Crowe

# Manufacture

Spring 2019

Audit / Tax / Advisory / Risk

Smart decisions. Lasting value.

# Contents

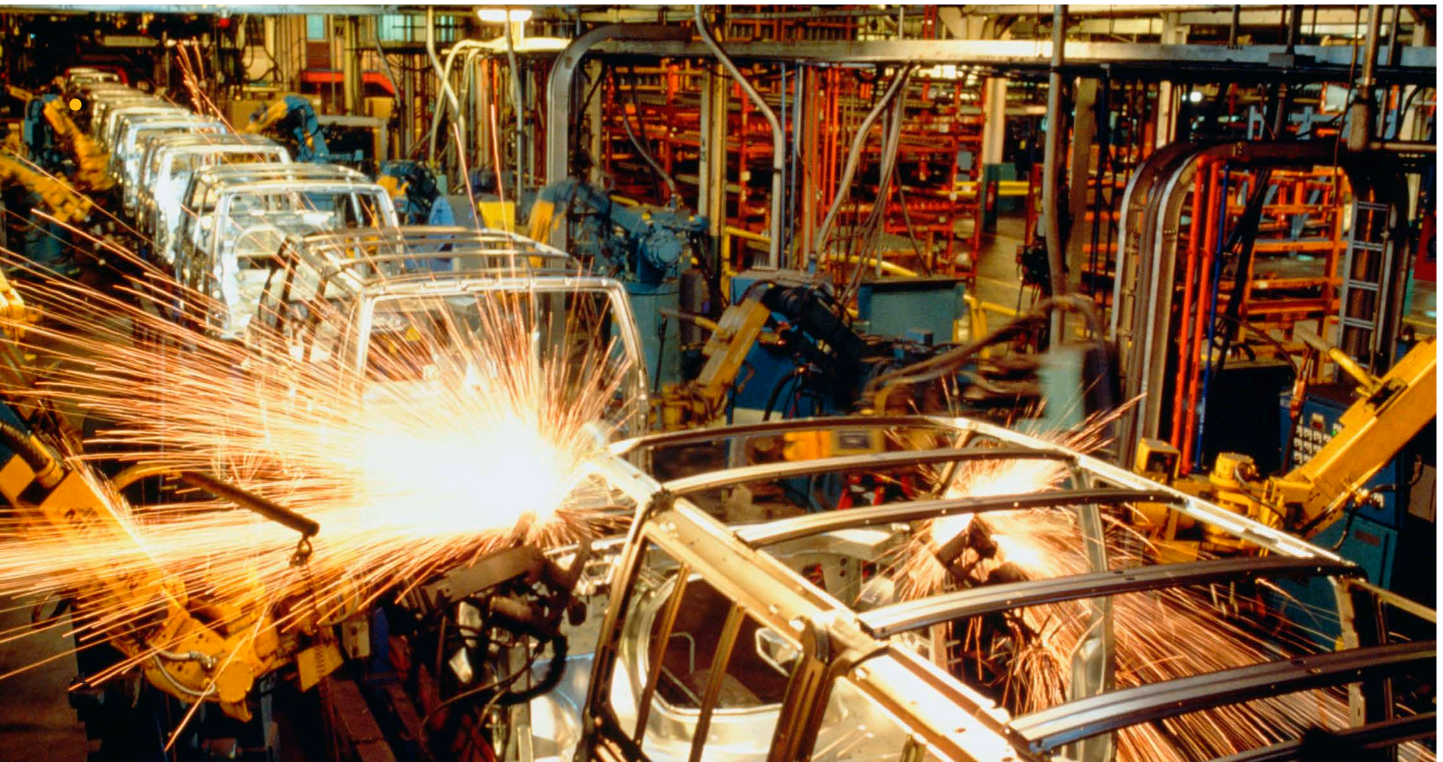
# Foreword

Welcome to Manufacture, Spring edition. We find ourselves in challenging times with continued Brexit uncertainty, scaling back of automotive supply chain demand for political and other reasons, the continuing skills shortage, and an inevitable hardening of funding availability as banks and financial institutions react (or even over react!) to the above.

Increased regulation continues to have an impact and divert attention and resources too, with increases in auto enrolment pensions and the introduction of Making Tax Digital, both from April, seemingly adding to the challenges that manufacturing businesses are faced with.

Periods of uncertainty are nothing new of course and manufacturing rarely has periods of benign trading. In fact, manufacturing businesses have proved, time and again to be resilient and resourceful applying new strategies to overcome obstacles put in their way, to seek out opportunity and to prosper.

While Brexit is a unique circumstance there are always wider economic or political factors lurking – credit crunch, oil crisis, trade wars, regional conflict, political issues around the globe all impact our economy and businesses to varying degrees.



The articles that follow discuss how you can actively, positively influence your prospects rather than passively let wider issues dictate your business path. Continual innovation, looking for new opportunities, investing in people, training and equipment, improving your funding structures, collaboration and seeking external help and expertise, identifying new products and services or markets are all effective strategies to weather any storm.

Consider which of the above ingredients would benefit your business and create a recipe for your success. You only have to be 1 or 2% better than your competition to prosper and out-perform them. Then imagine how your business could fare if you were, say, 5% better…

We also feature in this issue, articles on funding, people and VAT. It is tempting to be passive and blame market conditions on poor performance and surrender what happens in your business to external market forces. However there are often opportunities within a different segment of your sector or even by thinking 'outside the box' and entering new markets and innovating, to gain competitive advantage.

Our featured article on Threeway Pressings demonstrates what can be achieved if you look for opportunity in changing market conditions and expand your capabilities.

> Great businesses are built on solid foundations both financially and structurally with strong leadership.

