BREXIT: KEEP CALM AND CARRY ON

Following the vote of the British people, the UK will trigger article 50 next year. Effective in 2019 or later, Brexit will upset the deal for bankers, investors, startupers and professionals of virtually all industries. HEC alumni in Britain are swinging between "business as usual" and plans for an uncertain future.

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Like most people in the City, HEC graduates and alumni were astonished by the results of the Brexit referendum on June 23. "*Everyone was caught by surprise*", recalls **Loic Fery (H.97)**, the CEO of Chenavari Investment Managers. Financial markets became depressed. The British pound lost 10% of its value in two days of trading, while the FTSE 250 index declined by 14%.

As a matter of fact, the Brexit implications could potentially be dire. "*When it comes to starting new activities or expanding their existing ones, there is a material possibility that some banks and asset managers will do so outside of the UK*", suggests **Guillaume Benhamou (H.05)**, Co-Head of Principal Investments at Tikehau Capital Advisors. Such moves haven't materialised yet, as companies are waiting for initial guidance about the Brexit format; meanwhile they work on contingency plans. Patience is required. "*It will take time to see the impact of article 50 being invoked*", acknowledges **Robert Taylor (H.11)**, the cofounder of a fintech startup.
For now, the UK economy seems to be resisting quite well. During the summer, the FTSE 250 rebounded to its pre-referendum levels. Unemployment remains at a record low. Consumer spending hasn't slowed down – yet. In July, retail sales even increased by 4% year over year. "*Companies are faced with imported inflation due to the weaker pound. But in the short term, they are not passing on the higher import cost to their customers. They are willing to sacrifice some profit margin*", analyses **Kokou Agbo-Bloua (H.02)**, Global Head of Flow Strategy and Solutions at Société Générale. The proactive behaviour of Bank of England also proved decisive to maintaining confidence. On August 4, the UK Central Bank cut its main borrowing rate from 0.5% to 0.25% and boosted its quantitative easing program, committing an extra 100 billion pounds to encourage banks to lend. On top of that, the government unveiled its intention to loosen fiscal austerity. In this respect, Chancellor Philip Hammond is expected to announce some extra public spending in infrastructure.

THE PRICE OF UNCERTAINTY

But all these measures won't be enough to offset the downward spiral of uncertainty. Experts fear that investment will fall as companies put off decisions on capital spending. In July, the value of contracts in the infrastructure industry declined 20% compared to the previous month. Decreasing investment will directly impact jobs, wages and consumption. That largely explains why the Bank of England slashed its 2017 growth forecast from 2.3% to 0.8% during the summer. The pressure is also coming from Britain's trading partners – not least Japan, which made nearly half of its EU investment in Britain last year. In a 15-page report published in September, Tokyo warned London that Brexit could prompt Japanese financial institutions to relocate from the City.

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REAL ESTATE: AT THE HEART OF THE STORM

The real estate market is frozen. Prices could fall, especially in London.

If a load of wealthy investment bankers decided to leave the UK, the demand for high-end residential assets could sharply decline. The same goes for offices in case companies (not least banks) relocate some activities outside Britain. Real estate is therefore a good indicator of the destructive potential of Brexit.

Following the referendum, some of the biggest property funds in the UK – like Standard Life and M&G – shut down trading because investors were rushing to pull their money out of Britain. In August, Aviva Investors even stated that it would not reopen its funds before 2017[2]. "*The real estate market is frozen. If article 50 is triggered next year and a hard Brexit is looming, prices will fall. So there is no need to buy now*", sums up **Kokou Agbo-Bloua (H.02)** at SocGen. "Parameters have changed. Buyers and lenders need more time and work to get comfortable with the underlying asset value", adds **Etienne Casara (M.11)** at Starwood Capital. "*The market isn't liquid for now. People don't trade so we have very few datapoints*".

PRICE DISCOUNTS

Investors will need a wider sample of transactions to conclude if there is a sharp decrease in real estate value. "*We will see the updated valuations by year-end*", Etienne Casara anticipates. However, the co-president of HEC Alumni's UK Private Equity & Investment Banking club already sees some signs of decline – at least in the commercial market (shopping centers, corporate offices, hotels, etc). "*If we look at assets that were under offer, some sales were cancelled or postponed and in most cases, buyers have renegotiated the price with some discounts around 5%*", he explains. The correction seems moderate for now. If it were to increase much, some funds could take advantage of it. "*Volatility is a source of opportunities*", Etienne Casara concludes. ●

1. Other funds decided to re-open in September, like Columbia Threadneedle and Canada Life

BETWEEN THE BREXIT VOTE AND AUGUST 2ND, THE SHARE PRICES OF UK HOUSEBUILDERS DROPPED BY 15.2% WHILE FOOTSIE INDEX WAS UP 2.3%

FOOTSIE IS DOWN, IN DOLLAR TERMS

Source: Factset, as of August 31, 2016.

