

HEDGEWIZ CASE STUDIES

DISTRIBUTER'S EXPOSURES

1. THE CHALLENGE

We were approached by Spain based distributor of American CRM software. The company stated that since the supplier price the software in USD they tend to price the product to the customers in the same currency in order to naturally hedge the currency exposure. The main issue is that while the payment to the supplier is usually done immediately, the customer's credit terms are usually 60 days and given company's working capital needs they constantly buy/sell USD, suffering from rate move in between. A year ago they decided to start short term hedging of the account receivable balance in order to mitigate the risk.

This practice is time consuming for them and they hoped that the Hedgewiz platform will help them to manage the process more effectively. Moreover, they claimed that despite the natural hedge practice they still suffer losses vs the planned budget during dollar depreciation.

2. HEDGEWIZ APPROACH

Using the analytic engine of Hedgewiz platform for mapping company's currency exposures, two main exposures were identified:

- *The exposure to currency volatility due to the different suppliers/customers' credit terms.*
- *Long term economic exposure of company's gross margin of 30% of the license price. Given the annual budgeted profit of EUR 3,000,000, 5% USD depreciation vs EUR reflected in above EUR 140,000 loss over the year since this exposure was either not hedged at all or hedged partially up to 60 days only.*

3. THE SOLUTION

- *Following the analysis, the company extended its risk management policy to hedge 70% of the forecasted profits for up to 12 rolling months.*
- *ERP integration was recommended in order to monitor and effectively manage balance sheet items exposure (account payables/receivables).*

4. HEDGEWIZ BENEFITS

Hedgewiz analytic engine allows companies to have an overall view on currency volatility impact on company's operation from both economic and accounting perspective. Following this necessary process, the tailor made solution and policy can be designed to reach the desired mitigation of the risk.