S&P Global Ratings

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Countdown to Brexit:

Stockpiling for Brexit

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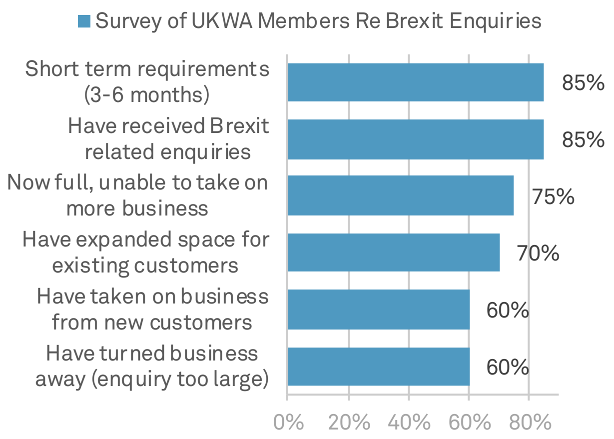
Key Takeaways

- **Stockpiling:** Survey data and company comments are pointing to a substantial surge in inventories as contingency plans for a no-deal Brexit kick in.
- **Financial impact:** This implies upward pressure on working-capital needs and may cause fluctuations in GDP figures as inventories build up ahead of Brexit.
- **Evidence:** We have looked at corporate sales and earnings calls so far this year to assess what details companies have given on this. There is wide-ranging evidence of significant stockpiling by companies selling into and from the U.K. Other themes emerging are evidence of domestic supply chain deepening and warehouse expansions in the U.K. and EU.

With less than 50 days to go until the UK's planned departure date from the EU, evidence is emerging (see Chart 1) of a substantial build-up of inventories held by companies operating in and out of the U.K. Specific examples include Unilever's addition of €0.5 billion to inventories last year (see Chart 2), to which Brexit was a significant contributor, and LVMH's decision to add four months of wine and spirits inventory in the U.K.

Chart 1

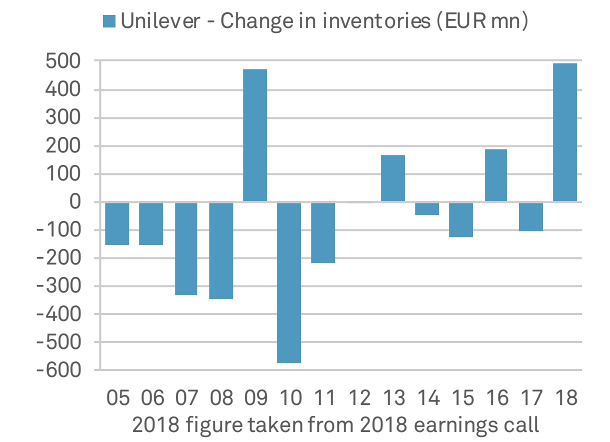
Survey evidence of warehousing demand surge



Source: United Kingdom Warehousing Association

Chart 2

Unilever has added nearly half a billion euros of inventory



Source: S&P Global Market Intelligence

The ongoing risk of a no-deal Brexit poses significant risks to cross-border logistics chains and companies have triggered contingency plans in response. This implies upward pressures on working capital, which could have an adverse impact on free cashflow and debt reduction plans. Should a no-deal Brexit occur, companies most exposed to cross-border supply chains may need a sustained increase in working capital until future trade arrangements are settled, with a consequent increase in credit risk. At the macro level, GDP growth patterns are likely to be affected as inventories rise in the near-term – boosting reported growth – and fall subsequently.

To assess emerging Brexit-related inventory trends we have utilized S&P Global Market Intelligence's earnings call transcript dataset to analyze any guidance provided by companies since the start of the year (see Tables 1 to 5). We have organized the tables based on the broad themes that emerge from this analysis:

