

Enterprise Ireland Case Study:

(Please note this is not a Balance Sheet exercise, it is only concerned with Cash Flow and Payment Risk).

GE & Co.Ltd are a manufacturing company and up to recently their sales were almost exclusively on the island of Ireland, 90% ROI and 10% NI.

In 2006 turnover was €15m and that remained constant during 2007, however their business suffered as a result of the recession here and turnover dropped to €5m in 2010 – as you can imagine this drop in sales did not help their P&L and they incurred losses.

They spoke to an Enterprise Ireland Mentor in 2009 and as a result they began to look at diversification away from Ireland, they attended some trade fairs in the UK with the support of E.I., employed an Export Sales Manager and also travelled with EI on some trade missions.

Turnover in 2012 was up to € 8m and the projections for 2013 are at €12m with sales of €9m for the period to end of September. Sales are estimated to grow to €20m for 2014.

In pre recession days they sourced their raw materials in Ireland and in Germany and their Suppliers gave them credit terms averaging 45 to 60 days. Sadly in the period 2008 to mid '12 these arrangements changed and in one case they had to pay in advance while in other cases terms were Cash on Delivery.

Thankfully the company, by showing their ability to pay promptly for their product, were then in a position to negotiate a return of the former credit terms from their Suppliers and in most cases they are now receiving 60 days open account credit terms from their suppliers.

As you can imagine the period 2008 to mid '12 was a tough time for the company as they sought to diversify and at the same time keep their suppliers happy. It did mean that the main shareholders had to inject personal funds into their business simply because their bankers were reluctant to allow them increased facilities to pay their Suppliers while waiting payment from their clients.

As of now they have 15-20 regular clients in the UK and they were also fortunate to secure a good contract with a client in Turkey & China.

It would seem that sales for 2013 will be €4m in ROI, €4m in UK/NI and €4m for China & Turkey.

The forecast for 2014 is estimated to be €4m in ROI, €8m in UK/NI and €8m for China and Turkey and they are close to securing deals in Russia & Saudi Arabia which could increase their sales by an extra €6m if they can afford to take on this business – each contract could generate €3m in sales.

The Russians are willing to pay 50% of the value in cash up front if GE will give them an Advance Payment Guarantee. The Saudis are prepared to issue an LC if GE will give them a Performance Bond for 20% of the Contract value.

They estimate that raw materials this year will cost them €9m, €7m from Ireland & Germany and €2m from the UK. The relative figures for 2014 are €12m and €3m respectively.

All dealings with the UK are in GBP, sales and purchases. Sales to the UK are on open account terms and they are giving on average 60 days to their clients, they have received good credit industry references on their clients.

All Sales deliveries in the UK/NI and the ROI are by well known Transport Companies. GE also has good internal systems and procedures in place

All purchases within Ireland and from Germany are in € and credit terms are quoted above.

All sales to China and Turkey are in USD, payment is by Confirmed Irrevocable Letter of Credit at 90 days from Shipment Date. Initially they wanted to sell on a Sight basis but the Buyers in China and Turkey would not accept these terms – hence the 90 day terms.

Our client is clearly doing the right thing in that he is diversifying but growth costs cash and where can GE & Co.Ltd generate this cash flow ? Their E.I. contact has also asked them to look at their potential FX exposure.

They are due to meet their house bank in January and they will be looking to extend their facilities to allow them go after these new deals in Russia & Saudi Arabia.

What should the company be going during the next three months though to improve their Cash Flow and boost their profits by year-end.

Current 3 months Libor rates for the three currencies are as follows:

EUR: 0.22% / GBP: 0.51% / USD: 0.24%

Current Exchange Rates are as follows:

GBP/EUR is 0.835 & USD/EUR is 1.353.