FTSE	-5,4%
S&P 500	+2,7%
Dow Jones	+3%
NASDAQ	+6,2%
Hang Seng	+10,1%
FTSE 250	-9,5%
CAC40	-2,5%
Euro Stoxx600	-2,7%
Nikkei	+4,8%

On the longer run, consequences of Brexit are quite gloomy. **Alberto Alemanno** foresees a brain drain from the UK. "*I expect a lot of skilled workers to leave Britain. Some professionals in London are actively looking for jobs, despite the Mayor's reassurances. The country is set to become more provincial and less open*", the Professor of Law at HEC Paris predicts. "*Key hiring decisions are put on hold. There is uncertainty about staffing*", adds Kokou Agbo-Bloua. "*In case of a 'hard Brexit', we can expect more hiring in cities other than London. That could change the typical pattern of financial careers in Europe*". Once Brexit is achieved, the UK will also suffer from a weaker negotiating power than the EU 27 in trade talks. That may lead to steeper barriers to trade for products like food or cars. The rest of the continent won't be immune: right after the referendum, US asset manager BlackRock predicted a lower European growth and a poorer outlook for European assets.

A PAINFUL PROCESS

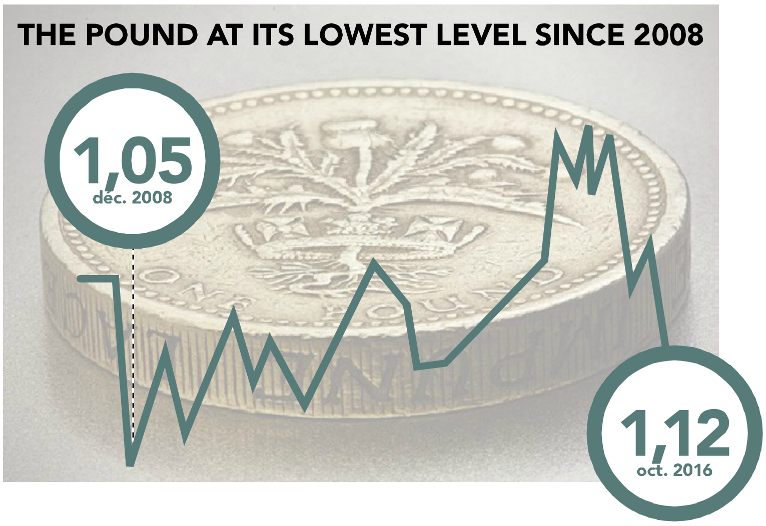
All that will actually depend on the modalities of the split-off: either a 'hard', disruptive Brexit; or a 'soft' one that would set up conditions as close as possible to the existing ones. "*The most beneficial option for businesses and people is the 'Norwegian scenario', where Britain would leave the EU but remain in the European Economic Area (EEA)*", states Alberto Alemanno. In that case – as he recently wrote in French newspaper Le Monde – Britain would still have access to the single market on condition that it continues to allow free migration from the EU and to make payments to the Union's budget. Such a deal looks unlikely, though, as new Prime Minister Theresa May has put the power to control immigration as a priority. In another scenario, Britain would, like Switzerland, strike a bilateral agreement with the EU. "*That option would imply negotiating details one by one, which would take much time. Under such an agreement, Britain would be able to curb EU immigration but it would have no voting right in the EU*" explains Alberto Alemanno. Lastly, the worst-case yet the most likely scenario would entail the UK becoming a third country similar to the USA or China. EU-UK relations would then be governed by the rules of the World Trade Organisation (WTO), which would imply tariffs on some goods and not cover most services, including the financial industry. The redefinition of relations under WTO would probably be long and painful. Just consider the Canada-EU agreement, which hasn't been ratified yet after seven years of negotiations...

Given the common history between Britain and the European Union, that cold scenario may seem far-fetched. "*No one wants a hard Brexit. Everybody in Europe would lose out*", believes **Etienne Casara (M.11)**, a real estate investor at Starwood Capital. "*Britons are pragmatic people. They will do what is right for the City and the economy*", adds **Yoël Zaoui (H.82)**, founding partner of Zaoui & Co. Better a friendly divorce, but that will require much patience. A marathon is about to start. ●

1. This article was written in early October.

A CHANGE IN PHILOSOPHY IN EUROPE?