– **Table 1 shows the companies that have given specific figures as to the size of the inventory build-up**. Some of the volumes are substantial – LVMH has added four month's supply to U.K. wine and spirit inventories, Unilever has added just under €0.5 billion to inventories (although this is not just Brexit-related) and Imperial Brands has set aside £30 million of contingency stocks.
– **Some large industrial companies have focused more on enhancing their U.K. supply chains** (see Table 2). For example, Hitachi has been trying to increase local procurement as much as possible for its railway systems business and has now reached a local production level of 70%. The flipside to this will be European companies that currently have U.K. products as part of their supply chain who decide to switch to EU-domiciled suppliers to reduce logistical risks.
– **Another strategy employed by businesses has been to add warehouses to either the U.K., the EU, or both (see Table 3)**. For example, U.S.-based technology product distributor ScanSource plans to open a new warehouse in the U.K. to meet local demand using inventory transferred from Belgium. U.K. metrology company Renishaw has added a warehouse in Ireland to support EU customers and has also built up stocks in Germany.
– The final two tables give the rest of the inventory-related comments provided by U.K. companies (Table 4) and non-U.K. companies (Table 5).What they have in common is a clear evidence of intent or action to increase inventory to cope with a no-deal Brexit.

In conclusion, the lack of certainty around the course of Brexit and what it might mean for cross-border trade and logistics has triggered a corporate response involving a combination of short-term surge in inventories, warehouse relocations and supply-chain adjustment. For the most part, the costs are modest in relation to total cash flow, but higher working capital requirements do imply greater credit risk, particularly at a time when European economic growth is under pressure.

Table 1

Brexit inventory comments: specific figures given

Company	Comments from meeting transcripts
Coloplast	COLOPLAST A/S FQ1 2019 EARNINGS CALL | FEB 05, 2019 We are following the development around Brexit in the U.K. closely. We remain committed to the U.K. market, and we have built up to **8 weeks of stock** to ensure that we have adequate supply on U.K. soil should there be a hard Brexit.
Dixons Carphone	DIXONS CARPHONE PLC SALES/TRADING STATEMENT CALL | JAN 22, 2019 We've put contingency plans in place. For us, it's mostly about some of our people who we've been talking to extensively and also working with our suppliers to get stock flow in as best a position as it possibly can be. So we're feeling prepared. We are going to build a bit of extra stock prudently just in case of any interruptions, and we think that's going to be in the range of kind of **GBP 30 million to GBP 40 million** for a short period, whilst we just get ready.
Imperial Brands	IMPERIAL BRANDS PLC FY 2018 EARNINGS CALL | NOV 06, 2018 In addition, to avoid any potential disruption to supply that might arise with Brexit, we will be building around **GBP 30 million of contingency stocks** in the first half, which we expect to unwind by the year-end. This is part of our broader contingency planning across several areas, including manufacturing, supply chain and tax as far as Brexit is concerned.
LVMH Moët Hennessy Louis Vuitton	LVMH MOËT HENNESSY LOUIS VUITTON S.E., 2018 EARNINGS CALL | JAN 29, 2019 **Wines & Spirits, we've added 4 months' inventory to the U.K.,** so that we are ready for the worst case scenario, if there were difficulties with deliveries. And customs duties, I can't answer that particular point. [indiscernible] the U.K. represents 4% of the group's revenue.
Premier Foods	PREMIER FOODS PLC SALES/TRADING STATEMENT CALL | JAN 17, 2019 Now before I sum up, I do need to touch on our Brexit plans. We shared them with you at the interim. It's **10 million** -- a potential 10 million impact in working capital. We have gone, for obvious reasons, as the political process has spread out the way it has from contingency into full plans, initially raising stocks of imported raw materials. And then more recently, since the start of January, we have started converting those rate stocks of raw materials into finished goods. And that is a smart thing to do on our core skews, what we call the golden skew, that we'll have higher inventory of both raw materials and particularly finished goods. And you'll understand, that has the impact on working capital that we discussed at the interim in the order of GBP 10 million.
Unilever	UNILEVER N.V., UNILEVER PLC, 2018 EARNINGS CALL | JAN 31, 2019 After that, there has been about a -- just under **EUR 0.5 billion** increase in inventory, and that is really due to some specific strategic decisions that we've made to mitigate some specific factors in this topsy-turvy world. We're building stocks for Brexit, obviously. And assuming the worst-case scenario there, that is a buildup, similarly around sanctions and other things.

