



## No-Deal Brexit Will Have a Direct Impact on This Canadian Stock

### Description

Britain's decision to exit the European Union (EU) will forever change the economic and social landscape of the country. Two years after the public referendum was completed, there is still little clarity over the future relationship between the United Kingdom and the bloc of 27 EU nations.

As we enter the end-game of these negotiations, it is apparent that the impact of the exit will be felt across the globe. The UK is, after all, Canada's third largest trading partner after China and the US. Commonwealth trade agreements enhance this relationship further. It's fair to say that some Canadian businesses will suffer should the divorce turn messy.

One such business is Mississauga-based pharmaceutical company **Advanz Pharma Corp** (TSX:ADVZ). Formerly known as Concordia Healthcare Corp, Advanz develops, acquires, or licenses niche established medicines and markets them in over 90 countries.

The company's portfolio of medical products include 200 niche generic and branded medicines for endocrinology, ophthalmology, urology, anti-infectives, pain management, central nervous system disorders and intensive care treatment.

While the company is well-diversified geographically and commercially, its core operations are significantly exposed to British politics and economics. For one, Advanz's operational headquarters is located in London. That's because Britain is a key market for the company's products.

According to their latest filing – "ADVANZ PHARMA International has significant operations within the U.K. and other parts of the EU."

In fact, the company states that Britain is the largest pharmaceutical market in Europe. The country's demographics, regulatory environment, intrinsic demand for off-patent medicines, and steady population growth make it an essential market for the Advanz's operations.

The vast majority of Advanz's sales last year were international. In 2018, sales across North America accounted for only 25% of the total. While the company doesn't break out sales by regions, there is reason to believe sales in the UK account for a significant portion of the total.

In its latest filing, the company said that "market share erosion in the UK market," was a primary reason for a US\$79 million decrease in revenue last year. This decline was partially offset by a US\$17 million increase in revenue as a result of the Great British Pound (GBP) strengthening against the United States Dollar (USD) in the first half of 2018.

In fact, the company's GBP hedging strategy yielded \$29 million in other comprehensive income' in 2018 and lost \$50 million in 2017. In other words, the hedging strategy alone accounted for roughly 8% of the company's gross profit last year.

Finally, the company's sales and profits have been steadily declining since 2016, right after the referendum.

It is currently undergoing a corporate reorganization that changes the business structure substantially, so I'm not sure what the company's core prospects are over the long-term. However, the stock seems like an ideal short-term bet on the Brexit outcome over the next few months.

## Bottom line

Advanz Pharma is a multinational pharmaceutical company that is overexposed to the UK market. For traders willing to bet on the outcome of Brexit negotiations and the value of the pound over the next few months, ADVZ may be an ideal proxy.

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