

Planning for an uncertain future

As we are fast approaching 29 March 2019, many UK firms are not yet preparing for Brexit in the face of growing uncertainty. Whilst the Government is not currently able to provide any clarity on what the Brexit deal will look like or, indeed, if there will be a deal, it is prudent to prepare for the potential business risks which lie ahead.

Overlaying this is the gradual return to monetary policy normalisation, with both the US Federal Reserve (Fed) and the Bank of England signalling a progressive tightening of monetary policy and the raising of interest rates – the markets are already anticipating this. Further uncertainty is created by greater protectionism from escalating trade wars, pushing up prices (inflation) and reducing demand. We set out below some of the challenges that SPARK as an independent adviser can assist with:

Working Capital

- Escalating trade wars and uncertainty of the trade deal between the UK and the European Union could threaten supply chains of inputs and other goods. This may require a build-up of inventory to minimise potential business disruption and it is possible that controlling receivables is made more difficult as companies try to squeeze working capital. Being prepared for the uncertain economic environment can tie up cash.
- ✓ SPARK advises on working capital solutions, and is able to source working capital from a network of funders.

Foreign Exchange

- Brexit, monetary policy and global trade policy inevitably have an impact on foreign exchange rates. Businesses which rely on markets outside the UK for import of inputs and for export of finished goods and services and those with international branches are exposed in the current and near future environment. Currency weakness, for example sterling weakness against the US Dollar or Euro, will increase sterling borrowing costs (unless there is a natural hedge through overseas operations).
- ✓ SPARK has expertise in advising on hedging strategies appropriate to client needs.

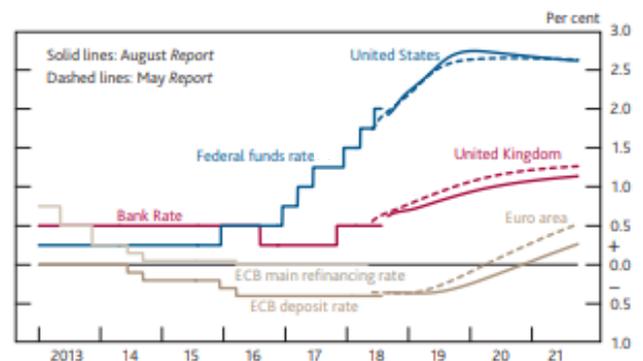
Debt and interest rates

- Interest rates are on an upward trajectory toward normalisation from historic lows. There are several risks (Brexit, global trade conflicts) which would cause inflation to rise prompting monetary tightening.
- ✓ SPARK can advise on optimal capital structure, interest rate exposure and hedging, refinancing and also the sourcing of new debt financing from private credit funds and commercial banks.

Takeover Defence

- UK companies, both public and private, are increasingly being targeted by foreign companies.
- ✓ SPARK provides strategic advice on company defence.

International forward interest rates



Sources: Bank of England, Bloomberg Finance L.P., ECB and Federal Reserve.

Please contact us should you wish to speak to us on any of these issues.

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