

## 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 2019 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 managing directors of the Group companies as well as the Group functions of TAKKT AG – Accounting, Controlling, Treasury/IR, Legal, Human Resources, Internal Audit, Strategy, Corporate Development, Continuous Improvement/Lean and Organizational Development.
- 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, a uniform code of business procedure with an established ad hoc risk reporting process 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 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 for all divisions and the Group as a whole.

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.

The Group’s compliance with its control systems and accounting regulations is checked on a regular basis, including by the local managers and auditors, accounting, internal audit and the Group auditors. Monitoring includes the identification of weaknesses, the introduction of improvement measures as well as checks to determine whether weaknesses have been eliminated.

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 risk management system of the TAKKT Group categorizes opportunities and risks by topic, which are shown in the table on page 72 together with the corresponding subcategories. The opportunities and risks of the TAKKT Group are 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 segments and business units 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 detailed in the following; the opportunities are detailed starting on page 78.

## Overview of opportunities and risks

	Economy and competition	Corporate strategy and positioning	Operating processes	Finance and legal
<b>Possible risks</b>	<p>Economic downturn</p> <p>Global pandemic</p> <p>Competition from established providers and new market participants</p>	<p>Risks associated with acquisitions and disposals</p> <p>Implementation risk in relation to TAKKT 4.0 and the digital transformation</p> <p>Dependence on individual customers</p> <p>Increasing dependence on e-commerce</p>	<p>Warehousing and logistics risks</p> <p>Limited availability and performance of the IT and communications systems</p> <p>Introduction of new IT systems</p> <p>Cybercrime</p>	<p>Exchange rate risks: Transaction risks and translation risks</p> <p>Legal and compliance risks</p> <p>Risks from tax and tariff changes</p> <p>More restrictive data protection regulations</p>
<b>Possible opportunities</b>	<p>Economic upswing</p>	<p>Transformation of the business model</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

B2B distance selling for office 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 two segments, Omnichannel Commerce and Web-focused Commerce.
- 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.
- The companies are also in different phases of growth. The younger companies bundled in the Web-focused Commerce segment usually experience more dynamic growth and are less affected by economic fluctuations. The established companies of the Omnichannel segment, however, reflect the general economic cycle in their development.

In particularly severe economic crises, such as the last one in 2009, is TAKKT not able to benefit from diversification of the business because every customer group, industry and region strongly refrains from making investments in these circumstances. For example, in 2009 sales fell organically by a little more than 25 percent. With a margin of around ten percent, EBITDA decreased by around 50 percent compared to the previous year. The probability of occurrence and potential impact on earnings from this risk remain virtually unchanged compared to the previous year. Despite the diversified positioning described above, economic risk represents a significant risk for TAKKT.

### Global pandemic

A pandemic affecting large parts of the target markets in Europe and North America – such as the current spread of the coronavirus – could significantly impair the TAKKT Group's business activities and even bring them to a temporary standstill. Both the direct impact of employee illness as well as the consequences of government-imposed protective and countermeasures, which make normal operations difficult or impossible, must be taken into account. In particular, such a pandemic could have a significant negative impact on the order situation, warehousing and logistics as well as the Group's financial stability. Wherever possible, TAKKT is working on measures to address these risks or limit their negative effects and has set up crisis teams for this purpose. These measures relate to financial aspects with respect to securing liquidity and the ability to act as well as organizational steps to

maintain business operations. TAKKT is responding with cost reduction programs and an investment freeze in addition to allowing employees to work from home or in separate shifts in situations where they are required to be physically present at the workplace. The risk from a pandemic like the coronavirus is significant. A pandemic of this type also has an impact on other risks mentioned in this report.

### **Competition from established providers and new market participants**

The activities of the TAKKT Group compete with other providers in their respective markets. An overview of the competitive environment can be found on page 37 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 purely online providers 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. TAKKT addresses this competitive risk through focused positioning of its own activities either as a quality- and service-oriented omnichannel provider or a lower priced web-focused provider.

