Interview with Brendan Jennings and Lorraine Griffin, Managing Partner and Tax Partner, Deloitte Ireland

28.03.2013

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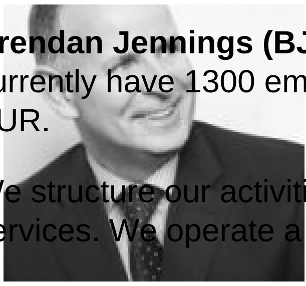

ders to Deloitte Ireland and the firmâ??s life science practice?

Brendan Jennings (BJ): Deloitteâ??s presence in Ireland dates back over one hundred years. We currently have 1300 employees in the country, and generate a turnover of approximately 160Mn EUR.

We structure our activities across four key departments: audit, tax, consulting, and corporate finance services. We operate a matrix structure with industries that runs horizontally across those pillars.

Among the Big Four in Ireland, we have a particular strength in consultingâ??or in what we might call the broader, advisory area.

Loraine Griffin (LG): As Brendan noted, we offer life science companies a multi-disciplinary practice across our key functional areas. Specialists from each of our departments very much come together as a team to help our clients find solutions and to add value. In 2013, as in previous years, Kennedy International ranked Deloitte as the leading life science consultancy in the world according to revenue. Deloitte continues to be the worldâ??s largest life sciences consultancy by a comfortable margin

While we do not have enough visibility on the revenue numbers in Ireland to define our relative positioning in this particular market numerically, we certainly see ourselves as a leading firm in the life sciences space. The depth and breadth of our advisory capabilities, our deep industry knowledge, and our work in that respect with both foreign investors and indigenous companies, really differentiates us as a service provider.

Is Ireland the best small country in the world to do business?

BJ: We are on route to that position. Our Taoiseach intends to get us there by 2016!

If a non-European business is looking to penetrate the European market, and is considering where to position itself in the region, I believe Ireland has a very, very, strong value proposition. We were the first to enter the recession, and the Irish people have demonstrated huge flexibility in response to the economic challenge.

We can look, for example, at unit labor cost statistics. Ireland had perhaps developed an inflated cost of labor over the yearsâ??but by next year, we will have adjusted that to a 23 percent corrected rate versus the E.U. average. Compared to a country like Germany, the figure will likely approach 28 percent. The change has been huge.

Ireland is a highly open export economy. 100 percent of our GDP is exported, and that is a very strong statisticâ??it indicates that there is an abundance of investment that continues to enter the country.

We can also look at some statistics that seem to have gone out of fashion. For instance, when I was a student, we used to look at the balance of payments between exports and imports. In the ten years leading up to the recession, Ireland was in the negative range. We returned to a positive figure in 2009. I find this trend very telling.

Is the country exiting the recession stronger than it went in?

BJ: I believe that it is. What has happened in Irelandâ??and this is something we have not seen in very many European countriesâ??is that people have accepted pay cuts, higher taxes, and higher demands on their input. They have had to do more for less. Again, our people have been highly flexibleâ??and as a result, we have improved our productivity.

Where else should a company go in Europe today? There is no better place than Ireland if youâ??re looking for a state that can correct its economy and move it forward.

LG: Companies are often initially attracted by Irelandâ??s favorable tax rate, but their reasons for investment quickly shift to other factors.

Certainly, access to talent and skilled employees is extremely important and can be a key differentiator when choosing a location for investment in the life sciences industry. I have worked on a number of projects where clients have considered what is perhaps a â??typicalâ?? trio of business-friendly small countries: Ireland, Singapore, and Switzerland â?? and where Ireland has been able to differentiate itself across a range of influencing factors, but in particular with respect to the talent agenda. Life science companies often find that Ireland has the best indigenous talent pool for their needs, and there is also an availability of employees to meet their needs. In Singapore and Switzerland, some groups have found themselves importing resources to compensate for either a skills gap or the fact that there is limited availability of employees to recruit in the local market â??at a high cost to the business.

