35 YEARS

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ISSUE 14

CHANGING RHYTHMS FOR LATAM TRADE

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The network for doing business

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WORD OF WELCOME

Welcome to issue 14 of *UHY Global*, the network's twice yearly business magazine. As I near the completion of my first year as chairman of UHY International, the global outlook seems more uncertain than I could ever have imagined.

We are all deeply concerned about the heartbreaking situation in Eastern Europe. UHY condemns the assault on Ukraine and its people and we stand with all other nations, organisations and citizens who wish to see the quickest end to suffering and a peaceful resolution. We are giving what assistance we can to our UHY member firm in Kyiv and the network fully supports global sanctions issued against the Russian state and associated entities and individuals.

Meanwhile, the rest of the world is coming out of the pandemic and I am optimistic that the lessons we have learned, particularly around compassion, will support nations and individuals to work hard at recovery. In Europe, the EU has made a EUR 800 billion fund available to its member countries and we examine its potential impact in our feature, European Recovery and Next Generation Funding.

Despite the struggles, there have been some exceptional success stories in the business world. 2021 set new records for the global mergers and acquisitions (M&A) market. Whether these highs can be repeated in 2022 is something we consider in our article, Have We Reached Peak M&A? Business outsourcing is another strategy that is enjoying new popularity – from payroll to IT and from secretarial to finance services, this is now an important part of our own accounting landscape. Our feature, Outsourcing on the March, considers the wider benefits of giving back-office responsibility to third parties. Elsewhere in this issue, two inspiring client stories celebrate the relationships that drive UHY member firms' client engagements including an entrepreneur who has used UHY member firms in over 20 countries to enable global scaling of her high-growth startup businesses. In our All Around the World feature we acknowledge a global phenomenon in the pop music world – ABBA – who, in 2022, have brought an immersive high-tech concert experience to London using computer generated avatars to recreate the thrill of a 1970s heyday gig for their worldwide fanbase.

Thank you for engaging with us through *UHY Global*. I hope you find some topics of interest and value. The magazine is also available to browse online at uhy.com/Global14 with additional content, extended narratives and useful links to source materials.

I wish you all continued success this year and encourage you to contact your local UHY partner to find out more about how we can help your business prosper.

Subarna Banerjee
Chairman, UHY International

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THANK YOU FOR THE MUSIC

HOW A NEW VIRTUAL EXPERIENCE WILL SEE ABBA MAINTAIN THE INTERNATIONAL POP CROWN

It has been more than 40 years since global pop supergroup ABBA released their last new music, yet the announcement of a new record and 'live' experience has sent fans and industry experts marvelling at the enduring appeal of the Scandinavian band.

ABBA were formed in Sweden in 1972 by Agnetha Fältskog, Björn Ulvaeus, Benny Andersson and Anni-Frid Lyngstad. In 1974 they won the Eurovision Song Contest with *Waterloo*, and by 1982 they had split. Their 1992 greatest hits record is the second biggest-seller of all time in the UK with sales of 5.6m (coming second only to Queen's *Greatest Hits*).

The band's latest album, *Voyage*, was released in November 2021 and was their highest charting album ever (at number 2), receiving more than 80,000 pre-orders in just three days. This was despite a musical hiatus of nearly 40 years, during which time the band turned down several lucrative offers to record and appear. However, in 1999, the musical *Mamma Mia!* brought their music to a whole new set of fans. By 2021 ABBA had become one of the biggest-selling musical acts of all time and fans were happy to take a chance on tickets to see them even virtually.

ABBA Voyage, which opened in May 2022 (and will run until May 2023) in a purpose-built 3,000-capacity arena in London's Queen Elizabeth Olympic Park (now known as ABBA Arena), promises to be an 'immersive digital concert experience'.

The enterprise has been four years in the making from visual effects company Industrial Light and Magic – owned by *Star Wars* creator George Lucas and purchased by the Walt Disney Company in 2012 as part of its acquisition of LucasFilm – and utilises performance capture techniques to animate the dancing queens and kings, who are now all in their seventies.

Björn Ulvaeus (who also co-composed hit musicals *Chess, Mamma Mia! and Mamma Mia! Here We Go Again*), is no stranger to innovation. He set up Swedish entertainment company Pophouse back in 2014, whose investments include a large portfolio of properties including the world's largest gaming and digital culture hub, Space, in Stockholm as well as Stockholm's ABBA Museum. The company has also bought podcast companies and recently announced it is planning to move into IP investments and music rights.

> The musical Mamma Mia! brought their music to a whole new set of fans.

Anders Hanser, CC BY 3.0, via Wikimedia Commons

In a creative move that many musicians of advancing years must wish they had thought of first, the concerts will feature the members of ABBA as virtual avatars (already coined 'ABBAtars'), showing them as they appeared back in 1977. So far, the band will not appear live – in fact, in 2000 they reportedly declined an offer of GBP 1bn (over USD 1.24 bn) to reform. But the shows will feature a ten-piece live band (including British pop singer Little Boots) who will perform seven nights a week.

It is not hard to see how ABBA will cover their expenses. Tickets range from GBP 32 (USD 39) standing only to GBP 327 (USD 401) for a deluxe 'dance booth'. Demand is huge. Resale tickets for the premiere were reported to have been selling for up to GBP 1,000 (USD 1,240). The show is likely only to further ABBA's global appeal and there have been hints that the show could travel, though nothing has yet been confirmed. Bloomberg reports that the Swedish group, which has now sold almost 400m records worldwide, has a combined wealth in excess of USD 1bn. And the ABBA Voyage experience looks set to inflate that figure dramatically, with some experts estimating it will make the band millions in just a few months.

There is little doubt that such creativity, imagination and technology has the potential to change the way we enjoy the legacy of our most iconic musicians – forever. ■

OUTSOURCING ON THE MARCH

COMPANIES ARE HANDING OVER MORE BACK-OFFICE PROCESSES AND SERVICES TO SPECIALIST OUTSOURCERS AS THEY LOOK TO CUT COSTS AND DRIVE EFFICIENCY. BUT CHOOSING THE RIGHT PARTNER IS THE KEY TO SUCCESS

In 1998 the US Navy finally closed the dairy farm that had been part of its operational infrastructure, alongside aircraft carriers and cruisers, since 1911.

The navy owned the land and a 250-strong herd of Holstein cattle in Maryland, across the Severn River from its own Naval Academy.

Strange as it might seem, the US Navy was in the farming business – the herd provided fresh milk to the Academy mess. The equivalent today might be Microsoft owning an apple orchard to supply the office canteen. So, the navy bowed to the inevitable and sold off the herd and land. It realised that one organisation could not do everything, or at least not efficiently and at cost, especially when that thing had nothing to do with its core activities. It now outsources its dairy needs to the private sector and focuses its attention on the defence of the nation.

FROM IN-HOUSE TO OUTSOURCED

The US Navy's experience of cow sheds and milking parlours is a rather niche example of the process many organisations have been undergoing for the last three decades or so. The transition from in-house to outsourced services has been a feature of business in the modern era. The global business process outsourcing market was valued at USD 245.9bn in 2021 and is expected to register a compound annual growth rate (CAGR) of 9.1% from 2022 to 2030.

Outsourcing at scale is a relatively new phenomenon. In the past, large enterprises aimed for the control that came with self-sufficiency. They employed typing pools, cleaners and repair shops. They operated large customer service departments where rows of employees would spend the day answering phones. If something could be done in-house, it generally was.


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Compare that to a company of today. Some of those functions might still happen on the premises, but there is a very good chance that many or all of them are undertaken by third parties contracted especially for the task.

Contact centres are a well known example of the trend. They field calls and – increasingly – texts and emails, helping customers solve issues or pay bills. When people call their utility, broadband or financial services provider these days, it is quite likely that their query will be answered by the employee of a third-party provider. The outsourced contact centre business, already significant, is predicted to grow by USD 13.6bn a year up to 2024.

The contact centre is an obvious example of business outsourcing but there are many others. In fact, a full spectrum of business functions can now be outsourced, from IT and HR to finance, facilities management and secretarial services. Some companies outsource some of these functions, many outsource all.

While outsourcing used to be the preserve of large organisations, the trend is filtering down the strata of business. Research has found that more than a third (37%) of small businesses outsource

> The contact centre is an obvious example of business outsourcing, but there are many others.

at least one business process, and more than half (52%) plan to in future.

KEEPING IT CORE

What is driving the popularity of outsourcing? Lawrence Etukakpan, head of business development at Nigerian member firm UHY Maaji & Co, believes companies outsource because it drives efficiency, and also because it allows them to focus on what they do best.

"As a company grows, administrative functions also grow. Managing back-office operations and administrative functions takes time and energy out of any organisation," he says. "Outsourcing frees companies from having to manage non-core functions, and puts a complete focus on their core competencies."

In addition, recruiting a new member of staff is a costly and time-consuming undertaking. According to widely-shared statistics from the Society for Human Resource Management, companies spend an average of 42 days and USD 4,129 filling every position. The cost of employing someone goes far beyond salary. Training, benefits and equipment costs all have to be taken into account.

Michael Coughtrey, managing partner at UHY Haines Norton in Sydney, Australia, says it is not surprising that companies are turning to outsourcing for non-core operations. If you do not have to employ someone directly, why bother?

> "Developing standard, repeatable operating procedures within our practice allows us to create efficiencies for both the client and ourselves."

"Outsourcing can be seen as a means to get the level of service that you want but without the cost – and hassle – of having a full-time in-house employee to do the work," he says. "It can certainly make business sense."

Lawrence agrees: "Outsourcing frees your company from the effort of searching for expertise by providing access to skilled resources at lower costs, with the additional benefit of not having the burden of managing them directly."

A TECHNOLOGY-FIRST APPROACH

But how does outsourcing drive efficiency? One of the chief attractions of handing over a function or department to a third-party is that you are outsourcing to a specialist. Ideally, your third party service provider will have wide sector knowledge alongside proven systems and processes. By utilising focused expertise, they will streamline your technology estate, create time-saving shortcuts and employ scalable services and applications to keep costs down.

That is certainly the case with Client Accounting Advisory Services (CAAS), the specialist outsourcing service of US member firm UHY Advisors. CAAS national practice leader Kane Polakoff says scalable technology is a vital part of the outsourcing mix.

"Developing standard, repeatable operating procedures within our practice allows us to create efficiencies for both the client and ourselves," he continues. "We have found significant benefits in adopting and increasing technology automation and digitisation for clients, including increasing workforce effectiveness and transparency, and freeing up capacity to reallocate resources to higher-value activities."

This move to digitisation can be found throughout the outsourcing world. Contact centres, for example, are increasingly investing in AI-driven chatbots to manage basic customer queries. Investing in an advanced digital service might be cost-prohibitive for a company on its own, but cost-effective for an outsourced partner that

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can offer the same service to multiple client businesses at the same time.

POST-PANDEMIC ADVANCES

In fact, the increasing ubiquity of cloud-based services in particular is creating further opportunities for outsourcing. Outsourced HR and finance functions use cloud-based software to instantly share information with clients. When everything is in the cloud, both parties in an outsourcing partnership have access to the same data in real time, improving transparency and nurturing trust.

The Covid pandemic accelerated the adoption of cloud technology, and with it the attraction of outsourcing at least some back-office functions. Kane believes the Great Resignation – the pandemic-fuelled re-evaluation of life and work – is playing its part too.

"With the Great Resignation, businesses found themselves with a lack of skilled accounting and finance workers to perform essential daily, weekly and monthly tasks and began to fall behind. Because of this, businesses needed to find high-quality service providers to assist them," he says.

OUTSOURCING WITH CARE

Whether it is because of technology, pandemic trends or simply the need of many businesses to scale at speed, outsourcing is enjoying a surge in popularity.

As Kane suggests, payroll and accounting services are among the functions businesses are increasingly keen to transfer to specialist third-party providers. CAAS offers a full suite of customisable solutions to clients. Many other UHY member firms offer outsourcing in one form or another.

"The outsourced services we currently provide on a regular basis are in the areas of CFO services and also payroll," says Michael. "The latter more so to businesses that operate in Australia but are foreign controlled."

UHY Maaji & Co also offers the kind of outsourced accounting and bookkeeping services that might otherwise be done by an in-house professional. "We take over the preparation of monthly, quarterly or half-yearly accounts, depending on the client's desired frequency," says Lawrence. "We prepare a Management Account which includes bank reconciliation statements, general ledger, fixed asset register, sales book, petty cash book, purchases book and so on."

