

In this issue we look at:

- Going global
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- International M&A
- International taxes

Editor's welcome

As 2014 draws to a close we bring you our latest news on international trade. Our last newsletter indicated that over half of Sheffield City Region's Top 100 SMEs don't export and we fear that this is common across Yorkshire. My colleague, Mike Jackson, sets out a high level view of what businesses should be doing to prepare for trading internationally. In addition, the barrier to export that I consider in this edition is quality standards and legislation.

Our guest writer Nick Taylor from Kingfield Electronics shares with us how he has prepared his business for bringing work back in-house to benefit from reshoring.

My colleague, David Forrest, provides valuable insight into what UK companies should be aware of when looking to sell to international acquirors. What attracts international buyers and how do you find them?

Finally, Zoe Roberts gives her summary of the highlights of the Autumn Statement which have an international angle for both corporates and individuals.



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Go global

Great Britain is at the forefront of development, having a sound advanced engineering base and being able to demonstrate and deliver innovation on a large number of fronts.

So how do you get your company involved in the exciting world of global markets?

Well, **firstly** you might want to consider a mind-set change – don't view exporting as a different business – we now operate in one huge global marketplace and the communication links which are available to all of us makes working on a global basis significantly easier than before.

Secondly, don't be afraid to ask for help. It is good to see the various LEPs in Yorkshire and beyond working together to promote and assist local businesses with entering new markets. I would also say that businesses are extraordinarily willing to assist each other and collaboration is key to being successful. Look out for organisations such as International Trade Forum (formally SYITF), which is all about peer-to-peer learning with a view to supporting one another in export and international trade. On that note you might also think outside the box; one example I am aware of is a company that was importing from Russia which was able to work with the import distributor to take their products back to Russia.

The local chambers can also point you in the right direction and give lots of free advice. Chamber International provides international trade support on behalf of West & North Yorkshire Chamber of Commerce. Chosen by the Leeds

City Region Enterprise Partnership to deliver the "We are International" campaign, Chamber International plays a central role in driving export activity on behalf of 10 local authorities. Our Chesterfield clients should note that the DNCC has launched an Export Support Programme which aims specifically to assist businesses in exploiting export opportunities and increasing their confidence about doing business overseas.

Thirdly, consider your budgets and be prepared to invest – both time and money! No-one should pretend it is easy – you need to research, visit and invest in marketing and relationships within your chosen markets. Be clear about how much your company can afford to invest for which it might not get a quick return and be clear about that budget and about the financial risks the company is prepared to accept.

Although it might be hard work to establish your business within new market places the rewards often make it well worth the effort. Recent figures show export sales by Yorkshire companies to be up 16% in 2014 against a backdrop of fairly modest growth in the domestic marketplace. Not surprisingly, that growth was not coming from exports to the USA or to Europe, where sales were up only 6% and 8% respectively, but largely to new market places such as South America.



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Kingfield Electronics case study: what goes around comes around

Nick Taylor, Managing Director of Kingfield Electronics, tells us about how international trade makes their world go round.

Reshoring

“I think there is a lot to be said for reshoring. We recently secured enough funding to move to much bigger and more modern premises. This has enabled us to cost-effectively bring work back in-house which we had previously outsourced to South East China. Now, that’s quite a big game changer.

“We are winning business against offshore competitors based on having equipment here. Through automation and use of robots our production is very cost effective.

“Bringing things in-house has increased our flexibility as we are able to cope with design changes very easily, simply because we’re producing it in our own factory. We can also build in smaller batches, ensuring lean working.

“Finally, reshoring has helped to de-risk a lot of what we do, as it removed an external supply chain 6,000 miles away. Risk mitigation is top of the agendas of all of our clients at the minute, so having everything within easy reach is reassuring for them.”

America – land of opportunity

“In America, most of the good contract manufacturers have been bought by big organisations, which has made them inflexible. The smaller ones that were left behind are not particularly well performing, so there’s a void where mid-sized contract electronics manufacturers used to be, meaning those in the US market are finding it difficult to source independent and flexible suppliers that are able to make their own decisions and react to their needs. Because of this, we’ve got major US organisations knocking on our door. There is a lot of opportunity opening up for business in America right now.”