Ireland has continued to nurture its workforce, and invest in education at all levels. Industry, meanwhile, has begun to collaborate more closely with our educational institutions in communicating its needs, and we believe that footprint will grow in the future.

The cost competitiveness piece that Brendan mentioned is critically important. The realignment and downward adjustment in things like energy costs, real estate costs, and employment costs is in sharp contrast to many parts of Europe and beyond. This positions Ireland very favourably as an investment location.

We also should not forget the regulatory factors which influence life science investment and reinvestment in Ireland. The whole area of regulation and compliance is a key issue that keeps life science CEOs awake at night with the possibility of a product recall or other supply chain failures of significant concern. The fact that no facility in Ireland has received a warning letter from the FDA or any other regulatory authority in over ten years is an absolutely huge calling card for Ireland and underpins our reputation for quality, compliance and high performance. Our track record speaks for itself.

How have you seen the recession affect indigenous life science companies that are looking to build the resource base they need to succeed internationally?

BJ: Companies in this sector need a substantial amount of capital to succeed, and the lending situation in Ireland has been quite challenging. In general, our banks are in a tough spot at the moment, as they are actively trying to deleverage their assets.

The system has also developed a considerably low tolerance for error. When, in the past, the cost of lending was lower, banks could afford to make a few mistakes. Today, they are weary of funding projects with a high degree of risk.

LG: Over the years, our corporate finance team has built up significant experience with Irish start-ups and companies that are seeking to scale and grow. We have very strong linkages with the spin-off incubators at the universities, and we have found that many of these new companies will approach us to work with them on funding mandates. We did not see so many of these funding mandates prior to the financial downturn, because it was easier to access bank lending. The banking crisis has been a key challenge for indigenous companies.

However, a number of the businesses that have managed to get funding, scale up, and reach international markets have found great success in this recession. The number of indigenous companies in the medical device space is phenomenal. Those that have been able to access the U.S. and emerging markets, and manage their funding position, are really holding their own.

At the same time, companies that are struggling to get funding have to think outside of the box. Some have had to adopt other courses of action, adopt flexible business models, and look to access capital via venture funds, angel investors, and other channels in the business community. We are also seeing a greater degree of cooperation and/or collaboration arrangements between start-ups and some of the bigger players in the industry: option arrangements are becoming more common for example, which can work to address the needs of the smaller player and in particular in a funding context while also address the needs of the larger multinational whose R&D spend perhaps hasnâ??t paid off and allowing it to access potential R&D and innovation going forward in a flexible way.

Funding is and remains a key challenge for many businesses;   but we are seeing that the Irish people can be very resilient in finding a way to make it work.

The state agencies are deeply committed to this sector, from both an indigenous and foreign direct investment perspective, while other State bodies are focused on investment into the research and higher education sectors to support innovation and R&D. Everyone is truly coming together to underpin the life sciences ecosystem in Ireland and make it a success.

One of the themes of our report is Irelandâ??s continual push up the value chain. Once a location for bulk chemical manufacturing, the country is today a key location for biotech production and process development. Is it a viable location for earlier stages of R&D?

LG: I believe that it is, and I think we have already begun to see the first signs. A number of key players, who are significant global players in the life sciences sector, have invested in R&D capability in the country. Others who may not have established and in-house R&D or innovation centre are increasingly entering into collaborative innovation or research arrangements with local academia and other Irish research bodies.

In the 1960s and 70s, our footprint was in manufacturing APIs, and little elseâ??but that reality has changed considerably. Businesses that have invested in Ireland have continued to reinvest. A significant number of multinationals have established shared services centers here, and others have located global financing and treasury functions in Ireland. Companies are recognizing the countryâ??s broader capabilities.

Certainly in the innovation space, life sciences organsiations are expanding their footprint in Ireland as well. As you pointed out, Ireland has already become a key location for areas like process and product development, manufacturing for clinical trials and beyond .