In accounting, as in all potential outsource agreements, businesses should choose a third-party partner with care. The quality of service can vary, and some outsourcing agreements can be inflexible. Kane suggests businesses ask trusted advisors for recommendations and check that any potential partner has experience in the relevant sector. They should have existing clients that match your own operation in terms of size, industry and ambition.

NO MAGIC BULLET

Of course, not all back- and middle-office functions are suitable for outsourcing. It will depend to some extent on the sector you operate in, but considerations around confidentiality, data security and capacity – an outsourcer may not be able to scale quickly enough to meet seasonal peaks in demand, for instance – all need to be taken into account.

And note that global outsourcing, where businesses hand functions over to partners in other jurisdictions, comes with its own set of potential benefits and pitfalls.

Nevertheless, outsourcing has become an important part of the business landscape, and for good reason. In a competitive world, businesses want to focus on what they do best. To achieve that, they are increasingly willing to entrust activities to specialist third parties that can offer efficiency and scale at reasonable cost. ■

> "Whether it is because of technology, pandemic trends or simply the need of many businesses to scale at speed, outsourcing is enjoying a surge in popularity."

AUDIT IN THE SPOTLIGHT

RISK-BASED QUALITY SYSTEMS ARE KEY IN MEETING NEW INTERNATIONAL QUALITY STANDARDS

Audit and assurance professionals are gearing up to deliver services from December 15th this year which will meet the international regulator's revised quality management standards. Announced in 2020 by the IAASB (International Auditing and Assurance Standards Board), the former ISQC (International Standards on Quality Control) will be replaced with ISQM (International Standards on Quality Management). The current ISA (International Standard on Auditing) 220, which outlines an auditor's specific engagement responsibilities, will also be revised.

There are two new standards: ISQM 1 requires a more proactive and risk-based approach to managing audit quality, while ISQM 2 introduces new standards for engagement quality review. The goal is to reduce the potential for audit failures and provide more effective public oversight of corporate finance.

GLOBAL AUDIT

For international accountancy networks like UHY, it is essential that every independent member firm in the network has an appropriate system of quality management in place. This means that lead auditors can offer multinational business clients an ISQM compliant one-stop transnational audit service.

IFAC (International Federation of Accountants), the profession's trade body, monitors international network compliance through membership of its Forum of Firms. UHY International is a member, providing reassurance to clients that audit and assurance work undertaken by UHY member firms will meet international quality standards.

In addition, a number of UHY member firms around the world are also registered with the PCAOB (Public Company Accounting Oversight Board), enabling them to prepare or issue audit reports on US public companies and their subsidiaries abroad under section 102 of the US Sarbanes-Oxley Act 2002.

It is this commitment to quality and standards across UHY's worldwide auditor base that means UHY member firms deliver for clients time and time again. Indeed, UHY's growth in audit and assurance services in 2021 – outperforming the market average for non-'Big Four' networks* – supports UHY's premise that it can provide a real alternative to the largest firms. *(*Source: figures published by the International Accountancy Bulletin (IAB) in their 2022 World Ranking Survey)*

MORE THAN STATUTORY COMPLIANCE

When UHY member firms offer audit and assurance services, the opportunities for clients are greater than statutory compliance. UHY strives to add value to every engagement – so an independent audit is a chance to enhance and develop a client's business, identify areas of strength and opportunity, or explore solutions to potential challenges within the organisation to mitigate risk.

A UHY member firm client audit is tailored to the size and type of business, for optimal results and value. What is more, increasingly sophisticated technologies such as data analytics and artificial intelligence-based process automation will in the future unlock even more business value for clients. ■


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UHY AUDIT AND ASSURANCE SERVICES INCLUDE:

- Statutory audit and review of annual financial statements
- Internal review
- Review of internal controls
- Compilation of financial statements and other financial reports
- Performance and value for money audits
- Risk assessment and recommendations to management
- Special purpose audits
- Regulatory reports
- IFRS reporting
- Sarbanes-Oxley compliance
- Grant audits
- Specialist pension fund audits

UHY also has specialist teams in IT audit and cybersecurity.

For more information about UHY member firms and our global audit and assurance capability, visit **www.uhy.com/services** or email **info@uhy.com**

ASIA-PACIFIC MEGA TRADE PACT

The world's largest multilateral trade agreement, the Regional Comprehensive Economic Partnership (RCEP), came into force on 1 January 2022.

Comprising the 10 member states of the Association of Southeast Asian Nations (ASEAN), plus Australia, China, Japan, New Zealand and South Korea, RCEP covers 30% of the global population and is expected to account for USD 12.7 trillion of trade in goods and services. Hong Kong has also applied to join the trade agreement.

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RCEP introduces common policies on rules of origin, trade facilitation, investment, intellectual property and e-commerce. Real income gains are likely to be significant, with Vietnam, Japan and Cambodia expected to benefit from the highest export growth. The World Bank says that RCEP will support regional trade and value chains, helping to cushion the effect of Covid on economic growth, while the United Nations trade and development body UNCTAD reports that the economic size of the new trading bloc will make it a "centre of gravity for global trade". RCEP's promotion of regional collaboration, reduced trade costs and opportunities for economic diversification are expected to increase the resilience of member economies in the long term.

RCEP is the first agreement to bring China, Japan and South Korea together in the same economic system, and is China's first multilateral trade agreement.

PILLAR TWO TAX UPDATE

The OECD has published technical guidance on the application and operation of the Global Anti-Base Erosion (GloBE) Rules agreed in December 2021.

The GloBE Rules form Pillar Two of the OECD/G20 framework to address tax challenges in a digitalised global economy. This introduces a 15% global minimum tax on multinational enterprises (MNEs) with revenues above EUR 750m (USD 789.5m) on income from all jurisdictions in which they operate. The Commentary to the GloBE Rules provides comprehensive guidance for MNEs and tax administrations to promote their consistent interpretation.

Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration, said: "With the completion of the technical work on the Model Rules and Commentary, Inclusive Framework members now have all the tools they need to begin implementing the rules."

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CORPORATE TAX FOR UAE

The UAE Ministry of Finance has announced the introduction of a federal corporate tax.

For the financial year starting on or after 1 June 2023, UAE businesses and commercial activities with taxable income over AED 375,000 (USD 102,000) will be subject to 9% taxation; a 0% rate will apply to income below this threshold to support small businesses and startups. Foreign and local banks will become subject to UAE federal tax law; businesses based on the extraction of natural resources will be exempt.

A higher corporate tax rate will apply to large multinational businesses with revenue above AED 3.15bn (USD 857.7m) in line with Pillar 2 of the OECD BEPS 2.0 framework.

The new tax is part of a series of recent tax reforms, including the introduction of a sales tax in 2018, intended to align the UAE with international tax standards and diversify revenue.

ACCOUNTING FOR NATURE

The chief executives of accountancy institutes around the world have called for the profession to commit to reverse nature loss.

Ahead of the United Nations Convention on Biological Diversity COP15 meeting in Kunming, China, in April and May 2022, the member bodies of the Global Accounting Alliance (GAA) signed the 'Nature is Everyone's Business' call to action, which advocates for and supports the protection and restoration of nature through finance activities and investment decisions in the business community.

Representing over 1.4 million accountants and finance professionals in more than 180 countries, the GAA has signalled its commitment to work with governments to establish policy frameworks for business action, build knowledge and awareness within the profession, and provide training and infrastructure, to ensure that nature is embedded in decision-making and disclosure.

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STILL SOMETHING TO SMILE ABOUT?

THE SOUTH AMERICAN TRADE AGREEMENT MERCOSUR RECENTLY CELEBRATED ITS 30TH BIRTHDAY. UHY MEMBER FIRMS IN THE REGION DISCUSS ITS IMPACT ON ECONOMIC PROGRESS, AND WHY IT HAS FAILED TO LIVE UP TO ITS FOUNDING EXPECTATIONS

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South America is struggling with the lingering effects of the Covid pandemic. Like the rest of the world, it is also bracing itself for negative economic impacts from the war in Ukraine.

In this respect, it is facing universal challenges, but the continent is starting from a more uncertain base than competitor economies like China, the US and the European Union (EU).

The Economic Commission for Latin America and the Caribbean (ECLAC) has forecast anaemic growth for South America as a whole in 2022: 1.5% compared to 2.8% for the EU and US and 5% for China.

ECLAC's prediction comes shortly after the 30th birthday of Mercosur, the continent's economic bloc, an agreement that was once seen as the vehicle to accelerate economic and political integration in the region. Mercosur came into being with much fanfare in 1991, and was hailed as South America's version of the EU.

Three decades on and many commentators agree that whatever else Mercosur is, it is not that. The fact that its two largest economies – Brazil and Argentina – contracted by 4% and nearly 10% respectively in the first year of the pandemic is, in part, testament to its failings. The bloc has also failed to realise trade deals with the world's largest economies, and the sometimes fractious relationship between its two leading partners does not suggest a successful programme.

Another issue is the bloc's stalled membership. The founders – Argentina and Brazil, plus Paraguay and Uruguay – remain the only full members. Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname are associate members, which means they receive some of the bloc's trade tariff benefits but play no part in shaping its future.

And yet, despite considerable scepticism, there is no doubt that Mercosur has achieved some tangible successes. The early years of the agreement saw a large increase in internal trade between Mercosur members, leaping from USD 4 billion in 1990 to a peak of over USD 50 billion in 2011. Tariff reductions have worked, to some extent.

So what is the future of Mercosur in a post-pandemic world? Is it a failing experiment, in need of urgent modification or even abandonment? Or is it time for members to take the next step towards greater economic and political integration? We asked UHY experts from around the region for their views.

A POSITIVE IMPACT

Among UHY professionals, there is wide agreement that the implementation of reduced or zero tariff regimes is the agreement's greatest achievement.

Franklin Bendoraytes, managing partner at Brazilian member firm UHY Bendoraytes & Cia, also sees positives in the agreement's gradual elimination of tariff and non-tariff trade restrictions. He says that Mercosur is responsible for a 'significant opening up of trade' between member countries. "Without it, we would be some way behind where we are today in terms of trade within the bloc," he adds.

But others say the increase in internal trade, although welcome, is by no means an unqualified success. In Argentina, there are worries that Mercosur is failing to reduce the trade deficit with Brazil. "Unfortunately, due to asymmetries between partners and different economic policies, Argentina has not benefited from the agreement in the way we would have liked, other than the reduction in certain custom duties," says Tomas R. Merlos, partner at UHY Macho & Asociados.

Ecuador is an associate member of Mercosur, and Freddy Cevallos Bustamante, managing partner at UHY Assurance & Services Cia. Ltda. says the liberalisation of trade within the Mercosur economic area has been a mixed blessing. He believes Mercosur has created opportunities in certain areas, but admits Ecuador has also suffered from an almost permanent trade deficit with the bloc.

"Trade between Ecuador and Mercosur countries is concentrated in a small number of products, and they have shown a positive trend over the last 15 years," he says. "But the unfavourable situation for Ecuador in terms of the trade balance has been maintained."

Marcia Berthin, partner at Bolivian member firm HBA S.R.L., says that tariff reductions have helped certain products, but greater border openness is needed for true regional integration. That openness should include lithium exports, a significant potential area of business for Bolivia.

"Despite considerable scepticism, there is no doubt that Mercosur has achieved some tangible successes."

There have been other benefits. For example, since 2004 over USD 1 billion in non-refundable loans for regional infrastructure projects has been distributed by the bloc's Structural Convergence Fund (FOCEM).

Paraguay is the smallest of the full member countries in GDP terms and, like Mercosur's smaller associates, has benefited from the progressive tariff reductions programme. The potential for offering foreign operators access to Brazilian and Argentinian markets at zero tariffs in the future, should be an incentive for new inward investment - although current experience suggests that local businesses do not always benefit.

WASTED POTENTIAL

Success has clearly been limited, and the overriding sense is of an agreement that has not fulfilled its potential. There are several reasons for that, but chief among them is a gradual erosion of political will. Mercosur came into being partly to promote closer ties between Brazil and Argentina, but progress in that regard has been inconsistent at best.

In Argentina, Tomas sees this – along with structural imbalances between member states – as central to the bloc's failings. "There has been little political will, and trading infrastructures in different member countries are not the same," he says. "Political differences between countries have also made it difficult to achieve common benefits."

Politics is certainly holding the bloc back. That is exemplified by the failure of a trade agreement between Mercosur and the EU. An agreement in principle has been in place since 2019, but the EU's refusal to ratify it is in part down to what is perceived as the current Brazilian government's refusal to curb illegal logging in the Amazon.

