Risk Factors Comparison 2024-04-12 to 2023-04-14 Form: 10-K

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The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we do not know about currently, or that we currently believe are not material, may also adversely affect our business, operating results, cash flows and financial condition. If any of these risks actually occur, our business, operating results, cash flows and financial condition could be materially adversely affected. Macroeconomic and Workplace Trends Risk Factors Failure to respond to changes in workplace trends and the competitive landscape may adversely affect our revenue and profits. Advances in technology, changing workforce demographics, **remote work** ~~increased working from home~~, shifts in work styles and behaviors and the globalization of business have been changing the world of work and impacting the types and amounts of workplace products and services purchased by our customers. In recent years, these trends have resulted in changes such as: • a decrease in overall demand for office furniture from corporate customers, • an increase in demand for products that support individual privacy and focused work, • an increase in demand for products that facilitate distributed collaboration, including those that enhance remote work experiences, • an increase in demand for ancillary furniture for social and collaborative spaces in office settings, • ~~more frequent~~ refreshment of workplace settings, and • customer interest in a broader range of price points, quality and warranty coverage. These trends have also had an impact on our competitive landscape, including (1) the emergence of smaller office furniture competitors, (2) increased competition from residential furniture and technology companies, (3) diversification by ~~some of our larger~~ competitors into other industries ~~and~~ **,** (4 **) consolidation in our industry and (5**) an increase in customers outsourcing workplace management to real estate management service firms and flexible real estate providers. We compete on a variety of factors, including: brand recognition and reputation; insights from our research; the breadth of our global reach and product portfolio; product design and features; price, lead time, delivery and service; product quality; strength of our dealer network and other distributors; relationships with customers and key influencers, such as architects, designers and real estate managers; and our commitments to sustainable product design and reducing our environmental impact. If we are unsuccessful in continuing to develop and offer a wide variety of solutions which respond to changes in workplace trends, or if we or our dealers are unsuccessful in competing with existing competitors and new competitive offerings which arise from outside our industry, our results of operations may be adversely affected. Our industry is influenced by cyclical macroeconomic factors and future downturns may adversely affect our revenue and profits. Our revenue is generated predominantly from the office furniture industry, and demand for office furniture is influenced by macroeconomic factors, such as corporate profits, non- residential fixed investment, white- collar employment and commercial office construction and vacancy rates, which can be difficult to predict. The office furniture industry has experienced periodic major declines in demand, driven by ~~global~~ economic downturns **in the Americas, EMEA, and Asia Pacific** . During these downturns, our revenue declined substantially and our profitability was significantly reduced. Our revenues and profitability can be, and currently are being, impacted by adverse changes in these macroeconomic factors. Adaptations of our business to changing macroeconomic factors can result in material restructuring costs, and if we are unsuccessful in making such adaptations, our operating results may be adversely affected. We may not be able to successfully develop, implement and manage our growth strategies. Our longer- term success depends on our ability to successfully develop, implement and manage our growth strategies, which include: • developing offerings to support hybrid work, including enhanced applications to support individual privacy and focused work and partnering with technology companies to create integrated collaborative solutions, • growing our market share with existing dealers and **large corporate** customers in addition to serving smaller and mid- sized customers and growing our market share in learning and healthcare environments, **and** • realizing the value from acquisitions and potential investments in new acquisitions ~~, and • enhancing our capabilities to serve the work- from- home and retail markets~~ . If these strategies to increase our revenues are not sufficient, or if we do not execute these strategies successfully, our global market share and profitability may be adversely affected. Manufacturing, Supply Chain and Distribution Risk Factors We **can** ~~are and may continue to~~ be adversely affected by changes in raw material, commodity and other input costs. We and our suppliers purchase raw materials (including steel, plastics, foam, aluminum, other metals, wood and particleboard) from a significant number of sources globally. These raw materials are not rare or unique to our industry. The costs of these commodities, as well as fuel, freight, energy, labor and other input costs can fluctuate due to changes in global, regional or local supply and demand, larger currency movements and changes in tariffs and trade barriers, which can also cause supply interruptions. ~~During 2022 and 2023, there was significant inflation in the costs of fuel, energy and many of the raw materials used by our suppliers and us, including steel and other commodities, due to availability constraints, supply chain disruption, labor shortages, impacts of the COVID- 19 pandemic and the war in Ukraine, and other factors.