Risk management

Identification and management of business risks is part of the annual strategy plan for the Group, which is approved by the Board of Directors. Further, the Board of Directors determines the framework for managing interest rate, credit and currency risks and addressing risks related to raw materials and energy prices. The framework is assessed at least once a year.

The following risks have been identified as SP Group's key risks, but the list is neither prioritised nor exhaustive:

Commercial risks

Market and competitor risks
SP Group's sales and earnings are very dependent on the future GDP development.

Several segments of SP Group's market are characterised by excess capacity, numerous small marketers, price pressure and customers requiring still smaller batches and more flexible production. Furthermore, SP Group is experiencing increased competition from low-cost manufacturers in Eastern Europe and Asia. In order to reduce dependency on the Danish market, SP Group is making efforts in several areas:

First, exports are increased on an ongoing basis. The Group focuses in particular on other Northern European markets, whereas selected niche products are sold globally. The international share of revenue amounted to 71.2% in 2023 (2022: 72.2%). In 2023, SP Group billed its services directly to customers in 98 countries.

Second, SP Group regularly expands its factories in Poland, Slovakia, Latvia and China and will continue to do so. In addition, production activities have been set up in Sweden, Finland, Thailand and the USA. With these measures, the Group will still be able to service customers that outsource their production to these areas and to cultivate new customers in Europe, Asia and the Americas.

Third, SP Group's factories are undergoing regular modernisation and automation to become more efficient and flexible. This effort will continue. Finally, SP Group is consolidating parts of the Scandinavian industry, either by acquisitions or by combining own factories or in-sourcing customers' own production (customers outsource their production to SP Group). This process will also continue, and SP Group has intense focus on reducing costs and leveraging on the Group's size and expertise to improve competitiveness. As part of its strategy to differentiate itself, the Group is also strengthening its expertise and competencies in relation to processes, design and materials.

Vice President Anie Simard and
Production Manager Noah Lendal, Ergomat, USA.

We strive to become the customers' preferred local supplier globally. We strive to have the necessary technologies and capabilities to enable us to meet all our customers' demands within plastics, composite and coating in a sustainable, value-creating and competitive manner.

Free trade

SP Group sells its goods in 98 countries and purchases its raw materials from a number of countries. Therefore, SP Group depends on free and unrestricted access to the markets and that the authorities respect international agreements.

Customers
SP Group has more than 1,000 active customers. The ten largest customers account for 46.3% of consolidated revenue and the share has decreased by 1.2 percentage point compared with 2022. The 20 largest customers account for 56% of revenue (57% in 2022). The 20 largest customers are large, consolidated, internationally operating industrial groups.

The largest customer accounts for 12.6% of revenue. No other customers account for more than 10% of revenue. At factory level, the dependence on individual customers is higher as a result of the individual factories' specialisation and focus on specific industries.

The concentration on the 20 largest customers has been reduced in the year due to the high growth at a number of small and medium-sized customers and the influx of new customers.

A growing global population expecting a good life and a longer lifetime increases the demand for effective healthcare and better foods. The healthcare industry is our largest sector accounting for 34% of revenue. The food industry is the third largest sector accounting for 12% of revenue.

31% of the Group's sales are effected to the cleantech industry, which is thus the second-largest single industry. SP Group has deliberately cultivated this industry because it is a growth sector offering a variety of opportunities for utilising SP Group's expertise across its business areas. The exposure to the cleantech industry is therefore desired, and risks are reduced by the Group supplying components to a number of different entities in different segments and on all continents. Increasing climate effects have increased the global demand for cleantech products (insulation, energy-saving products, renewable energy, clean water, clean air, green hydrogen and the environment). At group level, SP Group is not over-exposed to specific sectors.

Failing sales to single or several customers may impact on the Group's earnings capacity. To minimise this risk, the Group also seeks to enter into multi-annual customer and co-operation agreements laying down the terms and conditions for future orders. Furthermore, SP Group is engaged in production development projects in co-operation with the customers in order to stand out clearly as a strategic partner. As the typical order horizon is short (typically 4-5 weeks), political or economic instability is quickly reflected in the level of activity.