We also see a greater focus and drive to build stronger links and greater collaboration between the healthcare system, clinicians, and industry, as well as the research community, to ensure the development (and manufacture in due course) of innovative healthcare products and services, including clinical trial. This should help further position Ireland favourable from a life sciences industry perspective and help to continue to push Ireland up the value chain. There is a recognition that the country cannot just rely on manufacturing, and that it has to push the bar.

BJ: We see the chief executives and senior management teams of multinational subsidiaries in Ireland fighting for success within their organization in a very powerful way. I have often thought that if we ever developed a knighthood system as a nation, these guys should be the first to be knighted!

Of course, they earned that continued investment. It was not simply given to them because they asked for it. They were able to demonstrate that they had the people, the talent, and the will to add value to their organization. And they did it because they realized that unless they acted, they would become irrelevant.

If Ireland did not continue to evolve its value proposition, do you believe this industry would leave?

BJ: Very quickly!

LG: It is simply the way of the world today that businesses are highly mobile. In the life science industry, the threat is always there that a company will have to close down operations somewhere in the world to address an overcapacity issue. When executives are making those kinds of decisions, our excellence record in Ireland stands to us.

Particularly in this sector, there is a significant reluctance to offshore to lower cost locations purely for cost reasons when the regulatory factors are taken into account and a wider cost/benefit analysis is undertaken. Irelandâ??s regulatory track record therefore is of fundamental importance. If we maintain our track record, and continue to demonstrate what else we can do, we will become increasingly indispensible to the industry.

BJ: We often have conversations with our colleagues in Deloitteâ??s location services department in Chicago, and they would say there are three factors that go into choosing where to invest as a business. The first is local market: Ireland cannot compete in that sense, because we are a nation of only four and a half million people. The second is cost, and while we have readjusted our cost baseâ??and notwithstanding our tax offerâ??we certainly do not have a global edge there.

The third reason why people and organizations move is talent and skills. Ireland has been very successful in clustering businesses, and bringing industriesâ??be they medtech, pharma, social media, or some other sectorâ??together. Clustering has a very powerful impact on the local skill base.

If we look out across the world between now and 2050, there are very few countries where talent is going to be in surplus. To have that as a key calling card is huge!

LG: We have one of the youngest and best-educated populations in all of Europe. Our global rankings in terms of access to a young, flexible workforce are very favorable.

BJ: There were two decisions made in this country, starting in the 1960s, which transformed our economy. The first was the decision to open up the country and to position it as a competitive location for FDI.

Very shortly afterwards, the country put great reforms forward in its education system. Other countries have now looked at our model and tried to emulate it.

How important is the life science sector to Irelandâ??s economic recovery?

LG: Itâ??s hugely important. Ireland is the largest net exporter of medicines globallyâ??depending on the source, reports indicate that this country exports up to 55Bn EUR worth of pharmaceuticals every year. The life science sector, in its broadest sense, contributes 60% of our export numbers. Pharma and medtech together employ over 52,000 people. The significance of the industry to the economy is enormous.

Deloitte Ireland has itself been doing quite well in this recession. The company recently announced that it was hiring 200 new graduates in 2013. What is driving your growth?

BJ: We have a strong reputation in the market for how we treat our people. We have been ranked as one of the best places to work in Ireland by the Great Place to Work Institute ten years running. In turn, the way we treat our people is reflected in the way that we interact with our clients.

Another factor is that as a firm, we are very powerful when we can bring together the four pieces of the puzzle that we spoke about earlier: audit, tax, consulting, and corporate finance. We have been driving that agenda very hard, and Lorraine has spoken about our ability to mobilize multi-disciplinary teams to bring solutions to clients. When that model works, we are very hard to beat in this market.

LG: The two cornerstones of our business are our people and our clients and we are committed to serving our clients with the best people. The way in which we develop and treat our people has a direct impact on our culture and teaming approach. It enhances our collaborative approach to how we serve our clients, working together to develop value added solutions to complex issues for our clients. The two go very much hand in hand.

BJ: At the end of the day, our job is to solve problems, and make businesses more profitable and more sustainable. When we succeed in helping a business to grow, we are able to grow alongside them.

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