

Case Study

Manufacturing Importer and Exporter - Medium Sized Business

Case Study - Medium Value Forex Turnover		
To determine the impact on profitability of effective foreign currency management		
Manufacturing Company Importing components and exporting manufactured product	Values in Accounting Currency	Ratios
Information about the Company		
Company's gross turnover	50,000,000.00	
Company's net profit before tax	5,833,300.00	11.67%
Forex value of imports / Contributor to CoGS	4,650,000.00	9.30%
Forex value exports / Percentage of Gross Turnover	22,710,000.00	45.42%
Gross value of forex portfolio	27,360,000.00	
Gains and Costs as a result of Constançon Currencies' services		
Margin gained from rate negotiation	240,768.00	0.88%
Improved returns gained through risk management and strategy	393,984.00	1.44%
Profit gained through instrument management	560,880.00	2.05%
	<u>1,195,632.00</u>	<u>4.37%</u>
Constançon Currencies Annual fees charged to the client	<u>-82,080.00</u>	<u>-0.30%</u>
Forex gains by Company net of all fees	<u>1,113,552.00</u>	<u>4.07%</u>
Profit Analysis		
Current Net Profit / % of Gross Turnover	5,833,300.00	11.67%
Net forex gains / % of forex turnover	1,113,552.00	4.07%
Net Profit with currency management / % of Gross Turnover	6,946,852.00	13.89%
Forex gains as a % of Net Profit (Profit uplift)	1.1m as % of 5.8m	19.09%

Company is a manufacturing business that imports approximately 10% of turnover in components from China and manufacturers finished products sold locally and in the USA, Europe and Africa, foreign sales contributing about 45% of gross turnover.

There are currency opportunities to net off common USD values, but due to timing differences and market opportunities it is often best to manage to base currency.

Given the mix of currencies it affords the opportunity to consider all currencies to the USD and then independently, the USD versus the home currency.

The finance department has full visibility of transactions and has 24/7 access to the online currency portal FRM (Forex Risk Manager) to plan payments, update exposures, check receipts, review currency deals, determine revaluations and reconcile balances in the Balance Sheet and Income Statement.

- Constançon Currencies negotiates the rates, chooses the right provider and product to maximise benefits.
- Constançon Currencies interrogates the portfolio on a daily basis to assess opportunities, carry out transactions and review open positions.
- Constançon Currencies proactively responds to market movements relative to the portfolio of import and export requirements and buys for imports and sells for exports when advantageous.
- Considerations include currency rates, interest rates, expected movements, internal costing rates, price sensitivity, relative size, credit lines and instruments.
- Constançon Currencies as a management team member helps with the export pricing strategy, risk appetite definition, aligning of remuneration plans and reports currency activity to the Board.

Constançon Currencies works with the finance department to ensure that the accounting entries reflect the correct conversion rates, the profit and loss is accurately reflected per transaction and supports the preparation of the relevant accounting reports for finance, sales and the Board.

The company has improved its profit return by £1 113 552 from £5 833 300 to £6 946 852, which has increased the net profit percentage from 11.67% to 13.89%, an improvement in the net profit of 19.09%