

Brexit – For Companies and Banks, The Worst is Yet to Come

Greenwich Associates Research – Summer 2019

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Today's Speakers



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About Greenwich Associates

Greenwich Associates is the leading provider of global market intelligence and advisory services to the financial services industry

- We provide unique market information, insights and advice to help clients:
- Improve their business performance
- Drive product strategy & development
- Increase sales effectiveness
- Gain a significant competitive advantage
- Enhance operational performance
- Optimize development initiatives
- Transform their business to improve every aspect of customer experience

Firm Facts:

- Founded in 1972
- Privately held
- Headquartered in Stamford, CT, with regional offices in Pleasanton, CA, Toronto, London, Singapore, and Tokyo

Research Parameters & Methodology

Interview Period: May 30 – July 8 2019.

Respondents: 61 Treasury professionals at corporations with sales in excess of €500 million of which 21% are based in the U.K. and 79% in Western Europe ex-U.K.

Methodology: Online questionnaire of about 15-20 minutes.

Agenda

Impact of Brexit on Corporates

- Operations
- Banking Needs
- Banking Partners

Impact of Brexit on Corporates' Specific Banking Needs

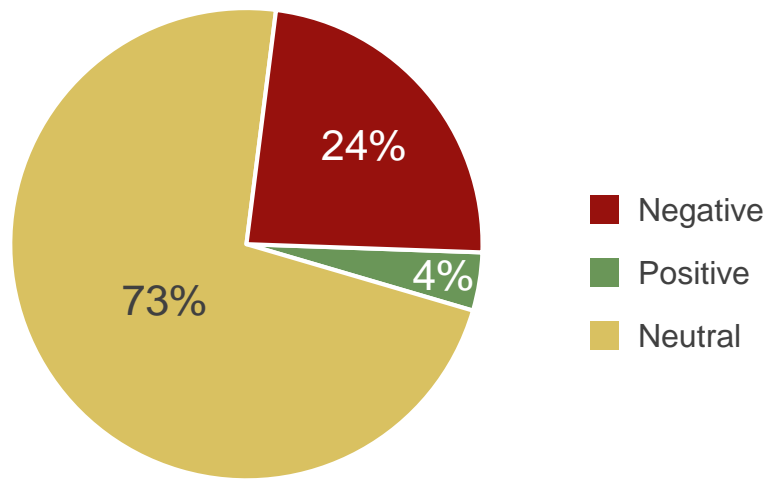
- Lending / Working Capital
- Cash Management
- Trade Finance

Corporates' Evaluation of Banks' Advice Relating to Brexit

While 24% of corporates already felt a negative impact due to Brexit, many more feel that the negative impact is yet to come

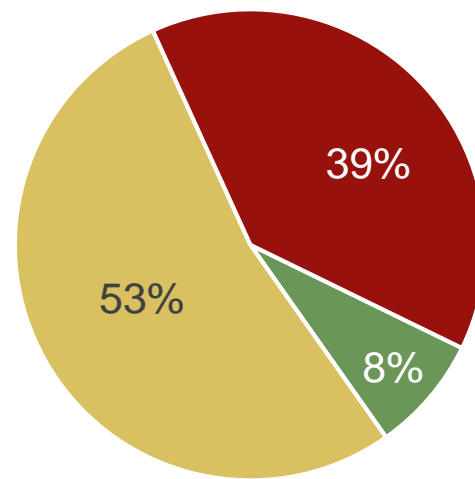
64% of U.K. based companies feel that there will be a negative impact due to Brexit over the next 5 years, while only 33% of Continental European companies feel this way

Impact of Brexit since 2016



■ Negative 33% of UK companies
21% of Cont. European companies

Impact of Brexit over the next 5 years



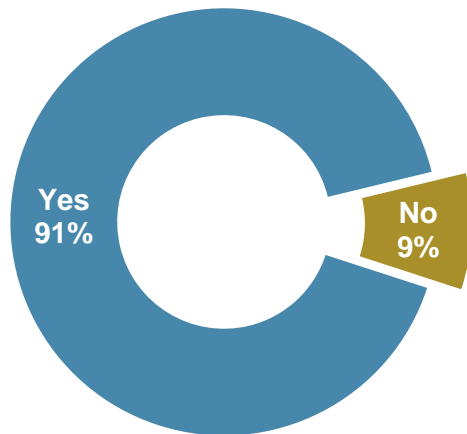
■ Negative 64% of UK companies
33% of Cont. European companies

Q1a. What is the overall impact of Brexit on your firm between 2016 and now? (Q1b. What is the overall impact of Brexit on your firm in the longer term, i.e. the next 5 years?)

