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Brexit - Emerging Strategic Options

Dr. Florian Klein, 3rd November 2016



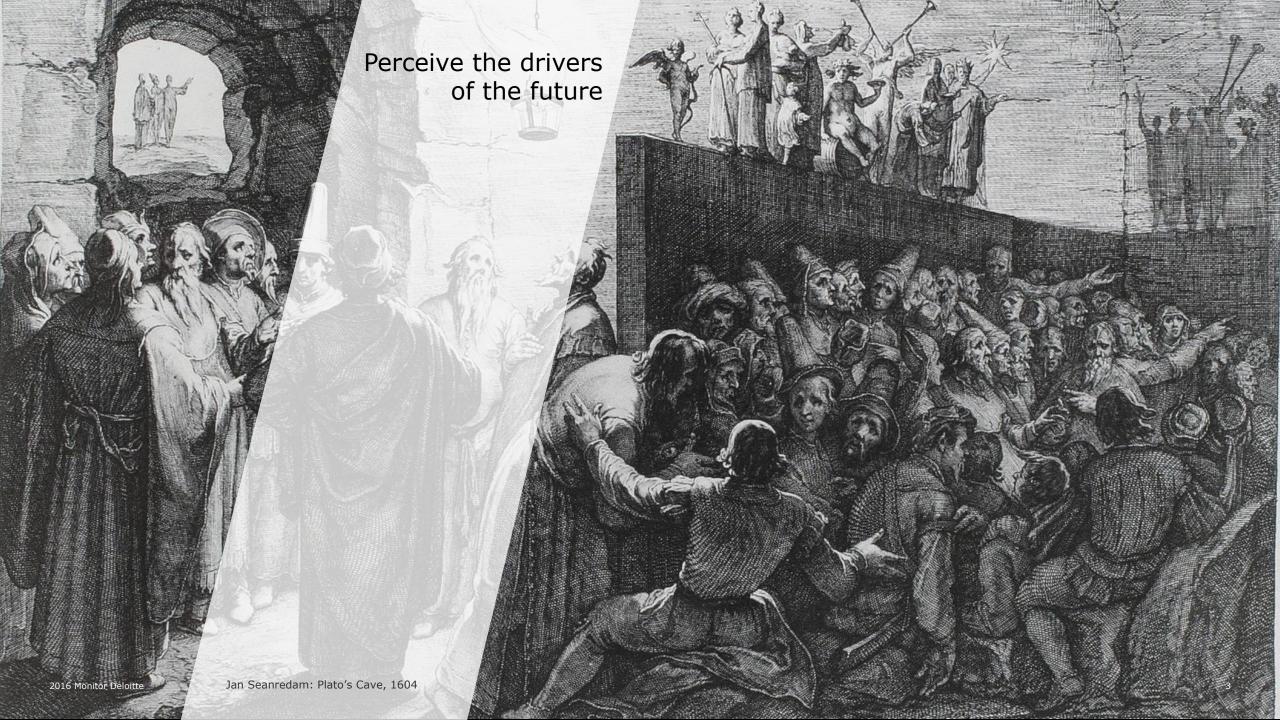
Brexit – a tremendous challenge



What drives our future?

How to reduce complexity?

What is the right course of action?



Brexit scenario video



You can find the video here:

https://www2.deloitte.com/de/de/pages/strategy/articles/brexit-szenarioanalyse.html

Brexit scenario recap

D. Shattered Dream

- > EU and Euro have fallen
- > Former EU member states introduce protective trade policies
- > Free movement of people and workers is discontinued
- > Customs and non-tariff trade barriers complicate trade
- > Emphasis on bilateral free trade agreements

Disintegration

A. Back to Square One

- > EU breaks up; former members keep liberal relationships
- > Free movement of people abolished
- > Fall of the Euro leads to currency competition
- More varied, and often stricter, product standards
- > Trade rules are dictated by others

Protectionism

Relationship to UK

Free market

C. Fortress Europe

- > EU is sustained as an economic and monetary union
- > Political integration towards a transfer union
- > Protective trade policies
- > Rise in transaction cost, export nations suffer
- > UK-based companies move to continental Europe