Large and medium-sized corporate customers usually have rather complex needs. This type of customer is interested in a high-quality product range, expert advice and comprehensive after-sales service, which TAKKT's Omnichannel activities offer. Relevant services include project business (e.g., CAD planning), assembly and maintenance services, long warranty periods and availability guarantees. The TAKKT products are intended to make commercial activities more productive and ensure a smooth process so that corporate customers can focus on their core business. For this type of customer, the offer of pure online shops and open, internet-based marketplaces has the disadvantage that they generally want to avoid the effort associated with providing a comprehensive service. This type of customer is also interested in flexible, tailored pricing based on their needs, the product and the volume of their order. Online marketplaces can only provide such flexibility, differentiation and additional product-related services to a limited extent. In competition with other omnichannel companies, service and quality are determining factors with regard to which provider the customer prefers for procurement.

For customers with less complex requirements, other criteria are relevant for the purchasing decision. These are often smaller and medium-sized businesses. This type of customer is mainly concerned with the pricing of the individual transaction. TAKKT addresses these customers with the Web-focused activities, which align their product range to the needs of more price-conscious customers. As product specialists with a focus on a defined product range, TAKKT's web-focused brands offer an easy, fast and reliable procurement channel for its customers. TAKKT competes with other online shops and e-commerce marketplaces in this area.

In the course of the new organizational realignment, TAKKT wants to fulfill the very different requirements of the two aforementioned customer types even better in the future by focusing more on the two business models. The risk from new competitors and business models is considered to be significant.

## **CORPORATE STRATEGY AND POSITIONING**

### **Risks associated with acquisitions and disposals**

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.

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 return 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 acquires 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. However, the investment amount is significantly lower than that of other acquisitions.

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 termination 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.

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. A future need of impairment cannot be ruled out for Hubert if it experiences another significant slowdown in its sales and earnings development or a change in the calculation parameters.

#### **Implementation risk in relation to TAKKT 4.0 and the digital transformation**

TAKKT 4.0 stands for the Group's new organizational structure as of 2020 and focuses on two business models for two different customer types. At the same time, TAKKT wants to establish the responsibilities and functions at the relevant level in order to create greater entrepreneurial freedom and scalability within the two business models. Another goal is to bolster operational excellence through the implementation of continuous improvement processes within the Group.

In 2016, TAKKT developed a digital agenda in order to seize the opportunities of digitalization. This involves strengthening the e-commerce business, developing the relevant digital skills and a large number of measures along the entire value chain. Many measures have been implemented and integrated into the operational processes. However, the digitalization process is not completed yet, but rather remains a focus for the further development of the TAKKT Group.

Both TAKKT 4.0 and the digital agenda are meant to promote sustainable change of the organization and culture of the company. TAKKT expects this to result in a more targeted focus on the needs of different customer types and stronger organic growth. Delays could occur during the course of this realignment, causing goals or partial goals to be achieved late or results to be unsatisfactory. With regard to TAKKT 4.0, this mainly applies to the creation of new structures for the two segments and the related allocation of functions and responsibilities at the relevant level. In the case of the digital agenda, the implementation of projects and measures could take longer or not achieve the expected results. In addition, the implementation of both initiatives could incur higher costs than expected or not have the desired effect on sales and earnings figures.

In order to address these risks, the TAKKT 4.0 organizational 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 digitalization and TAKKT 4.0. In the course of the organizational transformation, TAKKT wants to establish the responsibilities and functions in a new way and at the relevant level. This could mean that employees may have to give up their current 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 overall implementation risk from the transformation to be material.

#### **Dependence on individual 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 within the scope of digitalization by continuously improving its websites and web shops. However, when operating websites and web shops, unauthorized people could gain access to the company network and sensitive customer data. In addition, targeted attacks on web shops and the company network may slow down or disrupt internal processes. In addition, technological progress 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. Regular penetration testing is carried out to reduce the risk of unauthorized access to internal systems.

### **OPERATING PROCESSES**

#### **Warehousing and logistics risks**

TAKKT generally stores products in large warehouses and therefore there is less need to build up inventory or reorder products than would be necessary with several smaller warehouses. The divisions only set up smaller regional warehouses to provide optimum delivery services if necessary, such as in the Nordics, Eastern Europe or the US. TAKKT is able to profit from better pricing by bundling product purchases. These advantages far outweigh the disadvantages that exist with a central warehouse, e.g., the event of a fire. These risks are also sufficiently covered by insurance policies, including for fire, theft and loss of production.