9 out of 10 corporates feel ready to meet the existing or potential challenges that may arise with Brexit

Reasons why corporates do not feel ready are related to the still uncertain nature of the Brexit outcome and implications

Do you feel “ready” for meeting the existing or potential challenges Brexit is imposing on your business?



Reasons why corporates do not feel ready for meeting the challenges Brexit is imposing on their business



*‘Do **not know exact conditions** of Brexit, yet.’
(Finland)*

*‘Due to the **uncertainty of the type of Brexit**, whether it will be a no-deal Brexit or a deal Brexit. **Not sure the documentation** that has been replicated and amended **will suffice**, will protect my company of any unanticipated risks.’ (Portugal)*

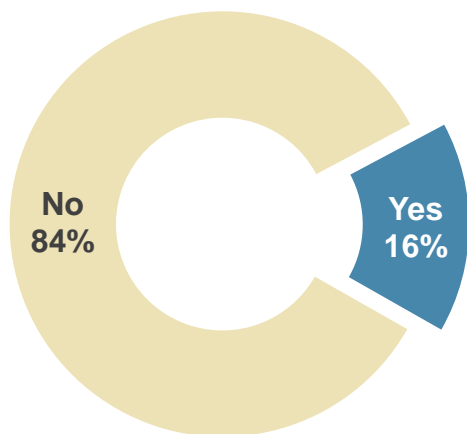
‘Uncertain implications.’ (Norway)



Q2. Do you feel “ready” for meeting the existing or potential challenges Brexit is imposing on your business?

The majority of companies have not moved U.K. operations to the EU as a result of the Brexit vote, nor are they planning to do so if the U.K. is to actually leave the EU

Have you moved or are you planning to move operations from the U.K. to inside the EU because of Brexit



Among the corporates that have moved or are looking to move U.K. operations inside the EU,

about 70% look to Western European EU states.



Among the corporates that have moved or are looking to move U.K. operations inside the EU,

about 30% look to Central/Eastern European EU states.



Q3. Do you have operations in the UK?

Q4a. Have you moved operations from the UK to inside the EU as a result of the Brexit vote?

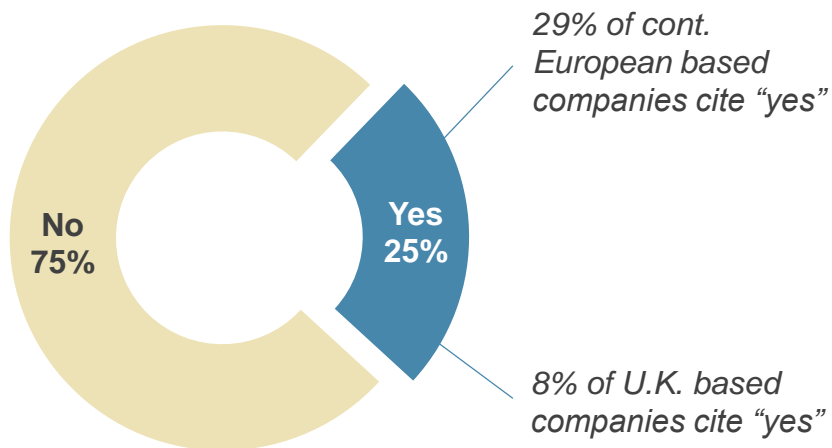
Q4b. (If not moved operations from UK to inside EU yet) Do you plan to move operations from the UK to inside the EU should the UK actually leave the EU?

Q4c. When you have moved or are planning to move operations inside the EU, have you or will you move these to western European EU states or Central/Eastern European EU states?