Source: S&P Global Market Intelligence. Transcript data captures earnings conference calls, guidance/update calls, sales/trading calls, special calls, shareholder/analyst days and annual board meetings. These are normally open to buy and sell-side analysts via corporate investor relations.

Table 2

Brexit inventory comments: strengthening U.K. supply chains

Company	Comments from meeting transcripts
Hitachi	**HITACHI, LTD. FQ3 2019 EARNINGS CALL | FEB 01, 2019** In terms of parts for the railway systems business, we are trying to procure locally as much as possible. This has been an important focus, and currently, we have reached the level of 70% of the rolling stock that we produce in the U.K. 70% are procured locally. Therefore, direct impact of Brexit is limited in that regard.
Paccar	**PACCAR INC FQ4 2018 EARNINGS CALL | JAN 29, 2019** (DAF Trucks) Yes, we're pretty fortunate in the U.K. We have -- we're the only OEM in Europe that has a plant manufacturing products in the U.K., and that provides us a bit of a competitive advantage, depending on how things play out with Brexit. And I think everybody believes that there won't be a hard Brexit. But in the event there is, it actually -- from a competitive situation, it actually plays into our favor. So we'll see how it all develops, but we're hopeful that's there's a nice, smooth approach to the transition there.
Boeing	**THE BOEING COMPANY FQ4 2018 EARNINGS CALL | JAN 30, 2019** Q: I wondered whether you saw any risks to your own operations in the U.K. in the event of a hard Brexit with just a few weeks to go before the 29th of March? A: Yes. We're continuing to keep a very close eye on that, as you might guess. And again, we're very involved in the discussion. That said, we're committed to our operations in the U.K. We've ramped up significantly over the last many years, roughly doubling the size of our operations, roughly tripling the size of our supply chain in the U.K. And those are long-term, sustained investments. And we don't expect that to change based on the outcome of Brexit. That said, we're keeping a very close eye on it and making sure it doesn't impact our operations. I think just as a further sign of our commitment in the U.K., you'll note that during the last year, we opened our new operation in Sheffield where we're doing some advanced manufacturing work. That's also helping us to build out our actuation vertical capability. So just another example of our long-term commitment to the U.K. and the investments that we'll continue to make.

Source: S&P Global Market Intelligence. Transcript data captures earnings conference calls, guidance/update calls, sales/trading calls, special calls, shareholder/analyst days and annual board meetings. These are normally open to buy and sell-side analysts via corporate investor relations.

Table 3

Brexit inventory comments: warehouse expansion

Company	Comments from meeting transcripts
Renishaw	**RENISHAW PLC FH1 2019 EARNINGS CALL | JAN 31, 2019** What we have done is, many months ago, **we took the decision to invest in Ireland to create another European warehouse** so that the shipments that we do at the moment directly from the U.K. to the European customers can now be done from Ireland. So that will be in place. We will also be making sure we have also increased stock levels, as Allen mentioned, to make sure -- and that stock will be placed in suitable locations to make sure that we have significant contingency [for] in a month or so's time. We are building up safety stock over in Germany as well. What we then look at, I guess, is the long-term impact for the group. And actually, with the WTO tariffs on our products, really we don't expect any material change on the profitability of the group because of Brexit, once we get through the disruption that undoubtedly will be caused over the next few months.
Scansource	**SCANSOURCE, INC. FQ2 2019 EARNINGS CALL | FEB 05, 2019** Additionally, in the March quarter **we plan to open a new warehouse in the U.K** to prepare for potential Brexit impacts and to move inventory from our distribution center in Belgium to the U.K.

Source: S&P Global Market Intelligence. Transcript data captures earnings conference calls, guidance/update calls, sales/trading calls, special calls, shareholder/analyst days and annual board meetings. These are normally open to buy and sell-side analysts via corporate investor relations.