"Without direct influence from Britain, there is a risk that EU regulators could become less business-friendly. A continental, more protectionist Europe could emerge, where Germany and France would gain even more power than before. On the other hand, a European Union without the UK might make further progress with regards to environmental and public health standards"
Alberto Alemanno, Professor of Law at HEC Paris.



THREE QUESTIONS TO MARGUERITE GALLANT, DIRECTOR OF THE HEC PARIS REPRESENTATION OFFICE IN LONDON

What is the current mood in London?
Referendum result day was like Armageddon, but the situation quickly stabilised. The nomination of a new PM, Theresa May, provided some reassurance. Since then though, as no decision to start the Brexit process has been made, financial markets and business decision-makers have been in "wait and see" mode.

The HEC UK office recently organised a drink with our alumni corporate ambassadors in the UK. With no clear view of the timing for triggering Article 50 [this has just been announced by Theresa May to be by March 2017], the mood amongst alumni present was very much one of "keeping one's head down and carrying on".

How do you see things going forward?
Once Article 50 is triggered, there will be a 2-year timetable to Brexit. Many companies, large and small, will activate their contingency plans. I expect several financial institutions to relocate some of their back-office activities to places like Dublin, which have lower costs and cheaper labour than London. There may be bigger moves, like the relocation of headquarters. But it is still hard to predict, lacking clarity on whether or not Britain will remain in the single market, or at least some form of European customs union.

Do you anticipate a brain drain?
We already see some early signs of it, with French senior executives making plans to leave the country. On the positive side, Brexit offers HEC an opportunity to attract talented professors and staff. ●

MANUFACTURING AND SERVICES

Only purely local sectors will come out unscathed.

A hard Brexit will impact all industries that deal with other countries. **Carmakers** fear that exports to the EU, which represent two-thirds of all the vehicles they manufacture in Britain, will be hampered by some trade tariffs – not least for mass-market models which are sold with low margins. The CEO of Nissan, Carlos Ghosn, said in late September that he could not make investment decisions in the UK unless the state guaranteed some compensation for any tariffs that might be imposed after Brexit. The same worry goes for **chemicals**: German multinational BASF operates 10 plants in the UK, which together export 80% of their production, primarily to Europe.
In **pharma**, Britain could be excluded from the "unitary patent system" which is expected to materialise in 2018. The initial plan was to set up the EU intellectual-property court dedicated to drugs and chemicals in Britain. That now looks unlikely. Another issue is that **R&D centers** and firms won't benefit from "Horizon 2020", the EU's 80 billion-euro fund dedicated to research and innovation.
Regarding **IT**, "*some data centres will have to move from the UK to continental Europe due to different data policies*", Alberto Alemanno predicts. That will cause some headaches to cloud computing providers like Amazon, Microsoft or Google. Lastly, **airlines** headquartered in the UK may ultimately miss the opportunity of the "European Single Sky", which is due to centralise air-traffic controls in the EU. ●

LOOKING AT 2019

Theresa May has stated that Britain will begin exit negotiations by the end of March, for an effective Brexit in 2019 at the earliest.

"Brexit means Brexit". Prime minister Theresa May has firmly repeated that the results of the referendum will actually lead Britain to quit the European Union. She more recently specified that article 50 would be triggered by next March. Brexit talks are governed by a 2-year deadline, unless all EU members agree to prolong them. But delays in negotiations could create irritation for them. European Commission President Jean-Claude Juncker has already forbidden EU officials from holding post-Brexit talks with Britain. *"There can be no preliminary discussions. No notification, no negotiation"*, he stated.

FINANCE: A "PASSPORT" TO RENEW

EU rules enable banks located in the UK to trade all across Europe. That will probably change.

The City has a lot to lose in these turbulent times. As the undisputable financial hub of the EU, London currently represents 70% of the market of euro-denominated interest-rate derivatives and even 90% of European prime brokerage (i.e. services to hedge funds). "*I think the City will continue to be the financial centre of Europe although there will be new challenges and some inevitable restructurings and reorientations*", claims **Yoel Zaoui (H.82)**, former Co-Head of Global M&A at Goldman Sachs and founding partner of the Zaoui & Co boutique.

For sure, the UK capital won't emerge unscathed from Brexit. It was already odd that the City cleared transactions in euros while the UK did not belong to the common currency club. In 2015, the European Central Bank challenged that privilege. The claim was rejected by the European Court of Justice, but it could well be reiterated now that Britain intends to leave the EU. French President **François Hollande (H.75)** has been quite clear that Britain will lose these transactions if it abandons free movement of goods, capital, workers and services. "*The City, which could make its clearing operations in euro, won't be able to do so any more*"[1], he said in late June.