Many successful businesses have been established and flourished during difficult conditions as they have actively searched for new opportunities or been forced to apply alternative strategies. Be bold and hold your nerve.

The government has just published a guidance paper for businesses on the regulatory requirements for placing goods on the UK and EU markets after the UK leaves the EU. This guidance brings together the sector-specific information across the different areas of goods regulation to help businesses to understand the impacts of Brexit for their products and supply chains. If you would like to read more on how this could affect you visit www.gov.uk/government/publications/manufactured-goods-regulatory-requirements-after-brexit

I hope you enjoy and are inspired by this edition and should any of the topics resonate with you please feel free to contact us for no obligation meeting consultation with our specialist manufacturing team.

**Johnathan Dudley**
Head of Manufacturing

# Keeping up with the pace of the manufacturing industry

By Johnathan Dudley, Head of Manufacturing

Seven years ago, we hosted a dinner with a then resurgent Jaguar Land Rover (JLR) at our Midlands office where the clear message was, even back then, that JLR were looking to expand manufacturing across the world. They wanted their supply chain to work with them to achieve this or not be over reliant on them to fill their capacity in the medium term.

The challenge today, as JLR, and other automotive manufacturers face, is the 'perfect storm' of political uncertainty, the challenge to internal combustion propulsion (diesel power units in particular) and slowing world demand. I am reminded of this message as the prospect of shortening order books faces the automotive sector.

The problem is borne of the stunning growth, popularity and success of the British car industry over the last few years. In an era when JLR has grown enormously, BMW now sources more components in the UK than in Germany; Nissan and Toyota have sourced manufacturing supply chain solutions in the UK for their successful UK plants and it has been too easy for manufacturers' sales teams to be more 'order takers' than genuine sales people. A need to think 'outside the box' to generate sales and new markets hasn't really featured high on the 'to do list' when the factory is full and there are back orders for the OEMs.

The same OEMs have noted this weakness in the system and have encouraged suppliers to diversify and not be too reliant on the demands to protect the stability and sustainability of their supply chain.

One such group who has risen to this challenge is TWP Group in Tipton, West Midlands.

Traditionally a pressings manufacturer in the automotive supply chain, they realised the need to diversify, expand capability and develop their own innovative and disruptive complete product lines in what are, today, diverse markets. They even supply direct to consumers while still supplying the traditional lines to the automotive supply chain.

Source: TWG Group

Managing Director of TWP, Phil Stanley:

"We have always sold into various markets but lacked capability in production of the end product. We combined our knowledge and capability in tooling, solutions providing and producing pressings for supply chains; together with our plastic moulding capability, into producing a range of brands as diverse as ground anchors, wheelbarrows, photographic tripods and lighting systems.

In each case we sought to continually improve our products compared to the competition and continually drive savings in production processes, packaging and labour requirements.

We have built customer loyalty through the use of social networking and innovative marketing. For example, we have provided our iconic 'Red Bullbarrows' to a charity fund raising organisation, styling themselves of the RAF Red Arrows; 'The Red Barrows', to build affinity for our brand across the UK and as a manufacturer, dealing directly with garden centres and even consumers themselves.

We constantly strive to improve our products and cut out waste by partnering with organisations such as universities and the Warwick Manufacturing Group. Many manufacturers cite lack of skills in the workforce as their biggest challenge. We have addressed this by working with young people while they are still learning, leveraging their desire to develop something new or better and their intelligence and enthusiasm, both to drive our product lines forward and populate our team of the future.

The TWP of today is pretty unrecognisable to the TWP of ten years ago and in another ten years, it will be different again. By doing this we don't stand still, our business continues to thrive and be master of its own destiny."

An interesting case study and perhaps an object lesson for manufacturers and other businesses too.

In a business environment where the world changes so quickly, it has never been as important to be agile, innovative and dynamic. This is daunting, but also inspiring and exciting.

TWP's website is www.threewaypressings.co.uk and you can follow Phil and his team on Twitter using @threewaypress.

## WMG internship creates new product with £60,000 in sales

TWP tapped into WMGs summer internship programme to explore a new design and manufacturing method for producing competitively in the UK – giving the company an alternative to buying in volume from the Far East.

The intern, backed by a leading team of Professors, used extensive testing capabilities and state-of-the-art computer aided engineering software to develop and specify a new puncture-proof injection mouldable tyre that could be used for both domestic and commercial markets.

Using data from the project, TWP now has a blueprint it can implement for manufacturing the rubber-based tyre at its factory in Tipton, which has the potential to generate an additional £60,000 in sales in the first year and create one new job.

Reshoring this element of the process also gives the company better visibility and control of lead times, improved quality and the ability to manage overall costs so crucial to remaining competitive.

Source: University of Warwick

## Warwick Manufacturing Group (WMG) profile

**Who we are**
WMG is actively researching projects to improve how we travel, how we interact and even the quality of the air we breathe. A multidisciplinary department of the University of Warwick, our 600+ staff are made up of academic researchers, ex-industry engineers, business specialists and educators. Our mission is to improve the competitiveness of UK industry through innovation in new technologies and business models and skills development.

**What we do**
We advise and work with organisations to help deliver change. It's about developing people to deliver technology through innovation and driving competitiveness across UK industry. We do this through research, collaborative and direct funded projects and our extensive education programmes.

**Why we do it**
Everything we do is for the benefit of our end-users – industry, commerce, the service sector and government. We exist so that our world-class academic and practical knowledge and expertise can address the biggest global challenges and make a real-world difference. We believe our partners and students are actively shaping the future.

