

## **SYNOPSIS OF FINANCE WORKSHOP AND NETWORKING EVENT ON 16<sup>th</sup> / 17<sup>th</sup> October 2012**

### **FX & Export Finance**

Outlined below are the key messages from each speaker, to access slides of their presentations please visit the EI corporate website at [www.enterprise-ireland.com/financeforgrowth](http://www.enterprise-ireland.com/financeforgrowth)

1. AIB examined how an SME can partner with its bank to internationalise its business, exploring how and when to engage with a financial institutions to avail of the various methods / financial instruments an exporting SME can use to mitigate risks associated with international trade such as Foreign exchange, letters of Credit, Invoice Discounting, Credit insurance, Performance bonds, etc.

Some key messages are outlined below:

- 90% of exports are done on an open account basis out of Ireland – there is an increased risk of non payment especially when dealing with new customers in new markets
- FX management and payment method should begin with the sales process, rather than making it a finance only issue. Consider setting the Sales teams metrics based on local currency and have finance work with the sales team when tendering or quoting for new business
- If there is no formal policy / documentation in place and something goes wrong, then finance is typically held accountable. The policy should be agreed and responsibility shared at board level
- In order to persuade other areas of the business of the importance of hedging use historical foreign exchange movements to emphasise the point e.g. in 2010 there was a difference of 22.8% between the high and low EUR/ USD rate – if a co is operating out of a 5% net margin it can not absorb a negative movement in current year profits
- If you do not hedge you are in effect gambling and it is important to regularly review the FX policy with the board
- Rolling cashflow forecasts (at least 12 months) are essential to identifying working capital needs
- FX losses will have negative credit implications
- When using letters of Credit ensure that it never requires an action from the importer such as confirmation of delivery – if the customer refuses to acknowledge delivery then payment can not proceed
- If a customer claims that they can not obtain a Letter of Credit then this should be an indicator that there might be wider issues and that a less risky payment such as cash in advance should be considered
- Engage with the bank on a regular basis so that when an issue does arise a decision will be made quicker

#### **Issues raised during the case study discussion included**

- Potential to renegotiate the deal in terms of delivery, payment method – explore a way in which to deal could be restructured to fund the working capital requirement e.g. discounting a letter of credit
- Customer concentration issues
- Is this a once off business or is there the potential that this can be repeated
- Does this sale fit in with the overall strategy of the organisation
- Using ID against the overall debtor book should release funds into the company to help fund the overseas deal
- Since the contact was tendered for there would be significant USD movement – is it still worthwhile doing this deal

## **2. EI Client's Practical Experience of the role of the CFO**

- Paddy Staunton, MD at Brewery Chemical & Dairy Engineering – shared his experience of how his organisation has expanded abroad. The role of the FD and MD should not be shared, engage with the bank early and obtain an opinion on how to structure a deal. Bonding requirements are becoming more of an issue
- Dermot Beirne, FD at Suretank Ltd – The FD role is to minimise risk and losses and not to make a profit off FX. Dermot engages with sales and operations on a weekly basis to identify future FX requirements. Learning from a past experience in which the exchange rate movement (that they did not hedge) nearly resulted in the company incurring a loss Dermot now has an FX policy in place which has been agreed by Snr mgt