Table 4

Brexit inventory comments: U.K. company comments (with no specific figures)

Company	Comments from meeting transcripts
BT Group	**BT GROUP PLC FQ3 2019 EARNINGS CALL | JAN 31, 2019** On the ongoing uncertainty in relation to Brexit, we have plans in place covering a number of outcomes. Our primary focus is to ensure uninterrupted service to our customers, which includes **increasing inventory to protect against potential import delays**.
Burberry Group	**BURBERRY GROUP PLC SALES/TRADING STATEMENT CALL | JAN 23, 2019** We have got a large manufacturing base outside the U.K., but it's mainly **the disruption, if there was no deal, really comes from operationally moving the product between Europe and the U.K.** For instance, our distribution center for the digital channel, we've got one in the U.S., one in China and

	one in the U.K. So the U.K. one is servicing the rest of the world. And it's the operational disruption that we would encounter with regard to shipping product to customers within the lead times, and that would obviously mean **additional inventory would need to be carried** as one of the mitigating actions in the near term.
Ferguson	**FERGUSON PLC INTERIM MANAGEMENT STATEMENT CALL | DEC 04, 2018** Q: And similarly, if you look at the U.K., are there any contingencies that you've had to put in place already or potentially will have to because of Brexit? A: So no, the U.K. -- I mean the Brexit situation, of course, something is getting closer, at least a bit. Nobody is entirely sure what that is. I don't think our contingency planning has changed for that at all, Kevin. **We clearly retain quite a lot of stock in our warehouse** if it would allow us to service our customers. I think, if you stand back from it, we've done all defensible contingency planning. If the ports get blocked, I have to be honest, Kevin, plumbing supplies aren't going to be the first ones that get released across the border, so we are not at a competitive advantage or disadvantage to any of our competitors. But I would have thought surgery and medical supplies would have been pretty high up the list. So we're realistic about it. I think we've got good contingency plans in place as best as you can given that nobody really knows what next is going on, but we remain vigilant to it given that something is getting closer. I don't think for the group we see this as a high-risk issue.
J Sainsbury	**J SAINSBURY PLC SALES/TRADING STATEMENT CALL | JAN 09, 2019** Q: Is there anything you'd want to flag in terms of cash flow for year-end and in particular around inventory build? A: Not at this stage, but that's not to say that there might not. I mean, clearly, we don't run the business for a day in the middle of March. We run the business for customers. So if we needed to do something to protect the business and give better service to customers, I'd be very relaxed that we would do that because it would actually have no real effect on our cash. It'd just be a sort of a timing difference but not -- don't envisage anything material at this stage. If you think about Brexit, there are in effect only 2 scenarios. There is one where there is some kind of deal done and some kind of continuity and some kind of transition period, in which case nothing changes. The other extreme, which is there's a **hard Brexit**, the least of our problems will be managing whether or not we've got working capital tied up in stock. It **will become a significant operational challenge not just for us but for the whole industry and for retail in general** and, I suspect, for the country overall. So any questions you might have about how much working capital we might have to put into the business will be in the rounding if it ever came to a hard Brexit.
Marks And Spencer Group	**MARKS AND SPENCER GROUP PLC SALES/TRADING STATEMENT CALL | JAN 10, 2019** Q: But with 3 months potentially until Brexit, how confident are you in your preparations, particularly around the Food business? A: We've been at this for a while, contingency planning. I would say, **we definitely ramped up our planning, and in some cases, taken modest amounts of action**. Looking at things like long-life products and inventory levels, nothing dramatic, but certainly we think are prudent in the circumstances and also we're keen to see a resolution to the current uncertainty. Q: And are there any parts of your nonfood business which you think will be impacted materially? A: It's much less of a material effect in the Clothing & Home side. There are some effects. We do source some products, for example, from Turkey, but it's more limited than the short supply chain, quite largely sourced in European food side.
Pets At Home Group	**PETS AT HOME GROUP PLC SALES/TRADING STATEMENT CALL | JAN 22, 2019** I guess the one thing -- I guess the only uncertainty you could ever try and plan for is a hard Brexit. Clearly we hope that doesn't happen, but what we've done is we've identified stock mainly from European suppliers, not necessarily from Far East or U.K. suppliers. **We've identified stock -- and it's a combination of some plastics, some food items where these are bestsellers that we'd want to make sure we have additional stock coverage in our DC**, so in the case of a hard Brexit, if there is a port disruption, we have enough security. Clearly, as we head towards the end of March and we get more certainty, because it is stock, it gives us an opportunity to unwind that and we just think that's a quite sensible and pragmatic move so we don't have any disruption potentially at port later on.
Taylor Wimpey	**TAYLOR WIMPEY PLC SALES/TRADING STATEMENT CALL | JAN 09, 2019** Yes, I think as you all know, for us and I think for the vast majority of our sector, **our level of direct imports is very low**. There's very little that we ourselves import. So that the -- it's more a component issue in the supply chain to make sure that our supplier base is thinking and planning ahead. So -- and on things like bricks, where we've had a degree of imports over the sort of growth in the market, that level of imports has already dropped off pre-Brexit kind of discussions anyway. So it's more about our procurement teams being close to our customer base to make sure that we see any sort of potential bottlenecks for them.
Travis Perkins	**TRAVIS PERKINS PLC SALES/TRADING STATEMENT CALL | OCT 23, 2018** [On stock inventories] you wouldn't see any impact of that in the overall net working capital at year-end, so where we are looking at **some potential inventory buys as part of contingency planning**, we'd expect to be paying for those in 2019. So you may see in the components of working capital inventory a little higher, but it would be offset within trade creditors if that were the case.