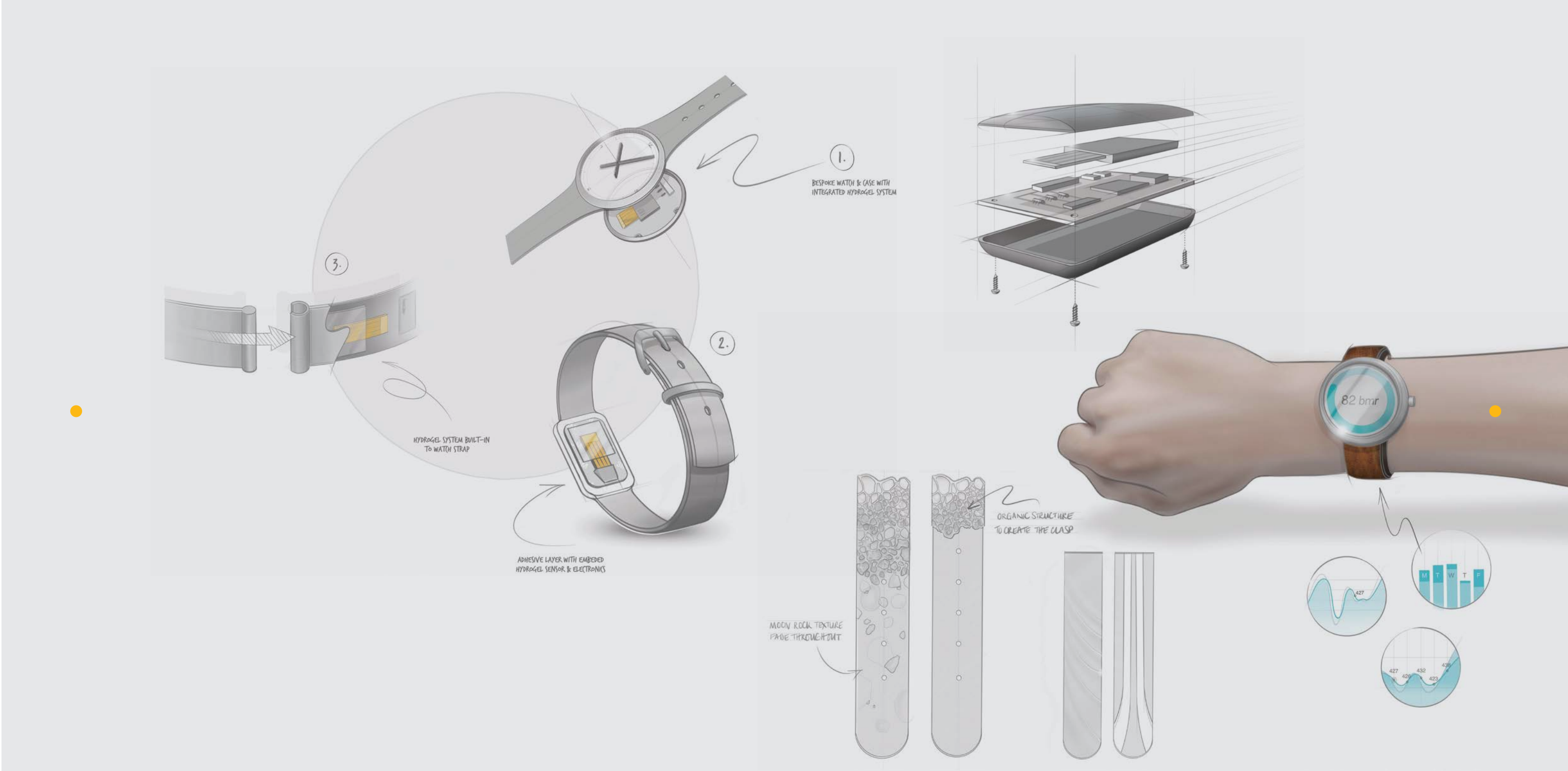
If you would like to explore how WMG can help your business, get in touch with your normal Crowe manufacturing contact and we will connect you at the right level.

## Success story

**New device revolutionises digital health tracking**
In 2014 consultants estimated that the global market for digital health, then worth some £23 billion, would double to £43 billion by this year. Since then we have certainly seen an explosion in the market, not least in the wearable health tech devices that allow us to track activity and are transforming patient and self-care in hospitals and at home. The growth signalled by the consultants is undoubtedly continuing. WMG has been working to help one UK SME, Nanoflex, to seize the opportunities created by burgeoning demand. Working with WMG, in a short space of time the company has been able to develop product prototypes which use cutting-edge sensor technologies to give real-time feedback on metabolites in the wearer's sweat to help them make more informed diet and lifestyle choices. In the future, such a device could even be used to manage diabetes and other diseases.

Neville Freeman, CEO of Nanoflex, said:

"This is an amazing achievement by WMG. We were a little sceptical that they could achieve the very ambitious goals of the project in the time frame available. In the event, WMG brought the project home in style! There are some very exciting synergies between Nanoflex and WMG which we can hopefully all benefit from going forward."



