Moira.creedon@gmail.comr

Typical Advice….

“Brexit will undoubtedly have an impact on the overall economy.

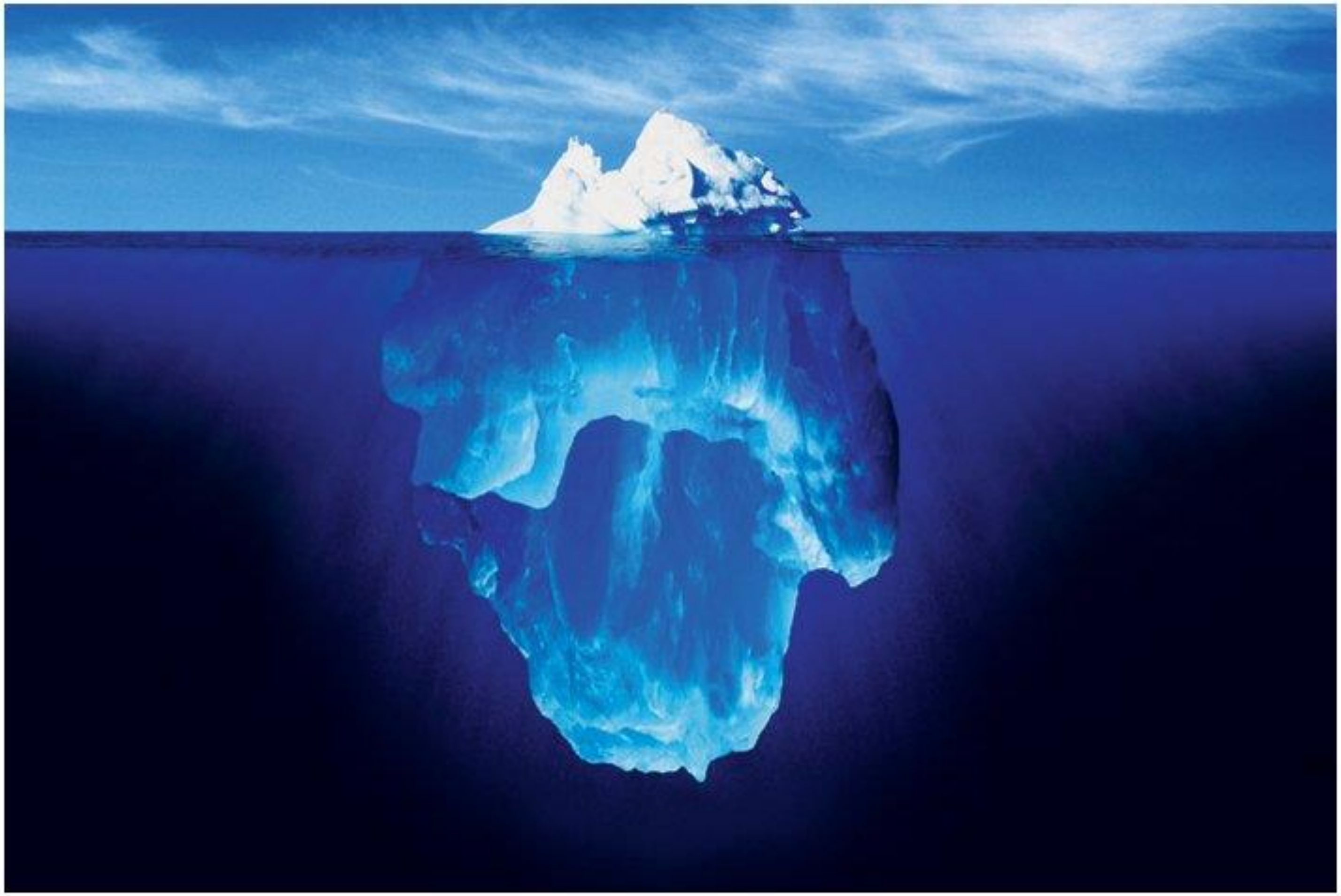
The impact it will have on an individual business will vary.

It is vital that organisations take action to assess how Brexit might have an impact”

(PWC Brexit Insights, *Brexit and managing the market risks*)