Each TAKKT division 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.

TAKKT usually contracts external logistics companies to deliver its goods and, in choosing its logistics partners, pays particular attention to how attractive the costs are and their comprehensive expertise in delivering products to the very different regions. Unexpected changes in freight costs due to fluctuations in fuel prices, vehicle tax or tolls can have a short-term impact on the earnings of the Group. When possible, TAKKT passes the increased costs on to customers through price adjustments. Shipping costs account for less than ten percent of consolidated sales.

#### **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 systems 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 provides services 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. TAKKT is able to flexibly align the telesales capacities with business volumes through these checks.

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 are 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 adapted within the scope of pilot projects so that only a limited region or individual work flows are affected in the event of problems.

#### **Cybercrime**

Risks can also arise from fraud attempts initiated via information technology (e.g., 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. TAKKT addresses this risk by establishing defined processes such as the two-man rule 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.

## **FINANCE AND LEGAL**

### **Exchange rate risks: Transaction and translation risks**

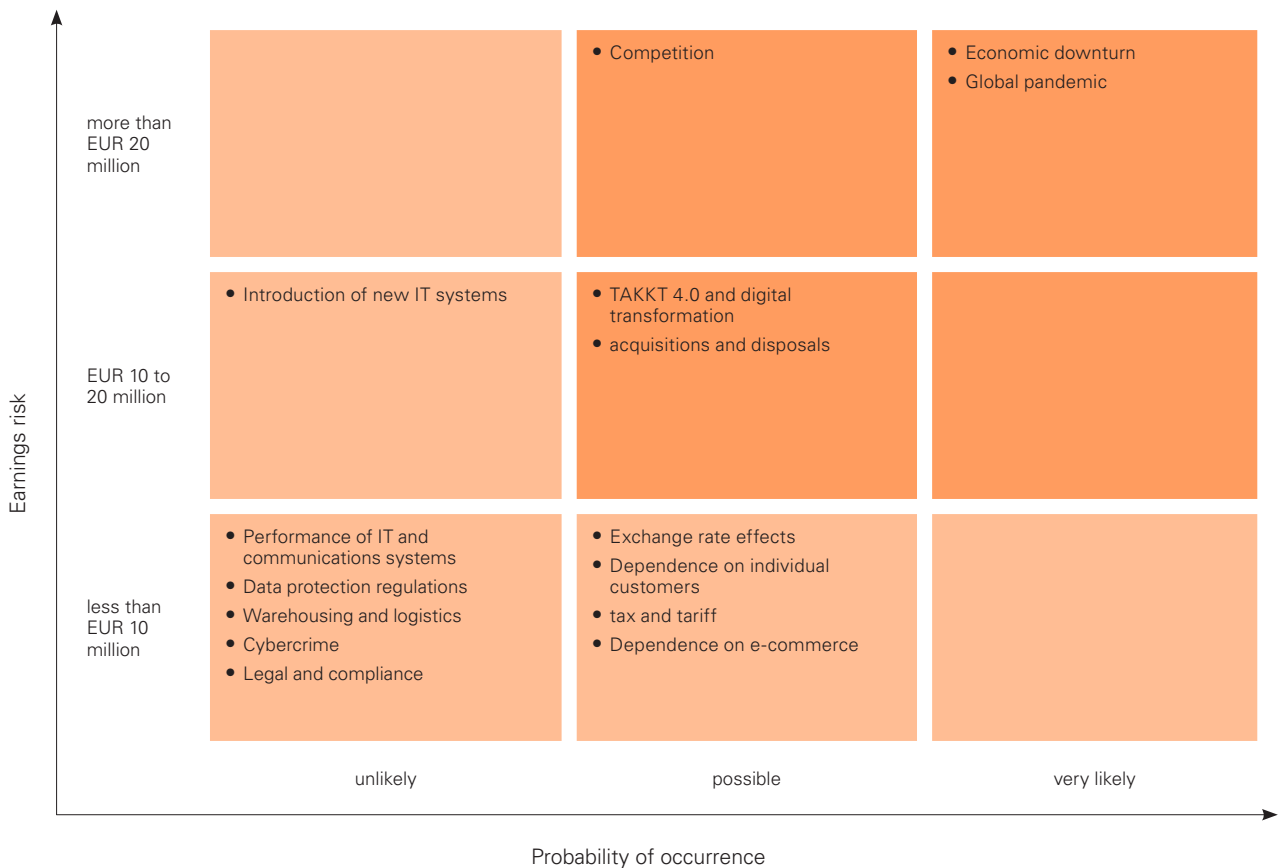
Currency risks arise from transactions not processed in euros, which is the reporting currency. When it comes to volatility in exchange rates, a distinction should be made between transaction risks and translation risks.

