

BREXIT Webinar

Managing Currency Risk

By John Power | March 2019

 **ENTERPRISE
IRELAND**

 **SGL** | STRATEGIC
GROWTH
LEADERS

Webinar Agenda

- Overview
 - What are companies saying
- How to understand and qualify FX exposure
- Steps to develop a currency strategy
- Helpful Tips and Tactics



Word on the Street

“Sure it wouldn’t happen, there will be an agreement” Uncertainty => Volatility

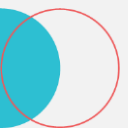
”We are waiting until sterling comes back to 80p”

“We are not exposed to any sterling currency risk”

“Our CEO is good/likes playing the currency market”

“Our UK customer contracts are invoiced in Euro so we are not exposed”

“Not sure at what rate we become unprofitable in the UK”



Historical FX Volatility

5 year Euro/Sterling Rate



2 Year Euro/Sterling



Remember Currency is a Risk – Manage it !!



Identify



Quantify



Mitigate

Case Study

- Food company – 60% sales into 2 main retailers in the UK
- All costs sourced in Ireland (€), Revenue in £
- 12 month contracts in place
- Stable cash flows
- Contractual and creditor terms in place
 - 90 days credit
- 35% Gross margin
- 9% Net margin
- Assumptions

Steps to Creating a Currency Strategy

Identify & Quantify Currency Risk

- Understand how, when and where your exposures are manifested
- Cost base
- Clarity on the Cash Cycle
- Breakeven exchange rate on UK sales
- Stress test your financials – Impact of volatility
 - Assume parity on FX rate
- Accurate cashflow and budget analysis



Steps to Manage Currency Risk - Internally

- Keep it simple!
- Open a Sterling bank account – sounds simple!!!
- **Can I Invoice in Euro?** And if so what are the potential consequences!
- Is there scope for price negotiation with my UK customers/ suppliers
- Identify Natural Hedges within your cashflows
 - Matching currency costs with corresponding revenues
 - Nullifies currency movements



Steps to Manage Currency Risk - Externally

- Foreign Exchange products – Bank or Foreign Exchange provider
- Generally 3 types of currency products available

Spot Transactions

Transaction settles
within 2 business days

Cash Transaction

Forward FX Contracts

Agree a rate today for
delivery in the future

Bring certainty but
cannot benefit from
positive currency
movements

Line of credit

Currency Options

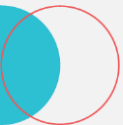
Protection while sharing
potential upside

Comes at a cost –
currency insurance policy

Can be complex – use
caution

Tips & Tactics

- Have a policy for managing currency – Top down
- Accurate forecasting and budgeting process
- Calculate the FX rate where UK sales are no longer profitable – Breakeven rate
- Match currency inflows with outflows
- Eliminate complacency
- Stress test your business – assume rate parity
 - Use the Enterprise Ireland Sterling impact Calculator
- Ask your customers/suppliers to invoice in Euro (or sterling if appropriate)
- Insert FX protections into new contracts – Inflation clause, FX clause
- Engage with your Bank or Currency Provider



Summary

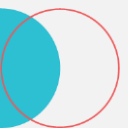
- 1. Currency volatility is a risk to your business**
- 2. Erode margin**
- 3. Understand, quantify and manage exposure**

Thank You

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Q&A



State Supports

Enterprise Ireland

- Act On Initiative
- Be Prepared Grant
- Brexit Advisory Clinics
- Customs Insights Course

Intertradelreland

- Tariff Tracker
- Brexit: Start to Plan Vouchers
- Research Reports

Local Enterprise Office

- Brexit Mentoring
- Lean for Micro & Agile Innovation Programmes
- Management Development Programmes