~~ In the short- term, significant increases in raw material, commodity and other input costs can be very difficult to offset with price increases because of existing contractual commitments with our customers, and it is difficult to find effective financial instruments to hedge against such changes. As a result, our gross margins can be adversely affected in the short- term by significant increases in these costs ~~. We implemented multiple list price increases globally in 2022 and 2023 and a temporary surcharge in the Americas in 2023~~ . If we are not successful in passing along higher raw material, commodity and other input costs to our customers over the longer- term, because of competitive pressures, our profitability could be negatively impacted. We are reliant on a global network of suppliers that exposes us to certain risks outside of our control. We are reliant on the timely flow of raw materials, components and finished goods from a global network of third- party suppliers. The flow of such materials, components and goods may be affected by: • fluctuations in the availability and quality of raw materials, • disruptions caused by labor shortages and labor activities, • ocean freight constraints and port congestion, domestic transportation and logistical challenges, • the financial solvency of our suppliers and their supply chains, and • damage or loss of production from accidents, natural disasters, severe weather events, pandemics, security concerns (including terrorist activity, armed conflict and civil or military unrest), trade embargoes, changes in tariffs, systems and equipment failures or disruptions, cyberattacks or security breaches and other causes. Any disruptions or fluctuations in the supply and delivery of raw materials, components and finished goods or deficiencies in our ability to manage our global network of suppliers could have an adverse impact on our business, operating results or financial condition ~~. During 2023, our suppliers were negatively impacted by disruptions and fluctuations in the availability of raw materials, labor, transportation and logistics. These factors led to significant disruptions and delays in the supply of raw materials, components and finished goods to us, which negatively impacted our order lead times and our ability to consistently deliver products to our customers on time, as well as our costs of procuring such items and carrying higher than historical levels of inventory~~ . Changes in tariffs, global trade agreements or government procurement could adversely affect our business. We manufacture most of our products on a regional basis, and as a result, we often export products from where they are manufactured to where they are sold within the region. We also source raw materials, components and finished goods from a global network of suppliers. In particular in ~~2023~~ **2024** , approximately ~~35~~ **34** % of the products we sold to customers in the U. S., including U. S. government agencies, were manufactured outside of the U. S., predominantly by our subsidiaries in Mexico, which operate as maquiladoras. Changes in tariffs or trade agreements could impact the cost of importing our products into the countries where they are sold and the cost of raw materials and components sourced from other countries, which in turn could adversely impact our gross margins and our price competitiveness. In addition, changes in U. S. government procurement rules requiring a certain amount of domestic content in finished goods, or requiring finished goods to be produced in the U. S., could have an adverse impact on our business, operating results or financial condition. The lack of redundant capabilities among our regional manufacturing facilities could adversely affect our business. ~~Many~~ **Most** of our products are currently produced in only one location in each of the three geographic regions in which we operate (the Americas, EMEA and Asia Pacific), certain components are manufactured in only one location globally and our manufacturing model is predominately make- to- order. As a result, any issue which impacts the production capabilities of one of our manufacturing locations, such as natural disasters, severe weather events, pandemics, disruptions in the supply of materials or components, systems and equipment failures or disruptions caused by labor activities, could have an adverse impact on our business, operating results or financial condition. We rely largely on a network of independent dealers to market, deliver and install our products, and disruptions and increasing consolidations within our dealer network could adversely affect our business. Our business is dependent on our ability to manage our relationships with our independent dealers. From time to time, we or a dealer may choose to terminate our relationship, or the dealer could face financial insolvency or difficulty in transitioning to new ownership, and establishing a new dealer in a market can take considerable time and resources. Disruption of dealer coverage within a specific local market could have an adverse impact on our business within the affected market. The loss or termination of a significant number of dealers or the inability to establish new dealers could cause difficulties in marketing and distributing our products and have an adverse effect on our business, operating results or financial condition. In the event that a dealer in a strategic market experiences financial difficulty, we may choose to make financial investments in the dealership, which would reduce the risk of disruption but increase our financial exposure. Alternatively, we may elect to purchase and operate dealers in certain markets, which would also require use of our capital and increase our financial exposure. We rely on our dealers to sell, deliver and install products to our customers, and their ability to perform and their financial conditions could be affected by events such as