



How to protect the bottom line from losses caused by currency volatility in the Freight industry



CHALLENGE

When you work in Freight space, your bottom line and growth rate automatically get a ticket to the FX roller coaster.

The same happened to one of our customers, European based freight forwarder.

Currency volatility was not traditionally addressed in the Company. Their CFO was concerned with losing money on hedging instruments and felt that hedging is too complicated to explain to the management

However, in 2019, the losses became more substantial. Stakeholders became nervous and requested an actionable plan on how to protect the company from losses in the future. Given relatively small margins in this sector, even a tiny currency fluctuation significantly impacts the company's bottom line and growth rate.

To protect their results from losses caused by currency volatility, the company wanted to map their currency risk and design the practical and measurable hedging strategy to mitigate it.

SOLUTION

The project included 5 steps:

- 1 **Analyzing the nature of FX exposure and its impact on the bottom line.**
 - Using Hedgewiz analytic tools, we identified two primary exposures:
 - ✓ **Short term** - Company's customers usually paid in EUR while app. 60% of the cost of service was USD or GBP denominated. That left the company exposed to the appreciation of USD and GBP starting upon pricing to the customer until the payment to the suppliers.
 - ✓ **Long term Profits** - The Company is operating on a "cost+" business model. Since the majority of the costs are FX denominated, so does the expected profits, leaving the company exposed to the depreciation of USD and GBP. This exposure ends on the day pricing is sent to the customer.

- 2 **Creating reliable profit forecasts, including factors that can affect profit like order cancellations and taxes.**
 - ✓ One of the challenges of the company was forecasting profits linked to the exposure currencies. Using Hedgewiz's solution, the Company estimates its profits. It also stress tested the data to different market scenarios to evaluate the impact of currency volatility on the profits.

- 3 **Evaluating pricing to payment risk - exposure that originated from the timing difference between customers and suppliers' payments.**
 - ✓ Using Hedgewiz historic risk calculator, the Company was able to estimate historical volatility of the relevant currency pairs for the company's payables days (60 days), which was 4% for the EUR/USD and 3.3% for GBP/EUR. It was a significant risk given the company's profits.

Given an estimated costs of the services of 9M EUR a quarter denominated in FX, that means a potential loss of 360K EUR a quarter.



- 4 **Creating an effective hedging strategy to mitigate FX risks.**
 - ✓ Using Hedgewiz strategy design tools, the Company decided on the best hedging strategy fitting its needs and business statistics (cancellation etc.). To achieve the risk mitigation goal, the Company decided to hedge 80% of its open orders and 72% of its forecasted, unordered profits for the next 6 months.

It also decided on a needed frequency of monitoring such risk - in this case, twice a week or when new orders exceeded 200K.

- 5 **Creating management reports for Board discussion.**
 - ✓ The Company set a needed reporting for on-going implementation of the hedging strategy as described below.

The project described involved the corporate Treasury team, CFO, and MIS representative.



ACTION STEPS

After the training, the Company's Treasury team could immediately enjoy the benefits of efficient automated hedging according to the developed strategy, quick execution process, and best possible rates.

Here is a list of features we tailored to their Treasury team to optimize hedging strategy execution:

- ✓ Online execution: automatically executing transactions based on preset rules or initiated by Treasury.
- ✓ Tailored Dashboard;
- ✓ Hedging status report: monitor updated exposure and hedging transaction status as well as any deviation from the strategy and action items;
- ✓ Transaction report: historical data of hedging transactions
- ✓ Expiry/cash flow report: cashflow expected from hedging transaction expiry by the bank;
- ✓ Live market rates to monitor and control rates.

RESULTS

As a result, we reduced the volatility risk from 4% to 0.8% (securing over 300K EUR of additional profits a quarter)

With the help of the Hedgewiz platform, we were able to map the company's FX risk, optimize hedging strategy implementation,

automate hedging execution and protect the bottom line from the significant losses caused by currency volatility.

HERE IS WHAT COMPANY'S FD SAYS:



For me, Hedgewiz is a "must-have tool" for our industry or any other industry impacted by currencies. The FX market is extremely volatile and given high competition and low margins you simply can't neglect risk management. Hedgewiz helped us to start and understand what strategy is the best for us, and it has been facilitating our hedging since.

READY TO PROTECT YOUR COMPANY?

Schedule a demo call, to see how you can leverage the Hedgewiz platform to prevent your company from losses caused by currency fluctuations.

GET DEMO

Securing Financial Stability for Global Businesses

Hedgewiz helps financial business leaders grow cross-borders without foreign currency disruption. Our solution ensures organizations see and neutralize currency exposures that can disrupt their business.



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Get demo: www.hedgewiz.co.uk/watch-live-demo/