Barriers to export - standards

The rapid development of technology has meant that the world is a much smaller place when it comes to doing business in different countries. However, there are still many barriers to overcome when embarking on selling in different countries.

One of those issues is the different standards that you will have to comply with to enable you to trade. Understanding the quality standards in the country in which you are going to trade will take time. Once you have grasped those standards, it will be inevitable that you will then have to invest time in putting the processes and procedures in place to make sure that you fully comply with those quality standards. This may require making amendments to your existing product to comply with specific technical requirements. Once amendments are made it also becomes necessary for you to be able to demonstrate compliance with rules and regulations. Keeping abreast of any changes to those regulations is also key. No business would want to fall foul

of government imposed legislation and rules.

You may think this is a minefield and, talking to my clients who trade internationally, I would say that it is. But don’t be put off by it as there is plenty of support around to help. SYITF (recently renamed as International Trade Forum) is one of those places. There are many companies who are already doing business overseas and complying with various standards, so what better place to start than tapping into the knowledge of peers who have been there and done that?

In addition to groups such as the Forum, UKTI, trade associations and local chambers of commerce will also provide valuable support and advice to enable you to dip your toe into the export water and to ensure that you remain compliant with a vast array of rules which will differ by country.



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Not quite the Maldives but...

Britain may not have the beautiful atolls, coral reefs and azure lagoons of the islands of the Maldives, but it is certainly an island with many attractions...particularly for overseas corporates looking to grow by acquisition.

A year ago I wrote an article about the rise of cross border deals. As predicted, this trend has continued, with businesses from around the globe targeting Britain for M&A.

During 2014 we have advised on and completed a significant number of corporate disposals, the majority of which were acquired by overseas buyers. This is illustrated by the 'departure board' [opposite], which shows destinations across Europe, North America and Asia. Indeed it would be very rare for a shortlist of potential buyers in any disposal process not to include at least one overseas business.

So, what is it that's attracting foreign investors to the UK and what should UK companies looking to sell to international buyers be aware of?

Why the attraction?

There are many factors which draw international acquirors to the UK, not least of which is the number of high quality niche businesses based in the UK.

The UK is seen as an open, 'business friendly' country in the eyes of international buyers. Its favourable labour laws, low tax regime and stable regulatory framework are all positive influences. The maturity of the UK market means that deal execution risk is lower than in many other countries, particularly the emerging markets.

Economic factors are currently helping to attract businesses from around the globe. The UK is growing again and consumer spending has increased. This is an attractive quality, particularly for US retailers and for countries such as China where growth has slowed significantly and Japan where the domestic economy is currently stagnant at best.

The UK also has additional draws for US companies. Our shared language and similar legal structures makes Britain a good base for them to set up operations, offering them a 'beachhead' into Europe, and increasing their potential for growth. US companies following a tax inversion strategy may also consider the UK for its lower corporation tax rates. All of these things need to be considered in any sale process.

Selling to international acquirors

Selling a business is likely to be one of the biggest events in anyone's career. Clearly it is therefore crucial to get it right, particularly as the potential buyer population for any business should almost certainly include an overseas element.

DEPARTURES				
TIME	TO	FLIGHT NO.	GATE	INFORMATION
09:30	BARCELONA	BHP5475	A2	SALE OF CHEMICAL DISTRIBUTOR
11:45	MUNICH	BHP7643	C3	SALE OF SIMULATION TECHNOLOGY DEVELOPER
12:55	ST LOUIS	BHP2597	A2	SALE OF DRINKS EQUIPMENT SUPPLIER
13:20	MUMBAI	BHP3419	B4	SALE OF PRECISION ENGINEERING COMPANY
13:45	TORONTO	BHP2237	A5	SALE OF IT SOLUTIONS PROVIDER
14:10	KUALA LUMPUR	BHP1175	A2	SALE OF CHEMICALS MANUFACTURER
14:50	PARIS	BHP8424	C3	SALE OF SOFTWARE DEVELOPER

Know where to look

Talk to people who have the resource and experience to identify and transact with international buyers. BHP Corporate Finance can identify overseas buyers that are the right fit for you. We can work through every step of the transaction with you, and through our membership of Kreston International (where we have representation in over 100 countries) we can make sure you get the high quality advice you need from advisors both here and abroad.

