at shorter intervals than usual if necessary. In addition, the Group starts price negotiations with suppliers and major customers early in such cases. An exceptionally high level of inflation can also have an indirect negative impact on economic conditions and customer demand.

With a possible probability of occurrence and potential impact on earnings of between EUR 10 and 20 million, TAKKT deems the risk from restricted product availability and rising purchasing prices to be significant.

Disruption of operational business

TAKKT generally stores products in large mail order centers and therefore there is less need to build up inventory or reorder products than would be necessary with several smaller warehouses. In addition, TAKKT can benefit from better pricing by bundling product purchases. The business units only set up smaller regional warehouses to provide optimum delivery services if necessary, such as in the Nordics, Eastern Europe or the US. Due to the focus on a small number of central warehouses, this could result in temporary restrictions or even a breakdown of operations in the event of a severe disruption in one of the warehouses. Such a disruption could occur in the case of a fire, natural disaster or due to a temporary closure of the location during a pandemic.

TAKKT covers these risks wherever possible with insurance against fire, theft or business disruptions. In addition, each business unit regularly reviews its warehouse concepts, thereby ensuring consistently high standards of security, delivery quality, speed and efficiency. Should a temporary disruption at a warehouse result in bottlenecks, the companies can also deliver the majority of their goods by drop shipment. If necessary, the warehouses are adapted to new requirements. Due to the coronavirus pandemic, TAKKT implemented extensive protective and precautionary measures in the warehouses such as separating the staff into different shifts.

Limited availability and performance of the IT and communications systems

TAKKT depends on powerful and reliable IT systems, such as communication systems, ERP system software, product management systems and web shops. Failure or impaired operation of the IT systems could result in significant risks for the TAKKT Group because business processes would be affected. In order to address this risk, TAKKT relies on powerful technologies and has back-up solutions in place that can take over in the event of problems in the primary system.

The TAKKT companies are using cloud solutions, meaning that software and hardware functions are no longer only hosted locally but rather in an external infrastructure. This has the advantage that storage space, processing power and the necessary software can all be chosen precisely and can be adapted to actual requirements at any time. At the same time, this brings with it risks, like losing connection to the external infrastructure or the service itself.

The TAKKT companies also make use of central high-availability systems to protect data and functionality. A server handles the day-to-day business operations. The data is also continuously copied to a backup system. This system handles operations only in the event of server failure. The required storage capacity is usually held on external servers or leased from third-party providers in order to minimize the risk of failure.

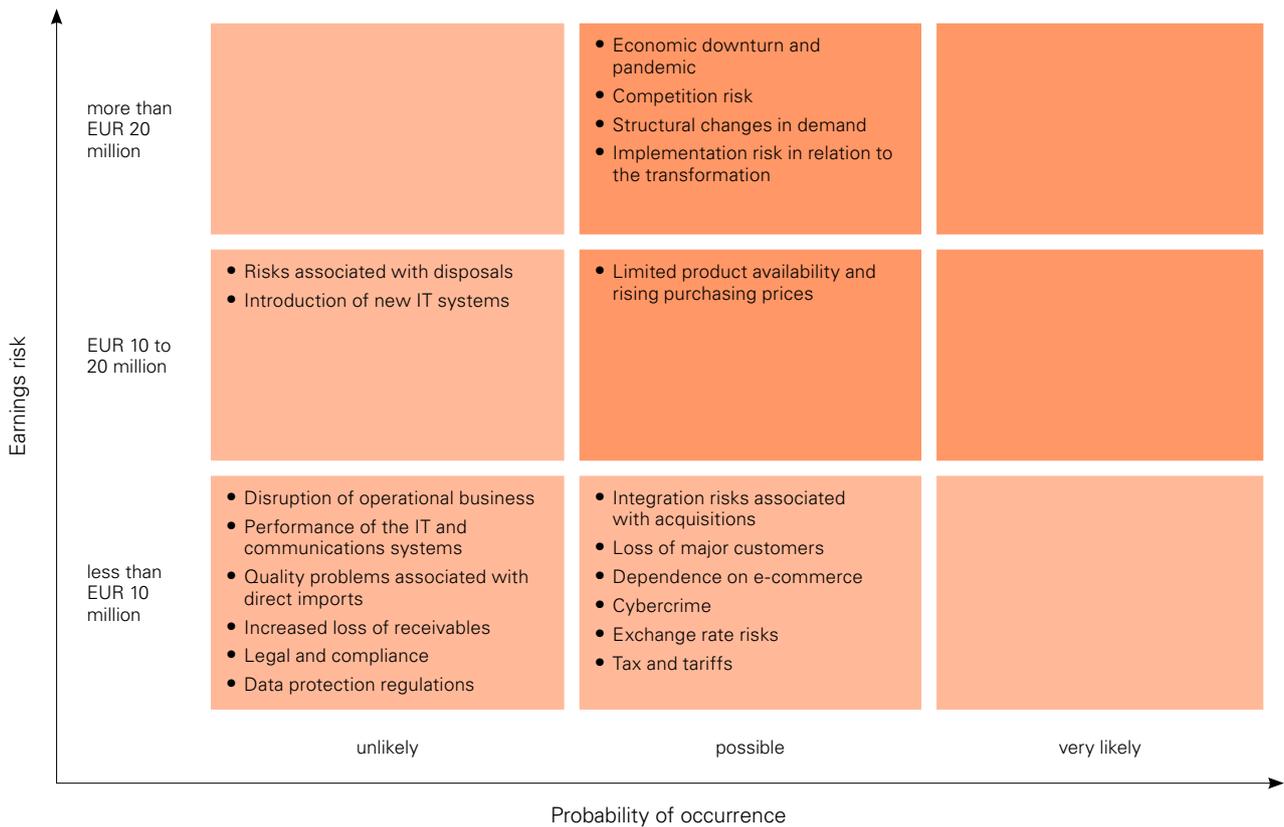
The Group uses non-interruptible power supply and back-up systems in order to ensure telephone availability and protect itself against failures and faults. Calls can also be rerouted to other sites. The company continuously monitors how easy it is for customers to contact the companies' sales offices. This monitoring allows TAKKT to flexibly align telesales capacities with business volumes.

