Risk & Risk Management

As a leading building supplies manufacturer in a highly competitive international environment, Kingspan is exposed to a variety of risks and uncertainties which are monitored and controlled by the Group’s internal risk management framework.

Overall responsibility for risk management lies with the Board who ensures that risk awareness is set at an appropriate level.

To ensure that risk awareness is set at an appropriate level, the Audit Committee assists the Board by taking delegated responsibility for the risk identification and assessment, in addition to reviewing the Group’s risk management and internal control systems and making recommendations to the Board thereon.

The chairman of the Audit Committee attends each meeting of the Board at each Board meeting on its activities, both in regard to audit matters and risk management.

The activities of the Audit Committee are set out in detail on page 82.

The Board monitors the Group’s risk management systems through this consultation with the Audit Committee but also through the Group’s divisional monthly management meetings, where at least two executive directors are present.

The risks and trends are the focus of each division’s monthly management meeting, where their performance is also assessed against budget, forecast and prior year. In addition, key performance indicators are used to benchmark operational performance for all manufacturing sites.

In addition to this ongoing assessment of risk within the divisions, the Audit Committee oversees an annual risk assessment for the Group whereby each divisional management team is formally asked to prepare a risk assessment for their business. This assessment involves evaluating group-wide, risks, as put forward by the Board, and also presenting additional risks that are specific to their business.

While it is acknowledged that the Group faces a variety of risks, the Board, through the processes set out above, has identified the principal risks and uncertainties that could potentially impact upon the Group’s short to medium term strategic goals and these are as follows:

Risk & impact

Volatility in the macro environment

The exposure to the cyclicality of any one construction market is partially mitigated by the Group’s diversification, both geographically and by product.

As set out in the Business Model & Strategy, the Group has mitigated this risk through diversification as follows:

- Sales outside of traditional markets, predominantly the UK and Ireland, have increased from 40% in 2008 to 75% in 2018.
- Launch of new products and continual improvements to existing product lines.
- Acquisitions made during the year extend the geographic reach of the Group.

The full details of these diversifications are set out in the Business Model & Strategy report on pages 8 to 13.

Failure to innovate

Innovation is one of Kingspan’s four pillars to increasing shareholder value and therefore plays a key role within the Group.

There is a continual review of each division’s product portfolio at both the executive and local management level to ensure that they target current and future opportunities for profitable growth.

This risk is further mitigated by continuing innovation and compelling marketing programmes. The launch of RCI™ in 2019 will only serve to enhance the capabilities of the Group to innovate. Kingspan also has a deep understanding of changing consumer and industry dynamics in its key markets, enabling management to respond appropriately to issues which may impact business performance.

Business interruption (including IT continuity)

Kingspan’s performance is dependent on the quality and stability of its physical infrastructure, its new material supply chain and its information technology.

The safe and continued operation of such systems and infrastructure is threatened by natural and man-made perils and is affected by the level of investment available to improve them.

The building industry as a whole is going through some significant change with respect to building regulations and codes.

The risks associated with misunderstanding some of the potential changes and the market’s ability to adopt and work with these changes that is more prevalent today.

Any significant or prolonged restriction to its physical infrastructure, the requisite raw material supply chain or its IT systems and infrastructure could have an adverse effect on Kingspan’s business performance.

Credit risks and credit control

As part of the overall service package, Kingspan provides credit to customers and as a result there is an associated risk that the customer will not be able to pay outstanding balances.

At the year-end, the Group was carrying a receivables book of £735.3m expressed net of provision for default in payment. This represents a net risk of 30% of sales. Of these net receivables, approximately 84% were covered by credit insurance or other forms of collateral such as letter of credit and bank guarantees.

Employee development & retention

The success of Kingspan is built upon the skills and expertise of the people that work to attract, retain and develop these teams could have an impact on business performance.

Employee development & retention

Kingspan is potentially exposed to fraudulent activity, with particular focus on the Group’s online banking systems, online payment procedures and unauthorised access to internal systems.

The security and processes around the Group’s IT and banking systems are subject to review by divisional management and internal audit.

These systems are continually reviewed with updates and improvements implemented as required. Fraud and security policy documents and related alerts are circulated by Group management to all divisions to ensure a consistent and effective approach is taken across the Group.

Fraud and cybercrime

Acquisition and integration of new businesses

Acquisitive growth is an important element of Kingspan’s development strategy. A failure to assess and properly integrate significant acquisitions and capitalise on the potential synergies they bring may adversely affect the Group.

Kingspan is continuously aware of potential acquisition targets. Kingspan’s team of acquisition professionals have a detailed understanding of the strategies and financials of potential targets and potential risks, which allows Kingspan to be in a strong position to assess the potential benefits of any acquisition.

Kingspan shall also have a strong track record of successfully integrating acquisitions and therefore management have extensive knowledge in this area which it utilises for each acquisition.

Each business unit has established procedures and credit control functions around managing its receivables and takes action when necessary.

Trade receivables are primarily managed through strong credit control functions backed up by credit insurance to the extent that it is available. All major outstanding balances will be regularly reviewed.

Fraud and cybercrime

Kingspan is aware of potential risks in the area of fraud and cybercrime. The Group has established a number of procedures in the area of fraud and cybercrime which are regularly reviewed.

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