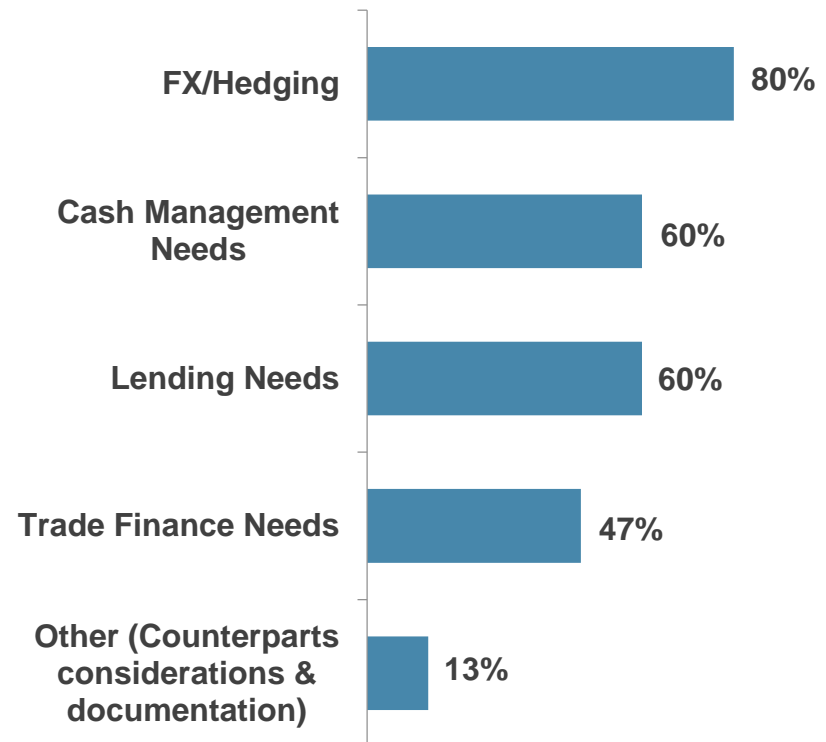
25% of corporates have experienced or are anticipating a change in their banking needs as a result of the Brexit process

The most frequently cited change in needs relates to FX/Hedging, followed by cash management and lending

Have any of your specific financial and banking needs changed as a result of the Brexit process or are you anticipating these needs will change in the near future?



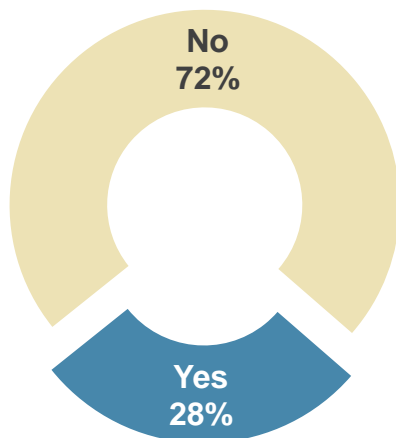
Financial / banking needs that have changed



Q5. Have you experienced / are you anticipating any of your specific financial and banking needs changing as a result of the Brexit process in the near future?
Q5a. Please rank in order of importance which needs have changed where 1 is "Most important".

To almost one third of corporates it matters where their banking partner handling their European needs is based within the EU

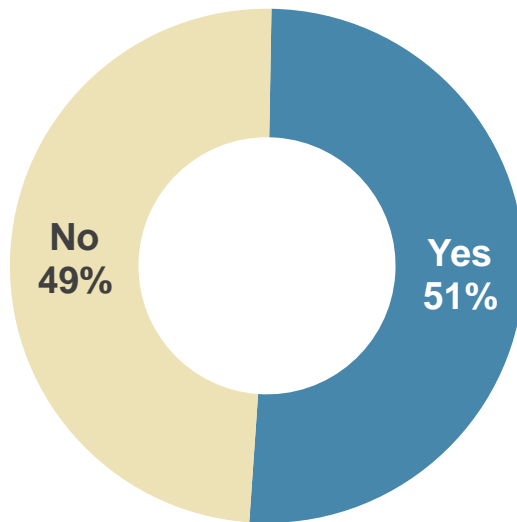
For banks handling your European needs, as far as they are handled from any of the EU member states, does it matter which country within the EU your needs will be handled from?



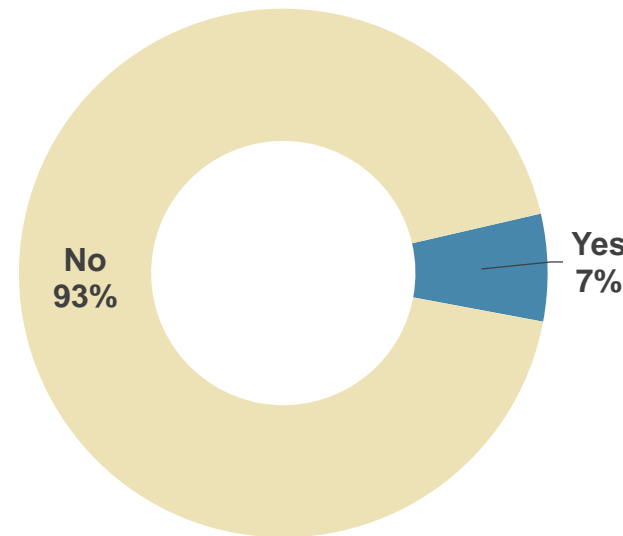
Q8a. For banks handling your European needs, as far as they are handled from any of the EU member states, does it matter which country within the EU your needs will be handled from?
Q8b. Which would be your preferred country other than your home country? *Two companies name the country their business is located in.