For successful performance in the market, it is of vital importance that the TAKKT companies be reachable via their web shops without interruption. In addition to continuous availability with regard to the web shops, performance (i.e., the speed at which the web shop can be navigated) is also important. In this regard, the TAKKT companies always rely on current web shop technologies.

Introduction of new IT systems

Increased risks can arise in relation to the introduction of new IT systems, especially ERP and web shop systems, if the smooth continuation of business processes is affected as a result of complications during integration of a new IT system. In order to address the risks associated with the introduction of new IT systems, TAKKT carries out extensive test runs and quality assurance measures. New systems are gradually being introduced within the scope of pilot projects so that only a limited region or individual work flows are affected in the event of problems.

Risk matrix



Cybercrime

Risks can also arise from fraud attempts initiated via emails and social media. One particular example of this is the risk of fraudsters who use identity theft in an attempt to trigger unauthorized payments to third-party accounts. Cyberattacks could also lead to the disruption of business operations, thereby resulting in financial loss and reputational damage. As a result of the war in Ukraine and the sanctions against Russia, there is the danger that the number of such fraud attempts will rise, thereby increasing the likelihood of occurrence of the risk. TAKKT addresses the cybercrime risk by establishing defined processes such as cross-checking by a second person and individually verifying any changes in the payment data of the recipient. Furthermore, employees receive ongoing fraud-awareness training. TAKKT addresses potential unauthorized access to IT systems through technical preventive measures.

Quality problems related to direct imports

TAKKT is increasingly sourcing products via direct imports, i.e., products that come from countries outside the home markets of the respective Group company. For products that are procured from direct import countries in Asia or other third countries, there is a greater risk that these goods have quality defects and thus do not meet the standards of the sales markets in Europe and North America. Besides product quality, this also applies to potential problems with regard to certifications or test seals. The products concerned can either not be offered or only offered at a greatly reduced price. In order to address this risk, TAKKT carries out standardized checks of suppliers and product sample testing through official testing bodies.

FINANCE AND LEGAL

Exchange rate risks: Transaction and translation risks

Currency risks arise from transactions not processed in euros, which is the reporting currency. When it comes to volatility in exchange rates, a distinction should be made between transaction risks and translation risks.

- Transaction risks result primarily from buying and selling goods and services in different currencies. The Group protects itself against these risks by generally buying and selling products in the same currency. Transaction risks from fluctuating exchange rates remain for less than ten percent of consolidated sales – mainly from intercompany transactions. The open net items are identified based on the sales forecasts of the individual companies. The resulting currency risks are generally assumed by the respective service provider and hedged through derivative financial instruments to an amount of around 70 percent, preferably with forward foreign exchange contracts. In general, forecast sales and cash flows are hedged for a period of several months.
- Translation risks arise for the TAKKT Group's statement of financial position and income statement when the individual financial statements of foreign subsidiaries are translated into euros, the reporting currency. The fluctuations of the US dollar in particular therefore influence the absolute value of the financial key figures reported in euros (also see the explanations starting on page 79). TAKKT does not hedge against these risks as there are no economic grounds to justify putting proper hedging mechanisms in place.