But what does that mean?
when the Risks are so hard to Imagine

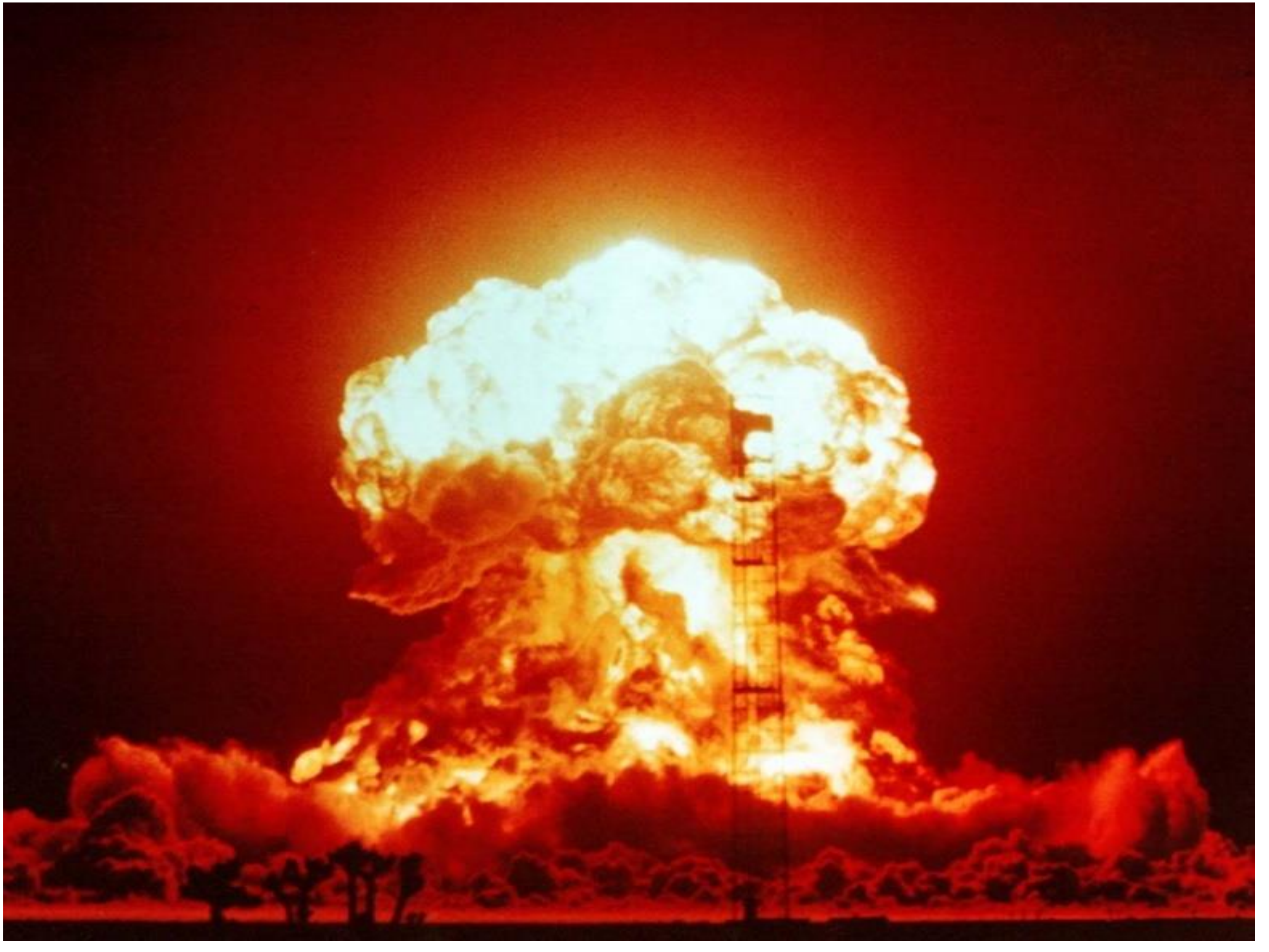
and so hard to Quantify



Let alone Protect Against

` Compared to This

Brexit might be Worse
(for Some)

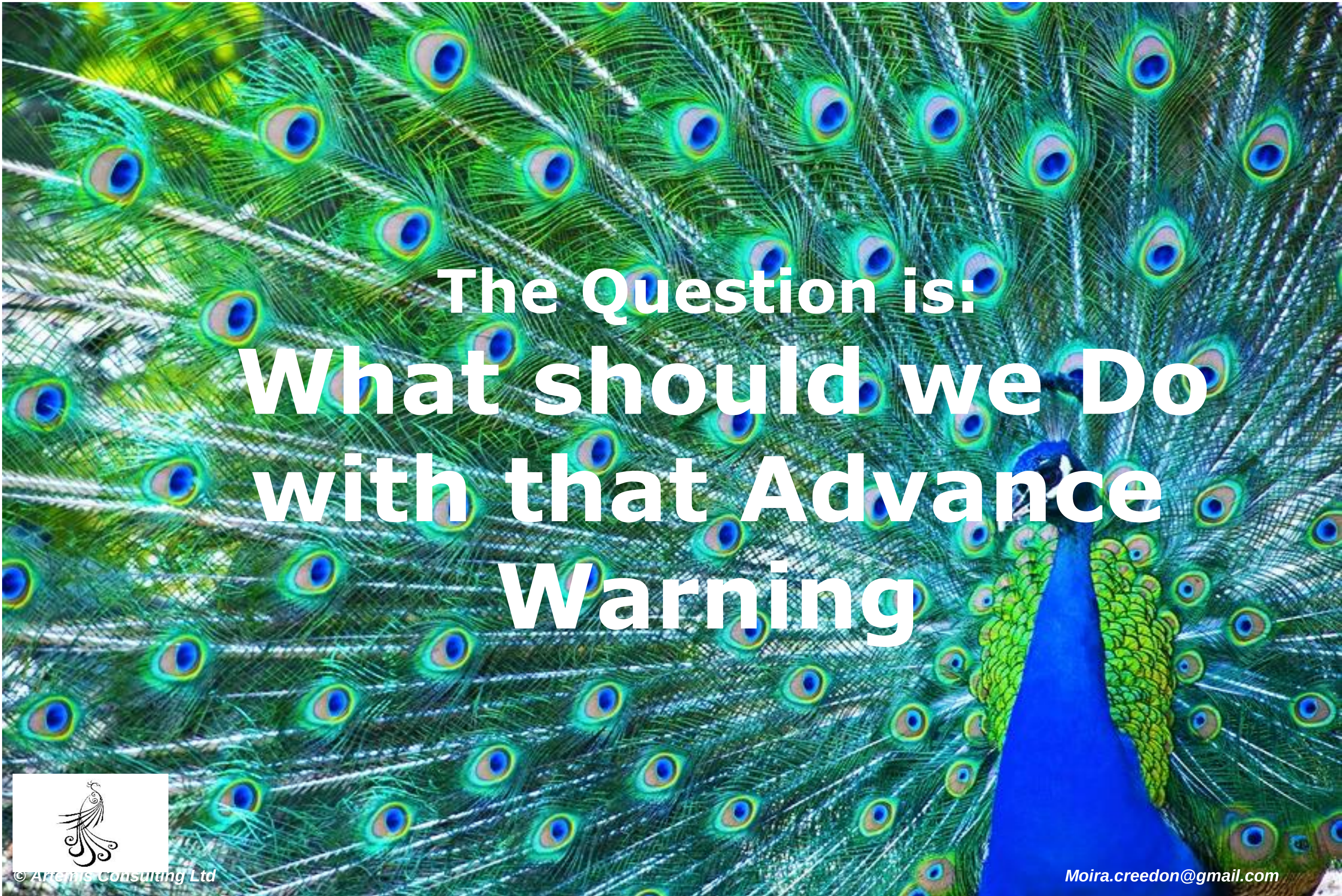


But at least…

We Have Advance Warning

The Question is:

What should we Do with that Advance Warning



Moira.creedon@gmail.com

Lets take a look at a real company

Moira.creedon@gmail.com

Beehive Honey Cereal Bars

Beehive Honeybars- the company

Established in 2000, based in Fermoy, Beehive Honeybars makes award winning glutenfree cereal bars using locally sourced wild honey and other ingredients such as seeds and nuts which are mainly purchased in bulk from the UK.