Source: University of Warwick

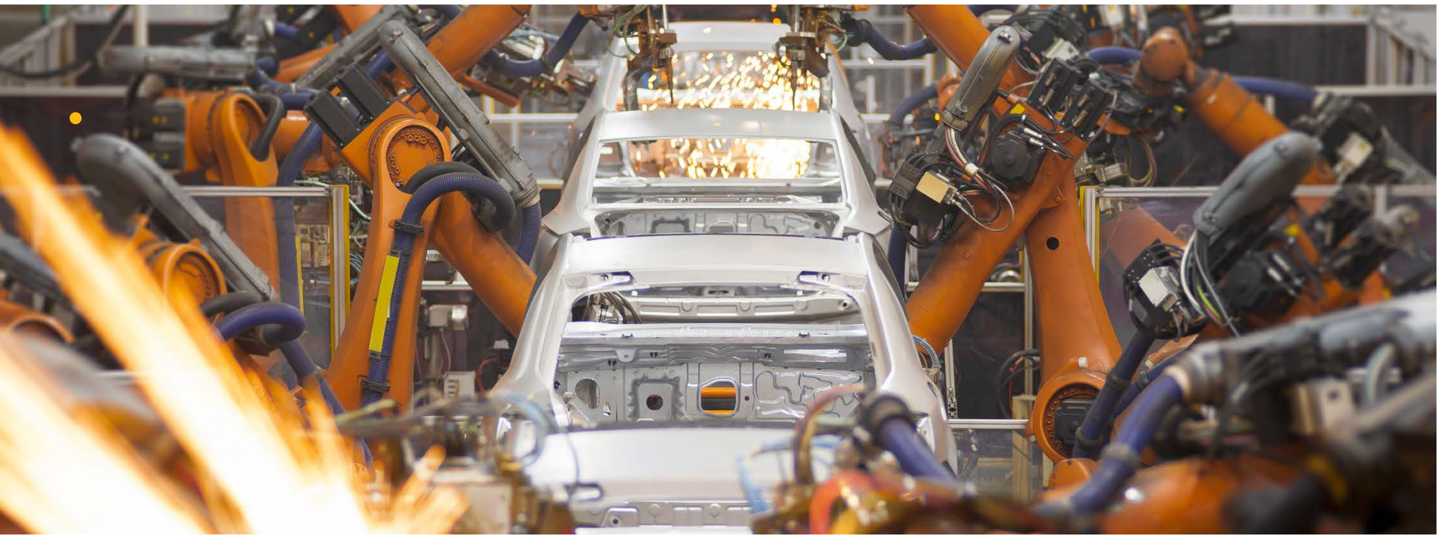
# When taxation is a boost for manufacturing

By Stuart Weekes, Partner, Thames Valley

A modern tax system has to provide incentives for businesses as well as be a collector of taxes. It should drive and encourage innovation in all sectors.

The manufacturing sector craves enthusiasm and investment from government to enable the sector to flourish and grow and to enable innovation to mature. The sector wants to embrace a culture where failure does not mean trying and not succeeding, but exists when you don't try at all. The tax system needs to encourage investment and innovation; this will create the culture for manufacturers to develop and grow.

It is positive that the UK tax system does have genuine, legitimate ways for manufacturing companies to claim tax breaks to help fund innovation, development and growth. In an age where the spotlight is on tax avoidance and evasion, and society and governments seek to clamp down, via peer pressure or legislation, on individuals and organisations who they perceive are unfairly reducing their tax bills, it is refreshing to know that tax law also provides great and exciting incentives for manufacturing companies.



**Annual Investment Allowance**

In the Autumn Budget 2018 the Chancellor announced that the Annual Investment Allowance (AIA) will increase to £1 million for the period 1 January 2019 to 31 December 2020. Many companies may wonder what all the fuss is about.

The AIA is a capital allowance. A capital allowance is the way that companies can obtain corporation tax relief for the cost of investing in plant and machinery. Usually the company claims tax relief for a portion of the original cost (writing down allowance, WDA for short). However this is simply a percentage calculated on a reducing balance basis which means it can take many years to obtain full tax relief for the cost of an asset.

An AIA provides a company the opportunity to claim tax relief much earlier, when the asset is purchased, rather than over many years when the WDA is applied.

Over the years the government has flexed the AIA depending on the needs of the economy. By raising the limit to £1 million the government's clear message is for manufacturers to invest in capital equipment and to obtain tax relief early, as it's spent. A great incentive to invest at a time where there might otherwise be reticence, driven by economic and political uncertainty.

Of course, business should invest for commercial reasons and not just for the tax breaks. But being able to obtain tax relief early, is a great sweetener and more manufacturing companies should consider investment carefully as a tool to use in dealing with the strategic and tactical challenges they face. At Crowe, we work closely with our clients to identify and meet these challenges; talk to us about how we can help you.

The manufacturing sector is well-known for being innovative. Innovation drives economy, efficiency, growth and success.

## Innovation and R&D

The tax system does reward innovation. Where there are advances in science or technology companies can claim enhanced corporation tax relief for the associated costs. The R&D tax credit schemes are designed to encourage innovative companies and provide a reward in the form of cash payments or reduced corporation tax liabilities. This form of funding is a life line for many companies while others use the tax saving to reinvest in their businesses or fund further research and development.

In the latest statistics from HMRC for tax year ended 31 March 2017, around 40,000 companies made a claim for R&D tax credits, of which around 12,000 were from manufacturing companies.

While this is a high proportion many more companies could make a claim. Valid claims can include advances in products but also in the processes that produce those products.

Eligible companies can claim up to a 33% return on qualifying costs, which is a really attractive return for any company.

In business all companies should consider what they are doing to keep ahead of the competition. Companies that don't do this may have greater challenges about the viability of their business model. Companies that are keeping ahead, should then be asking whether what they are doing qualifies for this valuable tax relief. Turning the table around, if they are working to stay ahead of the competition, why wouldn't they qualify for this relief? Surely every company should at least consider this?

**We often call it the 'head scratch' relief. If you have to scratch your head to work out how you solve a problem, get ahead, make 'it' better faster or more economically, then its highly likely to be R&D. At Crowe, we have a great track record for unlocking R&D relief for manufacturing businesses. Talk to us about how we can help.**

## Patent incentives

Patents often get a mixed reaction. If you register a patent your idea is in the public domain and you have to be prepared to incur costs to defend if there is a breach. Some companies see this as a barrier to obtaining a patent. However properly prepared a patent can provide good protection for the intangible assets of the business.