Since the turn of the century, the relationship between Mercosur's two largest economies has been characterised by tension, interspersed with brief periods of detente. That has hugely undermined the ambitions of the original agreement.

Away from the 'big two', structural inequality in a geographically diverse region remains a key challenge. Freddy says that the cost of transporting Ecuadorian goods puts it at a continuous competitive disadvantage. In Bolivia, Marcia says that, on balance, "the country has not been able to reap the benefits of Mercosur". She points to the second class status of associate members and the cumbersome process for achieving full membership status.

There is also a sense among smaller members and associate members that Mercosur has benefited multinational businesses wanting easier access to South American markets much more than indigenous companies.

THE GLOBAL SITUATION

All of these factors have contributed to perhaps Mercosur's most glaring failing. With a pre-pandemic Gross Domestic Product (GDP) approaching USD 4.6 trillion, Mercosur – if it were a sovereign nation – would be the world's fifth largest economy.

But it has yet to sign fundamental trade agreements with any of the world's leading nations and trading blocs. The potential deal with the EU – 20 years in the making – has hit serious roadblocks, and there seems little possibility of a deal between Mercosur and the US anytime soon. It has had some success in promoting trade with China, but much of this is replacing trade with other countries rather than building on it. In fact, the situation with China has

"The potential deal with the EU – 20 years in the making – has hit serious roadblocks, and there seems little possibility of a deal between Mercosur and the US anytime soon."


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exposed further divisions within the bloc. Uruguay has promoted the establishment of a free trade agreement (FTA) with the world's second largest economy, and Brazil is leaning the same way. Argentina, by contrast, has publicly opposed the move, fearing the consequences of an influx of cheap Chinese imports.

Brazil's Franklin admits that these challenges are undermining the agreement's original aims. "One of the goals of an economic bloc like Mercosur is to smooth the process of creating trade deals with the world's biggest economies, and in that it has failed," he says.

Hugo Gubba, managing partner of Uruguay member firm UHY Gubba & Asociados, points to certain successes, like the recent FTA with Egypt and ongoing negotiations with South Korea and Canada. "But the big deals are missing," he says. "A huge amount of work went into a deal with the EU and the fact that at the moment it seems a long way off is very disappointing."

Could these failures see an unravelling of Mercosur? It is not out of the question, says Argentina's Tomas. "As a bloc, Mercosur has not facilitated easier access to international markets. Moreover, some member governments have spoken about the need to reconsider previous commitments."

THE FUTURE

Does the agreement have a future? It is likely to remain limited in scope and achievement without broader political agreement between its two dominant economies. It is certainly possible that it will not survive growing tensions over China and broader economic policy. Some observers point to a reluctance in the bloc to address trade in intellectual capital and intangibles, a growing concern.

At the same time, discussions between Brazil and Argentina in 2019 ended with the two agreeing to 'review and perfect' Mercosur, rather than step back. Many of the loftier ambitions behind the initial deal have now been jettisoned, and members are looking for more independence outside the bloc. For now, Mercosur's much reduced role looks to be mostly as a mechanism for further tariff reductions. ■

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GLOBAL SUCCESS FOR HIGH GROWTH CFO

ANNELI ALJAS, CHIEF FINANCIAL OFFICER OF INNOVATIVE ESTONIAN TECH STARTUP EURORA, HAS RELIED ON UHY'S GLOBAL NETWORK FOR MORE THAN A DECADE

Eurora is a next-generation technology provider, based in Estonia, with a fast growing global network and a strong presence in Asia, the Middle East, Europe, the UK and the United States. It smooths cross-border e-commerce processes, using technology to automate the time-consuming elements of customs compliance.

Eurora's proprietary technology can replace hours of manual labour traditionally required for cross border tax declarations and applying relevant HS (Harmonised Commodity Description and Coding System) codes.

The company's rapid expansion has been assisted by UHY member firms around the world. Chief Financial Officer Anneli Aljas will turn to local UHY firms first whenever the company begins operating in a new country.

This has been Anneli's modus operandi for more than a decade. In all, she has worked with over 20 UHY member firms, in three different roles. "When you are responsible for many countries and you need to set up accounting fast, you need to have a partner you can trust," she says. "I have achieved that."

When that need arises, she is happy to take recommendations from Sarah Campion, a manager at UK member firm UHY Hacker Young, as well as from UHY member firms in France and Spain.

INTERNATIONAL AMBITIONS

Anneli first came across UHY while working for an online IT purchasing solution provider and another Estonian startup. She needed an accountant in the UK. "I was looking for a company that was already international but that was also scalable. These were important criteria. After that it was just a feeling. It was about who I felt was the best fit for us," she says.

Sarah Campion led the presentation for UHY Hacker Young and was, says Anneli, "an excellent salesperson for UHY." UHY was awarded the contract

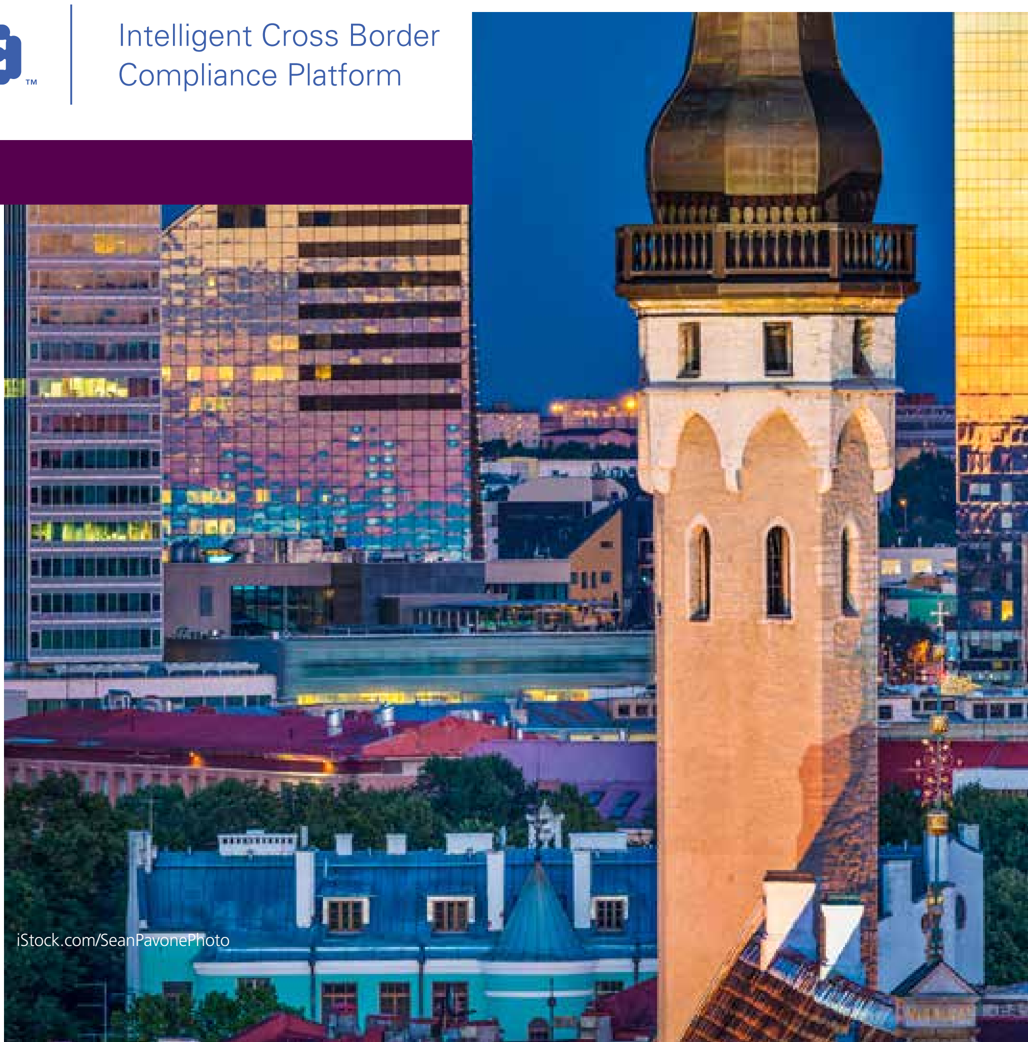
eurora™ | Intelligent Cross Border Compliance Platform

UHY IN THE HIGH GROWTH STARTUP SECTOR

The global reach of the UHY network means member firms are well positioned to provide local market knowledge and advice. Many entrepreneurs and start-ups which work with UHY member firms have international operations or plans to scale and break into new markets.

In addition to providing audit, assurance, tax and business advisory services, member firms have helped many technology clients deal with the practicalities of establishing sales, manufacturing or service facilities in new jurisdictions.

Protecting customer security, the pressures involved in having to rapidly bring new products to market and valuing intellectual property are some of the key business issues where UHY specialists are able to provide expert and trusted advice. It means clients can make the most of cross-border opportunities and achieve their goals.



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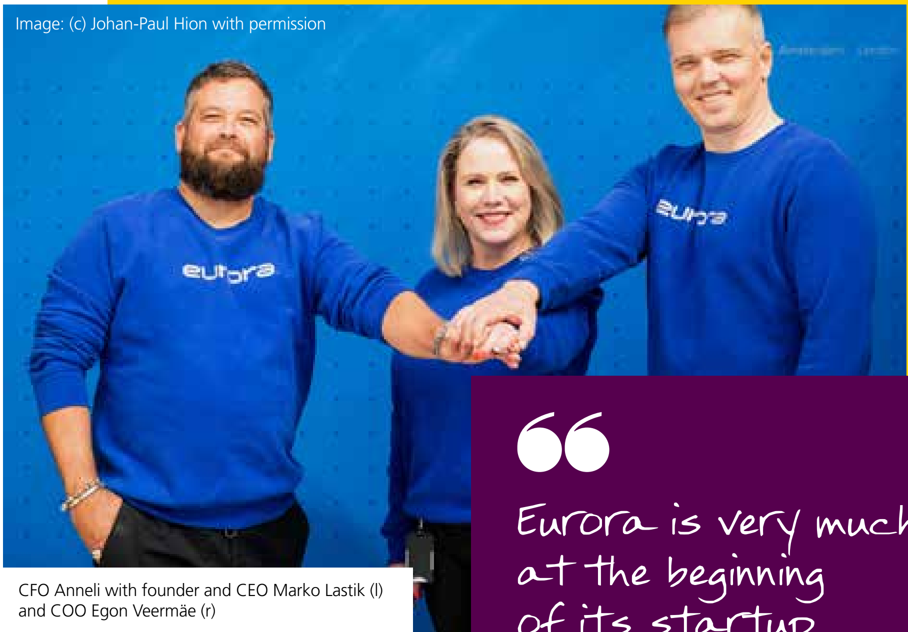
> The company's rapid expansion has been assisted by UHY member firms around the world.

and Sarah set up the UK accounting operation in an efficient, timely and cost-effective way. She has been Anneli's go-to contact at UHY ever since.

The business enjoyed significant expansion, and various UHY member firms were quickly involved. When Anneli moved to Bolt, another ambitious Estonian technology startup, she continued to rely on the UHY network as the business expanded first in Europe and then further afield.

Image: (c) Johan-Paul Hion with permission



CFO Anneli with founder and CEO Marko Lastik (l) and COO Egon Veermäe (r)

Bolt is now a huge global success story, offering mobility services - ride-hailing, micromobility, car-sharing and food delivery services - in more than 400 cities in over 45 countries in Europe, Africa, Western Asia and Latin America. UHY member firms have serviced the needs of the company in many of those territories.

INTERNATIONAL UNDERSTANDING

Anneli remembers one introduction to a local UHY member firm in particular:

"When you are starting a business in a strange country trust is very important," she says. "At Bolt I'd flown to Nairobi, in Kenya, to meet the incumbent accountant and there were things I was unhappy with. I reached out to Sarah and asked if she could set up a meeting with the local UHY firm within 24 hours, before I flew out. She made the arrangements and I met the local UHY team (UHY Kenya) and immediately thought they were fantastic people."

Through her previous startups (Bolt, for example, in over 45 countries) and now Eurora (15 plus countries including the UK and the US and growing), Anneli has worked with UHY around the world, from Ireland to Denmark, Canada to Kenya and Australia to Uganda. She has always found professionalism, attention to detail and an understanding of cross-border business.