Beehive - Operations

Beehive have a manufacturing facility in a small industrial estate outside Fermoy with a total investment of €750k in equipment to make and package the bars.

This was funded by owners investment of €150k and a business loan of €600k with personal guarantees. €450k of the loan is still outstanding, to be repaid over next 5 years.

Beehive - Export Success

- ***Beehive have been highly successful building on initial success with Tesco ROI to achieve rapid penetration of the UK market with a pilot currently ongoing in 300 UK Tesco stores.***

- ***Signs are good that in 2018 Tesco will bring the product nationwide in the UK and other UK retailers are already expressing strong interest.***

- ***30% of 2017 revenues are from UK in £ with 70% in € from ROI***

- ***2018 Revenues expected to double from huge growth in UK from Tesco roll out and Waitrose in Q2. ROI revenues expected to stay level***

Beehive 2017: Healthy Profit Outlook

	2017 Full year
Sales	**€2,800,000**
Cost of sales	**€2,240,000**
Gross Profit	**€560,000**
Overheads	**€425,000**
OPERATING PROFIT	**€135,000**
Interest	**€47,160**
PBT	**€87,840**
Profit after Tax	**€76,860**

What Could Possibly Go Wrong?

Moira.creedon@gmail.com

What is Risk Management?

Moira.creedon@gmail.com

No matter what you are doing…

What is Risk Management?

- Identify the risks
- Measure the risks
- Identify your Mitigation Options
- Assess your options – pros, cons, feasibility, costs, limitations, implications
- Choose your Strategy and Implement

Shackleton, Tom Crean, Paddy Barry and the James Caird

Risk Mitigation has to be Planned

And usually costs money

Rescue back up boat

Moira.creedon@gmail.com

Beehive Brexit Risks

- Currency risk: sterling revenue but costs in €
- Tariffs
- B2B Customer weakness – Tesco at risk raising credit risk
- B2C customer weakness – disposable income plummets, cheap competition from outside EU, snacks don’t sell
- Supplier exposure – bankruptcy risk

Beehive Brexit Risks

•**Logistics – getting goods into / out of UK: delays so potential inability to service UK retail clients on time, transport costs and inventory escalate**

•**Overhead costs: extra admin, border paperwork/ other regulatory changes**

•**Contract risk – lack of legal infrastructure?**

•**Insurance risk – contracts invalid?**

•**Regulatory Risk – UK ingredients into EU Product?**

MEASURE

How Bad might the impact be?

Moira.creedon@gmail.com

Forecasting and Scenario Planning

FORECAST MODEL IS ESSENTIAL TO MEASURE THE RISK:

DO SCENARIO PLANNING: What if….

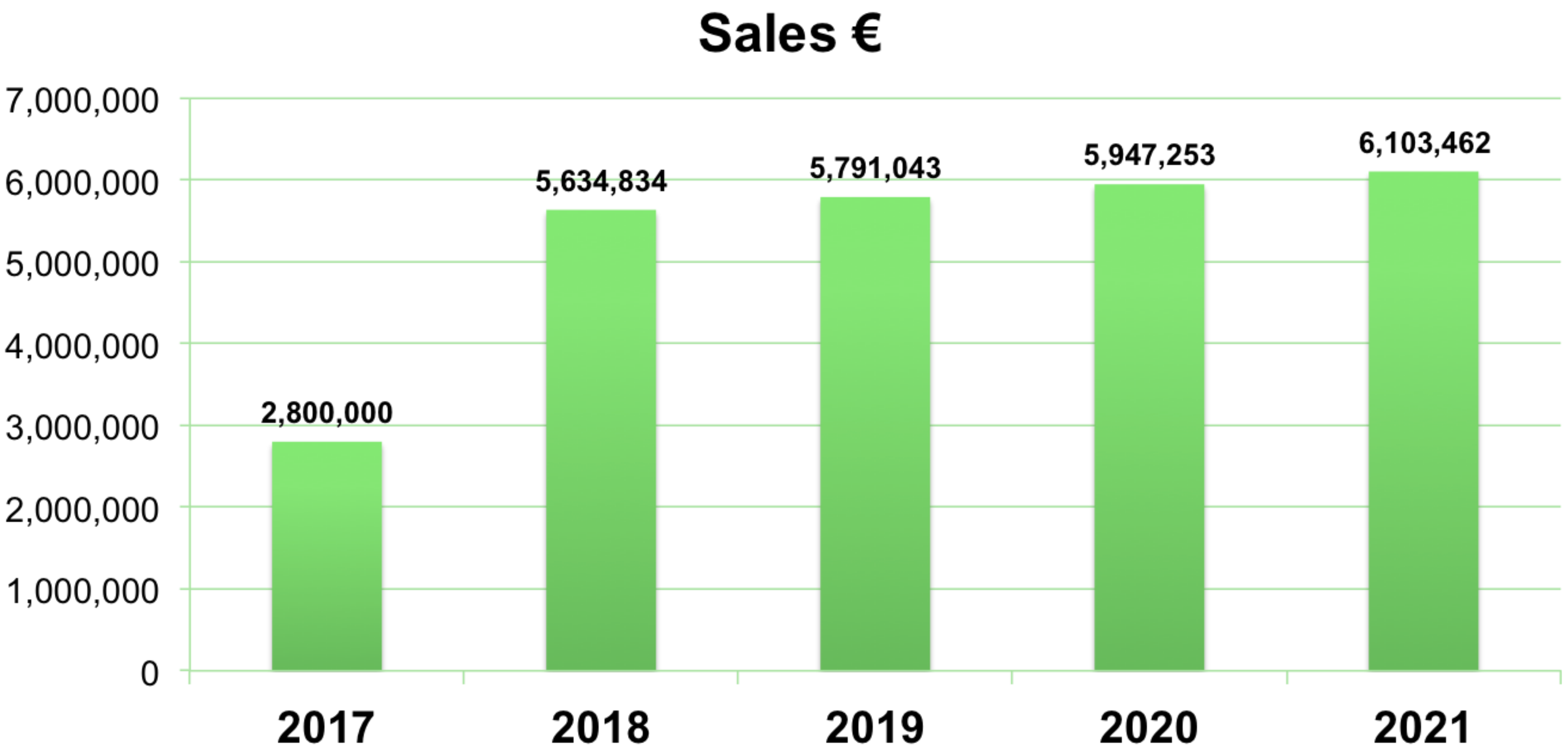
Current 5 year Forecast

assumed £1 = €1.15

	2017	2018	2019	2020	2021
Revenues	2,800,000	5,634,834	5,791,043	5,947,253	6,103,462
Cost of sales	2,240,000	4,507,867	4,632,835	4,757,802	4,882,770
Gross Profit	560,000	1,126,967	1,158,209	1,189,451	1,220,692
EBITDA	210,000	506,967	458,209	469,451	480,692
operating profit	135,000	431,967	383,209	394,451	405,692
Profit After Tax	76,860	329,488	290,730	304,471	322,938
Cash balance	9,090	348,968	592,755	850,284	1,043,222