Half of corporates state they have concerns regarding where debt is booked at their credit providers post Brexit

Concerns as to where debt is booked (within EU zone or UK) at your credit providers post Brexit



Looking at your working capital needs, has Brexit triggered any changes in the lending support you require?



Which bank was particularly helpful to meet these changing needs?

German Corporate: **'Commerzbank'**

Dutch Corporate: **'Citibank'**

British Corporate: **'Lloyds, NatWest, HSBC'**

Spanish Corporate: **'HSBC'**

Q9. Do you have any concerns as to where debt is booked (within EU zone or UK) at your credit providers post Brexit, also including considerations around the potential impact of governing law used for documentation?

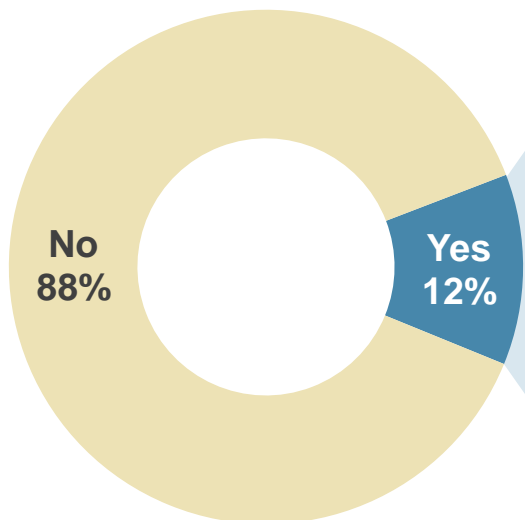
Q10a. Looking at your working capital needs, has Brexit triggered any changes in the lending support you require?

Q10b. Which bank was particularly helpful to meet these changing needs?

Only 12% of corporates say that the Brexit process has triggered a change of their strategic cash mgmt. needs

67% of corporates say they have a European cash pool

Has the Brexit process triggered a change of your strategic U.K. / Europe cash management needs?



For Western Europe, almost 60% of corporates are looking for providers that can cater for their pan-European needs (SEPA zone).



For the UK, more than 40% of corporates are looking for providers that can cater for their pan-European needs (providing domestic as well as intra-Western European products and services).



Q11 Do you have a European cash pool?

Q12. Has the Brexit process triggered a change of your strategic UK/Europe cash management needs?

Q12a. In UK: are you predominantly looking for providers that can cater for your pan-European needs (providers which provide you with domestic as well as intra-Western European products and services)

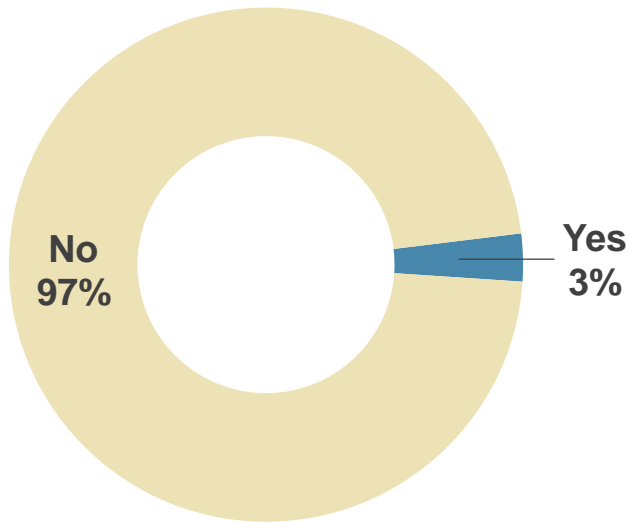
Q12b. In UK: are you looking for one or a set of providers that cater for your domestic needs and another bank or set of banks that caters for your intra-European needs?

Q12c. In WE: are you predominantly looking for a provider that caters for your pan-European needs (SEPA zone)?

