



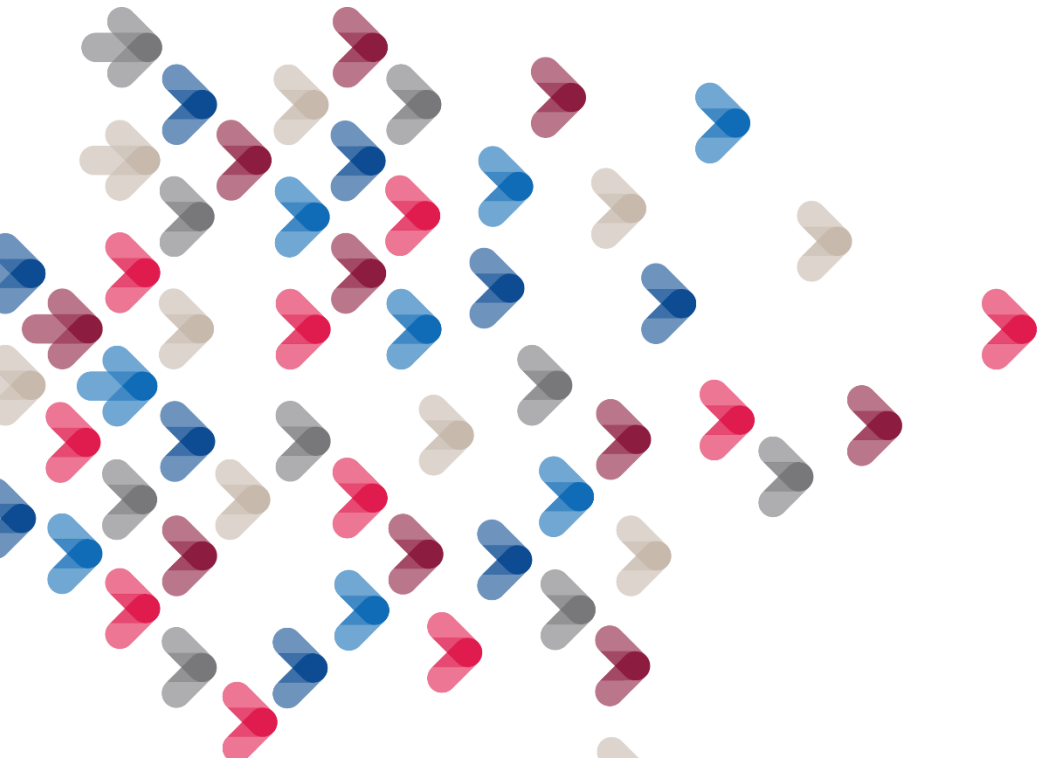
Grant Thornton

An instinct for growth™

Article 50

Gearing up for Brexit

March 2017



Brexit is a catalyst for change

The triggering of Article 50 represents the first major step towards the UK's departure from the European Union (EU) and begins a two-year period of negotiation.

During this time, the UK remains a full member of the EU, enjoying continued participation in the Single Market and remaining bound by the rules and obligations of membership.

What shape the UK's relationship with Europe will take beyond March 2019 is unknown.

To help you understand how the key issues are likely to impact your business, we have created the following guidance:

- **Article 50**
 - Preparing for Brexit and beyond
- **Trade**
 - Rethinking cross border activity
- **People and talent**
 - Shaping your future workforce
- **Finance and operations**
 - Adapting processes and systems

Article 50

Preparing for Brexit and beyond



The impact of Brexit will be different for every organisation.

To ensure that you are able to react quickly to upcoming changes, minimise any potential risks and seize the opportunities presented, it is vital that you utilise this two-year period to prepare.

We advise businesses to think over three overlapping horizons as mapped above.

Measuring exposure

Understand and map how your company interacts with the European Union:

- What are your touch-points with the EU? (eg people, goods and services, costs, financing or regulation)
- How might potential changes to the UK-EU relationship affect your organisation?
 - Run scenario planning exercises to quantify potential implications on your business
 - Model the impact on financial performance and operations

Brexit-proofing

Protect your business through the transition period:

- What decisions can you take now to mitigate your exposure to potential changes?
 - Minimise any current inefficiencies
 - Explore alternative solutions to sourcing labour and developing domestic talent
 - Communicate clearly with key stakeholders: Businesses should engage in regular dialogue with key stakeholders and where possible reassure staff and provide clarity.