Current 5 year Forecast Sales

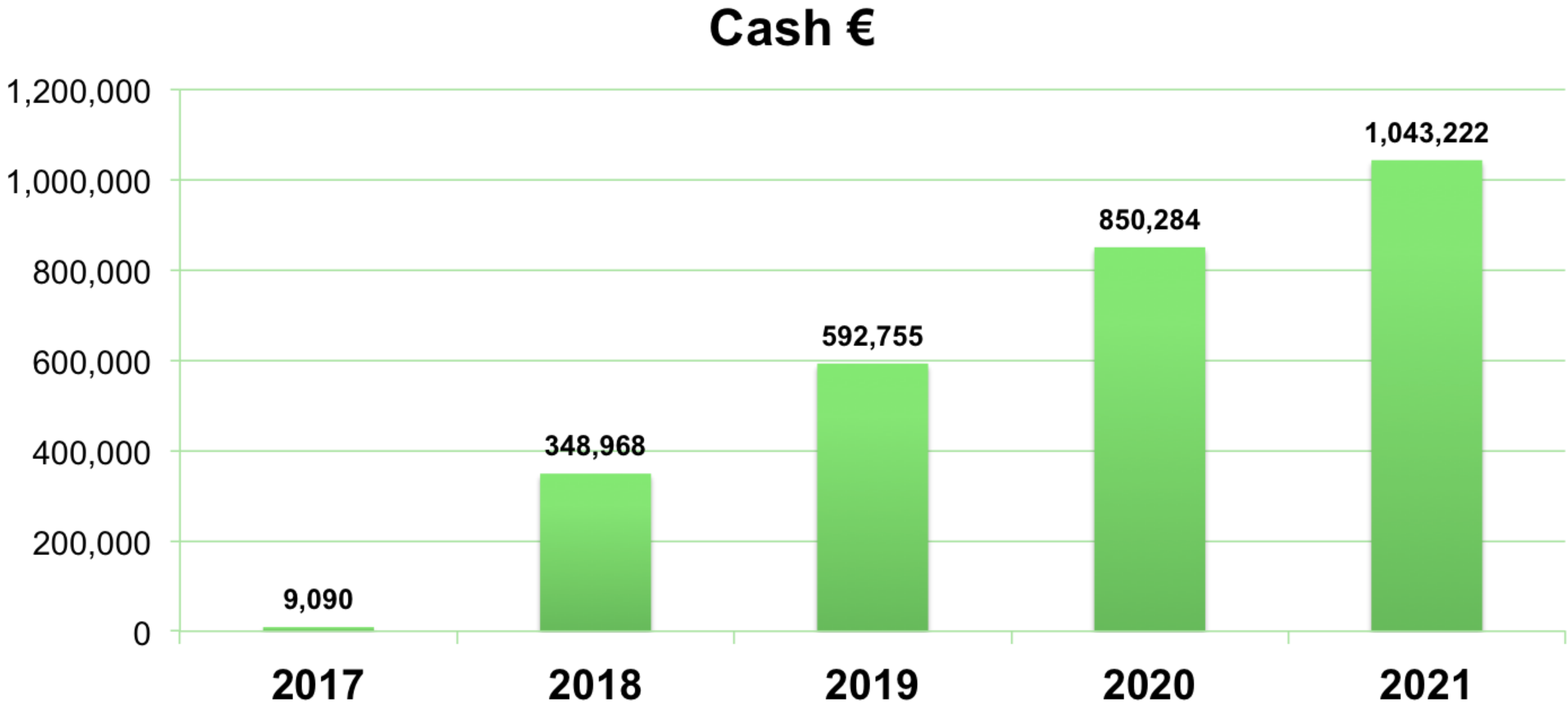
assumed £1 = €1.15



Current 5 year Forecast Cash

assumed £1 = €1.15 – cash balance pre loan repayment

THIS IS WHAT WE SHOWED THE BANK!!!