- 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 on page 82). TAKKT does not hedge against these risks as there are no economic grounds to justify putting proper hedging mechanisms in place.

### **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 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.

**Risk matrix**



**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 2019 financial 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. A standstill of operations due to the spread of the coronavirus that lasts several months and affects large parts of TAKKT could lead to a tight liquidity situation at the end of 2020 if the countermeasures and suspension of the dividend are not sufficient.

The probability of occurrence and severity of the aforementioned risks are shown in the matrix on page 77. The most significant risk for the TAKKT Group, which is also a noteworthy opportunity, continues to be the development of the economy. In the current environment, TAKKT expects a significant economic downturn in 2020. In the event of a global recession of the same scale as in 2009 with an organic decrease in sales of slightly more than 25 percent, EBITDA decreased by around 50 percent.

The Management Board considers significant negative effects from the current corona pandemic to be very likely. Sales and EBITDA for 2020 are expected to be significantly below the level of 2019.

There is also the risk that the entry of new web-focused 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 4.0 and the digital 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 acquisitions and disposals to be significant. If the integration and continuation of an acquired company does not progress as successfully as expected, this could have a direct short-term negative impact on earnings in the medium single-digit euro range. In addition, a reduction in the long-term forecast of the business development of an acquired company below the original expectations could lead to impairment of the

goodwill or remaining intangible assets. A negative effect on earnings resulting from reporting could also be in the double-digit million-euro range. The impact on earnings caused by potential delays in the sale or discontinuation of activities could also amount to a low double-digit million figure.

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.

#### Transformation of the business model

At the end of 2019, TAKKT started taking steps to realign and streamline the organization of the company (see the "Business areas" and "Corporate goals and strategy" sections). This will allow both segments to sharpen their focus, meet the different requirements of the respective customer types in terms of products, service and quality, and position themselves clearly as market-leading omnichannel or web-focused companies. At the same time, each segment will have higher operational independence, thereby allowing faster decision-making and implementation processes.

The new allocation of functions and responsibilities and more integrated structure will allow for better leveraging of economies of scale, especially at the segment level. TAKKT wants to benefit from a culture of continuous improvement by promoting operational excellence, and developing and introducing new management approaches and processes. All of these measures are expected to accelerate the future organic growth of the Group. In addition, the new structure gives the Group the opportunity to realize greater added value with future acquisitions than was possible with the previous portfolio approach. By integrating the acquired company into one of the two business models, they can benefit from the competencies and expertise at the segment level and take advantage of economies of scale.

Furthermore, the ongoing digital transformation also offers great potential for the future development of TAKKT (see also pages 39 et seq. in the “Corporate goals and strategy” section). The company is already benefiting from the above-average growth in e-commerce. Focusing all activities on the needs of the customer (customer centricity) and digitalizing processes along the entire value chain will also open up opportunities. TAKKT wants customers to benefit from the advantages of digitalization and increase organic growth.

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

As discussed in the presentation of the competitive environment on pages 36 et seq., 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 more than half of the business volume. This development is also expected to continue in the future.

To maximize the resulting growth potential, each of the Group’s two segments use a specific online presence tailored to their respective customer types. For the Omnichannel activities, this is done through web shops and e-procurement solutions with a comprehensive range of functions for customers with high service and advising needs and for whom processing costs are a major concern. Companies can give their employees access to an individually configured web shop through additional functions such as a product range exclusion. This web shop then only includes product ranges or items that are relevant for that company. The Web-focused Commerce segment uses online shops, which focus less on comprehensive services and more on making the ordering process as easy as possible. Product-specific filter functions and options for comparing prices and items are provided for this purpose. This reduces the time the customer needs to search for the relevant product.