Capitalising on opportunities

To achieve growth during and after the UK's departure from the EU, organisations must identify and capitalise on the opportunities presented. These could include:

- Re-imagining business models
- Optimising processes and controls
- Exploring new international markets as and when new trade deals appear
- Capitalising on new domestic opportunities

Trade

Rethinking cross border activity



The trade implications of Brexit will be wide reaching. In the short term, currency fluctuations are creating opportunities and risks for trade and supply chains. Looking further ahead customs duties, administrative approvals and compliance processes, rights of establishment and recognition of standards may change. Even businesses that do not import or export will be impacted by the changes.

Leaving the EU affects not only the UK's trading relationship with it, but also with the rest of the world, as at present all the UK's trade deals with third countries are EU agreements. The countries the UK currently enjoys trade deals with and the terms of those deals will change.

However, with change comes opportunity. UK trade deals with new and emerging markets will offer chances to those businesses looking to expand their international footprint.

Looking ahead

Theresa May has stated her ambition to deliver a comprehensive Free-Trade-Agreement with the EU to replace our current membership, with talk of potential transitional arrangements for certain sectors.

The scope of this trade deal, and whether it can be negotiated in parallel with Article 50 talks, remains uncertain. With this mind, organisations should plan with the understanding that the:

- UK will leave the EU Single Market
- UK will leave the EU Customs Union.

Things to consider

The impact on your supply chain

While companies should understand their own interactions with the EU, it is just as important to be aware of your supply chain's exposure, thinking about issues such as:

- Which customers and suppliers might be affected by short term volatility?
- How will EU manufacturers review their supply chain and look at alternatives to UK suppliers?
- What are your intra and intercompany arrangements within Europe and outside Europe?

The referendum result is already having an impact on businesses' international supply chain, with increased costs and clients postponing, renewing or signing up to new projects.

You should review your supply chain to:

- put together contingency plans and review procurement options
- take the opportunity to future proof supply chains
- assess indirect tax position and exposure
- identify risks and opportunities
- optimise customs compliance and supply chain structure.

Reviewing your international growth strategy

With doubts over the UK's existing trade agreements with the EU27 and third countries, organisations should be testing and, where necessary, updating their current growth strategies. You should be aware of how any changes will affect you by:

- understanding how Brexit will change access to current markets
- reviewing the robustness of your international growth strategy.

Seizing opportunities

Maximise short-term export growth

The depreciation in the pound combined with the continued full membership of the EU presents a unique opportunity for businesses to maximise their export growth over the next two years.

Enter new markets

As the UK gains the ability to negotiate trade agreements independently of the EU, there will be new markets for UK businesses to explore.

Government has already stated its eagerness to agree quick deals with China, Brazil, the Gulf States, Australia, New Zealand, India and the United States.

There will be a first mover advantage as new markets open up and businesses should think ahead by:

- exploring potential new markets and ensuring they are suitable
- taking advantage of government support.

DID YOU KNOW...

ONLY AROUND
11% OF UK
FIRMS
CURRENTLY EXPORT



UK exports totalled
£543Bn in 2016

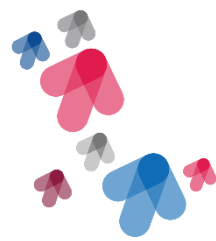
Top global export
destinations for goods were:

USA	£47bn (15%)
GERMANY	£33bn (11%)
FRANCE	£19bn (6%)
NETHERLANDS	£19bn (6%)

Source: Office of National Statistics

People and talent

Shaping your future workforce



In business, people are your greatest asset.

To make sure your people perform exceptionally and contribute significantly to your success, it is vital they feel incentivised and engaged. To grow and succeed, it is also essential you attract and retain the top talent.

With around 2.1 million EU nationals working in the UK, there is a high probability your business employs at least one.

The referendum result has already had profound implications on business and its workforce. Employers have told us that fluctuations in the exchange rate, and the uncertainty surrounding the rights of workers to remain, have resulted in some EU employees feeling unsettled and even leaving the UK.

Looking ahead

While there is as of yet no certainty for UK citizens working and residing in the EU, EU nationals in the UK, or around the future immigration system, businesses should plan on the basis of:

- continued exchange rate fluctuations
- increased government focus and regulation on employer workforce relations
- an end to the free movement of people between the UK and the EU.