THOUSANDS OF JOBS AT STAKE

Britain's financial industry will suffer even more if the country loses the "passport" rules, under which financial firms located in a EU country can serve customers in the other 27 states without having to setup local operations. In September, Tokyo formally prompted the UK to retain full access to the single market so that Japanese banks and asset managers based in London could still trade across Europe. Theresa May has stated that she will fight for the City to retain its passporting rights but European officials don't take it for granted. In the wake of the referendum, France's Central Bank Governor

HOPING FOR THE BEST, PREPARING FOR THE WORST

"Banks and investors are hoping for the best and preparing for the worst. For now, we haven't heard of any big announcements of staff relocations. But companies are working on contingency plans. Some US and Asian institutions are applying for bank licences in Dublin, Frankfurt or even Paris in case they will move staff"

Kokou Agbo-Bloua (H.02), Global Head of Flow Strategy and Solutions at Société Générale

THE VISA ISSUE

3.5 million foreign people from the EU currently live in the UK. At the same time, 1.2 million Britons have moved to another EU country. Regarding migrant workers, British Prime Minister Theresa May stands for reciprocity. EU people based in the UK should not worry too much since they have a right to permanent residence after five years in Britain. Given the time that it will take for Brexit to actually occur, most of them will be immune from deportation. *"Some companies encourage their foreign employees to apply for UK citizenship 'as a hedge'"*, testifies **Robert Taylor (H.11)**, a London-based startuper. Prevention is better than cure.

STARTUPS: BERLIN IS CALLING

Berlin has become a serious rival to London as potentially the most attractive tech hub in Europe. Brexit will benefit the German capital.

The British tech industry celebrated an outstanding exit on July 18. Japanese giant Softbank announced that it would buy the Cambridge-based company ARM, a microchip designer, for 24 billion pounds. Such a huge transaction seems to demonstrate that the Brexit vote has not dented the eagerness of international investors for London, which is currently home to over 5,000 tech startups[1]. "*London will remain one of the European hubs for venture capital. It benefits from a dense ecosystem, a favourable legal environment and good access to capital. I don't expect the startup scene to suffer materially from Brexit*", **Guillaume Benhamou (H.05)** at Tikehau Capital confirms.

Robert Taylor (H.11), the cofounder of Origin, has however a different feedback. "*I see that many business angels have taken a step back*", the entrepreneur testifies. By the time the UK formally leaves the EU, London-based VC funds must prepare themselves to lose access to the European Investment Fund (EIF) – which poured 656 million euros in Britain last year.

A MORE ISOLATED ECOSYSTEM

Among startups, fintech companies are especially at risk given that Britain will probably say goodbye to its "passporting" rights in the EU (*see* "*Finance*" *above*). Taavet Hinrikus, the CEO and cofounder of Transferwise, one of the most famous fintech startups in London, has told in the press that he was "*starting to explore where {we could} set up other offices in Europe to get the operating licences*".

The tech industry also fears that a more isolated Britain would make it harder for startups to attract and hire some gifted entrepreneurs and developers from abroad. That would be a great pity for an ecosystem that boasts great foreign talents: Taavet Hinrikus comes from Estonia; the CEO of WorldRemit is origi-

BREXIT

Francois Villeroy de Galhau warned that banks in London would lose their passport once outside the EU. "*Such an event would lead to a material loss of jobs – not only for bankers and asset managers, but also ancillary service professionals like lawyers and tax advisors*", raises **Guillaume Benhamou** at Tikehau Capital. "*The financial industry employs approximately 300,000 people in London. That figure could even decrease to 200,000*", states **Etienne Casara (M.11)** at Starwood Capital.

AN OPPORTUNITYFOR DUBLIN

Who will be the first to move? In February, months before the referendum, HSBC said that it might shift 1,000 people, around 20% of its London staff, to Paris. Nothing has materialised yet. "*People are evaluating their options but they don't know the framework yet*", explains Yoël Zaoui. According to the press, big investment banks will move jobs from the UK a few weeks after the government triggers article 50. Which city will benefit the most from relocations? "*Dublin is very proactive and is already the major beneficiary of Brexit, due to its favourable tax regime*", believes **Alberto Alemanno**. ●

nally from Somaliland; the founder of fashion site FarFetch grew up and studied in Portugal.

BERLIN, THE CHALLENGER

Other capitals want to take the opportunity to become the next tech centre of Europe. Which city will benefit the most from Brexit? "*Berlin is a serious competitor*", Rob Taylor thinks. "*It is a cheap and attractive city where many young people aspire to move*". Germany has recently shown its willingness – and quite some ability – to surpass Britain as a paradise for entrepreneurs. In 2015, it reported 119 exit deals, compared to 82 in the UK – and 40 in France[2]. German politicians clearly want this positive trend to accelerate. Following the British referendum, Berlin's Senate wrote to hundreds of London-based entrepreneurs in order to convince them to switch their operations overseas; it also intends to set up a bureau in the UK capital to make connections with the local startup community.