"For over ten years I have been working with UHY in many countries and with many UHY people, and I have always

> Eurora is very much at the beginning of its startup journey, but Anneli is confident the business can be another standout performer in Estonia's impressive technology sector.

been positively impressed with how the company has been ready to help with such international expansion," she says.

WORKING TOGETHER

Eurora is very much at the beginning of its startup journey, but Anneli is confident the business can be another standout performer in Estonia's impressive technology sector. At the moment, UHY firms look after accounting, tax, audit and payroll services for Eurora subsidiaries in several countries. Anneli runs a central team and UHY firms act as chief accountants in each jurisdiction.

"In all three businesses, to expand internationally at speed required finding an accounting partner I could trust and that would be able to work to our requirements very easily in each country," Anneli adds. "I found UHY at the start and since then we have cooperated very successfully." ■

STAR PERFORMANCE FROM TOP PLAYER

A flamboyant childhood helped to shape the creative mind of our chief executive officer (CEO), Rhys Madoc, as he brings originality and a brilliant strategic mind to the pivotal job of steering UHY forwards into its most enterprising times

"I firmly believe that our best days are yet to come," says Rhys. "Our world has endured unparalleled trials recently but when challenges are met head-on and rolled into new thinking, their outcomes can really surprise us. With exceptional support from the UHY Board and real commitment from my executive office team, we are enjoying a renewed appetite for open dialogue that will feed into exciting developmental routes forward. There are so many positives about belonging to our network right now."

An early realisation that his childhood was different from most of his peers has fed into Rhys's can-do attitude and general acceptance that out of unpredictability comes innovation. The oldest child of two famous TV, stage and film actors, Philip and Ruth Madoc, it was not unusual to bump into well-known personalities, actors and singers at home. Rhys's parents were household names in the UK from the 1970s onwards but Rhys was acutely aware that the lifestyle this brought was not one which his friends and their families experienced. Philip appeared in some of the period's most celebrated British TV drama series – *Another Bouquet, Dad's Army* and *The Life and Times of David Lloyd George*, (UK Prime Minister from 1916 to 1922). Ruth's most famous role was as Gladys Pugh in television's award-winning and hugely popular British comedy *Hi-De-Hi!*, which was broadcast throughout the 1980s, and she went on to appear in numerous other stage and TV productions.

"My sister Lowri and I shared some remarkable experiences thanks to our parents' celebrity and when I finished my A-levels I flew to join my Dad in Nice on the French Riviera, where he was filming with the lovely Joan Collins. This was one of many incredible opportunities that came my way as a young man and I feel blessed," says Rhys. "My parents were both very talented and very lucky. They had no idea about work outside acting – so much so, that when I started developing my corporate life in HR, training and management development, my Mum thought I must be a spy because I was always travelling. Everything had to be out of the ordinary to make sense!"

HARD WORK AND BIG OPPORTUNITY

When time allows, Rhys records stories for visually impaired people and still does occasional commercial voiceover work, but his passion is rooted in driving UHY forwards with the full support of a re-energised Board. "I want every member firm to enjoy greater agility to perform more quickly and more efficiently because of the new directions we are putting in place. I fully believe that for the network to grow and serve its members, we need to make sure we have the right firms in the right cities, producing the right referrals with the right level of service lines. These four principles are our unshakeable focus now."

"Face-to-face Board meetings twice a year are crucial to achieving these ambitions," says Rhys. "The value of getting together is enormous and injects real momentum into our collective efforts to think more strategically about how to improve the way we work. I am always grateful to our directors for travelling huge distances to attend these events, wherever they are in the world. Their investment pays off every time."

"Key outcomes of recent meetings have been that the Board is setting out some very challenging referrals targets which are only achievable if all member firms embrace them and ask for help when they need it. I want to ensure the processes

> Our world has endured unparalleled trials recently but when challenges are met head-on and rolled into new thinking, their outcomes can really surprise us.

Rhys at home with his family

> We need the right firms in the right cities, producing the right referrals with the right service lines.

and bureaucracy we have in place are there to help, not hinder, growth and they should successfully streamline our business processes so everyone can work faster and more freely. We should not be doing anything that stops member firms working at their maximum efficiency, at the same time as actively encouraging them to grow. Less formally, I meet regularly with CEOs of other mid-tier networks and associations to share ideas and current working practices. These events are based on trust and relationship building, and they give us all new insights and the confidence to know we are doing the right things."

Peering into the future, Rhys anticipates continuing expansion and confident progression towards every member firm being able to provide the full range of UHY services.

"At a macro level we will be influenced by what happens across the business world in general. Some years ago the consolidation of smaller networks was heavily anticipated but never fully realised and there may be new interest in this from our industry. Whatever happens, we will continue to explore new service lines and consider the future impact on our profession with new technologies such as artificial intelligence (AI) and cryptocurrency audits. As a thriving mid-tier organisation we always review what the Big Four standard bearers are doing. Our strength is that our size allows us to respond quickly to external hurdles and opportunities – a freedom that our bigger competitors will never have."

"We have deliberately not created any utopian ideal," says Rhys. "Constant change and development will always reset our ambitions and it would be foolish to believe that we can ever be exactly where we want to be. Within our brilliant executive team we are growing our skills and our reach, and we work with some outstanding partners to make sure things like our brand, our trademark, our intranet and our publications are the best in the business. The support that we can give to every single person associated with UHY is phenomenal and I urge everyone to use it."

HOME TIME

Rhys lives in St Albans, UK, with his wife Josie, their daughter, Seren, who is 14 and their 12-year-old son, Dylan. "I am immensely proud of my family," he says. "Both children have a strong acting gene and thrive on their experiences at drama school. I am loving watching them become hard-working, ambitious, thoughtful and grounded young adults – Seren is fixed on a career in acting, backed up by her strong academic abilities, and Dylan is also creatively focused and a joy to be around. My wife is a senior executive at Vodafone, so although our working weeks are extremely busy we make sure we set aside plenty of quality family time. Our favourite weekend treats are trips to Legoland in Windsor, walking with our Cavapoo dog, Selwyn, and entertaining friends at home. These moments are priceless."

At home Rhys enjoys playing the piano and writing classical music. He also writes poetry and works with charities such as Eye Need Sight, an organisation that provides appropriate eye wear for people in developing countries.

Proud of the Welsh heritage he inherited from both parents, Rhys enjoys being part of various initiatives to promote the artistic achievements of young Welsh people in London.

"My roots are very important to me. Both my parents have been strong supporters of many Welsh causes," says Rhys. "Our childhood was spent doing the rounds of eisteddfods – wonderful celebratory festivals of all things Welsh. At my core I am a Welshman and I silence my children when they say they don't support Wales in rugby or other sports!"

Pride, generosity, humour and endless commitment to everything that matters to him is what defines Rhys. "I love my family, I love my work and I am always looking for new ways to inspire people and to laugh loudly. Adventures and experiences are everywhere," he says. "We just need to look out for them." ■

Rhys, left, with his daughter, Seren, son, Dylan and wife, Josie, at the film premiere of James Bond's *No Time To Die*

SERVING CLIENTS TODAY AND TOMORROW

Our clients appreciate how UHY's culture of working together can make a significant difference to seamless international engagements. We deliver because our member firms know each other well, we meet and connect regularly, and we share current thinking, specialist skills, and industry knowledge across the world.

We also share a common set of standards – not only the international quality standards demanded of our profession, but also the values by which every UHY member firm holds itself accountable to its clients including integrity, innovation, and international thinking.

UHY member firms offer the following services:

CORPORATE SERVICES

Note: Not all of the services described in this publication are provided by every UHY member firm. The provision of some services may be restricted in some areas depending on local legislation.

- **AUDIT & ASSURANCE,** including: statutory audit, internal reviews, compilation and review of financial statements including compliance with International Financial Reporting Standards (IFRS), special purpose and international audits.

- **BUSINESS ADVISORY & ACCOUNTING,** including: accounting and bookkeeping, outsourcing, business plans and independent business reviews, business valuations, financial planning and control, reviewing management reporting systems, company formations and company secretarial services including appropriate commercial and tax-efficient structures for international expansion and cross-border ventures, trusts and foundations, pension funds, charitable and philanthropic structures, interim finance & management, payroll administration, employee benefits and business systems.

- **CORPORATE FINANCE,** including: strategic business advisory services, business valuations, due diligence, transactional services (acquisitions, mergers, disposals, MBOs, IPOs) across all industry sectors and geographies, restructuring, exit strategies and startups.

- **CORPORATE GOVERNANCE & RISK MANAGEMENT,** including: corporate governance, risk management and consulting including Sarbanes-Oxley compliance services.

- **CORPORATE RECOVERY & INSOLVENCY,** including: debt collection, corporate turnaround, asset protection or repossession, or implementing good management practices, refinancing, valuations, debt management, insolvency planning, personal liability protection.

- **CORPORATE TAX,** including: direct taxation and indirect taxation, international tax such as tax-efficient structures for international expansion and cross-border ventures, transnational group structuring, VAT returns and advice, tax consultancy and transfer pricing.

- **FORENSIC ACCOUNTING & LITIGATION SUPPORT,** including: litigation support, valuations, economic damages, fraud evaluations, criminal proceedings and money laundering issues.

- **FUND SERVICES,** including: fund establishment and administration.

- **INTERNATIONALISATION,** including: business contact introductions, local regulatory requirements and business etiquette, local business tax environment, business structuring and compliance, personal taxation, recruitment and labour law consultancy, transfer pricing, customs and other fiscal areas.

- **LEGAL,** including: tax law, labour law, etc.

- **MANAGEMENT CONSULTING & SOLUTIONS,** including: internationalisation of businesses, human resources and recruitment services, information technology and software solutions.

PRIVATE CLIENT SERVICES

Key services include: wealth management for individuals and families, income tax and capital gains tax planning, international tax planning for expatriates and migrants, non-domicile status, trust services and management, inheritance planning.

OUR COMMITMENT TO QUALITY

Quality is one of UHY's main values – because it is so important to us we strive to achieve this in everything we do. Each of our independent member firms has signed a Quality Charter committing to the adoption and achievement of performance and service objectives considered essential to delivering this quality promise to clients.

The expectations we have of our member firms are benchmarked to recognised international professional standards. We set specific quality goals and expectations for our independent member firms to meet, covering areas such as client service efficiency and relationship management, professional work standards, depth and breadth of products, services and geographical coverage. Collectively, they represent our aim to provide clients with consistent, seamless, professional and timely cross-border services.

Our member firms are evaluated annually against UHY's quality expectations, allowing us to assess our performance and outcomes, and look for new ways to improve further. We focus on quality through:

- Leadership
- Client acceptance procedures
- Full membership of the Forum of Firms
- Compliance with ethical obligations set out by the International Federation of Accountants in its global standard, Code of Ethics for Professional Accountants
- Human resources policies and procedures, such as education and training
- And, of course, quality control procedures in accordance with internationally recognised standards.

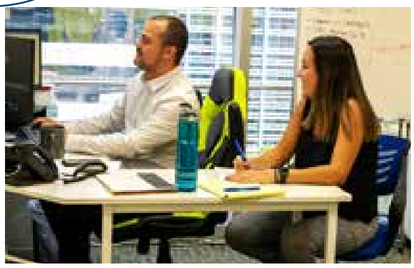
It is our belief in quality as a value and the successful implementation of that value across all our service areas that make our network more dedicated to quality than many other networks.

PARTY OF THE HALF CENTURY

Years of experience and the quality of its services in accounting, auditing, tax planning and consulting, place UHY Macho & Asociados – celebrating the member firm's 50th anniversary in 2022 – among the first, most important and respected firms in Argentina.

The firm launched in 1972, with the UHY network and Macho & Asociados coming together in 1989 to offer accounting and auditing services with a regional focus. The firm now provides its services throughout Latin America, where it has clients in various countries.

This year the firm celebrates its 50th anniversary with a party in both Buenos Aires and Miami, where it has offices. Roberto Macho, managing partner and UHY International Board director, says, "We are inviting our main clients and business contacts to celebrate, and will take the opportunity to review the journey our firm has taken this last half a century. Coincidental to the anniversary we have opened a new office in the north of Argentina (Tucuman) and we will share our expansion plans as well."



YOUNGSTERS HAVE THE MOVES

Every year, together with the city's chess school, UHY Tashkent LLC – UHY's member firm in Uzbekistan – sponsors the Sky Chess Open tournament, the latest of which took place in September of 2021.