Source: S&P Global Market Intelligence. Transcript data captures earnings conference calls, guidance/update calls, sales/trading calls, special calls, shareholder/analyst days and annual board meetings. These are normally open to buy and sell-side analysts via corporate investor relations.

Table 5

Brexit inventory comments: non-U.K. company comments (with no specific figures)

Company	Comments from meeting transcripts
Agco Corporation	AGCO CORPORATION FQ4 2018 EARNINGS CALL | FEB 05, 2019 We don't produce in the U.K. anymore. And so therefore, **the main disruption is logistics**. Everybody is predicting complications at customs. And so we make sure that we have enough tractors, maybe there, a little earlier than normal, **so have a little buffer inventory, in case**. [Q: Okay. And so are you building inventory as we speak? I mean, is that a Q1 impact that you'll be producing above retail for that reason?] Yes, that will happen as it's already happening now. So we're just trying to do it now, in order to make sure that we don't have a problem. The numbers are in our cash flow and in our inventory numbers.
Arjo	ARJO AB FY 2018 EARNINGS CALL | FEB 04, 2019 If you start with Brexit, as we have communicated before, we are planning and have been planning for a hard Brexit since a couple of months. We're obviously following the development, but **we have made sure that we have the right and enough inventory in the U.K. in case of the U.K. crashing out** of Europe -- not of Europe, but from the European Union. And we have taken all precautions that we believe is necessary for a hard Brexit.
Assa Abloy	ASSA ABLOY AB, Q4 2018 EARNINGS CALL | FEB 05, 2019 And then when it comes to U.K. So that -- we don't exactly know what's going to happen with Brexit, but most of what we sell in U.K. we also produce in the U.K. In that way, perhaps, we could also have a competitive advantage vis-à-vis some of our colleagues in the market. And **we have started to ramp up inventory levels in the U.K. We started doing that in Q4, and we will continue to do that now in Q1 to be prepared, I would say, for any scenario in U.K**. And when the Brexit will happen for sure, it will have an effect on delivery times, on supply chain, and that's the reason why we increased our inventories. But like you mentioned, it's a smaller part of our business so that the increase in inventory for the group is not significant. The main contributor of the increase is really the material prices, which went up.
Honda Motor	HONDA MOTOR CO., LTD., Q3 2019 EARNINGS CALL | FEB 01, 2019 In terms of the Brexit, we do not know what is going to happen going forward. And as I said before, we simply keep an eye on the situations over there. If anything happens by the end of March, as we said before, we will try to avoid confusion by adjusting the production calendars or we might have the situation where the logistics distributions and customers' clearance practices might stop for some time. And then **in that case, we could produce earlier and then ship the vehicles to the continent earlier or have a high stock levels in order to avoid confusion**. We are preparing for that at the moment.
Husqvarna	HUSQVARNA AB FY 2018 EARNINGS CALL | FEB 05, 2019 So inventory is where we've slipped. Partially, it is prebuilt. We were preparing for Brexit, so preparing our more robotic lawnmowers.
Modine Manufacturing	MODINE MANUFACTURING COMPANY FQ3 2019 EARNINGS CALL | FEB 01, 2019 As far as Brexit is concerned, it's -- clearly, we're preparing. We have about 40% of our parts that we supply, that we get, comes from the mainland in Europe. So we -- what we're doing to counter that a little bit is **we built some inventory, banked up** In those parts just to have some flexibility there, okay, depending on what happens here.
Mondelez International	MONDELEZ INTERNATIONAL, INC. FQ4 2018 EARNINGS CALL | JAN 30, 2019 So as it relates to the hard Brexit, our contingency plan is quite extensive. And it basically is focused on the disruption and the ease of the flow of the goods. And so **we've invested in additional resources in logistics operations. That means we've rented many more trucks, we've rented much more warehousing space, we've increased our inventories**. We are making sure that we are capable even in difficult circumstances to maintain our customer service. And we are very focused on demand planning. And so we've also increased, for instance, our additional raw and packaging materials in the U.K. and in Europe.
Ørsted	ØRSTED A/S FY 2018 EARNINGS CALL | JAN 31, 2019 Of course, for contingency planning purposes, we are looking into what a no-deal Brexit might look like. And our key focus has been on the Hornsea 1 and Hornsea 2 supply chains, basically **working closely with our suppliers to make sure that we will continue to have a good and steady flow of the components we need** for these 2 major offshore wind assets. And those contingency planning efforts, we believe, have given us pretty good comfort that we can manage the different scenarios that we could foresee around Brexit.
Post Holdings	POST HOLDINGS, INC. FQ1 2019 EARNINGS CALL | FEB 01, 2019 By the time we report next quarter, we should have more clarity around Brexit. Our contingency planning is around working capital as **we are building inventory in the event of port disruptions**. There's a modest incremental cost around additional storage facilities and inventory builds do come with a bit higher risk of subsequent write-offs. We do not see the risk as material. the bulk of the Weetabix product is sourced within the U.K. What is not sourced within the U.K. is mostly packaging. There are some vitamins and relatively small products, and I mean small, both physically and from a cost perspective. And the reason I phrase the physical is most of the cost is around storage space. So what we are doing is attempting to make sure that if we are in a situation in which there is a port disruption that adds days, weeks or even months to the supply chain that we're ready to react to