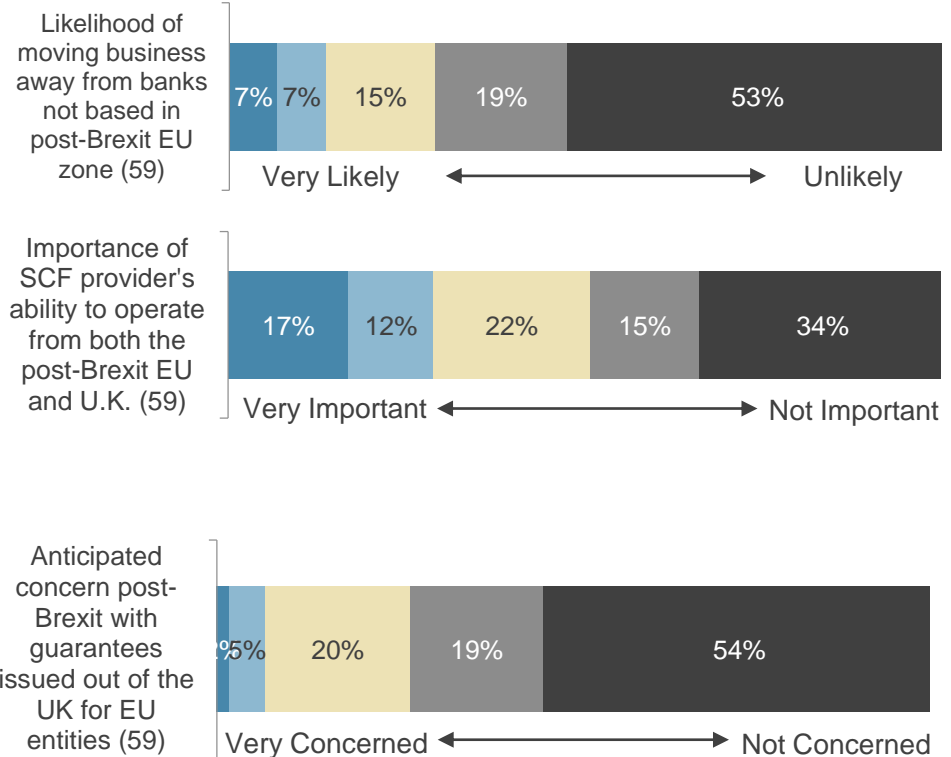
Q12d. In WE: are you looking for a UK specialist separate from provider(s) for your pan-European needs?

Whilst almost all corporates say that Brexit has not triggered a change in their trade finance needs, certain capabilities of banks matter to them

Has the Brexit process triggered any change of your strategic trade finance needs, also including your supply chain needs?