Things to consider

Retaining and recruiting the skills you need

Minimising skills gaps and remaining attractive to international talent despite the depreciation in the pound will be key to a successful transition. To achieve this you should consider how to:

- develop and review remuneration packages, benefits and incentive schemes with an increased focus on non-cash benefits
- provide assistance with citizenship applications and work-permits
- review talent and workforce plans - considering scenarios with less access to EU workers.

While we do not know what the future holds, you can prepare for any eventuality by reviewing your current employment processes to:

- identify opportunities to streamline procedures and implement efficiencies, eg expenses policy, salary sacrifice and company car arrangements
- ensure your workforce are prepared to deal with incoming changes and have the capacity to manage increased administrative requirements
- analyse the make-up of your current mobile population and understand the impact of increasing costs of international assignments.

The importance of leadership

During uncertain times clear leadership is vital to business success. Organisations should focus on:

- creating a robust and effective engagement plan with employees to maintain their focus on the business fundamentals
- ensuring leadership have a clear vision and purpose aligned to key strategic goals.

Seizing opportunities

Developing domestic talent

Given the uncertainty ahead, businesses should explore alternative solutions to sourcing labour. The Apprenticeship Levy, which comes into force in April 2017, provides an opportunity for English employers to develop the skill sets of their current workforce.

Organisations should utilise funds to train their future workforce, resolve the skills gap and retain talent whilst minimising the tax cost.

Embracing automation

Automation provides business with an opportunity to both reduce reliance on low-skilled labour and invest for the future.

With the UK only slightly ahead of the global average when it comes the use of robotics, there is plenty of room for growth.

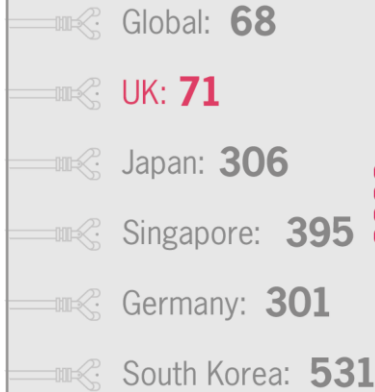
DID YOU KNOW...

2.1M EU NATIONALS IN THE UK WORKFORCE

43% INCREASE IN REPORTED SKILLS SHORTAGE VACANCIES SINCE 2013

UK behind global robotic leaders

Robots per 10,000 manufacturing employees:



Source: Full Fact 2016, IFR world robotics 2016, UKCES Survey 2015

Finance and operations

Adapting processes and systems



Finance is central to an organisation's ability to navigate the risks and maximise the upside.

The immediate impact of the referendum result has been uncertainty and exchange rate fluctuations.

Despite the UK economy showing continued economic growth, we see organisations struggling to make the right operational and commercial decisions without knowing the impact of Brexit.

The uncertain picture ahead has led to many businesses struggling with issues such as revenue forecasting and a change of strategy may be required.

Looking ahead

The triggering of Article 50 does not materially change the regulatory environment, and the extent to which it may change in the future depends on the details of a new UK-EU deal.

Triggering Article 50 does not affect the manner in which companies report. However, the risks Brexit presents to a company such as economic uncertainty and currency fluctuations must be clearly communicated in annual reports, keeping in mind that these disclosures should be "fair, balanced and understandable".

To ensure appropriate consideration and disclosure of these risks, you should:

- assess the risks presented by Brexit in an impartial manner
- challenge valuations
- review tolerances and sensitivities of your modelling
- consider how these risks will be managed.

Things to consider

Plan for the uncertainty

In scenario planning, businesses should undertake a board-level assessment of the potential financial impact of the top five downside-risks and upside-opportunities presented by Brexit. In order to do this you must check:

- whether you have got access to the necessary data and whether this is reflective of the uncertainties the entity faces
- ensure you have the necessary access to budgeting, forecasting and modelling skills.

Insulate your balance sheet

Ensuring businesses have a sufficiently robust balance sheet will be key to shielding against any harmful impacts on trading performance, and will provide the flexibility to take advantage of any opportunities presented. With this in mind, you should assess whether you have sufficient liquidity in your balance sheet.

You can begin by reviewing and optimising working capital performance, exploring alternative sources of finance and reviewing hedging positions.