B. European Federation

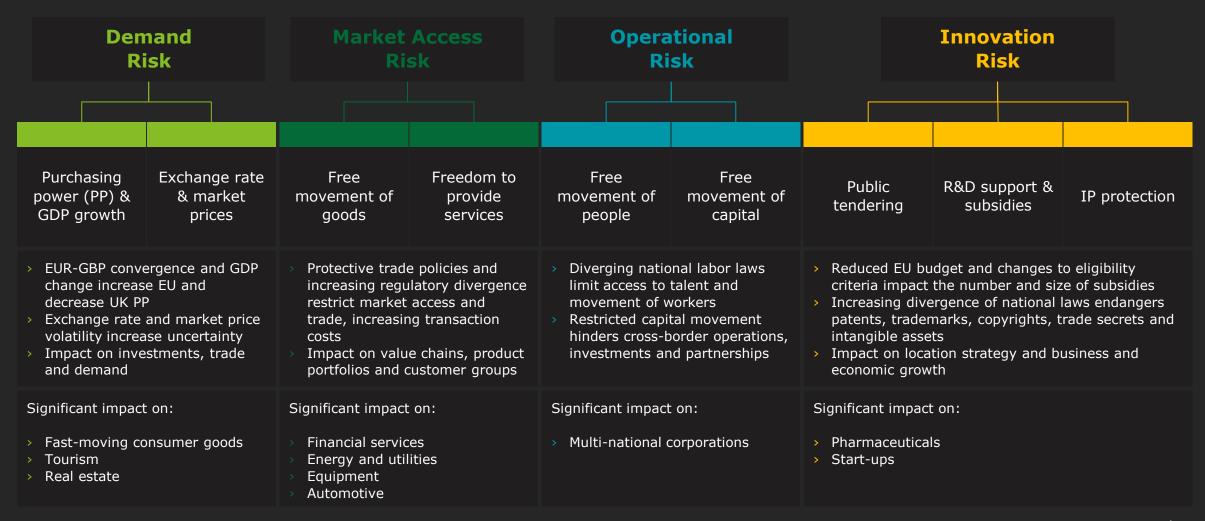
- > EU sustained as an economic and monetary union
- > Economic and political integration reinforced
- > Liberal trade relationships are maintained with the UK
- Movement of people between the EU and UK limited
- UK contribution to the EU budget for access to single market

Integration

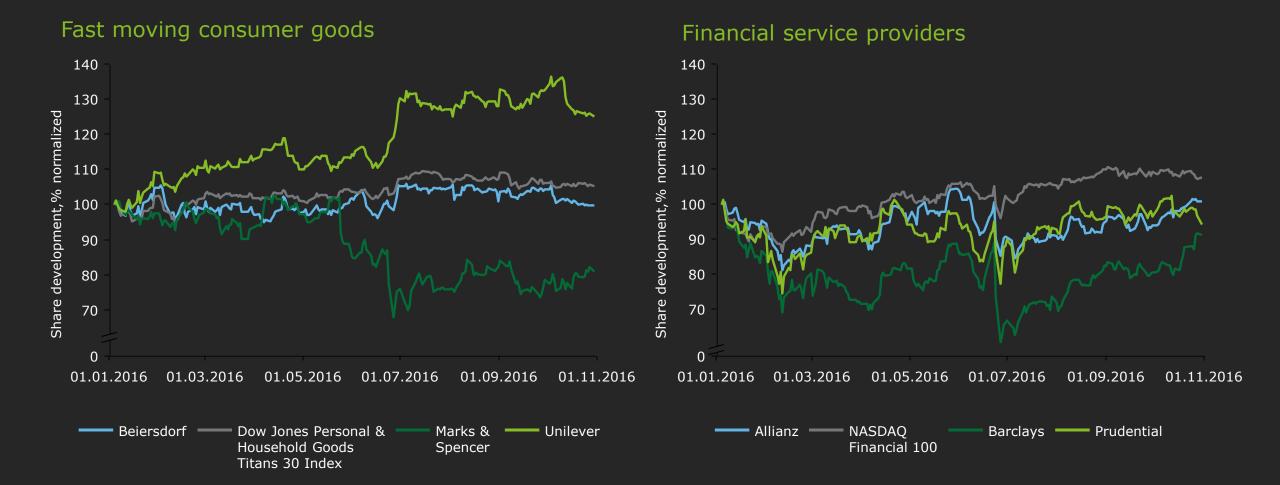
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Brexit risk map