More than 100 people of all ages take part in the competition for a total prize fund of more than USD 200. The tournament, which aims to popularise the game in the country, takes place over a whole day, and is dedicated to the birthday of Sky Chess – a leader in Uzbekistan in the nurturing of chess talent.

"The uniqueness of the tournament lies in the fact that it involves international masters as well as grandmasters, which gives young and amateur chess players an opportunity to play with them during the tournament," says managing partner Sarvarkhon Karimov, whose firm has been sponsoring the competition since 2018.

UHY'S RISING STARS

Two corporate finance specialists from UHY Advisors, Inc., US, have been recognised as rising stars in recent US industry awards. Michigan-based Alex Conti (pictured, above), was named as an 'investment banker to watch' by Middle Market Growth for 2022 and Ben Hartman, senior vice president, UHY Corporate Finance was awarded the 'rising star' accolade at the Global M&A Network's *M&A Atlas Awards*.

The *M&A Atlas Awards*, which are now in their fourth year, honour exceptional young dealmakers from the private equity and growth investors, lending, M&A and restructuring transactional communities.

Based in Michigan, Ben Hartman, who joined UHY in 2014, advises clients on mergers and acquisitions, helps with strategic decision making and has experience across a broad range of industries. He is also responsible for assisting the growth of UHY Corporate Finance, supporting a group of more than 20 professionals who specialise in financial due diligence, financial planning and analysis.

Alex Conti has advised on transactions totalling more than USD 1bn in deal value. He also has experience in mergers and acquisitions, due diligence, restructuring and capital sourcing.

HAVE WE REACHED PEAK M&A?

MERGERS AND ACQUISITION REBOUNDED TO RECORD-BREAKING LEVELS IN 2021, BUT THERE ARE HEADWINDS AHEAD

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> “Companies used M&A to scale quickly, predicting new opportunities in the post-pandemic world.”

Are strategic mergers and acquisitions (M&A) back on the corporate agenda? The short answer is, you bet they are. According to figures from management consultants Bain and Company, total global M&A deal value reached USD 5.9 trillion in 2021, an all time high.

Bain's commentary called 2021 a 'historic land grab', and you can certainly see what they mean. After a pandemic-led dip in activity in 2020, corporates had the cash reserves to pursue expansion, and many did so by acquiring or combining with other businesses. Competitors, suddenly anxious about being left behind, felt compelled to join the fray.

Low interest rates helped, as did the wide availability of target companies only too willing to be acquired. The pandemic gave business leaders time to reflect. Some concluded that the time had come to sell up and do something else; others, that life was too short to put off bold expansion strategies any longer.

"The M&A market was very brisk in 2021 and this has continued into 2022," says Alan Farrelly, managing director at UHY Farrelly Dawe White Limited, Ireland.

"I believe businesses caught sight of the end of the pandemic and decided either to re-invest or sell out. I think the last financial crisis and now the pandemic caused many clients to reflect on their businesses and assess what their options were in terms of continuing or selling up."

Morito Saito, vice president and director of UHY Fas in Japan, paints a similar picture. "In Japan, the number of cases increased by 14.71% in 2021," he says. "The causes of the increase are Covid-19 damage and monetary easing. There were many cases of businesses becoming subsidiaries due to a shortage of successors, a shortage of human resources, and a decrease in sales."

AS BROAD AS IT IS DEEP

Around the world, deal-making activity in the last 18 months has been broad and deep. Companies used M&A to scale quickly, predicting new opportunities in the post-pandemic world. Others acquired businesses that gave them crucial capabilities, often around technology but in other areas as well. Some businesses saw M&A as a quick and easy way to access new markets.

Eric Ribachonek, partner at US member firm UHY LLP, says: "Our group focuses largely on TMT (technology, media, telecommunications) and manufacturing and distribution. We have seen most of our volume on the TMT side. The acquisition of technology has and will continue to play a big part of the deal activity going forward."

Eric adds that activity in media and telecommunications has also been significant, both as a shortcut to more advanced technology in an increasingly digital sector, and because of the continuation of a trend towards consolidation in this space. Alan agrees that technology has been a key driver of M&A activity, as pandemic digitisation trends continued. "Tech companies are certainly leading the way and big multiples are being achieved," he says. "We are still seeing tech companies that never returned a profit being acquired for strong values."

The Bain and Company report confirms what UHY members have been seeing on the ground. It says tech assets have boomed spectacularly, with median enterprise value/EBITDA (earnings before interest, taxes, depreciation, and amortisation) multiples at 25 times. Perhaps unsurprisingly, healthcare also saw asset prices soar. "In both tech and healthcare, buyers are willing to pay a premium for high-margin, high-growth assets," the authors state.

In Japan, healthcare is the key driver of M&A activity, a sector which includes dispensing pharmacies as well as medical services. "The medical dispensing field is a huge market in Japan, with over 59,000 outlets," says Morito. "We anticipate that there will continue to be demand for acquisitions of dispensing pharmacies and medical services by major companies."

Morito also believes that new laws around overtime driving hours, due to come into force in 2024, will fuel consolidation in the home delivery sector as businesses face a shortage of drivers.

THE US LEADS THE WAY

Deal values soared around the world in 2021, but nowhere more than in the US, where the USD 2.6 trillion of deal value was 30% higher than the previous record. It was the first time US M&A activity had breached the USD 2 trillion mark. "My group operates in the financial and tax due diligence and post-deal integration space. The number of deals we supported in 2021 was more

"We anticipate that there will continue to be demand for acquisitions of dispensing pharmacies and medical services by major companies."

than double that in 2020," says Eric. "We utilise (trend indicator) Pitchbook, and their middle market private equity research also suggests that both deal value and volume have almost doubled since 2020."

The US has always been fertile ground for M&A, but 2021 was unique in both the size of deals and the complexity of the financial vehicles used to facilitate them. This was the year of the SPAC (special purpose acquisition companies – companies formed solely for the purpose of M&A) as many sought merger targets. SPAC mergers accounted for approximately 20% of US M&A volume. In addition, private equity firms drove the market forward by deploying historic levels of cash reserves in ever more creative ways.

All this, says Eric, was underpinned by a low interest rate environment, and a rebound from the dip of early Covid. "Towards the end of 2021, we also saw lots of activity stemming from a concern that tax rates may change," he adds.

2022 AND BEYOND

Will this frenzy of activity continue in 2022 and beyond? Until very recently, most commentators were predicting another busy year. Many still are – not perhaps the record breaking figures of 2021, but good nonetheless.

Rob Kindler, global head of M&A at investment bank Morgan Stanley, is not alone in claiming that "all the key

> There seemed to be a strong economic bounce from the pandemic globally, but peace in Europe is essential.

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elements that made the 2021 M&A market so strong are largely in place" (Morgan Stanley's *2022 M&A Outlook: continued strength after a record year).*

In the US, that is reflected in a strong pipeline of deals for Eric and his team. "The macro environment will play a big part in what happens in the next 12 months," he says. "The situation with Russia and Ukraine, inflation, rising interest rates, these issues may impact M&A activity. For now, all I can say is we haven't seen an adverse impact from these factors."

The twin threat of inflation and rising interest rates had already been identified by many experts, alongside potential supply chain issues and increasing regulatory scrutiny in some sectors. But the Ukraine situation is a headwind that nobody could have predicted. At the time of writing, its effect on wider global M&A activity is starting to be felt.

Figures released for the first quarter of 2022 show M&A activity down by 29% when compared with the same period last year. Stock market volatility, fuelled by the conflict in eastern Europe, is blamed for putting the brakes on deal-making. Large companies are pausing their acquisition strategies, at least in the short term.

Alan says that the current situation makes the rest of the year harder to predict. "Hyperinflation, shortage of materials, rising interest rates and trouble in eastern Europe: it is hard to see how these will play out over the coming months, especially as they are such diverse issues. There seemed to be a strong economic bounce from the pandemic globally, but peace in Europe is essential and logistical issues around supply chains need to be corrected to allow for continued growth in the M&A sector," he adds.

In Japan, the situation looks more nuanced as businesses use M&A as a survival strategy, supported by central bank policies. "Japanese monetary easing policy is expected to continue for a long time, so we believe that M&A activity will continue to increase in the future," says Morito. "The Bank of Japan is concerned about economic stagnation and is going to continue ultra-low interest rates for the time being."

Elsewhere, despite the downturn, deal-making is still strong by historical standards. "While execution has become a bit harder due to the increased volatility and macro concerns, that hasn't stopped new activity," said Stephan Feldgoise, co-head of global M&A at investment bank Goldman Sachs (Reuters, *Global M&A hits the skids as Ukraine war saps confidence)*.

So, have we reached peak M&A? The short answer is that we probably have. A convergence of factors helped to make 2021 a record year for M&A deals, and those unique circumstances are unlikely to be repeated. Indeed, the headwinds of 2022 – predicted and otherwise – are already slowing the surge. But decline is relative. At the moment, M&A activity has simply returned to levels that were typical from 2016 to 2019. What happens next may depend on unknowable geopolitical events. For now, M&A remains buoyant, if no longer booming. ■

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LIFELONG LEARNING FOR BETTER BUSINESS

Our regular Cogs and Wheels feature takes a look at the challenges an international network faces in today's professional services industry. In this issue we look at the importance of lifelong learning and how UHY supports its 9,000 professionals worldwide.

Thanks to the pandemic, we are all expert at using Zoom and Teams these days. We know all about data security and working in the cloud. When we worked remotely (and some of us still do, at least some of the time), many of us had to learn skills that might otherwise have been left to in-house IT departments, and we had to learn them almost overnight.

In its extreme way, the pandemic proved the value of lifelong learning. Many professionals are returning to the office better equipped for the future than they were two or three years ago. Many organisations are more efficient and cost-effective as a result. The silver lining of the deep dark cloud of Covid is that it accelerated the pace of progress by a rate of knots. By some estimates, we are up to seven years ahead of where we would otherwise have been, at least in terms of technology.

A KNOWLEDGE-BASED BUSINESS

Accountancy has always known the value of continual learning. The very least that clients expect is that the professionals that make up an audit or tax team are fully up to date with the latest relevant legislation changes, reporting standards and regulations. These can change quite frequently, often shaped by government policy. But good businesses go further. The mix of skills an accountant needs is changing, thanks to new digital delivery methods, new ways of working and the accountant's growing role as a trusted business advisor. Accountants need technical skills and professional insight. They increasingly need a range of soft skills tailored to the new, post-lockdown environment. For example, the ability to manage and motivate teams is essential at a time when talent is scarce. Accountancy leaders need to create an atmosphere that attracts and retains excellent employees.

As accountancy changes, the need for continual learning only grows. The benefits of training and development reinforce each other. Continual learning opportunities update your in-house expertise. Employees who feel invested in work harder to deliver better outcomes. Training adds to your organisation's wider knowledge base, and well-trained staff identify new opportunities and contribute to organisational improvements. It is win-win for firms, colleagues and clients.

NEW WAYS OF LEARNING

Learning comes in numerous forms. It can mean traditional off-site classroom-based courses, though these days it is just as likely to mean webinars and classes delivered online or over Zoom. Here at UHY, we provide a comprehensive range of training webinars to our member firms around the world, aimed at continually updating both the technical and soft skills required for effective performance, and expanding the knowledge base of our global network of great people.

But learning and development goes beyond formal classes and courses. It can encompass, for example, work shadowing and mentoring. At UHY, we encourage member firms to offer secondments. These can fill operational gaps in the short term, and build the skills and knowledge of the individual concerned, as well as support service delivery to clients.

In our experience, secondment is especially valuable when it happens across borders, because it brings our professionals first-hand knowledge of the challenges businesses face when they internationalise their operations. It also exposes them to different ways of solving problems, and helps us become more effective advisors to those of our clients with cross-border ambitions.

But whatever form it takes, we think that lifelong learning has to be at the heart of our business. It creates more skilled and motivated staff. It means we can exploit the latest digital accountancy processes. Most of all, it means our clients receive a service that is continually evolving and continually improving. ■

25 YEARS OF SUCCESSFUL COLLABORATION

A GLOBAL CONTACT DATA VALIDATION BUSINESS HAS RELIED ON THE SUPPORT OF UHY MEMBER FIRM UHY CROSSLEYS LLC FOR A QUARTER OF A CENTURY

AFD are also known as 'The Postcode People', which gives a heavy hint at their main business line. The company manages and distributes address, geodemographic and geopolitical data in a range of products and services. This information is vital for the delivery and efficient management of a wide range of commercial, public sector and third sector operations.

