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Disclosure
U.S. Companies Disclose Brexit Risks in Financial Filings


By Che Odom

July 7 — U.S. companies, including Walgreens Boots Alliance Inc. and McCormick & Co., are warning investors that uncertainty over future trade deals and potential tax implications are growing areas of risk to corporate profits arising from Brexit.

In dozens of filings to the Securities and Exchange Commission since June 23—the date on which U.K. voters decided the country should leave the European Union—companies are predicting lower revenues, problems with moving products and people across borders, and fluctuating exchange rates impacting the bottom line.

“The biggest known theme is the unknown,” Stephen M. Quinlivan, a corporate and securities law attorney and partner in the Minneapolis office of Stinson Leonard Street LLP, told Bloomberg BNA. “The manner and timing for exit have not yet been determined, and it can go down several paths.”

Uncertainty about the future will have a moderating influence over business transactions, which is being reflected in the SEC filings, said Peter Cohen-Millstein, a corporate attorney and partner in the New York office of Linklaters LLP.

Cross-Border Movement

In a July 6 quarterly report, Walgreens, which has substantial operations in the U.K. and other EU countries, said that Brexit will “disrupt the free movement of goods, services and people.”

The drugstore operator also said that there can be “no assurance” that a U.K. departure from the EU “will not have a material adverse effect on our business operations, results of operations and financial condition.”

Meanwhile, Toronto-Dominion Bank, better known as TD Bank, warned in a July 1 filing that negotiations over U.K.’s exit terms are “likely to take a number of years,” hampering efforts to predict its impact.

Companies also expressed concern about exchange rates.

Maryland-based spice-maker McCormick & Co. warned shareholders in a July 1 Form 10-Q that it may have to report poorer results for its U.K. operations because of a weaker British pound compared to the U.S. dollar.

Boilerplate

Most companies are using boilerplate updates to their forward-looking statements to warn investors to expect economic fallout.

Sysco Corp., in a July 5 Form 8-K over its acquisition of Brakes Group., said “the uncertainty surrounding the implementation and effect of Brexit” has caused and is likely to cause “increased economic volatility.”

That language is repeated in many of the corporate filings. In the corporate securities world, uniformity may often be perceived as a “safe haven,” Quinlivan told Bloomberg BNA.

“In the risk-factor areas, people like broad and all-encompassing, which often becomes boilerplate,” he said.

Many companies also are adjusting their revenue forecasts, and couching the updates in careful, restrained language. In a July 7 statement, ChipMOS Technologies Ltd., based in Bermuda, said its latest revenue forecast reflects “the more cautious, near-term post-Brexit market environment” facing its semiconductor customers.

Upbeat

There are companies that are optimistic about their outlook in the wake of Brexit. Aviva PLC’s chief executive officer, Mark Wilson, said in a July 6 filing that although “it is too early to quantify the precise impact of Brexit, we are confident we can continue to grow.”

Showing even more confidence, Cardtronic Inc. stockholders voted at a special meeting June 28 to approve a plan to relocate the ATM-maker to the U.K. from Delaware.

BNA Snapshot

- Companies highlight exchange rate volatility and the possible scuttling of trade deals in risk disclosures over Brexit.
- Walgreens Boots Alliance Inc. says Brexit will “disrupt the free movement of goods, services and people.”
- Toronto-Dominion Bank warns that negotiations over U.K.’s exit terms will likely take years, clouding the outlook.

Cardtronics CEO Steve Rathgaber said in a filing on the meeting that the company carefully evaluated the potential outcomes of the Brexit vote and believes the move would better position it to support "current and future business activities."

As the uncertainty around Brexit clears, shareholders can expect more disclosure from their companies over the issue. The season for filing quarterly reports, which will include more detailed risk statements, does not pick up until August.

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