Finally, the Group works to develop more niche products and products under own trademarks, allowing it to control sales to a wider extent. In 2023, products under our own trademarks accounted for 23.8% of the consolidated revenue, and this includes also medical device products (guide wires, Clear Vials™ and DivibaX®), ergonomic products from Ergomat, animal welfare products from TPI Polytechniek, fenders from Dan-Hill-Plast and floats from Atlantic Floats Denmark.

Free movement
SP Group sells its goods in 98 countries and purchases its raw materials and production equipment from a number of countries.

Therefore, SP Group relies on free travel and well-functioning infrastructure to get people and goods safely around in the world.

Epidemics

Outbreaks of epidemics or illnesses that fully or partially 'close down parts of the world' are risks that we were reminded of in 2020-2023.

War

Outbreaks of war that fully or partially 'close down parts of the world' are risks that we were reminded of in early 2022.

Raw material prices and suppliers

SP Group's earnings depend on the prices of energy (including taxes), raw materials (plastics) and other materials to be used in production. SP Group enters into hedges relating to electricity, gas and raw materials on an ongoing basis and has agreed on sales price adjustments with a number of customers in case of changes to energy and raw material prices.

The Group has centralised its purchase of critical raw materials to increase the level of reliability of supply and to achieve a better bargaining position by purchasing larger bulks. At the same time, SP Group regularly examines the possibility of sourcing critical raw materials globally. The exposure to oil price-driven changes in raw material prices can be reduced, but will fundamentally persist.

Restructuring the production system

Production systems are changed on an ongoing basis, partly by investing in new production equipment and partly by modifying the systems and distribution of tasks. This means that the Group gradually obtains improved specialisation of the production at each plant and that efficiency is enhanced. There is a risk that implementing these changes may cause delays and disruptions and thus inflict extra expenses on the Group or affect business volumes. There is also a risk that relocating production equipment and production tasks may cause delays and price increases.

Through careful planning, SP Group aims to minimise expenses and the time spent restructuring the production systems. A smooth and swift implementation of these processes is necessary to increase the Group's profitability.

In a number of areas, SP Group has "duplicate factories" that can take over production from another factory if it is temporarily out of service due to pandemic, fire, cyber attacks or natural disaster.

Key personnel

SP Group is dependent on a number of key personnel in the management team and among the Group's specialists. SP Group seeks to retain key personnel by offering them challenging tasks, a basic salary in conformity with applicable market conditions and incentive schemes rewarding outstanding performance.

Insurance

SP Group has an extensive insurance programme in place that reflects the scope of the Group's activities and their geographical location. Once a year, the insurance programme is examined together with the Group's global advisor to make adjustments that support the Group's development on an ongoing basis, thereby minimising any detrimental impact on the Group's financial performance. Once a year, the insurance policy is also reviewed by the Board of Directors and adjusted as required.

Accidents and losses, which can be avoided through constant care, should be avoided.

The Company has had a reasonable claims statistics and has thus decided to increase its own risk on selected insurance policies.

Environment

The production plants are subject to a number of environmental requirements in all countries, and further, a number of environmental and quality assurance systems have been implemented at the plants on a voluntary basis. SP Group complies with applicable environmental requirements, but cannot guarantee – in spite of extensive safety procedures – that the external as well as the working environment will not be affected in case of an accident. (Moreover, reference is made to pages 48-74 on CSR and ESG and to page 46 on environmental certification).

Financial risks

The Group's cash flows and borrowings are managed centrally in accordance with the policies approved by the Board of Directors. The Group does not engage in speculation in financial risks.

Interest rate risks
Interest rate risks primarily relate to net interest-bearing debt, i.e. mortgage debt, lease liabilities, 'IFRS 16 debt' and bank debt less cash and cash equivalents. At year end, the net interest-bearing debt amounted to DKK 1,030.6 million. Approx. 20.0% of the debt carries fixed-rate interest for at least one year. A one percentage point increase in the general interest level will result in an increase in the Group's annual interest expenses before tax of approx. DKK 8.4 million.