Specific Changes in Trade Finance Needs Triggered by Brexit

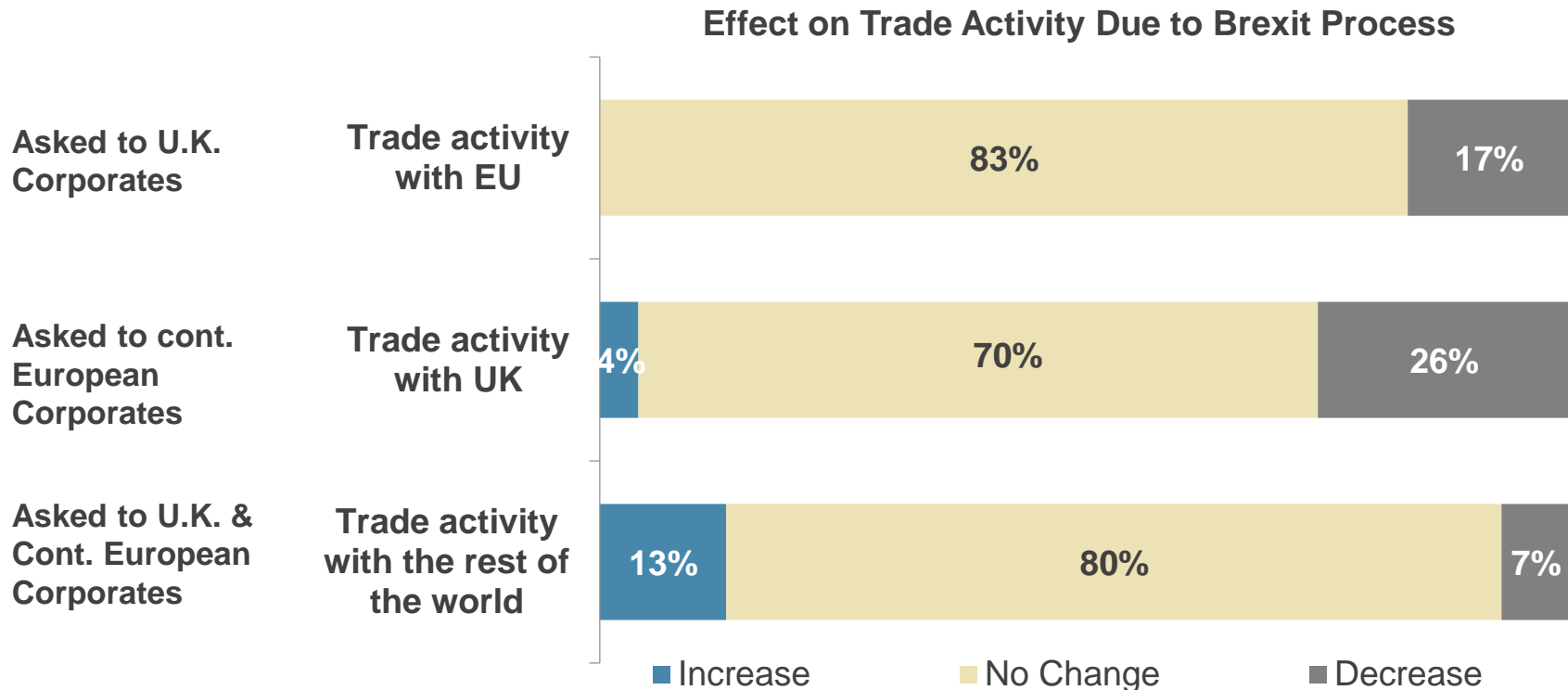


Q13. Has the Brexit process triggered any change of your strategic trade finance needs, also including your supply chain needs?

... More specifically...

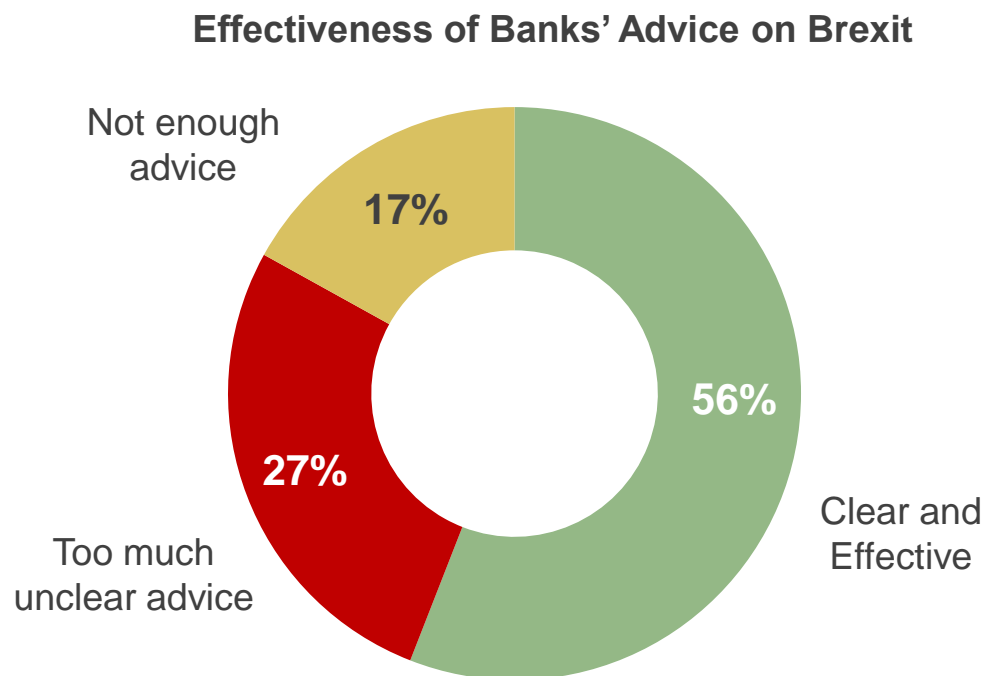
- a) How likely do you move business away from banks you are currently using for your trade finance needs if they are not based in the (post Brexit) EU zone? Use a 5 point scale for 5 very likely to 1 unlikely.
- b) Do you anticipate having any concerns post Brexit with guarantees issued out of the UK for EU entities? Use a 5 point scale for 5 very concerned to 1 not concerned at all.
- c) How important is it for you that your supply chain finance provider has the ability to operate from both the post-Brexit EU as well as the UK? Use a 5 point scale for 5 very important to 1 not important at all.

The trade activity of the majority of corporates has not been or will not be affected due to the Brexit process. However, among cont. European corporates, almost one third have seen or anticipate their trade activity with the U.K. to decrease



Q14. Using a 5-point scale where 1 = decrease considerably, 3= no change, and 5 = increase considerably, will your trade activity be affected / has trade activity already been affected by the Brexit process in regards to trade with the EU, UK and rest of the world ?

