Agriculture – Case Study

An Australian wine business with significant export sales to the UK (denominated in GBP) had found it challenging to forecast and manage FX risk and therefore, adopted an FX risk management approach of hedging as little as possible.

The shock Brexit vote in 2016 devalued GBP significantly and had a resulting impact on AUD equivalent revenues. As a result, the business reactively shifted its FX risk management approach to hedge as much as possible and for as long as possible.

Their main challenge was:

- Both approaches were reactive in nature and ineffective as the company was still unable to accurately understand and quantify the underlying FX exposures.

Rochford advised and implemented the following strategies:

- Analysed how FX risk is identified, quantified and forecasted within the business, which included mapping the costing/pricing process from suppliers (growers) through to retail sales, as opposed to reliance on inadequate reporting derived from purchase orders/invoices being captured in an ERP system.
- Set meaningful budget rates and constructed an FX risk management policy that aligned with the commercial contracts and exposures of the business in a way that protected against significant adverse FX movements, but also provided sufficient flexibility to benefit from favourable moves through a balanced mix of FX hedging products.

With our support:

- We enabled the business to understand, capture and proactively manage their FX risk.
- We transformed FX risk management from a reactive cost centre to a more dynamic value-add process, which primarily protects AUD cash flow while facilitating some out-performance when market conditions are conducive.
- The predictability of internal cash generation has been significantly improved providing increased confidence in planning and executing business improvement strategies over the medium term.
- Additionally, the stabilisation of EBITDA has enhanced the attractiveness of the business to potential outside investors.