The tax system also rewards companies that have patents. Where income is generated from patents registered in the UK, and some other countries, the profits derived from exploiting those patents can have an effective corporation tax rate of 10%. This is called 'the patent box'.

The statistics to date show that not many companies have claimed this relief. Why is this? Is it not well known or has the cost of producing the financial information in support of a claim outweigh the benefit? In the early days the benefit tapered in over a few years, but now companies can get the full relief and it should make it more attractive to make a claim.

The UK corporation tax rate is currently 19% and unless there are changes in legislation it will reduce to 17% from April 2020. The patent box is therefore still a very attractive proposition and is something that all manufacturing businesses should consider.

History has shown that innovation and thinking ahead of the game usually leads to growth and success. Stagnation inevitably results in failure. Manufacturers need to innovate for success. This is more important as we look to the uncertain future.

Taking full advantage of the tax reliefs and incentives offered by the UK government should be something that all innovative manufacturing companies are doing.

**Why wouldn't you?**
Talk to us about how to go about getting your products patented and benefiting from the patent box. We have great relationships with expert patent agents who specialise in the manufacturing and engineering sectors.

# Funding options for growth

By Michael Jayson, Partner, Manchester

Growing a manufacturing business is not always a simple journey, often there can be significant steps up in terms of volumes and trading rather than it being a smooth curve. The finance journey is similar and the process is ongoing – there may never be a final arrival point.

Every manufacturing business needs to be appropriately financed to support their growth. If you get this wrong it can impact on profitability, restrict growth, or even worse, cause a business to fail.

There is no 'one size fits all' answer to funding. You need to consider the structure of your business and the options available. The first step in any decision making process on any significant funding changes will be to produce a business plan. This is likely to be required by both debt and equity funders but it will also help you to, fully think through your business before you start, target your resources to what is needed to exploit competitive advantage and ultimately, make the right decisions about the most appropriate funding for your business.

The funding landscape has changed significantly over recent years. There are lots of options available, some of which have been available for many years and some of which are new.

**Funding by tightening internal cashflows**

The phrase 'turnover is vanity, profit is sanity, cash is a reality' is more true in times of uncertainty than ever before. There are some fairly simple steps available to most manufacturing businesses to help maximise the available cash and minimise the funding requirement. You need to understand and take control of the ins and outs and produce a weekly cashflow forecast – this will help focus the mind. Examples include:

- reviewing Stock and WIP levels to reduce excess holdings
- producing sales invoices as early as possible
- tightening credit control processes
- review terms with suppliers to see if these can be extended
- reviewing customer payment methods to shorten the receipt of funds. For example, getting customers to pay via electronic transfer or possibly direct debit to increase both the speed and certainty of receipt.

**Debt options**

Debt comes in many guises and established manufacturing business will often use a blend of durations and forms in order to match cashflow requirements. The four main types being:

- overdrafts and revolving credit facilities
- loans
- finance secured on assets
- fixed-income debt securities.

It is not untypical to see a business with a) secured lending over large items of equipment (if they are not held operating under leases in the first place and potentially off Balance Sheet under current UKGAAP); and b) invoice discounting over the debtor book.

### Newer forms of finance

We are also now seeing other funding streams such as P2P business loans and supply chain financing/reverse factoring becoming more common.

P2P lending has grown significantly in recent years via internet based platforms and has the advantage of speed and less rigorous challenge/due diligence required around businesses plans. Despite this it should not be entered into without due consideration from the business especially as these often require personal guarantees (PGs).

Supply chain finance or reverse factoring as a form of finance is less common but has a key benefit of allowing suppliers to take advantage of the credit quality of their larger customers. Essentially this is where a supplier receives finance in relation to their receivables (money for goods/services delivered) by a process that is started by the ordering company. It allows the supplying company to receive better finance terms than it would otherwise be able to receive from a lender. Traditional factoring works on the basis that a business receives finance on their receivables. Conversely, reverse factoring (or supply chain financing) is a solution where the buyer assists his suppliers by financing their receivables using a more flexible method and at a lower interest rate than would be offered. As a proportion of the market, reverse factoring is less than 5% of the factoring market but this is growing.

With lots of options available it is well worth considering getting advice on this area, as a small percentage of the funds raised paid in fees can make huge differences to your business in the future.

There have also been various government initiatives over recent years, each designed to get the debt markets working more efficiently. On a national scale these include the previous Enterprise Funding Guarantee programme but also now under the British Business Bank the ENABLE guarantees and funding programmes. Each of these have had a positive effect on opening up funding for relevant lenders/borrowers.

Most of these work by participating banks receiving incentivisations by a government-backed portfolio guarantee to cover a portion of a designated lending portfolio's net credit losses in excess of an agreed 'first loss' threshold, which they receive in exchange for a fee.

### ENABLE programmes

The ENABLE Guarantee programme is open to all UK banks and UK branches of foreign banks which lend, or intend to lend, to viable small and medium-sized enterprises operating in the UK. The British Business Bank has committed guarantees for live portfolios of over £800 million under its ENABLE Guarantee programme (as at the end of October 2018).

Similarly, the ENABLE Funding programme is aimed at improving the provision of asset and lease finance to smaller UK businesses. Providers of finance to smaller businesses often lack the scale required to access capital markets – a key source of funding for lending institutions – in a cost-efficient manner. ENABLE Funding aims to warehouse newly-originated finance receivables from different originators – bringing them together into a new structure. The British Business Bank has to date entered into seven transactions under its ENABLE Funding programme and has committed more than £344 million to smaller finance providers.

Since the first transaction in September 2015, the ENABLE Funding programme has supported lending to over 17,000 businesses.