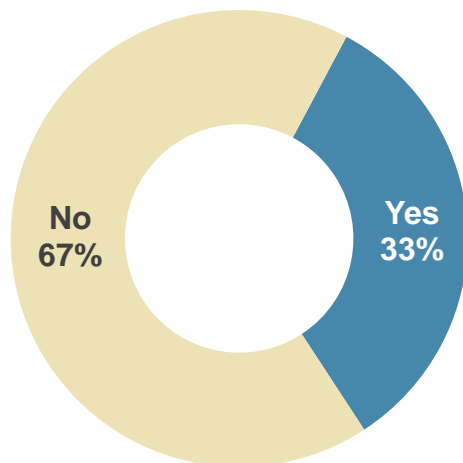
Corporates are divided on the topic of whether they have received clear and effective advice from their banks concerning Brexit



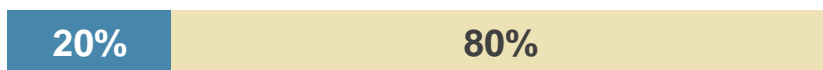
Q17. How effective have your banks' advice on Brexit been following the UK referendum vote?

One third of companies that considered banks' advice effective will take action or have taken action

Will or have corporates taken action in case they considered banks' advice effective?



The majority of corporates execute the advice given to them by themselves rather using the bank who assisted them



- Awarded the bank that gave advice with the execution mandate
- Executed without any third party help
- Awarded another bank or financial services company with the execution

Q18. Have you taken action or are you planning to take action following the advice?
Q19b. Have you:
i) awarded the bank that has given you the advice with the execution mandate or
ii) have you awarded another bank or financial services company with the execution or
iii) have you executed yourself without any third party help?

Greenwich Associates

Primary Steps Taken



'Hedge GBP exposure.' (Italy)

'Change counterparty immediately.' (Spain)

'Company-wide analysis.' (Germany)

'Change one FX dealing team from UK to Ireland by changing entity within the bank.' (Netherlands)

'Replicated most of the ISDAs, did the onboarding of the new counterparties, updated my systems with the new counterparties.' (Portugal)

'After the advice received we were clear no action was needed.' (England)

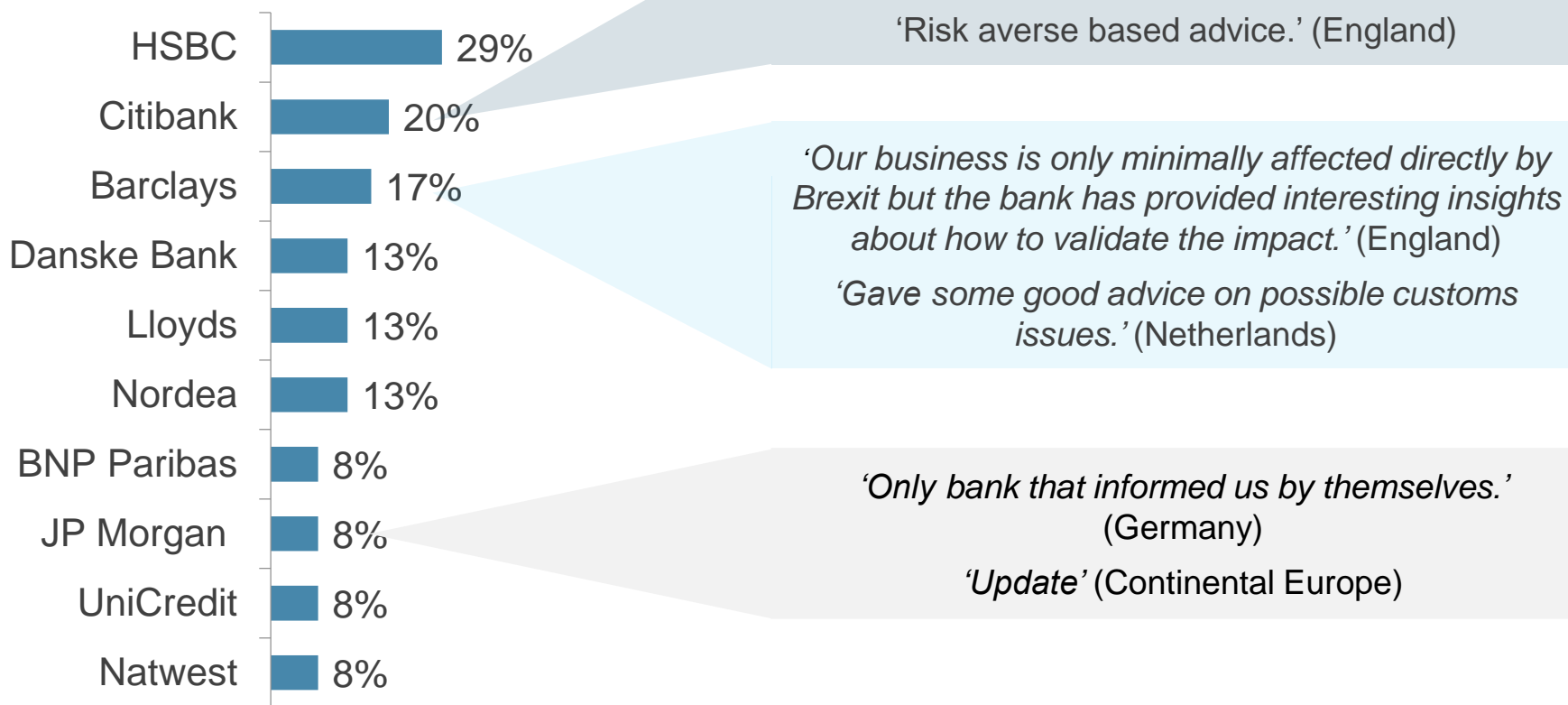
'Moving CM bank accounts away from London.' (England)