Brexit impact – Fast-moving consumer goods vs. financial services



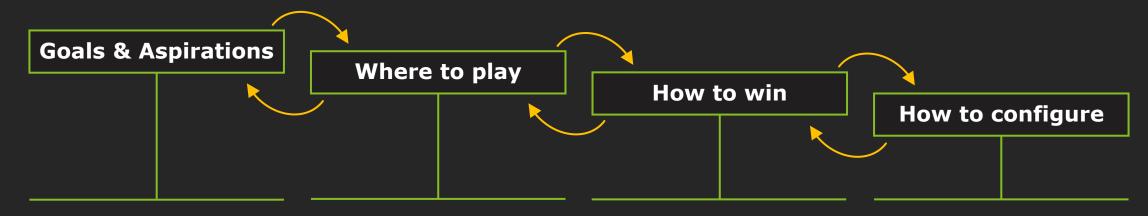
Scenario-specific risks and opportunity profiles

Scenario B – European Federation (EU integration; Free market)

Risk Type	Impact	Short-term	Mid-term	Long-term	Continental European Perspective UK Perspective
Demand Risks		UK			 UK: Exports increase. Imports decrease. Initial uncertainty stops FDI and cross-border business initiatives, offsetting short-term gains. As uncertainty is reduced, investments grow and benefits materialize. EU: Exports decrease. Imports increase. As export slumps are offset by new or strengthened continental European trade relationships, initial negative effects are reversed.
	-	EU	UK	•	
	±		EU		
	+				
	++				
Market Access Risks					> UK & EU: The status quo is sustained until Brexit negotiations have been concluded. The EU and UK agree on liberal trade relationships to ensure free movement of goods and the freedom to provide services so that market access remains unchanged.
	-		UK	<u>uk</u>	
	±		EU .	EU	
	+				
	++				
Operational Risks			UK UK		 UK: The status quo is maintained until Brexit negotiations are concluded. Despite free trade, the UK discontinues free movement of people, significantly restricting its access to talent. In the long-term the UK is likely to absorb part of the risk EU: The status quo is maintained until Brexit negotiations are concluded. Despite free trade, the UK discontinues free movement of people. In the mid-term, European businesses realign recruiting and staffing of European employees in the
	-			UK EU	
	±				
	+				
	++				UK, which they are likely to achieve in the long-term, offsetting negative impacts.
Innovation Risks					 UK: The status quo is maintained until Brexit negotiations are concluded. Though staying part of the EU's common market, it is likely that some EU subsidies for the UK will be reduced or completely discontinued. EU: As the EU continues to exist as an economic and monetary union, regulatory divergences between the UK and EU remain small and the UK continues to contribute to the EU budget, innovation risk is unlikely to impact the EU.
	-		UK	UK	
	±		EU	EU	
	+				
	++				, , , , , , , , , , , , , , , , , , , ,



Strategy is a set of consistent choices



- > Purpose
- Financial objectives
- > Non-financial objectives

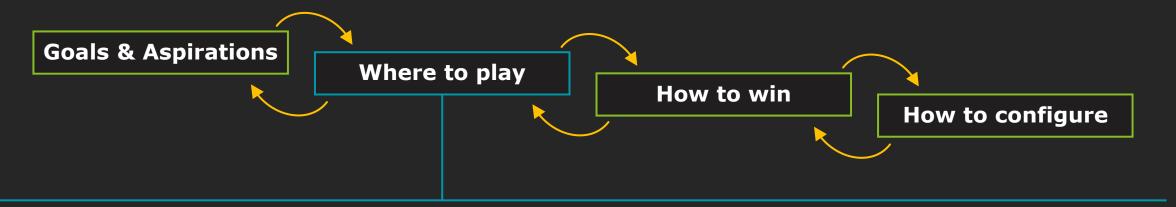
- Customers
- Consumer segments
- > Target Industries
- > Product and service range
- Geographic footprint

- > Value proposition
- Competitive advantage
- > Profit models
- Partnerships

- > Organization and capabilities
- > Asset configuration
- Sales and distribution configuration