### **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 smaller companies offering products or services that expand the existing range of services for customers.

In recent years, TAKKT has benefited greatly from the additional contributions to sales and earnings through acquisitions. In addition, the company has gained special expertise through these acquisitions that can be used throughout the Group. TAKKT has long-standing experience with integrating new companies and business models into the Group. In the course of the TAKKT 4.0 organizational realignment, the Group wants to create integrated structures and functions in both segments, such as in IT, purchasing, and data and analytics. In the future, this will allow even closer integration of newly acquired companies than the previous portfolio approach. TAKKT will consequently be able to leverage the advantages of greater scalability and higher potential for achieving added value with company acquisitions. Exploring and taking advantage of value-creating acquisition opportunities will therefore also be a priority 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 uses its role as a pioneer in sustainability in order to set itself apart in the industry. It is convinced that providers who focus on sustainability will be better able to survive the competition in the long run.

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**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. This includes the introduction of new ERP systems and CRM software. This is an important requirement for successful implementation of TAKKT 4.0 and the realization of the related growth opportunities.

**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 of relevant solutions include using 3D technologies for visualization (virtual reality) and creating product samples by means of 3D printers, integrating external solutions easily by creating standardized interfaces, analyzing customer data in the web shop in real time or implementing new collaboration tools for engaging 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.

## FORECAST REPORT

### MAJOR CHALLENGES DUE TO CORONA CRISIS

The economic development of the markets is a significant factor with respect to the extent that the TAKKT Group will be able to use the opportunities described in the risk and opportunities report. Economic forecasts for 2020 are subject to great uncertainty at the time this report is being prepared because the impact of the coronavirus on economic development cannot be estimated.

- In a study presented in early March, the OECD assumed a decrease in the GDP growth rates in the eurozone and Germany due to the coronavirus. According to the study, the eurozone was still expected to grow by 0.8 percent in the forecast period following 1.2 percent in 2019, and Germany is expected to grow by only 0.3 percent following 0.6 percent. The OECD believed that the stabilization of the economic indicators and positive developments such as an easing of trade conflicts would be outweighed by the negative impacts of the coronavirus, at least in the short term. Due to the further spread of the pandemic in March 2020 and the already visible effects, it can be assumed that these forecasts will have to be corrected and GDP growth rates will be negative.
- In 2019, North America showed stronger overall growth momentum than Europe, benefiting from the good consumption and strong domestic demand. In the study mentioned above, the OECD expected economic conditions in the US to be better than in Europe in 2020 as well. The forecast assumed a decrease in the GDP growth rate in the US from 2.3 to 1.9 percent in 2020. Growth is now expected to be negative here too.

As in previous years, there are also factors influencing the further economic development in 2020, the effects of which are still unclear at the time of this forecast.

### INDUSTRY-SPECIFIC GENERAL CONDITIONS

The statements regarding the fundamental business prospects are complemented by the performance of relevant industry indicators. For example, purchasing manager indexes are indicators of the order trend in the European KAISER+KRAFT with a time delay of three to six months. Values under 50 points generally signal a decline, while levels above 50 indicate an increase in order intake. The values in the second half of 2019, which were consistently and significantly below 50 points in some cases, indicate a challenging environment for KAISER+KRAFT in the first half of 2020. At the beginning of the year values had stabilized somewhat, and in February 2020 were above the level at the end of 2019 with 48.0 points for Germany and 49.2 points for the eurozone. Due to the latest developments in March, however, the values are expected to fall significantly.

The rest of the indicators pointed to a positive development in the individual industries at the beginning of the year. With respect to the RPI, an indicator for HUBERT and Central, the levels in 2019 were consistently above the reference value of 100, although only slightly over in some cases. For January 2020, the index was also above the expansion threshold of 100 with 101.8 points. This indicated a positive development for restaurant operators in the US. TAKKT originally expected similar growth to 2019 in the US office furniture market. From the current perspective, these indicators and expectations will also be significantly negatively affected by the corona crisis.