Another, less obvious city could also benefit from Brexit. "*Many people talk about Lisbon, which has good engineering schools, moderate salaries, a low cost of living and a nice weather*", Robert Taylor explains. And what about Paris? "*People don't even mention it…*". ●

1. Source: Compass Global Startup Ecosystem Report, 2015.
2. Source: Tech.eu

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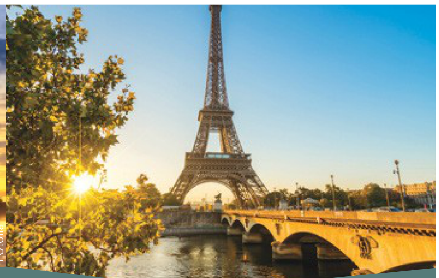

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THE HEC COMMUNITY IN THE LONDON (A PARTIAL VIEW)

Key entrepreneurs
- Ning Li (H.06) and Julien Callede (H.07), cofounders of Made.com
- Loïc Fery (H.97), CEO of Chenavari Financial Group
- Nathalie Gaveau (H.99), founder and CEO of Shopcade

Rising stars
- Kahina Belaid (M.09), cofounder and CEO of Vabble
- Robert Taylor (H.11), cofounder and CTO of Origin
- Ludovic Blanc (H.03), founder and CEO of Blanc
- Xavier Litt (H.16), cofounder of Skylads
- Augustin de Belloy (H.12), CEO of Left Productions
- Giacomo Summa (H.11), cofounder and CEO of Stylect
- Pierre Mugnier (H.15), CEO and cofounder of Side

Investors
- Maryline Kulawik (H.94), investor at Spice Investments Management
- Henry Ashton Crosby (MBA.11), investment director at TrueStart
- Pia d'Iribarne (H.11), VC investor at Accel
- Anna Boffetta (H.12), associate at Balderton Capital
- Sofia Hmich (H.11), angel investor at Vinaya Technologies

Mentors & experts
- Pascal Cagni (MBA.86), founder and CEO of C4 Ventures
- Michael A. Jackson (MBA.09), mentor at Seedcamp and Startupbootcamp
- Alessio Bortone (MBA.10), accelerator manager at UK Lebanon Tech Hub
- Divyajeevan (Jeev) Sahoo (MBA.12), mentor at MassChallengeUK Accelerator
- Guillaume Benhamou (H.05), co-head of principal investments at Tikehau Capital Advisors.

A FEW HEC ALUMNI IN THE FRENCH STARTUP SCENE (A PARTIAL VIEW)

Key entrepreneurs
- Pierre Kosciusko Morizet (H.99), cofounder of PriceMinister
- Stéphane Treppoz (H.89), CEO of Sarenza
- Cyril Vermeulen (M.93), cofounder of Aufeminin.com
- Cedric Siré (H.98), cofounder of Webedia
- Olivier Mathiot (H.94), cofounder and CEO of PriceMinister

Rising stars
- Céline Lazorthes (M.08), founder and CEO of Leetchi
- Paulin Dementhon (H.02), founder and CEO of Drivy
- Ismaël Le Mouël (M.08), cofounder of HelloAsso
- Stanislas Niox-Chateau (H.10), cofounder and CEO of Doctolib
- Eric La Bonnardière (M.06), CEO, and Mathilde Lamazere (H.03), chief marketing officer of Evaneos
- Cyrielle Callot (H.11), head of growth at BlaBlaCar

Investors
- Nicolas Dufourcq (H.84), managing director of bpifrance
- Christophe Raynaud (H.98), cofounder of Isai
- Thierry Vandewalle (M.98), venture partner at Isai
- Antoine Freysz (H.00), cofounder and CEO of Kerala Ventures
- Jean-Marc Patouillaud (MBA.90), Managing Partner at Partech International
- Ronan Le Moal (H.95), CEO of Crédit Mutuel Arkéa and cofounder of the West Web Valley

Mentors & experts
- Michel De Guilhermier (H.85), cofounder of L'Accélérateur
- Nicolas Celier (H.94), board member at France Digitale
- Nicolas Sadirac (E.10), CEO of the "42" school
- Marc-Arthur Gauthey (H.12), cofounder of OuiShare
- Ouriel Ohayon (H.96), founder of Techcrunch.fr

… And a lot more!