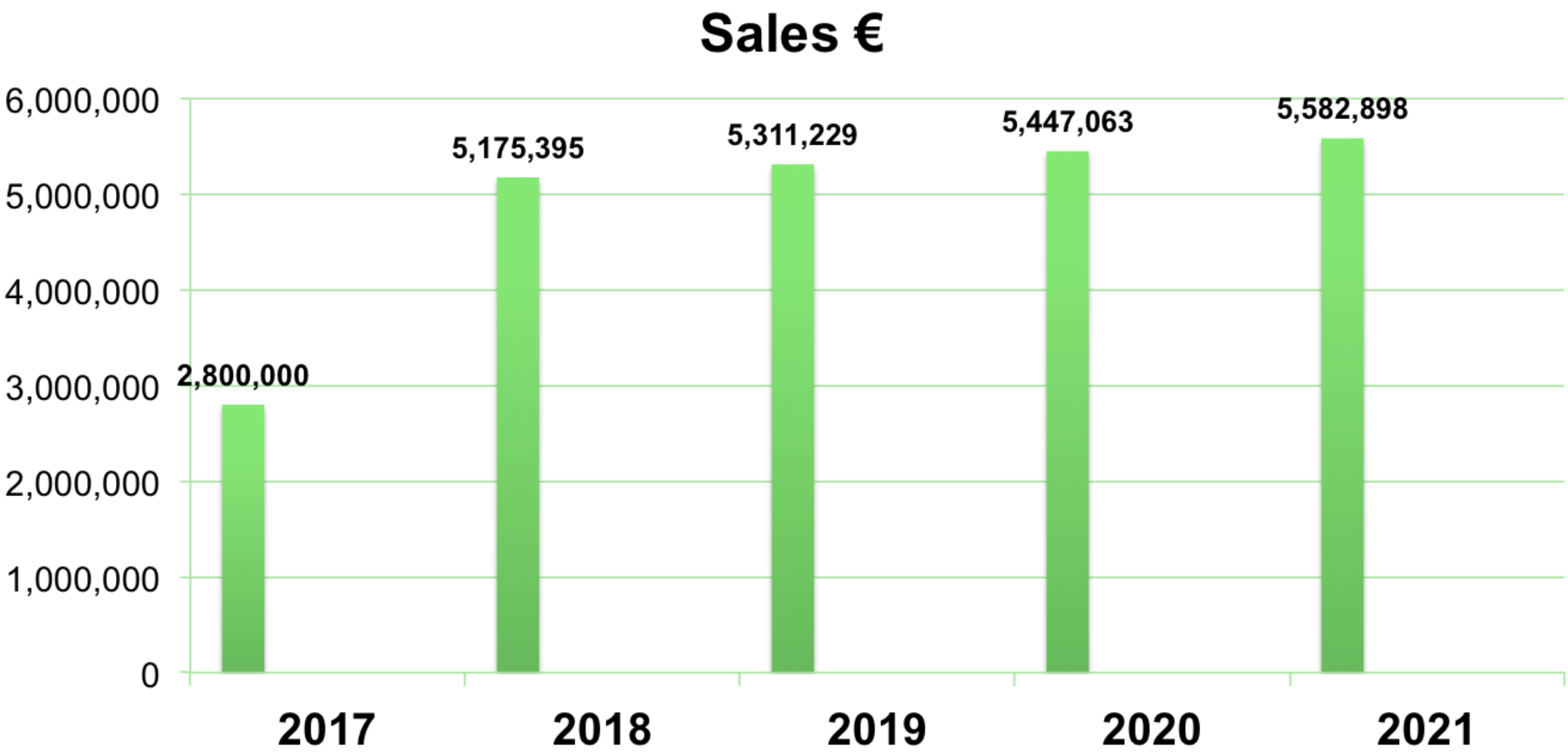


5 year Forecast if £ goes to parity

	2017	2018	2019	2020	2021
Revenues	**2,800,000**	**5,175,395**	**5,311,229**	**5,447,063**	**5,582,898**
Cost of sales	**2,240,000**	**4,507,867**	**4,632,835**	**4,757,802**	**4,882,770**
Gross Profit	**560,000**	**667,528**	**678,395**	**689,261**	**700,128**
EBITDA	**210,000**	**47,528**	**-21,605**	**-30,739**	**-39,872**
operating profit	**135,000**	**-27,472**	**-96,605**	**-105,739**	**-114,872**
Profit After Tax	**76,860**	**-70,109**	**-126,589**	**-130,568**	**-129,823**
Cash balance	**9,090**	**-19,999**	**-192,172**	**-368,325**	**-626,790**