Be prepared

Usually you should begin preparing for a sale at least 12 to 18 months before beginning the transaction...the earlier the better. Typical features you would be looking for include a strong management team, reliable management information systems and robust employment contracts, as well as full evidence of any IP you own.

Don't forget the day job

Your focus should always be on the success of your business. It is essential that your business continues to perform well throughout the disposal process, so trust your advisors to act on your behalf to prevent distraction.

Be flexible

It is important to recognise and allow for cultural differences. You and your advisors must understand the acquiror's culture and way of doing business. This will help to build rapport with them and ensure a smooth transaction.

In conclusion, British companies are hot property right now. If you're looking to sell, make sure you get organised and talk to someone who can help you to draw up a strategy for the process and then find the right buyer for your business.



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International tax update

As was perhaps intended, the so called “Google tax” hit the business news headlines after the Chancellor’s Autumn Statement. Whilst the timing of this measure may have been driven more as a vote winner than a revenue raiser it will impact on big businesses and potentially the attractiveness of the UK to business generally.

However there were also other international changes announced in the statement and along with the new Google or Diverted Profits Tax; we’ve summarised these below.

For the last couple of years the Office of Economic Co-operation and Development (OECD) has been reviewing the issue of taxation of multinational companies and how it can help countries control tax avoidance without adversely affecting international trade. This so called Base Erosion and Profit Shifting (BEPS) project has so far created a couple of changes which the Chancellor has reconfirmed in the Autumn Statement.

Back in September the UK announced that it would be the first of 44 countries to adopt Country by Country (CbyC) reporting. This will require UK multinationals to provide global data to HMRC by country in a prescribed template, together with a list of entities by country of residence and an indication of their activities. The data will include revenues, profits, taxes paid, number of employees, capital and tangible fixed assets. SMEs are likely to be exempt from these measures. Multinational companies that may be affected might need to review the skills and resources they will need to comply with CbyC reporting.

Measures have also been confirmed to curtail the use of hybrid structures which typically use financial instruments to create a mismatch, eg tax deductible expenses without a corresponding taxable credit. This again is in line with OECD recommendations.

However, where the UK has deviated from the OECD model is with the introduction of the Diverted Profits Tax (DPT). This is a new tax which will apply a 25% charge on UK resident companies and non-resident companies carrying on a trade through a Permanent Establishment (PE) in the UK, where either:

- steps have been taken to avoid creating a UK PE; or
- arrangements exist which lack economic substance involving entities with an existing UK taxable presence.

These rules will not apply to SMEs and the first rule will only apply if supplies of goods and services to UK customers exceed £10m p.a. Interestingly, loan relationship profits will be excluded, so some of the financing structures created to avoid tax which have hit the press in recent times will be unaffected.



It remains to be seen what impact that this tax will have in respect of revenue raising (if indeed it proves to be legally enforceable at all); whether it will change behaviour and the impact it will have on rules introduced by other jurisdictions. In particular, as it will impact on some significant US multinationals, whether the US will seek to apply similar, or more penal, taxes to our multinationals.

Moving away from corporate taxes, measures were also announced in the Autumn Statement which will affect individuals. In particular, some non-UK domiciled individuals who are resident in the UK can pay an annual tax charge to stop themselves from being taxed in the UK on overseas income kept out of the UK. The Autumn Statement announced that for those who have lived in the UK for at least 17 out of the last 20 years, these annual amounts would be increased from £50,000 to £90,000, whilst those who have lived in the UK for 12 out of the last 14 years face an increase from £50,000 to £60,000.

The increase in the Annual Tax on Enveloped Dwellings will add further pain to overseas residents who own UK residential property through a company.

Principal Private Residence (PPR) relief, the relief which exempts gains made on your home, will also be changed for disposals after 6 April 2015. PPR relief will not be available for a tax year unless either:

- the person making the disposal was tax resident in the same country as the property in the year of disposal; or
- the person owning the property spent at least 90 midnights in that property in the tax year.

Therefore anyone who is a UK tax resident and owns property abroad, or is not UK resident but owns property in the UK, will potentially now have an exposure to tax. We would recommend that anyone who may be affected takes advice on their position as it may be beneficial to take advantage of the existing rules before the changes come in.



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