Strategic options concerning competitive positioning



Brexit impact

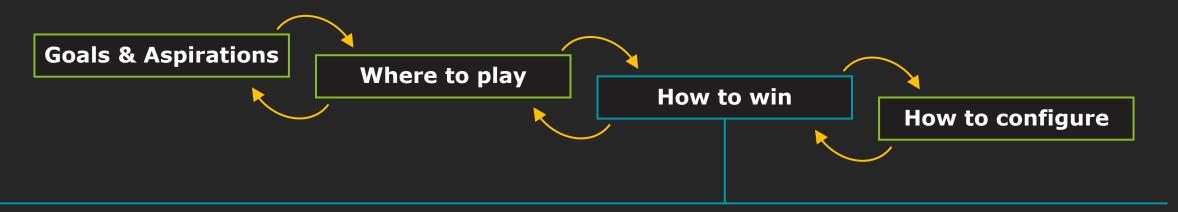
- Demand risks
 - Currency risks
 - Demand risks
- Market access risks
 - EU passport
 - EU free trade agreements with non-EU countries
- Political and regulatory risks
 - Increasing regulatory divergence between EU and UK laws
 - Reduction or discontinuation of subsidies

Strategic options

- > Portfolio management
 - Reassess target markets and customer segments
 - Reevaluate value chain positioning
 - Realign product and service portfolios
- Engage in industry-specific lobbying (e.g. equivalence regime)



Strategic options concerning the value proposition



Brexit impact

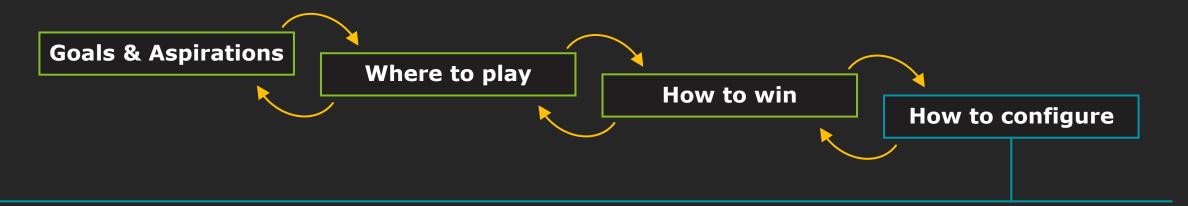
- Political and regulatory risks
 - Consumer protection rules
 - Data transfer and protection
 - Liquidity requirements, stress testing
- Market access risks
 - Partnerships with other FSI players or distribution channels
- > Innovation risks
 - Access to R&D funding
 - Access to strategic talent

Strategic options

- > Reevaluate revenue streams and profit model
- > Review value proposition
- Review industrial partnerships
- Consider strategic relocation
- Race to the top vs. race to the bottom regarding regulatory standards



Strategic options concerning operations



Brexit impact

- Political and regulatory risks
 - Consumer preferences and expectations
 - Data transfer and protection rules
- Market access risks
 - Access to operational talent
 - Movement of staff
 - Reduction / discontinuation of EU / DE subsidies

Strategic options

- Currency or price hedging
- > Register with the ESMA / obtain licenses in relevant jurisdictions
- > Establish authorized branches / subsidiaries
- Adjust HR model
- > Adjust control and reporting systems



Strategic priorities

Today 2018

Mitigate, assess, prepare

- Hedge currency and/or prices
- Determine business lines dependent on EU passporting and existence of equivalence regime
- Register with the ESMA to retain access to professional clients
- Obtain licenses in relevant jurisdictions in case of refused equivalence status
- Engage in industry-specific lobbying, e.g. equivalence regime, immigration policy, data protection, support schemes
- Prepare for strategic relocation or establishment of authorized branches / subsidiaries to retain access to retail clients

Re-position

- Execute strategic relocation / establish authorized branches / subsidiaries
- > Portfolio management
 - Reassess target markets and customer segments
 - Reevaluate industry and value chain positioning
 - Realign product and service portfolios
- Realign value proposition (comprehensive service vs. increased focus)
- > Reevaluate revenue streams and profit model
- > Redesign HR model
- > Establish alternative partnerships

Transform

 Diversify business model, e.g. products and services, fin-tech, shadow banking



Brexit – a great opportunity



Robust vision of the future

Clarity on risks and opportunities

Alignment on strategic measures

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