Increased loss of receivables

In the course of TAKKT's business activities, receivables from customers may not be collectible and therefore have to be written off. Systematic receivables management and regular checks on the creditworthiness of customers prior to transactions mean that TAKKT has a very low loss rate of well below half a percent in relation to sales. Economic crises, such as the one caused by the coronavirus pandemic, pose the risk of heightened losses on receivables due to the insolvency or financial difficulties of customers. In such cases, TAKKT may demand advance or installment payments or block customers with a negative payment history.

Legal and compliance risks

TAKKT Group companies are involved in litigation in day-to-day business both as plaintiff and defendant. However, this litigation does not have a material impact on the economic situation of the Group, neither individually nor collectively. TAKKT is subject to different compliance requirements such as in connection with antitrust law or capital markets. Non-compliance can lead to legal consequences and sanctions and ultimately have a negative impact on earnings. In order to address this risk, the Group pursues a central compliance management strategy, trains employees in the respective issues and has set up a hotline for reporting possible violations.

Risks from tax and tariff changes

Against the background of the ongoing trade policy discussions after Brexit as well as with regard to the US government, there is still a risk that countries will increase import tariffs on imported goods. Direct imports in particular could be less attractive due to such trade barriers. The bulk of goods that the TAKKT companies sell, however, will still continue to be purchased from suppliers in their respective market. Competitors would be affected by such a development to a similar extent. The increased public debt may also result in taxation rule changes and a greater number of tax audits in certain countries. TAKKT keeps a close watch on tax conditions in order to be prepared for possible changes. Import tariffs are mainly passed on to the customer through price adjustments.

More restrictive data protection regulations

TAKKT uses customer data for targeted online and print marketing. The Group always observes the applicable legal conditions in the respective countries. Where there is a data protection officer assigned to a company, this person works within their power to ensure compliance with data protection laws. The regulations concerning the use of data are usually less restrictive in B2B than for private customers. However, there is the risk that individual countries will tighten the applicable legal regulations, thereby making it difficult to address individual customers in a targeted manner. TAKKT monitors proposed and current legislative developments in this area very closely in order to take possible changes into account early on.

OVERALL ASSESSMENT OF THE MANAGEMENT BOARD

In the 2021 fiscal year, there was a balanced relationship between the opportunities and risks for the TAKKT Group. Based on the information currently available, the Management Board does not believe that there are any risks at present or in the forecast period that may be a risk to the Group as a going concern. The business model generates strong cash flows and the company has solid financing. This means that neither the risks as a whole nor a renewed global recession would generally threaten the viability of the Group as a going concern. The probability of occurrence and severity of the aforementioned risks are shown in the matrix on page 75. The most significant risk for the TAKKT Group, which is also a noteworthy opportunity, continues to be the development of the economy.

There is also the risk that the entry of new providers and online marketplace models or a change in the behavior of established providers could lead to a more aggressive competitive environment and a consequent negative impact on sales and gross profit.

In addition, there are significant risks in connection with the implementation of TAKKT's transformation. Goals or measures may be achieved later or results may not be satisfactory. The implementation could incur higher costs than expected or not have the desired effect on the development of sales and earnings.

TAKKT also deems the risk from structural changes in demand to be significant. The trend towards new forms of collaboration and virtual or hybrid event formats has been accelerated by the consequences of the coronavirus pandemic. This could result in long-term market changes. As a result, there is the risk of decreased demand for office equipment and displays in the medium term.

Limited product availability and rising purchasing prices also represent a significant risk for TAKKT. For example, if sales and earnings are delayed due to limited product availability and/or cannot be fully recognized or rising purchasing prices cannot be passed on in full.

As a whole, TAKKT places the highest priority on the monitoring and limitation of controllable risks and has therefore taken precautionary measures to detect and limit these early. Risks from economic and currency fluctuations due to external factors can only be controlled by TAKKT to a limited extent.

OPPORTUNITIES OF THE TAKKT GROUP

Attractive growth opportunities continue to arise for TAKKT. Within the scope of the integrated opportunities and risk management system, the TAKKT Group has identified a series of opportunities for the development of the company for the years to come. In addition to the opportunities arising from an economic upswing, also outlined in detail in the forecast report, the significant additional opportunities are explained in the following section.