'Move out of the UK some of the flows that are not strictly related to UK based companies/accounts.' (England)



HSBC, Citi and Barclays are considered as providing best solutions and ideas

Top 10 banks cited as providing the best ideas and solutions that helped corporates minimize potential impact due to Brexit



Q20. Which 2-3 banks/dealers provided you with the best ideas and solutions that helped you minimize any potential impact on your exposure/portfolio due to the Brexit process and why?

Only around 15% of corporates anticipate concerns triggered by Brexit that have not yet been addressed by banks

Other concerns anticipated that have not been addressed by banks corporates are working with



‘There has been a clear impact on Handelsbanken from their internal changes moving to a UK P.L.C. under the PRA as their service levels have dropped significantly for larger facilities (£20m plus).’ (England)

‘Not had any information regarding our Revolving Credit Facility.’ (England)

‘Impact on manufacturing facilities and location of staff.’ (England)

‘Clarify and ensure new VAT / tax rules.’ (Norway)

“Potential impact on direct and indirect taxes and duties.” (Denmark)

‘Well run firms will take this risk in their stride.’ (England)



Q21. Are there any other concerns you anticipate you have to manage that have been triggered by the Brexit process but have not yet been addressed by the banks you are working with?

Q | A

Greenwich Report

The full report of the Brexit research results are available on our website greenwich.com

[Click here to view the Brexit research report](#)

Brexit: For Companies and Banks, The Worst is Yet to Come

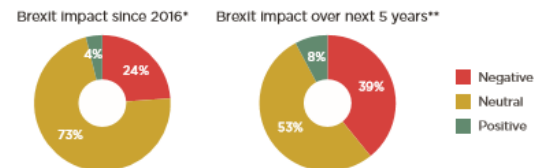


For European companies and banks, Brexit is like a looming hurricane, the severity of which remains uncertain. Companies in the United Kingdom and on the Continent are battenning down the hatches, fearing that although they've already felt the first effects, the storm itself has not yet made landfall. Meanwhile, U.K. banks are bracing for the onset of what could be long-term headwinds brought on by the event, which many continue to be described as a self-inflicted injury—at least from an economic point of view—while others see it as an opportunity. The following report is not trying to predict the upsides and downsides of Brexit—too many economic analysts and pundits have gotten it wrong in the recent past already. What it does want to reflect, though, is the current sentiment of large corporates in the U.K. as well as on the Continent, also including the impact Brexit is having on the relationship with their banks.

Companies Bracing for the Storm

About a quarter of the large European companies participating in a new study from Greenwich Associates say Brexit has already hurt their business. That share includes about 20% of Continental European companies and one-third of companies in the U.K. However, many companies on both sides fear that the worst is still to come. About two-thirds of U.K. study participants and one-third of the Continental companies believe Brexit will have a negative long-term impact on their business, playing out over at least the next five years.

BREXIT IMPACT: THE WORST IS YET TO COME



Note: *Based on 55 responses. **Based on 51 responses.
Source: Greenwich Associates 2019 Brexit Study

The good news is that most companies have already taken the steps needed to prepare. Nine out of 10 study participants say their companies are ready for existing and future challenges arising from Brexit, confirming previous Greenwich Associates data which shows that corporates continue to spend considerable time and effort in keeping a number of scenarios up to date to be ready if and when the potential hurricane makes landfall. And among the relatively few

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