### Regional

More locally, business may be able to access to finance via their local Business Growth Hub and potentially the regional investment funds which may well have debt funds available in addition to the equity funds. Unfortunately, the level of support and funding available can still be a bit of a postcode lottery. As a firm with offices across England, Crowe is well versed in the pros and cons of doing business in any one of the 38 regions. We would be happy to discuss how we can help you, please get in touch with one of our specialist manufacturing team for further information.

# How do businesses keep on top of an ever changing VAT regime?

By Robert Marchant, Partner, London

Robert Marchant, VAT Partner and Head of Corporate VAT discusses how changes in the VAT regime are altering his client's approach to dealing with VAT.

Increasingly, the leadership teams in my clients are focusing on the tax governance position of their organisation and working to ensure that their tax/finance teams have robust processes and controls in place. While it remains an aim, there is less emphasis on optimising 'what' amount of VAT is due/recoverable and much more on 'how' VAT compliance is dealt with, and ensuring that the right amount of tax is paid at the right time.

I think this approach reflects the changed climate in which businesses and tax advisors operate. Tax has become an emotive and high profile subject thanks to significant reporting in the mainstream media, punitive measures being taken by HMRC to (rightly) challenge tax evasion and a number of political and fiscal global disrupters (Brexit, US tax reform, changes in digital taxation and tariff 'trade wars' to name just a few). These are issues which are now increasingly being discussed in the board room and in my experience business owners are now having to spend more time on them rather than leaving them to their tax/finance teams to manage in isolation.

Businesses are also having to deal with a significant amount of change in the UK indirect tax regime. In recent years, we have had a large number of VAT decisions in the tribunal and higher court. There have been long running changes/disputes with HMRC in relation to areas such as holding company VAT recovery and pension fund VAT that are still to be resolved. Digitisation and new technologies are leading to new business models and ways of selling goods and services to customers. During 2019 there will also be significant changes stemming from Making Tax Digital for VAT which will require changes to organisations' VAT compliance processes. A 'no deal' Brexit would potentially cause significant disruption to businesses selling cross-border.

In an ideal world, if a business has clear and robust processes then it should be able to adapt to this changing landscape and to continue to meet its VAT compliance obligations. Clearly, we operate in the real world which is not always perfect, so we have listed below some questions that owners/senior business leaders can ask of their teams in considering how well their businesses would be able to deal with change.

- Do you have a process in place to identify changes in the indirect tax regime that are relevant to your business? The change could come from case-law, HMRC interpretation or new laws and could be in the UK or internationally; it could be to the VAT rate due on your products or a change to the amount of VAT you can reclaim.
- Who is responsible for the preparation of the VAT returns? Are there clearly documented processes that would allow someone else to take this over if a 'key-man' is unexpectedly unavailable?
- Who has review and sign-off for the VAT return to ensure that the numbers to be submitted are accurate and that any payment owing is made on time?
- What training are the staff involved with VAT given? How often is this refreshed/kept up to date?

- What links are in place with the business teams that develop new products/win new business to ensure that new sources of revenue are treated correctly for VAT purposes?
- Could you use data analytics to look for errors and to test the reasonableness of the VAT return numbers that are to be submitted? For example, trend analyses and comparisons to previous VAT payments/repayments in prior periods.
- What process is in place to manage the VAT aspects of 'exceptional items' or non-routine transactions? For example, VAT incurred on costs associated with deal fees or large one-off legal costs?
- How and when are indirect taxes considered where the business is considering making amendments to either the legal and physical relationships with its suppliers/customers i.e. making changes to its supply chains?

Many of these are considerations for businesses that are subject to the Senior Accounting Officer (SAO) regime which is overseen by HMRC and applies to all 'large companies' (broadly, UK incorporated companies with a turnover in excess of £200 million in the preceding financial year and/or a balance sheet total of more than £2 billion). The SAO of the organisation has to certify that the company, and each of its subsidiaries, establishes and maintains 'appropriate tax accounting arrangements'. In practice, this focuses on 'how' the business manages its tax obligations and in particular, the process and controls in place to ensure that the right amount of tax is paid, at the right at the time.

Crowe can help your business to respond to these challenges. As a member of the 8th largest global accountancy network we have the footprint to support on international matters and our team of UK specialists can assist you with domestic issues.

# Recruitment in manufacturing post-Brexit. What next?

By Chris Mould, Partner, Cheltenham

In May last year, EEF, the manufacturers' organisation, warned that nearly half of its members were concerned about recruiting and retaining professionals possessing the right skills post-Brexit, with the number of EU workers likely to decline.

According to the Office for National Statistics (ONS), EU migrants account for around 11% of the manufacturing sector workforce. However, this figure only relates to those working on a permanent basis, and does not include the number of temporary EU workers relied upon by manufacturing companies in the UK.