Or, to put it another way, AFD validates physical addresses, email addresses, phone numbers and bank data so that organisations can efficiently and accurately serve their customers and service users. It helps ensure businesses, charities and public sector operations of every size have the clean, validated data they need.

afd SOFTWARE The Postcode People

UHY IN THE TECHNOLOGY SECTOR

The rapid pace of change is creating significant challenge and opportunity within the technology sector. Experts from member firms across the UHY network work with businesses in software and systems, hardware and semiconductor manufacturing, IT consultancy and help desk support. Our specialists have also developed services in cloud computing, hosting, data centre operations and cybersecurity – helping clients to take opportunities and mitigate risks.

The company's headquarters are near Ramsey in the Isle of Man, with subsidiaries in the UK, France and the US. In addition to data services, the AFD Group's portfolio includes children's media, a holiday business and a property and business incubation arm. In fact, the company developed and owns the 25-acre Mountain View Innovation Centre just outside Ramsey, the island's largest technology park. All together, group turnover is over USD 12 million.

CONSISTENT AND TIMELY ADVICE

AFD started as a home-based business in Scotland before relocating to the Isle of Man in 1997. It has grown consistently since then, through organic expansion and acquisition. The Group has also launched several new activities in that time.

When it first moved to the Isle of Man, AFD needed an accountancy partner that could help it manage its growth plans, and allow it to take full advantage of the island's supportive fiscal framework. In 1997 the company appointed UHY Crossleys LLC, and has never needed to reconsider that decision.

"UHY Crossleys was appointed mostly following a recommendation from our previous accountants in Scotland," says AFD managing director David Dorricott. "The team at UHY Crossleys has given consistent and timely advice and support through 25 years of continuous growth, so we have never felt the need to change."

LONGEVITY BRINGS ITS OWN BENEFITS

A quarter of a century with the same accountancy partner may be unusual in the modern corporate world, but David believes that longevity has brought its own benefits. The company has developed a close working relationship with principal Andrew Pennington and his team at UHY Crossleys, nurtured over many years of successful collaboration. "The levels of personal service and 'corporate memory' that we get from the stable team at UHY Crossleys has been a significant benefit to us," he says. "The team understands our culture, values and objectives."

All the Big Four accountancy networks have a presence on the Isle of Man, but AFD has never been tempted to switch. "We would fear that a move would lose this vital closeness," says David.

ADDING VALUE EVERY DAY

UHY Crossleys LLC delivers audit, tax, accountancy and financial advisory services to AFD. For 25 years it has helped the company integrate new acquisitions and incorporate new business services. UHY Crossleys handles the accountancy requirements of the main business and integrates the financial relationships of its overseas subsidiaries in the UK, France and the US.

David says that, on top of the everyday services UHY Crossleys provides, a huge benefit of their long standing relationship is the value the accountant adds. UHY Crossleys knows AFD so well that it can proactively pick up important action points or suggest new, more fiscally efficient ways of operating. He adds that UHY offers great 'light touch' support and always keeps an eye on wider financial trends.

Most importantly, UHY Crossleys' attention to detail frees David and his team for other tasks. "We are an extremely self-sufficient organisation, as shown by the fact that we are entering our 40th year of operation," he says. "UHY has helped create the foundation on which we have been able to flourish.

"Knowing that their eyes are on items that need our attention, and that they will always prompt us for timely action, has released us to focus on running the business – not running our accounts!" ■

AFD managing director David Dorricott.

> The UHY Crossleys team has given consistent and timely advice and support through 25 years of growth, so we never felt the need to change.

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EUROPEAN RECOVERY AND 'NEXT GENERATION' FUNDING

THE EU'S POST-COVID RECOVERY PROCESS HAS KICKSTARTED IMPRESSIVE COOPERATION WITH A JOINTLY FUNDED ECONOMIC PACKAGE AND PUBLIC BORROWING PROGRAMME. BUT HOW EFFECTIVE IS IT?

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The Next Generation EU (NGEU) fund comprises an investment pot worth around EUR 800bn (USD 858.8bn)* in current (2022) EU pricing, for post-pandemic reforms and investments across the European Union. To access the funds, member states had to submit a recovery and resilience plan to the European Commission, with each beneficiary agreeing to allocate a minimum of 37% to climate investments and reforms, and a minimum of 20% to digital transition. Payments are performance-based and dependent on member states staying true to the plans outlined in their recovery and resilience plans.

So far, 22 EU countries have been given the green light. With money now starting to trickle into the countries, the transformation will be interesting to observe.

> “Funding offered by the EU will offer SMEs opportunities in green transition and digital transformation.”

DIGITAL FOCUS

Much of the NGEU funding is designed to create a digital-focused strategy to introduce innovations that enhance welfare and support economic resilience. Priorities include building a data-driven economy, supporting improved connectivity, improving digital infrastructure, and promoting digital transition in business and education.

Italy, by far the largest beneficiary of the EU recovery fund, is set to receive EUR 191.5bn (USD 205.6bn). Its plans include reform of the civil, criminal justice and insolvency frameworks, and simplification of the public procurement system. The National Plan for New Skills will support women’s entrepreneurship and boost digitisation of businesses. With funding worth EUR 70bn (USD 71.1bn), Spain is set to be the second largest NGEU beneficiary. The country has reportedly allocated EUR 6.5bn (USD 6.98bn) for electric vehicles and public transport, EUR 7bn (USD 7.5bn) for energy efficiency in buildings, and EUR 6.9bn (USD 7.4bn) on renewable energy, all of which the government hopes will help Spain meet its carbon reduction emissions targets.

“We believe that the NextGen funding provided by the EU will offer SMEs opportunities in two main areas of green transition and digital transformation,” says Bernard Fay, co-chair and co-managing partner at UHY Fay & Co, Spain. “The funds will be administered by the different regional authorities in Spain and will most likely take the form of public and private cooperation projects. One of the requirements will be the inclusion of SMEs and knowledge centres, such as universities and R&D [research and development] institutions.” The challenge and opportunity, Bernard says, will be how SMEs and entrepreneurs bring value to these initiatives.

FERTILE BUSINESS ENVIRONMENT

Tourism is one of the key drivers of the Croatian economy and by 2021 the sector was recovering. Croatia’s recovery and resilience plan will be financed by EUR 6.3bn (USD 6.8bn) in grants, some EUR 542m (USD 582.4m) of which will support businesses in green transition, sustainable tourism and energy efficiency, as well as green technologies. Substantial funds (EUR 126m / USD 135.4m) have also been earmarked for digital connectivity in rural areas, which will be achieved through increasing national broadband coverage with gigabit connectivity and improving electronic communications infrastructure. A further EUR 84m (USD 90.3m) has been allocated for the digitalisation of higher education and investment in e-learning and digital teaching tools.

“Our clients are startups (mostly IT sector), SMEs and universities,” says Vedrana Miletić, auditor at Croatian member

**Currencies and US dollar equivalents cited in this article are correct at the time of writing.*

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firm UHY Rudan. "These startups are using the funding to develop their business ideas and prepare them for commercialisation. They're also using the funding to upgrade business operations, introduce new production lines and expand their markets." Elsewhere, universities are using the funding to support scientific and research projects.

Economically, it has been beneficial. "Our clients always point out that funding has enabled them to employ new young people directly within the project and share experience with other beneficiaries," says Vedrana.

Startups may benefit in a similar way in Greece, which has successfully requested EUR 3.6bn (USD 3.9bn; EUR 1.7bn (USD 1.8bn) in grants and the rest in loans) for reforms and investments in the areas of energy efficiency, electric mobility, waste management, labour market, taxation, business environment, healthcare and public transport. Last year was a record year for startup investment in the country, with Found.ation and EIT Digital's *Startups in Greece* report finding that the top 10 startups in 2021 raised a total of EUR 397m (USD 425.9m), more than triple that raised in 2020. Focus is now on the sustainability of the local startup community and the creation of a thriving ecosystem.

> "In all funding applications and ensuing projects, UHY can assist."

INNOVATION AND FOREIGN INVESTMENT

Pre-pandemic, Romania was tipped to become a key innovation hub for Central and Eastern Europe. With a growing startup scene, a rapidly expanding IT workforce, low living costs and fast internet, the country is attracting the eyes of global investors.

In the coming years Romania is expected to benefit from an overall non-reimbursable funding budget of up to EUR 80bn (USD 85.8bn), comprising EU Funds, NGEU, the National Resilience Programme, Norway Grants and Romanian state aid. R&D, investment in manufacturing infrastructures (plants, new facilities), information and communications technology (ICT), and renewable energy sources are all expected to benefit from generous funding programmes.

Camelia Dobre, managing partner at UHY Audit CD Srl in Romania, explains: "State aid is one of the most important tools available for grant-based funding for foreign investment coming to Romania in 2022. There are two versions of the programme, depending on the type of expenses that a company is looking for – assets or salaries."

The first of the two schemes is focused on stimulating investment and allocated according to how developed a region is. It covers construction works for building new production facilities, equipment and incorporeal assets (such as software and patents). "This programme was one of the most important funding instruments for stimulating foreign investment and it helped develop many new investments in sectors such as automotive, aviation, electronics, and home appliance and manufacturing in general," says Camelia.

The second scheme is aimed at stimulating job creation and offers grants to companies that create more than 100 new jobs by covering a maximum of 50% (depending on region) of related gross salary costs for a period of two years. This, says Camelia, "is particularly interesting for such industries as BPO (outsourcing), ICT, textiles and some manufacturing niches that are not heavily dependent on corporeal assets." The programmes are open to both newly established companies in Romania (including local startups that are part of large international corporations) and established companies already active on the local market.

Businesses that want to access these funds have to develop a business plan showing the main elements of the investment, market size and technical aspects, as well as financial projections showing the role of the grant in developing the company and the level of taxes generated to the state. "It usually takes between two and four months to develop a competitive application, depending on the investment, and the evaluation process takes between three weeks and three months," says Camelia.

HOW UHY IS HELPING

In all funding applications and ensuing projects, UHY can assist, both locally and across borders. In Spain, UHY Fay & Co is proactive in identifying opportunities for its clients to benefit from the NGEU programme. "We have developed a centre of excellence around Environmental, Social and Governance (ESG) and sustainability, offering national and international clients a wide range of services to unlock new value on their path to a sustainable future," says Bernard.

In Romania, Camelia says UHY Audit CD Srl is able to assist foreign and local investors throughout the project development process: "We can help to identify the right funding solutions for their investments, analyse their eligibility in the context of the programme and offer consultancy throughout – from developing the funding application to effectively implementing the project and securing the grant." ■

For more information on UHY's capabilities, email the UHY executive office, **info@uhy.com**, or visit **www.uhy.com**

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We are a Top 20 global accountancy network* and our success is built on attentive, personal service. You will find UHY member firms ready to advise you in more than 100 countries, covering nearly 340 major business centres. We have over 8,900 professionals delivering world class solutions across all types of industry. And our connectedness means we can find solutions for you and your business, by calling on the vast experience of UHY colleagues worldwide. Our UHY Global member firm directory pages will show you where we are.

*International Accounting Bulletin World Survey 2022. UHY International ranks 20th largest accountancy network by fee income.