SP Group focuses on increasing cash flows from operating activities so that the net interest-bearing debt can be reduced and the Group can

Operator Mads Vestergaard in Gibo Plast in Skjern.

finance investments via operating activities. The Group also aims at reducing debt by selling non-value-creating assets and activities.

Credit risks

SP Group systematically monitors the credit rating of customers and business partners and makes use of credit insurance and factoring to partially hedge credit risks. No individual customers or business partners pose an unusual credit risk to the Group. As the Group's customers and business partners are usually well-reputed companies operating in many different business sectors and countries, the overall credit risk is reduced. SP Group has not realised any significant credit losses in the past five years.

Currency risks

In accordance with the policies approved by the Board of Directors, SP Group carries through currency transactions to hedge commercial agreements. Hedging takes place by means of borrowing, forward exchange contracts or options, and Management regularly assesses the need for hedging each individual transaction.

In general, there is a good balance between income and expenses as most sales are settled in DKK or EUR and the most significant parts of fixed group costs are settled in DKK or EUR. The most critical commercial currency risk is indirect and relates to the customers' sales outside Europe. Similarly, purchases are primarily conducted in DKK and EUR.

Exports from Europe to USA and Asia are settled in USD on a 12-month forward selling basis (project orders up to 36 months).

Moreover, there is a currency risk between PLN and EUR and between RMB and USD, as the Group has increasing exports from Poland and China, which are settled in EUR and USD, respectively. In order to hedge the currency risk between PLN and EUR, EUR is sold against PLN on forward contracts for up to 48 months (hedging). At year end 2023, the Group had hedged approx. 6% of the expected net cash flows for the coming 48 months.

27% of the Group's financing has been raised in EUR, and 73% has been raised in DKK. The Company has bank deposits in USD, CAD, RMB, NOK and SEK.

Liquidity risks

It is the Group's objective to have sufficient cash resources to be able to continually make appropriate arrangements in case of unforeseen changes in cash outflows.

It is Management's opinion that the Company still has adequate capital resources considering its operations and sufficient liquidity to meet its present and future liabilities. The Company's long-term co-operation with its financial business partners is fruitful and constructive. This is expected to continue. The Group has neither neglected nor been in breach of loan agreements in the financial year or the comparative year.

At year-end 2023, SP Group had bank deposits and unutilised drawing rights in its banks for a total of approx. DKK 387 million.

At year end 2023, SP Group had sold non-recourse invoices in the amount of DKK 148 million (year end 2022: DKK 166 million) to reduce credit risks.

IT risks

The operation of SP Group's IT systems may be exposed to damage or interruption from power failure, computer and telecommunication malfunction, malware, catastrophic events and user errors.

Errors occurring due to lacking user awareness or intended abuse such as individual attempts to gain access to systems are among the risks that SP Group faces.

Insufficient management of changes to systems or services together with inefficient measures to deter, prevent, detect and react to such attempts may expose SP Group to risks.

Moreover, SP Group faces the threat of security breaches (viruses, ransomware, etc.) such as hacking attempts on our IT systems. SP Group has chosen a decentralised IT structure where the individual companies have their own IT networks, which minimises the risk that crashes and interruptions affect the entire Group simultaneously.

The Group has implemented an IT security policy, which is complied with in the individual IT networks to prevent intentional harm to systems and limited the access to critical functions.

Political risks

SP Group is a global company with sales in 98 countries and its own organisations with employees and activities in 12 countries.

Thus, SP Group is exposed to political risks such as: unreasonable legislation, nationalisation, unreasonable taxation, unreasonable increase of the minimum wages on the labour market and interference with the free movement of capital, goods and employees.

SP Group seeks to minimize these risks by avoiding establishing itself in unstable and corrupt societies, but conditions may change.