Lost in translation
Underperforming foreign owned UK businesses
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There are c.7,000 companies in the UK that are non-UK owned, of which 29% are underperforming, generating combined losses of £11bn.

Of 6,695 overseas owned UK based mid-sized companies, almost a third are underperforming and do not generate an adequate return to their owners.

Almost 30% underperforming

1,962 overseas owned companies are either loss making or only marginally profitable (under 2% EBITDA margin).

In total, these underperforming subsidiaries generated an EBITDA loss of £11.1bn. If this group performed as well as the average (excluding underperforming) for the better performing companies, it could have generated annual EBITDA of £26bn.

Source: FAME, Oct 16, from last reported accounts

Ownership of underperforming mid-sized corporates

The US dominates ownership; a third of the 1,962 underperforming companies are US owned. The ownership list also features well known off-shore locations.

Source: FAME, Oct 16
The reasons for inward investment in the UK are varied, although US investment is clearly made easier by a common language and ways of doing business.

The dominance of US ownership reflects historical links between the UK and the USA based on a common language and similar business practices. This has made the UK an attractive location for US investment as well as a convenient entry point into Continental Europe.

German investment has seen significant growth over the past 20 years such that the UK has overtaken France as the main location for German overseas investment. Some commentators attribute this to a move by the German industry away from a core EU centric to a wider world view and the UK being well placed to aid this move. German investment has been aided by UK strength in automotive, medical equipment and pharmaceutical sectors amongst others.

Japanese companies have been important investors in the UK for a number of decades with focus on technology and manufacturing. The scale of investment may well reflect perceived similarities between the UK and Japan as island nations with strong trading histories, bolstered by the UK’s position close to European markets.

Combined, the US, Germany and Japan account for 46% of underperforming companies.

Source: FAME, Oct 16 – No. of underperforming companies
The US owns 28% of underperforming overseas owned companies. These companies incurred losses of £6bn

US owned
Of the 2,199 US owned companies in the UK, 610 are not providing an adequate return.

These US companies incur an annual EBITDA loss of £6bn, contributing over 50% of the total EBITDA loss from all overseas subsidiaries (£11bn).

Although the rate of underperformance of US owned businesses at 27% is not exceptional, the number of companies and their financial impact overshadow the other owner countries.

This illustrates the importance of US investments in the UK and the scale of the US/UK deal corridor.

Underperforming UK subs by top owner countries by EBITDA loss

<table>
<thead>
<tr>
<th>Country</th>
<th>No. underperforming companies</th>
<th>Turnover (£'bn)</th>
<th>EBITDA loss (£'bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>610</td>
<td>59,903</td>
<td>5.8</td>
</tr>
<tr>
<td>Canada</td>
<td>52</td>
<td>4,171</td>
<td>0.7</td>
</tr>
<tr>
<td>Japan</td>
<td>125</td>
<td>14,961</td>
<td>0.5</td>
</tr>
<tr>
<td>British Virgin Islands (BVI)</td>
<td>51</td>
<td>5,406</td>
<td>0.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>95</td>
<td>8,567</td>
<td>0.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>96</td>
<td>11,335</td>
<td>0.3</td>
</tr>
<tr>
<td>France</td>
<td>109</td>
<td>11,419</td>
<td>0.2</td>
</tr>
<tr>
<td>Germany</td>
<td>164</td>
<td>16,389</td>
<td>0.1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>59</td>
<td>6,796</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: FAME, Oct 16 *Source information for underperforming UK subsidiaries with turnover £25m – £100m based on latest available financial information.
Compared with three years ago, there are fewer underperforming companies, but these are generating higher losses across a broader range of owner countries.

Over the past three years the number of underperforming overseas owned subsidiaries has shown a 5% decrease. However, the EBITDA loss generated by these companies has increased by £2.8bn.

Three years ago, losses were concentrated in fewer owner countries – the majority were underperforming but still generating a modest positive EBITDA.

Over the past three years the losses made by US owned subsidiaries has fallen by £1.8bn and the scale of losses concentrated in the seven most loss making owner countries has also fallen.

The data does not indicate a strong sector correlation with changes in underperformance over time; it appears that the main factor is significant changes to performance of individual entities within a sector or indicative of more challenging global economic conditions.
Holding companies account for over half the US owned underperformance. This reduces significantly for non-US owned entities.

**EBITDA loss by owner country and sector analysis**

**US**

- Holding Company/Business Support: 51%
- IT & Consulting: 7%
- Manufacture of Chemicals: 10%
- Insurance companies: 20%
- Broadcasting & Leisure: 5%
- Other: 7%

- £5.9bn

**Rest of the World**

- Holding Company/Business Support: 34%
- IT & Consulting: 10%
- Insurance companies: 12%
- Construction & Engineering: 7%
- Manufacture of machinery: 10%
- Other: 27%

- £5.2bn

Source: FAME, Oct 16

Holding company activities dominate and it is perhaps not surprising given the extent of US investment in the UK. However, there must be some question about how much this result reflects structural decisions such as tax strategies and/or debt structure in the holding company.

IT and Consulting sector underperformance may point to speculative investment in high tech businesses which may take time to provide returns, albeit with potential for significant upsides if successful. The scale of insurance sector underperformance is potentially linked to long term cycles in these businesses.

Overseas owners should be monitoring performance of their UK subsidiaries on a regular basis. In the medium term there is likely to be a closer focus on UK based investments as the nature and consequences of the UK’s exit from the European Union become clearer.
The top 5 sectors with the worst performing businesses made a combined loss of £9.2 billion in the last financial year.

Holding company / business support
369 of the 1,216 holding and business support companies with overseas parents (30%) fall with the underperforming criteria.

These 369 underperforming companies lost £4.8 billion in the last financial year.

IT and Consulting
110 of the 394 events, marketing & PR companies with overseas parents (34%) fall with the underperforming criteria.

These 110 underperforming companies lost £1.4 billion in the last financial year.

Construction & engineering
197 of the 655 construction & engineering companies with overseas parents (30%) fall with the underperforming criteria.

These 197 underperforming companies lost £1.5 billion in the last financial year.

Insurance companies
65 of the 184 insurance companies with overseas parents (35%) fall with the underperforming criteria.

These 65 underperforming companies lost £694 million in the last financial year.

Banks & finance
152 of the 499 banks & finance companies with overseas parents (30%) fall with the underperforming criteria.

These 152 underperforming companies lost £810 million in the last financial year.
How can Deloitte enhance value for overseas corporates with underperforming UK companies?

Talk to us. We will translate.

**Symptoms**
- Low rate of return (compared with Group)
- May be non-core
- Little attention from Group
- Or a distraction for Group because sub has become a problem
- Underinvestment
- Disengaged local management
- Ability/confidence of the Group to exit the UK
- Holding company/office function in the UK

**Solutions**

A range of Managed Exit services helping clients deal with non-core or underperforming business operations.

We work with clients to review and evaluate the main options:

- **Fix** and retain
- **Sell; or**
- **Close down**

When “fix and retain” is not practicable, we will plan, cost and implement **optimal exit** options.

Our focus is on understanding the client’s key drivers and helping deliver value.