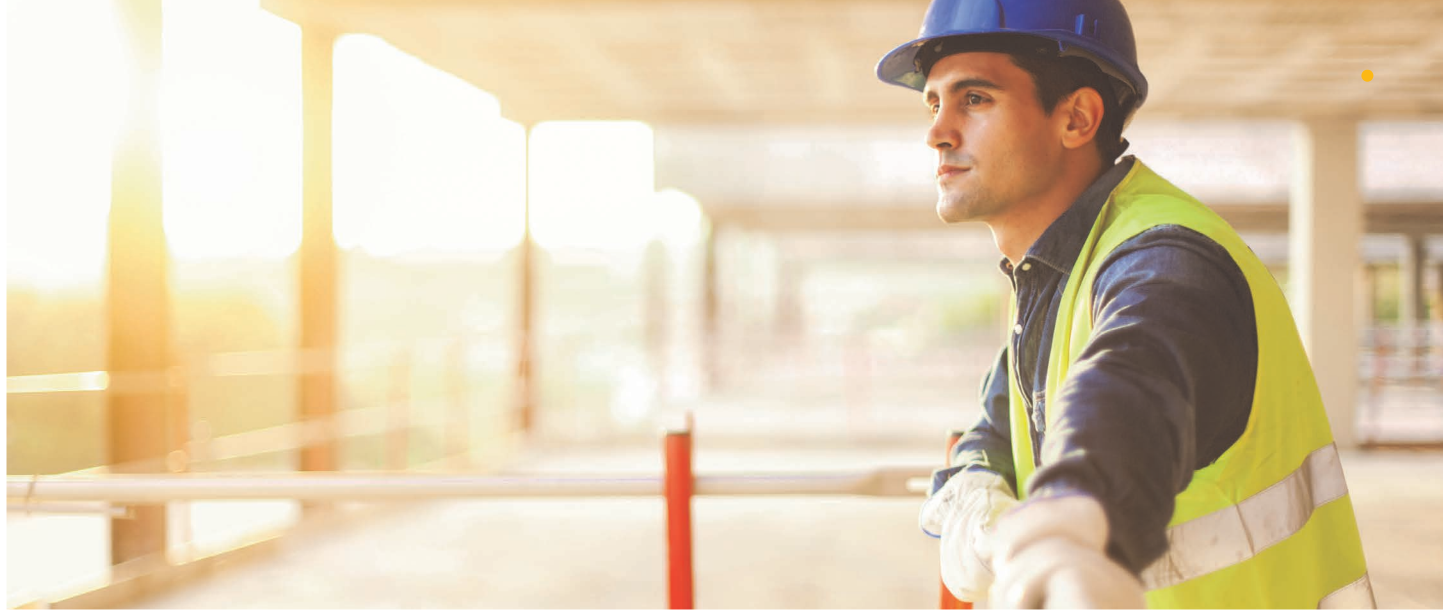
The government states that it is committed to bringing net immigration down from 273,000 to under 100,000. Yet, at the same time there have also been noises to suggest it is open to accepting highly-skilled workers from abroad where possible.

Given the uncertainty presented by the on-going Brexit negotiations, it is a challenging time for manufacturing businesses across the region to plan and prepare for their future operations.

There is a genuine concern shared among businesses of how exactly they will be able to respond to, and make up, a potential shortfall as large as 11% of their workforce.

Additionally, there is a risk that EU workers who are living in the UK now feel unsure as to their future in the UK, and those who travel regularly to the UK for temporary work may be equally put off and seek employment elsewhere.

Whatever the outcome of the Brexit talks, it seems likely that an immediate workforce shortage could impact the manufacturing industry quite severely with a knock-on effect on output in the short term. How long this 'short term' period will last is open to speculation.



It is likely that we will see significant wage inflation for those skilled workers most in demand as the manufacturing industry is forced to compete for their services. Consequently, planning will be essential, not only in workflow but also in business and financial planning. Businesses will need to ensure they have robust plans in place, not only to ensure continuity of supply of the skilled workers they depend on, but also to cope if they are unable to recruit the workers they require in key areas of the business.

Nonetheless, it is worth remembering the lessons learned from periods of upheaval in the past. One of the UK manufacturing industry's main strengths is its undoubted resilience, which saw it adapt to rapid advances in technology throughout the 1990s and the early part of this century.

Home grown talent is often the best and most economical route forward, and so a focus on recruiting and training the domestic workforce could prove to be a viable solution.

There may also be the need to consider taking steps to retain those workers with specialist skills who may be soon due to retire, as an immediate measure.

In the meantime, we need thorough guidance from the government on the position of EU workers seeking settled status. Clear rules are necessary to understand whether specialist staff from the EU will be allowed into the UK for temporary postings.

Manufacturers too will have a role to play. They will need to understand how the new rules or system affects UK workers visiting the EU to work and adapt accordingly.

Posting workers to Europe, even for short periods of time for events such as trade exhibitions or client meetings, will undoubtedly become more complex after March 2019 when Britain officially leaves the European Union, so again manufacturers need to keep up to date with the latest developments.

Whatever the future holds for the UK as a whole and the manufacturing industry, it is vital for manufacturing companies to seek specialist advice to understand the issues and implications they could face in the next six to 12 months and beyond, as the UK transitions into life outside of the EU.