	whatever reality develops. Likewise, **where we have export business, this quarter, we're starting to build inventory outside of the U.K.** So we have the other side of that equation balance. So if you look at the operations -- and there's cost associated with all of those activities, but they're relatively modest.
SEB	**SEB SA SALES/TRADING STATEMENT CALL | JAN 23, 2019** Second impact, supply chain, potential disruptions. There again, in order to try to mitigate that and as many manufacturers have done, **we have and are increasing inventories across the Channel** to make sure that we will be able to deliver even in the case of disruptions at the border.
Warehouses De Pauw	**WAREHOUSES DE PAUW, 2018 EARNINGS CALL | FEB 01, 2019** And also concerning Brexit, yes. It's -- let's say it creates instability. I think **there is a lot of stock building up, mostly or more at the U.K. side of the island than on mainland Europe**. But I think, today, there are more smaller companies who are doing extra stocks. But -- indeed it gives some temporarily extra stocks, but I cannot say that it has fundamentally changed the business for the moment. It filled some extras, but not, let's say, as really changing the market.
Waters Corporation	**WATERS CORPORATION FQ4 2018 EARNINGS CALL | JAN 23, 2019** But even with that, we've decided that it's prudent to prepare a contingency plan for a short-term disruption in the case of a hard Brexit. And so we are well down the path on that contingency plan, and that plan is simply designed to maintain our servicing of customers. About 4% of our worldwide revenue is in the U.K. And obviously, you can imagine, there'd be some **forward stocking just to prepare for any disruptions**. And then furthermore, **on the export side, making sure that we have plenty of inventory, finished goods inventory that comes from the U.K. -- outside the U.K.** I will say that over time, we've evolved the majority of our mass spec production out of the U.K. into Ireland and other places. And so really, Wilmslow is primarily a research-and-development facility with some smaller-volume, high-res lines that we can certainly manage through in that type of a scenario.

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