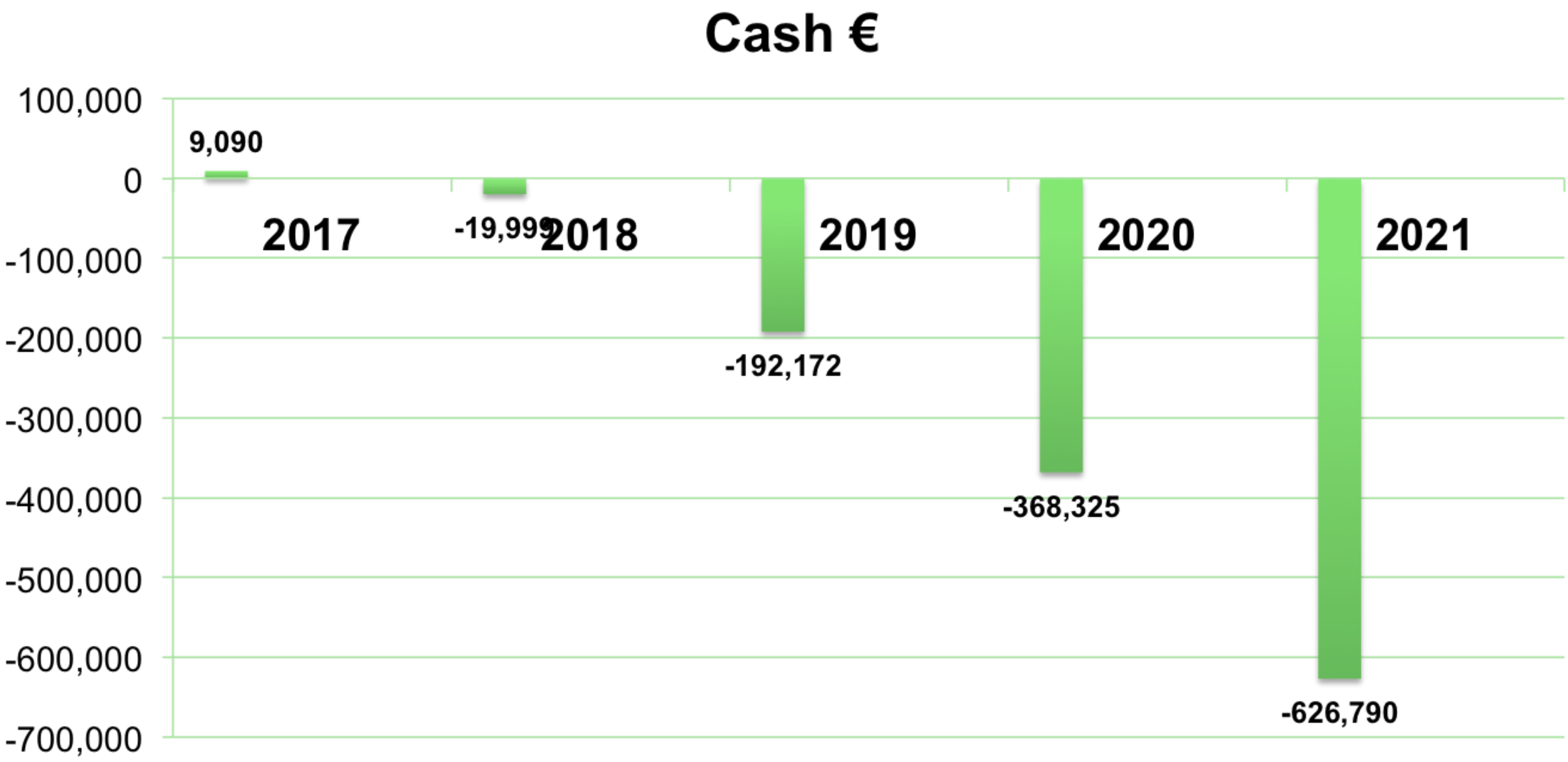
5 year Forecast Sales

assumed £1 = €1



Current 5 year Forecast Cash

assumed £1 = €1



5 year Forecast

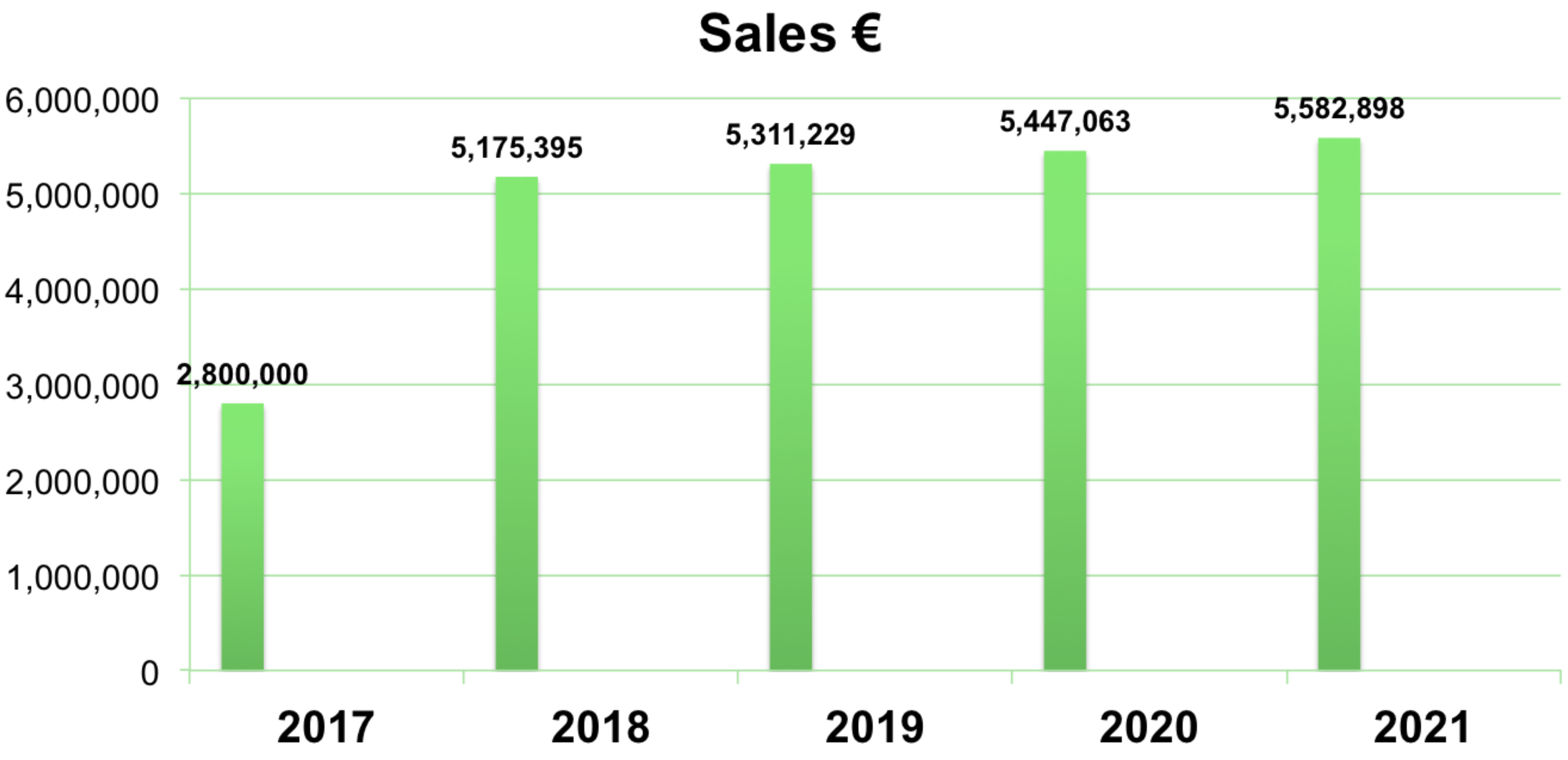
£ goes to parity and WTO Tariffs are Imposed from March 2019 assu

10% (WTO default rate on cereal bars) absorbed by producer

	2017	2018	2019	2020	2021
Revenues	**2,800,000**	**5,175,395**	**5,311,229**	**5,447,063**	**5,582,898**
Cost of sales	**2,240,000**	**4,507,867**	**4,905,004**	**5,041,529**	**5,178,054**
Gross Profit	**560,000**	**667,528**	**406,226**	**405,535**	**404,844**
EBITDA	**210,000**	**47,528**	**-293,774**	**-314,465**	**-335,156**
operating profit	**135,000**	**-27,472**	**-368,774**	**-389,465**	**-410,156**
Profit After Tax	**76,860**	**-70,109**	**-364,736**	**-378,829**	**-388,197**
Cash balance	**9,090**	**-19,999**	**-423,402**	**-847,494**	**-1,363,370**