### CRISIS MANAGEMENT IS THE TOP PRIORITY

The spread of the coronavirus and resulting effects have led to an exceptional situation. The current top priority for the TAKKT Management Board is protecting employees from infection. In addition, extensive measures have been initiated to maintain operations. In order to tackle the tasks presented by the pandemic, TAKKT has set up crisis teams that include the Management Board. TAKKT is also taking precautions to ensure financial stability and be able to quickly grow and invest again once the pandemic has subsided.

Based on the information currently available, the Management Board expects the pandemic to have a noticeable negative impact on the supply chains, own operations and customer demand in the relevant markets in Europe and North America. Sales in the current fiscal year are therefore expected to be significantly below the level of 2019.

### SALES CONTRIBUTIONS FROM ACQUISITIONS

The acquisition of XXLhoreca completed in May 2019 will contribute positively to sales. In addition, there is also the possibility that, after the pandemic subsidies, TAKKT may also make acquisitions in 2020 that will contribute to sales as of the acquisition date. TAKKT regularly presents the effects of acquisitions and disposals in the financial reporting in a transparent manner.

### REVIEW OF STRATEGIC OPTIONS FOR HUBERT AND CENTRAL

Hubert and Central currently follow a slightly different business model from the other three Omnichannel businesses. TAKKT is therefore exploring various strategic options for these activities. Besides establishing a third segment for the TAKKT Group and integrating it into the Omnichannel Commerce segment, selling the activities is also possible. While the first two options would only have a limited impact on the development of sales and earnings for 2020, the sale of Hubert and Central would have a significant impact on the key financial figures of the TAKKT Group in the current fiscal year. The spread and consequences of the coronavirus have influenced the decision-making process regarding the various strategic options. The option of a sale has therefore become less likely in the short term.

### US DOLLAR AFFECTS KEY FIGURES

In addition to the acquisitions and disposals, fluctuations in exchange rates also have an impact on reported sales growth. TAKKT generates nearly half of its sales in North America. Fluctuations in the exchange rate of the US dollar therefore have a significant impact on the Group's key figures reported in euros (translation risk). When translated into the reporting currency of euros, a strong US dollar leads to higher sales. When the dollar is weaker compared to the euro, Group sales are diminished. This can be illustrated using the following scenarios:

- If the EUR/USD exchange rate increases by 5 percent against the previous year (i.e., the US dollar becomes weaker), the increase in reported sales (in euros) will be between 2 and 2.5 percentage points below the currency-adjusted growth.
- If the EUR/USD exchange rate decreases by 5 percent against the previous year (i.e., the US dollar becomes stronger), the increase in reported sales (in euros) will be between 2 and 2.5 percentage points higher than the currency-adjusted growth.

In addition to the fluctuation effects from the US dollar mentioned above, fluctuations in other currencies such as from the British pound can also have an impact on the reported Group key figures. To illustrate currency effects clearly and depict business performance objectively, the Group does not only report sales changes in the reporting currency but also adjusts for currency effects.

### CORONA CRISIS HAS NEGATIVE IMPACT ON EARNINGS

TAKKT has the goal of keeping the gross profit margin of the Group above the 40 percent mark for the long term. For 2020, TAKKT expects a slight gross profit margin increase in Omnichannel Commerce and a stable development in Web-focused Commerce. For the Group as a whole, this would mean a stable to slightly positive gross profit margin development.

TAKKT's aim is to increase the EBITDA sustainably. A positive trend in earnings can be expected in the long term. In contrast, the short-term development of earnings is strongly influenced by economic conditions as well as positive and negative one-time effects. In the 2019 fiscal year, EBITDA was negatively impacted by one-time costs of EUR 11.2 million for the adjustment of cost structures and the first steps for TAKKT 4.0. At the same time, it benefited from a one-time gain of EUR 2.8 million from the release of a purchase price liability for XXLhoreca.

In 2020, EBITDA will also be influenced by one-time effects. At the time of the forecast, TAKKT expects one-time expenses in the low double-digit million euro range for implementation of the TAKKT 4.0 organizational realignment. Most of these will relate to measures at KAISER+KRAFT.

In addition to one-time effects as well as exchange rate changes and changes in the composition of the Group, organic sales development has a significant impact on the earnings level. An organic increase in sales contributes directly to higher earnings. At the same time, TAKKT can achieve an above-average increase in earnings with stronger organic growth through a better utilization of infrastructure and economies of scale. The reverse is also true – if organic growth is low or even negative, a greater decrease in earnings is to be expected.