natural disasters, severe weather events, pandemics, systems and equipment failures or disruptions, cyberattacks or security breaches. A significant disruption in the operations of our dealers could have an adverse impact on our business, operating results or financial condition. In certain cases, our diversification and growth strategies into adjacent markets are driving the need for our dealers to invest in additional resources to support our products and markets. Some of our smaller dealers do not have the scale to support such investments, and as a result, we have seen and may continue to see increased consolidation within our dealer network. This increased concentration and size of dealers could increase our exposure to the risks discussed above. Global Footprint Risk Factors Our global presence subjects us to risks that may negatively affect our profitability and financial condition. We have manufacturing facilities, sales locations and offices in many countries, and as a result, we are subject to risks associated with doing business globally. Our success depends on our ability to manage the complexity associated with designing, developing, manufacturing and selling our solutions in a variety of countries. Our global presence is also subject to market risks, which in turn could have an adverse effect on our business, operating results or financial condition, including: • differing business practices, cultural factors and regulatory requirements, • political, social and economic instability, natural disasters, pandemics, security concerns, including terrorist activity, armed conflict and civil or military unrest and global crises or health issues, and • intellectual property protection challenges. Our global footprint makes us vulnerable to currency exchange rate fluctuations and currency controls. We primarily sell our products in U. S. dollars and euros, but we generate some of our revenues and pay some of our expenses in other currencies **. Revenue recorded in currencies other than the U. S. dollar and the euro represented approximately 11 % of our consolidated revenue in 2024** . While we seek to manage our foreign exchange risk largely through operational means by matching revenue with same- currency costs, our results are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. We use foreign currency derivatives to hedge some of the near- term volatility of these exposures. There can be no assurance that such hedging will be economically effective. If we are not successful in managing currency exchange rate fluctuations, they could have an adverse effect on our business, operating results or financial condition. We operate globally in multiple currencies, but we translate our results into U. S. dollars for reporting purposes, and thus our reported results may be positively or negatively impacted by the strengthening or weakening of the other currencies in which we operate against the U. S. dollar. In addition, we face restrictions in certain countries that limit or prevent the transfer of funds to other countries or the exchange of the local currency to other currencies, which could have a negative impact on our profitability. We also face risks associated with fluctuations in currency exchange rates that may lead to a decline in the value of the funds held in certain jurisdictions, as well as the value of intercompany balances denominated in foreign currencies. Financial Risk Factors We may be required to record impairment charges related to goodwill, which would adversely affect our results of operations. We have net goodwill of $ ~~276~~ **274** . 8 as of February ~~24~~ **23** , ~~2023~~ **2024** . Goodwill is not amortized but is evaluated for impairment annually in Q4 or whenever an event occurs or circumstances change such that it is more likely than not that an impairment may exist. Poor performance in portions of our business where we have goodwill, including failure to achieve projected performance from acquisitions, or declines in the market value of our equity, may result in impairment charges, which would adversely affect our results of operations. There may be significant limitations to our utilization of net operating loss and tax credit carryforwards to offset future taxable income.We have deferred tax assets related to net operating loss (" NOL") and tax credit carryforwards totaling $ ~~33~~ **36** . ~~4~~ **5** and $ ~~12~~ **17** . ~~7~~ **9** ,respectively,against which valuation allowances totaling $ ~~4.~~ 3 **.1** have been recorded.NOL carryforwards are primarily related to foreign jurisdictions.Tax credit carryforwards consist of U.S.foreign tax credits and foreign investment tax credits.We may be unable to generate sufficient taxable income from future operations in the jurisdictions in which we maintain deferred tax assets related to NOL and tax credit carryforwards,or implement tax,business or other planning strategies,to fully utilize the recorded value of our NOL and tax credit carryforwards.These deferred tax assets are recorded in various currencies that are also subject to foreign exchange risk,which could reduce the amount we may ultimately realize.Additionally,future changes in tax laws or interpretations of such tax laws may limit our ability to fully utilize our NOL and tax credit carryforwards. Changes in corporate tax laws could adversely affect our business. We are subject to income taxes in the U. S. and various foreign jurisdictions. Our future effective tax rate could be affected by changes in the mix of our earnings in countries with differing statutory tax rates, changes in the valuation of our deferred tax assets and liabilities or changes in tax laws or their interpretation. In addition, such tax law changes, if enacted, could have a material adverse effect on our business, operating results or financial condition. A reduction in applicable tax rates may require us to revalue and write- down our net deferred tax assets. As of February ~~24~~ **23** , ~~2023~~ **2024** , we had net deferred tax assets of $ ~~109~~ **108** . ~~3~~ **6** , and approximately ~~65~~ **68** % of our net deferred tax assets were subject to recovery in the U. S. There may be significant limitations to our...... our NOL and tax credit carryforwards. General Risk Factors **Unforeseen complexity or delay in the design or implementation of our new global enterprise resource planning (“ ERP ”) system could adversely affect our business. We are reliant on a global ERP system to support processes critical to our manufacturing operations, financial reporting and executive decision- making. In Q3 2024, we entered the application- development phase of a multi- year, phased implementation of a new cloud- based ERP system which is expected to replace our current ERP system and various other supporting systems for operating and financial processes. We expect to deploy the new ERP system beginning in 2026. ERP system implementations are complex and require a significant amount of time and expenditure. Significant investment of internal and external resources has been, and will continue to be, required for successful implementation. Unforeseen complexity or delay in implementation could result in significant cost overruns and additional time investment from resources that could otherwise focus on other strategic priorities, which in turn could have an adverse effect on our business, operating results or financial condition. The implementation of our new ERP system will also require reengineering of many of our operating and financial processes. The transformation of these processes involves risks inherent in a large- scale conversion including loss of information, significant change management, potential disruption to our normal operations and other unforeseen challenges. If the new ERP system does not operate as intended or work in concert with reengineered processes, we could experience a material adverse effect on our business, financial reporting or internal control.** We rely on the integrity and security of our information technology systems, and our business could be materially adversely impacted by extended disruptions, significant security breaches or other compromises of these systems. We rely on information technology systems ~~to~~ **, including cloud- based systems** ~~operate~~ **operated by third parties, to run** and manage our business and to process, maintain and safeguard information essential to our business as well as information relating to our customers, dealers, suppliers and employees. These systems are vulnerable to events beyond our reasonable control, including cyberattacks and security breaches, the need for system upgrades and support, telecommunication and internet failures, natural disasters and power loss. Such events could result in operational slowdowns, shutdowns or other difficulties; loss of revenues or market share; compromise or loss of sensitive or proprietary information; destruction or corruption of data; costs of remediation, upgrades, repair or recovery; breaches of obligations to third parties under privacy laws or contracts; or damage to our reputation or customer relationships; each of which, depending on the extent or duration of the event, could materially adversely impact our business, operating results or financial condition **. In the case of systems operated by third parties, we rely on the security programs maintained by those parties** . We maintain insurance coverage, which may cover some of these risks, subject to the terms and conditions of the applicable policies, but such coverage may not be available or sufficient to cover all of the losses that may arise. We may be **materially** adversely affected by security breaches, errors or disruptions relating to our software and software- as- a- service offerings. We sell enterprise resource planning software and software- as- a- service offerings to our dealers. In connection with some of these offerings, we collect and store data belonging to our dealers, and we rely on third parties, such as cloud hosting providers and other service providers, to perform some of our obligations. If the security measures we and our third- party vendors use are breached, if there are errors in our software or if there are any service interruptions caused by other events, our offerings may not operate properly, dealer data could be lost or compromised, and our dealers’ businesses may be disrupted. In such events, we may incur legal liabilities, lost business or harm to our brand reputation, which could have a **material** negative impact on our business, operating results or financial condition. We may be adversely impacted by losses and reputational damage related to product defects. Product defects can occur within our own product development and manufacturing processes or through our reliance on third parties for product development and manufacturing activities. We incur various expenses related to product defects, including product warranty costs, product recall and retrofit costs and product liability costs, which can have an adverse impact on our results of operations. In addition, the reputation of our brands may be diminished by product defects and recalls. We maintain a reserve for our product warranty costs based on certain estimates and our knowledge of current events and actions. While we continue to make significant investments to improve product quality, our actual warranty costs may exceed our reserve, resulting in a need to increase our accruals for warranty charges. We purchase insurance coverage to reduce our exposure to significant levels of product liability claims and maintain a reserve for our self-insured losses based upon estimates of the aggregate liability using claims experience and actuarial assumptions. Incorrect estimates or any significant increase in the rate of our product defect expenses could have a material adverse effect on our results of operations.