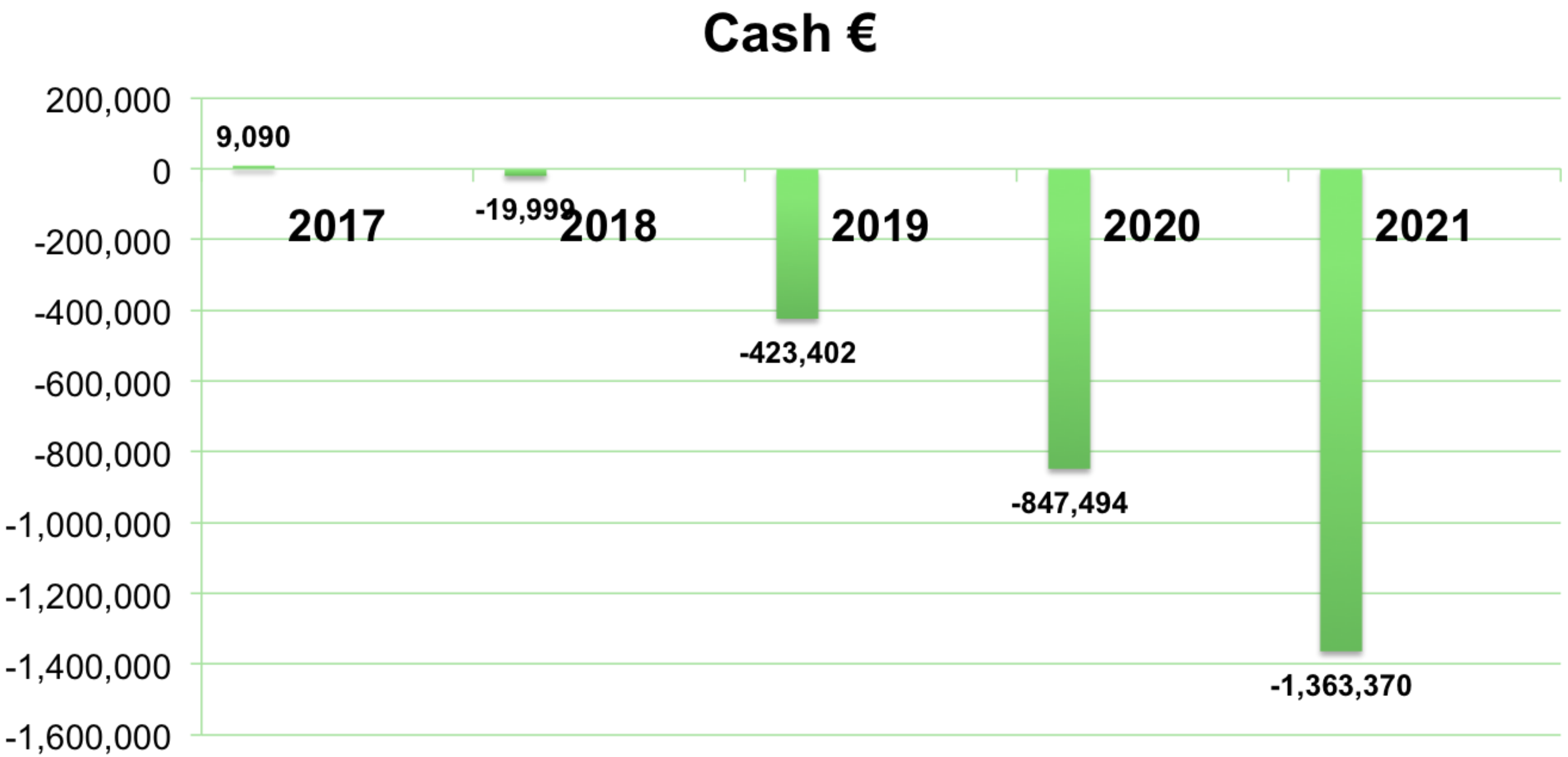
5 year Forecast Sales

assumed £1 = €1, WTO tariffs imposed absorbed by producer



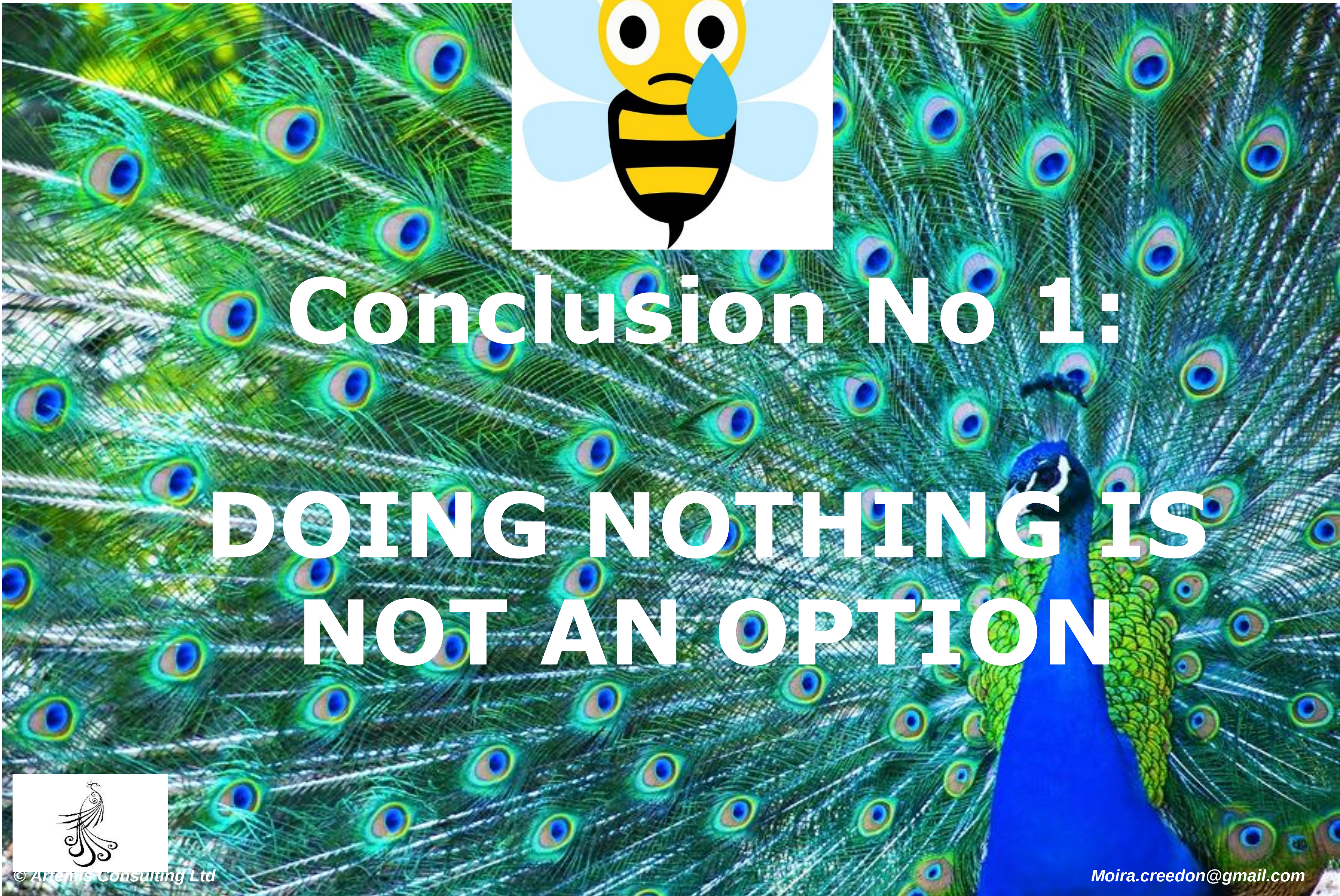
Current 5 year Forecast Cash

assumed £1 = €1, WTO tariffs imposed absorbed by producer



Per Unit Picture

	ROI units	UK units 2017	UK units at parity	UK units parity and tariiff
RRP	**4**	**4.025**	**3.5**	**3.5**
VAT rate	23%	20%	20%	20%
Price to store net of VAT	3.252	3.354	2.917	2.917
retailer margin	**40%**	**40%**	**40%**	**40%**
net to seller - NET INVOICED PRICE	1.95	2.01	1.75	1.75
per unit Variable cost	**1.56**	**1.56**	**1.56**	**1.72**
Contribution per unit	0.39	0.45	0.19	0.03
Gross Margin %	20%	22%	11%	2%



Conclusion No 1:

DOING NOTHING IS NOT AN OPTION

Moira.creedon@gmail.com

So What can we Do?

Moira.creedon@gmail.com

3 minute Break out MITIGATION OPTIONS What can Beehive do NOW to mitigate and prepare

Moira.creedon@gmail.com

Beehive Honeybars - Options

Currency Risk measures

- Hedging – forward selling of £ sterling to fixed € exchange rate
- Expand purchasing footprint in the UK to create "natural hedge"
- Move manufacturing to UK/ set up additional UK plant?
- Outsource manufacturing of UK bound product to UK
- open UK Sterling bank account
- Change invoice currency to € or seek dual invoicing

Forward Cover

- Commit to exchange currency in the future at fixed rate on specific date or over an agreed period
- Can be tailored to cover exactly what you need
- Gives clarity on Euro value of inflows in the near future - helps budget

Limitations and risks of Forwards

- **You HAVE to exchange or incur penalties, so accurate forecasting essential**
- **You lose any upside on £**
- **Doesn’t solve fundamental problem that a long term £ slide annihilates your profitability**

Yesterdays quote:

- **Spot rate – 1.1187**
- **3mth rate – 1.109**
- **1 year rate – 1.099**

Forward cover

- **Talk to your BANK(s) – ask them to map cover for your exposures, Shop around!**
- **UK Providers entering ROI market demanding big deposits and high fees**

You will need

- **Accurate forecast of future £ cash inflows not already matched off by future £ outflows**
- **Your forecast needs to be split by currencies so you can easily identify the exposures**

Beehive Honeybars - Options

Operational Measures – improve profitability

- **Reduce overheads – invest in IT systems to reduce admin cost and prepare for increased documentation requirements**