AFGHANISTAN
UHY Shafiq Umar Daraz & Co Chartered Accountants, Kabul
Contact: Muhammad Shafiq
Email: mshafiq@uhy-af.com
Website: www.uhy-af.com

ALBANIA
UHY Elite sh.p.k, Tirana
Contact: Artan Xhiani
Email: info@uhy-elite.com
Website: www.uhy-elite.com

ANGOLA
UHY A Paredes e Associados-Angola Auditores e Consultores, S.A., Luanda
Contact: Armando Paredes
Email: aparedes@uhyangola.com
Website: www.uhyangola.com

ARGENTINA
UHY Macho & Asociados,* Buenos Aires
Contact: Roberto Macho
Email: rmacho@uhy-macho.com
Website: www.uhy-macho.com
Also in: Tucumán

AUSTRALIA
UHY Haines Norton
Contact: Michael Coughtrey
Email: mcoughtrey@uhyhnsyd.com.au
Website: www.uhyhn.com
Offices in: Adelaide, Brisbane*, Busselton, Dunsborough, Gladstone, Melbourne, Perth, Sydney*

AUSTRIA
UHY-Tax Wirtschaftstreuhand GmbH, Linz
Contact: Stephan Schlager
Email: office@uhy.at
Website: www.uhy.at
Also in: Horn, Salzburg, Vienna, Villach

AZERBAIJAN
UHY Audit LLC, Baku
Contact: Hashim Aliyev
Email: office@uhy-az.com
Website: www.uhy-az.com

BAHRAIN
UHY El Sayed El Ayouty & Co, Certified Public Accountants, Bahrain
Contact: Mohamed Alshayeb
Email: info@uhy-elayouty.com
Website: www.uhy-elayouty.com

BANGLADESH
UHY Syful Shamsul Alam & Co, Dhaka
Contact: Syful Islam
Email: syful@ssacbd.com
Website: www.ssacbd.com
Also in: Chittagong

BELARUS
UHY BusinessCollegia LLC, Minsk
Contact: Denis Kastsian
Email: audit@collegia.by
Website: www.uhy-bc.by

BELGIUM
UHY-CDP Partners, Brussels
Contact: Chantal Bollen
Email: c.bollen@cdp-partners.be
Website: www.cdp-partners.be
Also in: Liège

BOLIVIA
HBA S.R.L, La Paz *
Contact: Marcia Berthin
Email: MBerthin@uhyberthin.com
Website: www.berthinamengual.com
Also in: Santa Cruz *

BOSNIA AND HERZEGOVINA
UHY Revident d.o.o., Mostar
Contact: Matko Knezevic
Email: matko.knezevic@uhy-ba.com
Website: www.uhy-ba.com
Also in: Grude, Sarajevo

BRAZIL
UHY Bendoraytes & Cia – Auditores Independentes*, São Paulo
Contact: Franklin Bendoraytes
Email: franklin.bendoraytes@uhy-br.com
Website: www.bendoraytes.com
Also in: Londrina, Rio de Janeiro

CANADA
UHY Victor LLP, Montreal
Contact: Ken Shemie
Email: kshemie@uhyvictor.com
Website: www.uhyvictor.com

UHY Forbes Andersen LLP, Toronto
Contact: Paul Andersen
Email: paul@fa.ca
Website: www.forbesandersen.com
Also in: Milton

CHILE
UHY Guiñazú & Asociados SpA.,* Santiago
Contact: Ximena Guiñazú.
Email: xguinazu@uhy-cl.com
Website: www.guinazuasociados.cl

CHINA
ZhongHua Certified Public Accountants LLP,* Shanghai
Contact: Liqian Sun
Email: info@zhonghuacpa.com
Website: www.zhonghuacpa.com
Also in: Anhui, Beijing, Guangdong, Hangzhou, Henan, Jiangsu, Shenzhen, Sichuan, Yunnan

COLOMBIA
UHY Consultores S.A.S., Bogotà
Contact: Diego Charry
Email: diego.charry@uhy-co.com
Website: www.uhy-co.com

COSTA RICA
UHY Auditores y Consultores, S.A., San José
Contact: Omar Pérez Rosales
Email: operez@uhy-cr.com
Website: www.uhy-cr.com

CROATIA
UHY HB EKONOM d.o.o., Split
Contact: Helena Budisa
Email: split@uhy.hr
Website: www.uhyincroatia.com

UHY RUDAN d.o.o., Zagreb
Contact: Vedrana Miletić
Email: info@uhy.rudan.hr
Website: www.uhyincroatia.com

CYPRUS
UHY Antonis Kassapis Limited, Nicosia
Contact: Antonis Kassapis
Email: uhy@uhy.com.cy
Website: www.uhy.com.cy

CZECH REPUBLIC
AUDITOR, spol. s r.o., Prague
Contact: Georg Stöger
Email: georg.stoeger@auditor.eu
Website: www.auditor.eu
Also in: Brno, Pelhrimov

DENMARK
inforevision, Copenhagen
Contact: Vibeke Düring Reyes Jensen
Email: vd@inforevision.dk
Website: www.inforevision.dk

DOMINICAN REPUBLIC
UHY Calderon Gonzalez & Asociados, Santo Domingo
Contact: Arabellis Calderón González
Email: arabellis.calderon@uhy.com.do
Website: www.uhy.com.do

ECUADOR
UHY Assurance & Services Cia. Ltda., Quito
Contact: Freddy Cevallos Bustamante
Email: f.cevallos@uhyecuador.ec
Website: www.uhyecuador.ec

EGYPT
UHY United For Auditing, Tax, Advisory & Financial Services, Cairo
Contact: Ahmed Hegazy
Email: info@uhy-united.com
Website: www.uhy-egypt.com

UHY Waled Mounir and Muhammad Arafa, Alexandria
Contact: Waled Mounir
Email: info@uhy-eg-alex.com
Website: www.uhy-egypt.com

EL SALVADOR
UHY Asesores Y Consultores, S.A De CV., San Salvador
Contact: Bryan Pérez
Email: bperez@uhy-sv.com
Website: www.uhy-sv.com

FRANCE
UHY GVA,* Paris
Contact: Emmanuel Gayte
Email: emmanuel.gayte@uhygva.com
Website: www.uhygva.com
Also in: Lille, Lyon, Marseille, Montpellier, Saint-Denis De La Réunion, Toulouse

GEORGIA
UHY LLC, Tbilisi
Contact: Guka Ubiria
Email: gubiria@uhy-ge.com
Website: www.uhy.ge

GERMANY
UHY Deutschland AG* Wirtschaftsprüfungsgesellschaft
Contact: Dr Ulla Peters
Email: berlin@uhy-berlin.de
Website: www.uhy-deutschland.de

Clostermann & Jasper Partnerschaft mbB, Bremen
Contact: Tobias Stuber
Email: info@clostermann-jasper.de
Website: www.clostermann-jasper.de
Also in: Hamburg

Dr. Langenmayr GmbH Wirtschaftsprüfungsgesellschaft, Munich
Contact: Johannes Bitzer
Email: munich@uhy-deutschland.de
Website: www.dr-langenmayr.de

Dr. Leyh, Dr. Kossow & Dr. Ott OHG, Cologne
Contact: Thomas Wahlen
Email: koeln@lko.de
Website: www.lko.de

UHY Lauer & Dr. Peters KG*, Berlin
Contact: Dr Ulla Peters
Email: berlin@uhy-berlin.de
Website: www.uhy-berlin.de
Also in: Rostock

UHY Wahlen & Mannsky, Frankfurt
Contact: Stephanie Mannsky
Email: stephanie.mannsky@uhy-ffm.com
Website: www.uhy-wahlen.de

GHANA
UHY Voscon Chartered Accountants, Accra
Contact: Henry Djangmah
Email: info@uhyvoscon-gh.com
Website: www.uhyvoscon-gh.com

UHY Godwinson (Chartered Accountants), Accra
Contact: Godwin Azasu
Email: info@uhygodwinson-gh.com
Website: www.uhygodwinson-gh.com

GREECE
UHY Axon Certified Auditors S.A., Athens
Contact: Stavros Nikiforakis
Email: info@axonaudit.gr
Website: www.axonaudit.gr
Also in: Crete

GUATEMALA
UHY Pérez & Co,* Guatemala City
Contact: Omar Pérez Rosales
Email: operez@uhy-perez.com
Website: www.uhy-perez.com

HONDURAS
UHY Auditores y Consultores, S.A., Tegucigalpa
Contact: Omar Pérez Rosales
Email: operez@uhy-hn.com
Website: www.uhy-hn.com

HONG KONG
Tai Kong CPA Limited,* Hong Kong
Contact: Robert Kong
Email: robertkong@tkcpa.com.hk
Website: www.tkcpa.com.hk

UHY-Advisory and Secretarial Knowledge Limited
Contact: Allan Kong
Email: allankong@uhy-ask.com
Website: www.uhy-ask.com

UHY Prime HK CPA Limited,* Hong Kong
Contact: Michael Tsang
Email: michaeltsang@uhy-hk.com
Website: www.uhy-hk.com

HUNGARY
Bergmann Accounting & Auditing, Budapest
Contact: László Hegedus
Email: laszlo.hegedus@bergmann.hu
Website: www.bergmann.hu
Also in: Szeged

INDIA
Chandabhoy & Jassoobhoy, Mumbai
Contact: Sunil Hansraj
Email: sunil@cnj.in
Website: www.cnj.in

Lodha & Co,* Kolkata
Contact: R.P. Singh
Email: rpsingh@lodhaco.com
Website: www.lodhaco.com
Also in: Chennai, Hyderabad, Jaipur, Mumbai, New Delhi

INDONESIA
KAP Hananta Budianto & Rekan, Jakarta
Contact: Venancia Wijono
Email: venancia@hananta.com
Website: www.hananta.com
Also in: Semarang, Surabaya

IRAN, ISLAMIC REPUBLIC OF
Hadi Hesab Tehran, Tehran
Contact: Hamid Reza Keyhani
Email: keyhani@hadihesab.com
Website: www.uhy-ir.com

IRELAND
UHY Farrelly Dawe White Limited, Dundalk
Contact: Alan Farrelly
Email: alanfarrelly@fdw.ie
Website: www.fdw.ie
Also in: Balbriggan, Dublin, Newry

ISLE OF MAN
UHY Crossleys LLC, Ballasalla
Contact: Andrew Pennington
Email: apennington@crossleys.com
Website: www.crossleys.com

ISRAEL
UHY Shtainmetz Aminoach & Co.,* Tel Aviv
Contact: Kobi Shtainmetz
Email: k@cpa.co.il
Website: www.cpa.co.il

ITALY
UHY Audinet Srl, Rome
Contact: Andrea D'Amico
Email: a.damico@uhyaudinet.com
Website: www.uhyaudinet.com
Also in: Florence, Padua

UHY Associati S.t.p.r.l. (Accounting, Payroll & Tax), Milan
Contact: Sabino Dente
Email: associati@uhyassociati.com
Website: www.uhyassociati.com

FiderConsult Srl (Tax & Accounting), Florence
Contact: Simone Biagiotti
Email: s.biagiotti@uhyitaly.com
Website: www.uhyitaly.com
Also in: Milan, Rome

JAPAN
UHY Tokyo & Co., Tokyo
Contact: Nobuyuki Hara
Email: info@uhy-tokyo.or.jp
Website: www.uhy-tokyo.or.jp
Also in: Kyoto, Nagoya

JORDAN
UHY Arab Auditors, Amman
Contact: Nabil Haddad
Email: nih@arabauditors.jo
Website: www.arabauditors.jo

KAZAKHSTAN
UHY SAPA-Consulting LLP, Almaty
Contact: Torebek Kurmanov
Email: office@uhy-kz.com
Website: www.uhy-kz.com
Also in: Aktobe, Astana, Atyrau, Shymkent, Ural'sk

KENYA
UHY Kenya, Nairobi
Contact: Daniel Kabiru
Email: dkabiru@uhy-ke.com
Website: www.uhy-ke.com

KOREA, REPUBLIC OF
UHY Daeyoung Accounting Corp., Seoul
Contact: Sam Shin
Email: skshin@daeyoungcpa.com
Website: www.daeyoungcpa.co.kr
Also in: Incheon

KUWAIT
UHY Pillars Advisory, Kuwait City
Contact: Wael Arafa
Email: wael@uhypillars.com
Website: www.uhypillars.com

LEBANON
UHY Andy Bryan, Beirut
Contact: Elie Abboud
Email: beirut@uhy-lb.com
Website: www.uhy-lb.com

LUXEMBOURG
UHY Finova S.àr.l., Luxembourg
Contact: Jürgen Fischer
Email: j.fischer@finova.lu
Website: www.uhyfinova.lu

MALAYSIA
UHY,* Kuala Lumpur
Contact: Datuk Alvin Tee
Email: uhy-kl@uhy-my.com
Website: www.uhy.com.my
Also in: Johor Bahru, Labuan, Penang

MALTA
UHY Pace, Galea Musù & Co, Lija
Contact: David Pace
Email: djpace@uhymalta.com
Website: www.uhymalta.com

MAURITIUS
UHY & Co., Moka
Contact: Dominique Samouilhan
Email: dsamouilhan@uhy.co.mu
Website: www.uhy.co.mu

MEXICO
UHY Glassman Esquivel y Cía S.C.,* Mexico City
Contact: Oscar Gutiérrez Esquivel
Email: oge@uhy-mx.com
Website: www.uhy-mx.com
Also in: Monterrey, Querétaro, Villahermosa

MOROCCO
UHY Ben Mokhtar & Co, Tangier
Contact: Mohamed Ben Mokhtar
Email: contact@uhy-benmokhtar.ma
Website: www.uhy-benmokhtar.ma

UHY Maroc Decisionnel, Casablanca
Contact: Hassan Darbane
Email: h.darbane@maroc-decisionnel.com
Website: www.maroc-decisionnel.com