Communicate clearly

It is critical that key stakeholders have confidence in a company's ability to navigate the Brexit process successfully. To provide stakeholders with that confidence, businesses should be proactively engaging key stakeholders (bankers, shareholders, analysts etc.) in a positive dialogue about how the challenges and opportunities posed by Brexit may present themselves and how they will react.

One of the key channels for this communication is your annual report.

Re-evaluate operating models

In response to scenario planning and financial modelling, organisations may need to review key parts of their operating model to cater for new realities as Brexit unfolds. You should consider:

- how operations may change in light of potential new relationships with Europe
- the tax implications on supply chains and the options to restructure
- the impact of carving out European operations into new entities
- current finance structures and how IT systems may be impacted.

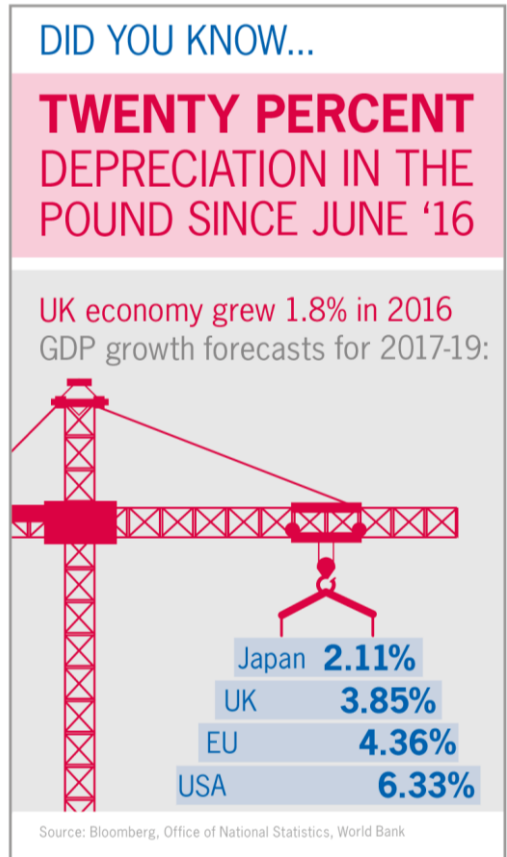
While there is great uncertainty over what will follow Article 50 negotiations, you can prepare now by:

- thinking about how administrative burdens might change if the UK leaves the Customs Union, and what impact this would have on incremental costs
- understanding the impact WTO duties would have on a business as a worst case scenario
- mapping the people, process, systems, contracts and asset related issues around potential operational remodelling
- beginning to think about the financial reporting implications of operational decisions.

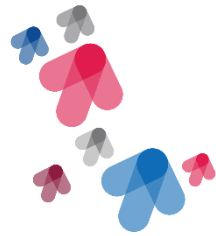
Seizing opportunities

Deal prospects

The depreciation of Sterling will make UK assets more attractive to overseas investors, while the uncertainty will provide opportunities for those willing to take a risk on Brexit. As such there is likely to be opportunities for those wishing to enter or exit markets.



How we can help



CEO Room

In the face of ambiguity, it is important for you to review contingency plans, assess the possible risks and harness the opportunities for your organisation.

Our CEO Room is a dedicated, stimulating space for a face-to-face discussion where you will be able to work on the key strategic, financial and leadership issues for your business. These discussions can help you think clearly about your immediate challenges, ambitions and objectives, as well as stress testing existing strategies against a range of future scenarios.

To learn more and book a session visit:
www.grantthornton.co.uk/en/ceo-room

Website

For insight and analysis, visit our dedicated Brexit website:

www.grantthornton.co.uk/brexit

Contact us

At Grant Thornton all our people are equipped to discuss Brexit. With expertise across a broad range of sectors and disciplines we can offer tailored advice on how you can minimise the risks and seize the opportunities presented by Brexit.

For advice please speak to your usual Grant Thornton growth adviser or email us at:

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Our underlying purpose is to build a vibrant economy, based on trust and integrity in markets, dynamic businesses, and communities where businesses and people thrive. We work with banks, regulators and government to rebuild trust through corporate renewal reviews, advice on corporate governance, and remediation in financial services. We work with dynamic organisations to help them grow. And we work with the public sector to build a business environment that supports growth, including national and local public services.

In the UK, we are led by more than 180 partners and employ 4,500 of the profession's brightest minds. We provide assurance, tax and specialist advisory services to over 40,000 privately held businesses, public interest entities and individuals nationwide.





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