New strategic and organizational structure

TAKKT is accelerating the transformation into a more integrated and customer-oriented group (see "Business areas" and "Corporate goals and strategy" sections). In the future, the sales brands will collaborate in their sales and marketing activities in the newly created divisions catering to specific markets. In addition to efficiency and synergy gains, this allows customers to benefit from increased cross-selling across different product groups. For warehouse operations, for example, padded shipping cartons and pallet lifting trucks will be offered from a single source. Lastly, the new structures will allow the sales teams to focus even more on their customers and concentrate on sales and marketing activities without having to deal with logistics or IT processes. This will be done by the respective Group-wide functions in the new structure.

For this transition, TAKKT will implement a stronger integration of support functions, bundling and strengthening tasks that are critical to the Group's success. The focus will be on logistics, technology, data, finance and HR. TAKKT expects the stronger integration to enable more effective utilization of resources, greater scaling, the use of additional synergies and an improvement of important operational processes through the development of competence clusters e.g. for data & analytics or logistics. The goal of the changes at the division and Group level is to achieve stronger organic growth, higher market shares and a sustained improvement in earnings.

Increasing market shares for distance selling and strong growth in e-commerce

As discussed in the presentation of the competitive environment on page 38, the majority of products offered by TAKKT are sold through local retailers. The market share of distance selling models is growing steadily, which also benefits TAKKT. At the same time, more and more products are being ordered online. This can be seen in the significant above-average growth of the e-commerce business in the market as a whole as well as in TAKKT's activities. In the latter, the online share already accounts for significantly more than half of the business volume. This development is also expected to continue in the future.

In order to maximize the resulting growth potential, an essential part of the strategy involves strengthening e-commerce expertise, which will be managed and controlled centrally throughout the Group in the future. The initiative also includes improvement and greater standardization of the web shop platforms, efficiency gains through the shared use of IT infrastructure, and the expansion of Group-wide collaboration.

Value-creating acquisitions and start-ups

Additional opportunities for increasing Group sales and earnings will be created through acquisitions in the coming years. High demands are put on the growth prospects and business model of the target company. TAKKT is able to participate in growth trends in selected industries and generate above-average gains through targeted company acquisitions. In addition to acquisitions to strengthen existing businesses, TAKKT increasingly wants to buy companies with the aim to expand the value proposition. Achieving this calls for the acquisition of other companies offering products or services that expand the existing range of services for customers.

In the past, TAKKT often benefited from the additional contributions to sales and earnings of the acquisitions. In addition, the company has gained special expertise that can be used throughout the Group through these acquisitions. TAKKT has long-standing experience with integrating new companies into the Group. The integration of supporting functions such as IT or logistics will allow even closer integration of newly acquired companies in the future. TAKKT will consequently be able to leverage the advantages of greater scalability and higher potential for achieving added value with future company acquisitions. Exploring and taking advantage of value-creating acquisition opportunities will therefore also be a focus in the future. TAKKT also plans to expand existing business models to new markets where economically feasible.

Active control and management of the Group not only includes acquisitions and start-ups but also the periodic review of existing activities and the discontinuation of companies whose performance with respect to the value and growth drivers does not meet the long-term requirements of the Group.

Sustainability as a competitive advantage

Sustainability has been an integral part of the corporate strategy at TAKKT for many years. TAKKT is convinced that providers who focus on sustainability will be better able to compete better in the long run. B2B customers are increasingly demanding responsible and sustainable action from their suppliers and partners as well as products that meet sustainable criteria. In order to meet this need, TAKKT has developed a uniform product classification system for sustainable ("enkelfähig") products. This involves taking into account the criteria of profitability, circularity, climate change, biodiversity, innovation and technological progress. TAKKT sees great opportunity for growth in marketing these products and wants to increase their share of sales to 40 percent by 2025.

Further development of IT applications

TAKKT is in the process of further optimizing the complex IT processes in communication systems, ERP software, product management systems and web shops in many of the Group companies. As part of the transformation process, the system landscape will be simplified and aligned step by step. This also includes the introduction of new ERP systems and CRM software for some activities. The Group expects this to result in efficiency gains, reduced complexity and ultimately lower costs per transaction.

Increased use of new technologies

In addition to using an infrastructure geared to reliability and stability for the day-to-day operations, TAKKT will have the opportunity to develop new solutions quickly based on new technologies and introduce them to the market. This allows TAKKT to react quickly and flexibly to new customer requirements and changes in behavior patterns. Examples include linking external solutions easily by creating standardized interfaces, analyzing customer data in the web shop in real time or implementing new collaboration tools for dialogue with customers.

Good access to capital

TAKKT has good access to capital due to a diversified and long-term oriented financing structure. Sufficient credit lines are available for short-term acquisition opportunities. As a stock-listed company, TAKKT can also use the equity market for raising capital in the event that the opportunity arises for the Group to make an acquisition that cannot be solely financed with debt capital.