MOZAMBIQUE
UHY Auditores e Contabilistas Certificados, Limitada, Maputo
Contact: Carlos Sitoe
Email: director.geral@uhy-mz.com
Website: www.uhy-mz.com

NEPAL
UHY Suvod Associates Chartered Accountants, Kathmandu
Contact: Akash Suman
Email: akash@suvodassociates.com.np
Website: www.suvodassociates.com.np
Also in: Itahari

NETHERLANDS
UHY Netherlands, Amsterdam
Contact: Bas Pijnaker
Email: Pijnaker@govers.nl
Website: www.uhynetherlands.com

Govers Accountants/Consultants,* Eindhoven
Contact: Paul Mencke
Email: mencke@govers.nl
Website: www.govers.nl

TIC Advisory B.V. Leusden
Contact: Jos Raben
Email: jraben@tic-advisory.nl
Website: www.tic-advisory.nl

NEW ZEALAND
UHY Haines Norton (Auckland) Ltd,* Auckland
Contact: Grant Brownlee
Email: grantb@uhyhn.co.nz
Website: www.uhyhn.co.nz
Also in: Helensville, Kumeu

NICARAGUA
UHY Auditores y Consultores S.A, Managua
Contact: Bryan Pérez
Email: bperez@uhy-ni.com
Website: www.uhy-ni.com

NIGERIA
UHY Maaji & Co, Lagos
Contact: Gabriel Idahosa
Email: info@uhy-ng-maaji.com
Website: www.uhy-ng-maaji.com
Also in: Abuja, Benin City, Ebutte Metta, Ejigbo, Garki, Kaduna, Kano, Lokoja, Maiduguri, Owerri, Port Harcourt, Wuse, Yola

NORWAY
Revisorgruppen AS, Oslo
Contact: Kirsti Armann
Email: post@rg.no
Website: www.rg.no
Also in: Akershus, Åndalsnes, Arendal, Bergen, Drammen, Førde, Kristiansand, Kvam/Norheimsund, Sarpsborg

PAKISTAN
UHY Hassan Naeem & Co, Lahore
Contact: Ibne Hassan
Email: ibnehassan@uhy-hnco.com
Website: www.uhy-hnco.com
Also in: Islamabad, Karachi

PANAMA
UHY Botello & Marquez, Panama City
Contact: Diógenes Botello V.
Email: dbotello@uhy-pa.com
Website: www.uhy-pa.com

PERU
UHY Blancas Sandoval & Asociados, SAC,* Lima
Contact: Carlos Hugo Sandoval Zapata
Email: carlos.sandoval@uhy-bsa.com
Website: www.uhy-bsa.com
Also in: Miraflores (Lima), San Borja (Lima), Surco (Lima)

PHILIPPINES
UHY M.L. Aguirre & Co. CPAs,* Makati City
Contact: Michael Aguirre
Email: ask@mlaguirre.org
Website: www.mlaguirre.org

POLAND
UHY ECA Group, Warsaw
Contact: Michal Kolosowski
Email: michal.kolosowski@uhy-pl.com
Website: www.uhy-pl.com
Also in: Kraków, Poznań, Warsaw, Wroclaw, Zabrze

PORTUGAL
UHY Oliveira, Branco & Associados SROC Lda, Lisbon
Contact: António Oliveira
Email: geral.lisboa@uhy-portugal.pt
Website: www.uhy-portugal.pt
Also in: Azores, Funchal, Porto

PUERTO RICO
UHY Del Valle & Nieves PSC,* San Juan
Contact: Rafael Del Valle-Vega
Email: info@uhy-pr.com
Website: www.uhy-pr.com

QATAR
UHY Ammo & Co, Doha
Contact: Moomen Elsalawy
Email: inquiry@uhy-qa.com
Website: www.uhy-qa.com

ROMANIA
UHY Audit CD S.r.l., Bucharest
Contact: Camelia Dobre
Email: camelia.dobre@uhy-ro.com
Website: www.uhy-ro.com

SAINT LUCIA
UHY A.P. Walcott and Associates, Castries
Contact: Anthony Walcott
Email: awalcott@uhy-lc.com
Website: www.uhy-lc.com

SAUDI ARABIA
UHY RIYADH BIN BULAYHID OFFICE, RIYADH
Contact: Elsayed Elboussery
Email: info@riyadhaudit.com
Website: www.riyadhaudit.com
Also in: Dammam, Jeddah

SERBIA
UHY REVIZIJA d.o.o., Belgrade
Contact: Jasmina Macura
Email: ekirevizija@uhy-ekirevizija.rs
Website: www.uhy-ekirevizija.rs

SEYCHELLES
UHY Premier Financial Services Limited, Mahé
Contact: Vimal Damry
Email: vimal@premier-seychelles.com
Website: www.premier-seychelles.com

SINGAPORE
UHY Lee Seng Chan & Co,* Singapore
Contact: Sen Choon Lee
Email: info@uhylsc.com.sg
Website: www.uhylsc.com.sg

SLOVAK REPUBLIC
AUDITOR SK s.r.o., Bratislava
Contact: Georg Stöger
Email: georg.stoeger@auditor.eu
Website: www.auditor.eu

SLOVENIA
UHY d.o.o., Ljubljana
Contact: Franci Žgajnar
Email: uhy@uhy.si
Website: www.uhy.si

SOUTH AFRICA
UHY Hellmann (SA), Johannesburg
Contact: Carlos Pedregal
Email: carlosp@uhy.co.za
Website: www.uhy.co.za

SPAIN
UHY Fay & Co,* Marbella
Contact: Bernard Fay
Email: bfay@uhy-fay.com
Website: www.uhy-fay.com
Also in: Barcelona, Madrid*, Malaga, Santa Cruz Tenerife, Santander, Santiago de Compostela

SRI LANKA
UHY Centra Management Associates, Colombo
Contact: Ismath Abdul Sathar Mohamed
Email: asmismath@uhycentra.com
Website: www.uhycentra.com
Also in: Kandy

SWEDEN
Revisorerna Syd, Malmö
Contact: Mattias Nilsson
Email: info@revisorernasyd.se
Website: www.revisorernasyd.se

Winthers Revisionsbyrå AB, Stockholm
Contact: Ragnar Santesson
Email: info@winthers.se
Website: www.winthers.se

SWITZERLAND
Balmer-Etienne AG, Luzern
Contact: Stefan Wigger
Email: info@balmer-etienne.ch
Website: www.balmer-etienne.ch
Also in: Stans, Zürich

TAIWAN
UHY L&C Company, CPAs, Taipei
Contact: Lawrence Lin
Email: lawrencelin@uhy-taiwan.com.tw
Website: www.uhy-taiwan.com.tw

THAILAND
UHY Yongyuth Accounting and Son Co., Ltd., Bangkok
Contact: Panit Mokarakorn
Email: panityas@uhy-th.com
Website: www.uhy-th.com

TUNISIA
UHY CNBA, Tunis
Contact: Raoudha Ben Abdelkrim
Email: r.trojet@uhy-cnba.com
Website: www.uhy-cnba.com

TURKEY
UHY UZMAN Sworn in CPA and Independent Auditing Inc., Istanbul
Contact: Şenol Çudin
Email: uzman@uhy-uzman.com.tr
Website: www.uhy-uzman.com.tr
Also in: Ankara, Istanbul, Izmir

UGANDA
UHY Thakkar & Associates, Certified Public Accountants, Kampala
Contact: Sam Thakkar
Email: sam@uhy-ug.com
Website: www.uhy-ug.com

UKRAINE
UHY Prostor Ltd, Kyiv
Contact: Alexander Koinov
Email: a.koinov@uhy-prostor.com
Website: www.uhy-prostor.com

UNITED ARAB EMIRATES
UHY James Chartered Accountants, Dubai
Contact: James Mathew
Email: james.mathew@uhy-ae.com
Website: www.uhy-ae.com
Also in: Abu Dhabi, Fujairah, Sharjah

UNITED KINGDOM
UHY Hacker Young,* London
Contact: Subarna Banerjee
Email: london@uhy-uk.com
Website: www.uhy-uk.com
Also in: Abergavenny, Abingdon, Ashford, Belfast, Birmingham*, Brighton & Hove, Bristol, Broadstairs, Cambridge, Chester, Hungerford, Huntingdon, Letchworth, Manchester*, Newbury, Newport, Nottingham, Sheffield, Sittingbourne, Swindon, Winchester, York

UNITED STATES
UHY Advisors, Inc., Farmington Hills, Michigan
UHY LLP,* New York
Contact: Michael Mahoney
Email: mmahoney@uhy-us.com
Website: www.uhy-us.com
Also in: Albany (New York), Ames (Iowa), Ann Arbor (Michigan), Atlanta (Georgia), Catskill (New York), Columbia (Maryland), Des Moines (Iowa), Detroit (Michigan), Farmington (Connecticut), Farmington Hills (Michigan), Houston (Texas), Hudson (New York), Kansas City (Missouri), Kingston (New York), Long Island (New York), Miami (Florida), New York City (New York), Orange County (California), Port Huron (Michigan), Rye Brook (New York), Salisbury (Maryland), Saratoga Springs (New York), St Louis (Missouri), Sterling Heights (Michigan), Woodland Hills (California). UHY LLP is a licensed independent CPA firm that performs attest services through an alternative practice structure with UHY Advisors, Inc. and its subsidiary entities. UHY Advisors, Inc. provides tax and business consulting services through wholly owned subsidiary entities that operate under the name of "UHY Advisors".

URUGUAY
UHY Gubba & Asociados,* Montevideo
Contact: Hugo Gubba
Email: info@uhygubba.uy
Website: www.uhygubba.uy

UZBEKISTAN
UHY Tashkent LLC, Tashkent
Contact: Sarvarkhon Karimov
Email: s.karimov@uhy-uz.com
Website: www.uhy-uz.com
Also in: Khorezm, Navoi

VENEZUELA
UHY Servicios Legales & Tributarios, S.C., Caracas
Contact: Luis Sotillo
Email: l.sotillo@uhy-ve.com
Website: www.uhy-ve.com
Also in: Puerto Ordaz, Valencia*

VIETNAM
UHY Auditing & Consulting Co. Ltd., Hanoi
Contact: Thanh Nguyen
Email: thanhnt@uhyvietnam.com.vn
Website: www.uhy.vn
Also in: Ho Chi Minh City

ZAMBIA
UHY AMO Certified Public Accountants, Lusaka
Contact: Dion Banda Dault
Email: d.banda@uhy-amocpa.com
Website: www.uhy-amocpa.com

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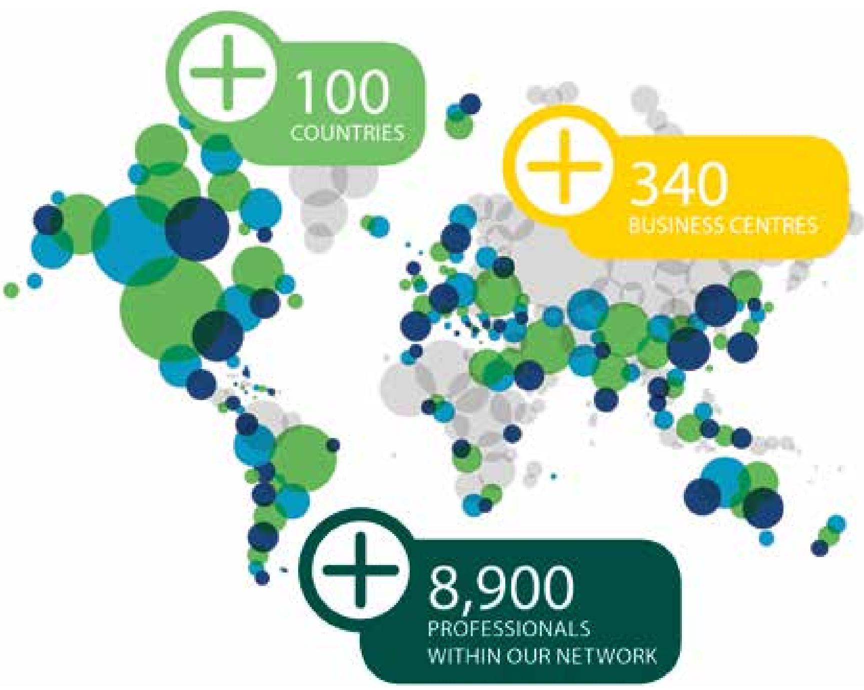


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