# Mergers and acquisitions at Crowe

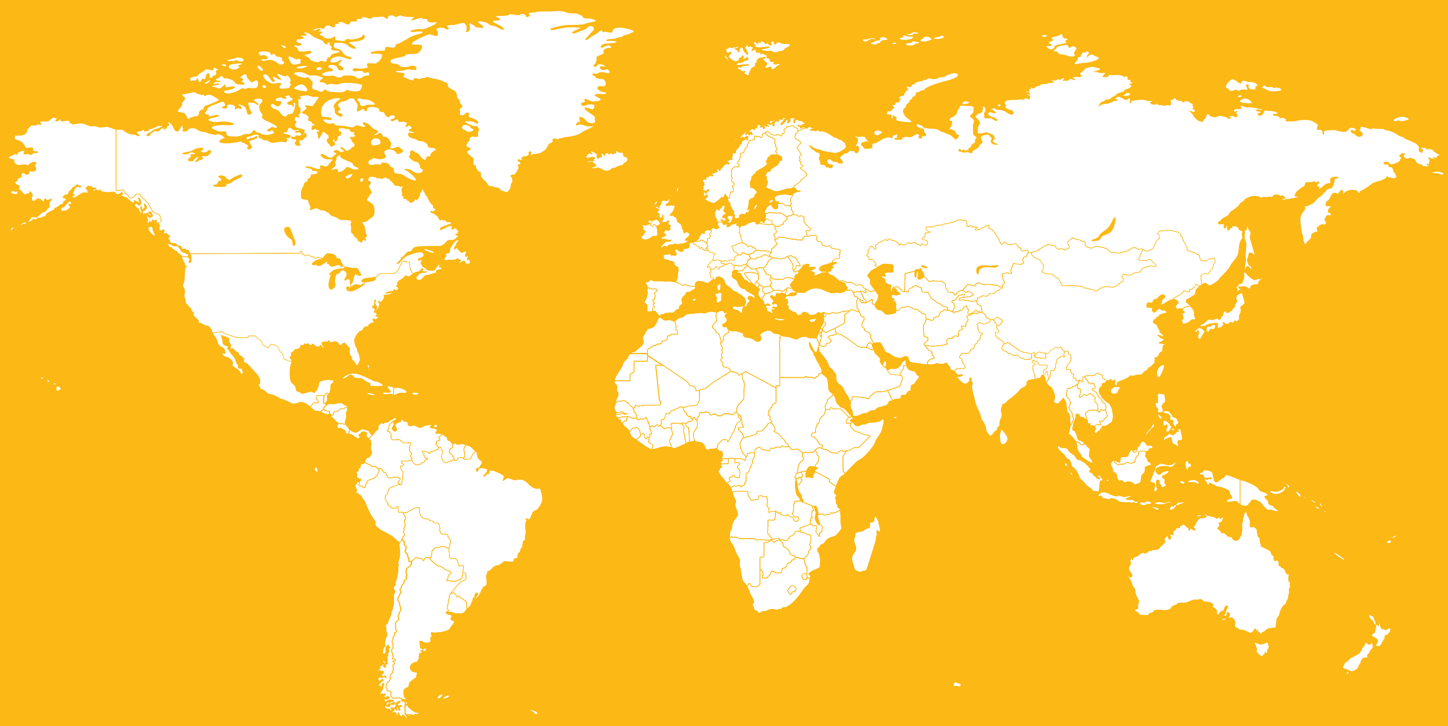
By Peter Varley, Partner, London

Crowe UK currently works with over 60 listed clients across multiple exchanges including LSE Main Market, AIM, NEX and TISE, with a combined market capitalisation of £3 billion. Our listed clients are located globally, covering the UK, Europe, North America, South America, Asia, Africa and Australasia.

Manufacturing and distribution companies continue to devote significant time and resources to merger and acquisition (M&A) deal-making as a core part of their growth strategy. Manufacturers often look to deliver one or more of a variety of objectives through their M&A activity, including a drive in global reach, an aim to consolidate a national distribution platform, or vertical expansion into the supply chain.

Realising the value of any M&A transaction is challenging, and many studies find companies fail to achieve their deal thesis and synergy goals due to employee and culture issues. Cross-border acquisitions add employee regulatory, policy, and cultural challenges.

Crowe global advisory team members have identified the most frequent human capital risks in executing cross-border transactions. Our report includes some country-specific situations that a cross-border acquirer might encounter and impacts that should be researched and considered. The report handles a selection of countries from our network. Should you require information regarding other countries, please contact us and we can liaise with the appropriate members of our global network.



The list of countries in the report are:

- Brazil
- China
- Denmark
- France
- Germany
- India
- Italy
- Mexico
- Russia
- Switzerland
- UAE
- United Kingdom
- United States

These risks have been categorised, by country, into the following categories:

**Benefits**
Buyers might incur increased statutory and supplemental benefits costs due to social insurance and immigration costs due to renewing, transferring, or terminating work permits and visas.

**Culture**
Acquirers might witness friction caused by significant differences in employee values, attitudes, and behaviours by country and function when an integration strategy requires combined or new cultures.

**Representation**
New owners might have more interactions with workers councils, unions, and ombudsmen and be subject to mandatory collective bargaining.

**Termination**
Restructuring will need to consider statutory timing and process restrictions for terminating employees and severance cost.

At Crowe, we have extensive experience helping manufacturers and distributors through all phases of the M&A and Capital Market transaction value chain. The likelihood of transactions meeting financial and operational expectations can be improved through the use of focused efforts addressing key areas linked to M&A success.

If you want to know more about M&A and Capital Markets in the Manufacturing sector please get in contact with Peter Varley.

# Dates for your diary

## Join us at...

**Financial Accounting Update**

Complex accounting issues and new disclosures can create challenges for finance professionals working in manufacturing businesses. Our seminar will provide an easy to understand update on financial accounting developments. It will meet the CPD needs of accountants working across the manufacturing and engineering sector.

The guest speaker will be Brian Sloan representing Bank of England. Brian will present an overview of the economic prospects for the North West at a challenging time for the UK. Please contact Debbie Joseph if you would like to attend on 0161 214 7526.

**Date:** Tuesday 5 March 2019

**Time:** 09:30 arrival
13:00 lunch, networking

**Venue:** Crowe
3rd floor, The Lexicon
Mount Street
Manchester M2 5NT

**Manufacturing Business Network**
International Trade, What's Next?

You are invited to join us for our Manufacturing Business Network event on Tuesday 5 March. Our Head of Manufacturing, Johnathan Dudley, will discuss risk management around the uncertainties concerning Brexit. He will be joined by Birmingham Chamber's International Business Hub Development Director, Mandy Haque, who will touch base on what's next for international trade.

Limited spaces remaining. Please contact Nathan Sanghera for further information and to reserve your place on 0121 543 1900.

**Date:** Tuesday 5 March 2019

**Time:** 17:30 registration
18:00 seminar start
19:00 dinner and networking

**Venue:** Black Country House
Rounds Green Road
Oldbury
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## Start the conversation

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We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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