Due to the consequences of the corona pandemic, TAKKT expects the EBITDA in 2020 to be significantly below the 2019 level.

### DECREASE IN TAKKT CASH FLOW AND INVESTMENTS

Essentially the same influencing factors are relevant for the development of the TAKKT cash flow as for EBITDA. The Group anticipates a significantly lower TAKKT cash flow in 2020 than in 2019. Investments in the maintenance, expansion and modernization of existing business are expected to be significantly lower in fiscal year 2020.

### IMPROVEMENT IN PRODUCT RANGE FIGURES

TAKKT aims to further increase the share of private labels and direct imports. Due to the numerous initiatives already implemented to expand private labels and direct imports and the high level that has already been reached, a slowdown in growth rates is to be expected in the future. Depending on business development, shifts in the sales shares of the different business units can also have an impact on these figures. While TAKKT had previously recorded and reported private labels as a share of order intake and direct imports as a share of purchasing volume, these two key figures will be reported as shares of sales going forward.

### NEGATIVE IMPACT ON VALUE-BASED KEY FIGURES

TAKKT Value Added is expected to be strained again by one-time expenses in 2020. The planned one-time expenses will also have a negative impact on ROCE. In addition, TAKKT expects a significant negative effect on the key figures from the corona crisis. Both value-based key figures are therefore likely to be well below the level of 2019.

### CONTINUATION OF THE DIGITAL AGENDA

The initiatives and measures of the digital agenda will be merged into TAKKT 4.0 in the course of 2020 and continued in the new organizational structure. TAKKT expects additional progress from the implementation. TAKKT expects the related expenses and capital expenditures to be on a lower level than in 2019. There should be little change in the number of positions filled as part of the digital agenda. TAKKT will complete more of the measures that have already been initiated by the end of the year and will merge them into normal operations. The Group anticipates that the e-commerce business will show much stronger organic growth than total sales. This will lead to a further noticeable increase in the e-commerce share.

### FINANCIAL STABILITY AND FLEXIBILITY

TAKKT is in a very solid financial position. However, depending on the further development and consequences of the corona pandemic, TAKKT's internal covenants could deteriorate in 2020. In view of the exceptional crisis situation and uncertainty due to the spread of the coronavirus, the Management Board is placing a high priority on financial stability and flexibility. The aim is to be able to act at any time, even during the crisis. This includes carrying out restructuring measures and the further implementation of TAKKT 4.0. TAKKT also wants to be prepared for opportunities after the pandemic has subsided so it can invest in growth once again. The Group is responding with cost reduction programs and an investment freeze. Furthermore, the Management Board and Supervisory Board propose to the Shareholders' Meeting that the dividend payment be suspended for the 2019 fiscal year.

### FURTHER PROGRESS ON SUSTAINABILITY INDICATORS

TAKKT has already made considerable progress in sustainability in recent years, so there is less potential for further improvements. However, the Group still expects a positive development of many sustainability indicators in 2020. This especially applies to most of the key figures from the focus areas of purchasing, marketing, logistics, resources and climate. TAKKT expects few changes in the indicators for the society focus area. The same applies for the employees focus area, with the exception of the share of retained "digital talents," which is expected to decline slightly.

### GENERAL STATEMENT ON ANTICIPATED DEVELOPMENT OF THE GROUP

Due to the great uncertainty regarding the effects and consequences of the spread of the coronavirus, it is currently not possible to make any reliable forecasts for the Group's development in fiscal year 2020. Based on currently available information, the Management Board of TAKKT AG expects the pandemic to have a noticeable negative impact on supply chains, the company's own operations and customer demand in the relevant markets in Europe and North America. Sales and EBITDA are therefore expected to be significantly below the level of 2019 in the current fiscal year.

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## GUARANTEE

This annual report and the forecast report in particular include forward-looking statements and information. These statements are estimates made by TAKKT Management based on all the information available to them when the annual report went to press. Should the basic assumptions not be realized or other opportunities and risks arise, the actual results may differ from those expected. TAKKT Management therefore cannot accept any liability for these statements.