- **Product portfolio rationalisation – examine Profit by SKU and eliminate or fix unprofitable SKUs**
- **Re-engineer product recipe/ packaging to take out cost**
- **Improved Sourcing to drive down cost – eg go straight to underlying source of Seeds and Nuts**

Beehive Honeybars - Options

Marketing measures – pricing, new product and market development

•Identify and develop new markets for existing products in EU or third countries

•Abandon UK market completely – are we losing money in the UK?

•Expand ROI market – other retailers? Online? Foodservice?

•Develop new products to grow ROI revenues and help access new markets

•Increase price


ASSESS MITIGATION OPTIONS
Pros, Cons, Costs, viability, investment needed, limitations and Implications
© Artemis Consulting Ltd
Moira.creedon@gmail.com

Beehive Honeybars - Options

Currency Risk measures

- **Hedging – forward selling of £**

USEFUL VERY SHORT TERM MEASURE BUT IS <u>NOT</u> A SOLUTION TO THE PROBLEM

- **Expand purchasing footprint in the UK to create "natural hedge"**

BECAUSE MANUFACTURING IS IN ROI MAY TRIGGER TARIFFS AND CUSTOMS DELAYS – OPERATIONAL and INVENTORY RISK

- **Move manufacturing to UK/ set up additional UK plant?**

HUGE INVESTMENT NEEDED – TOO MUCH EXISTING DEBT

- **open UK Sterling bank account –**

USEFUL BUT NOT A SOLUTION, REDUCES TRANSACTION FEES

- **Change invoice currency to € or seek dual invoicing**

UK RETAILERS WILL NOT AGREE

Beehive Honeybars - Options

Operational Measures – improve profitability

•**Reduce overheads – invest in IT systems to reduce admin cost and prepare for increased documentation requirements**

GREAT IF INVESTMENT OPPORTUNITIES EXIST THAT EFFECTIVELY REDUCE OVERHEAD COSTS, BUT WILL NEED FUNDING

•**Product portfolio rationalisation – examine Profit by SKU and eliminate or fix unprofitable SKUs**

ALWAYS USEFUL - SHOULD BE DONE REGARDLESS OF BREXIT, NEEDS GOOD FINANCIAL REPORTING DATA

•**Re-engineer product recipe/ packaging to take out cost**

IF POSSIBLE WITHOUT COMPROMISING QUALITY…

•**Better Sourcing – eg go straight to underlying source of Seeds and Nuts**

Beehive Honeybars - Options

Marketing measures – pricing, New product and market development

•Identify and develop new markets for existing products in EU or third countries

NEEDS INVESTMENT and CAREFUL FINANCIAL PLANNING

•Abandon UK market completely – are we losing money in the UK? How can we tell?

•Expand ROI market – other retailers? Online? Foodservice?

IS ROI ENOUGH TO COMPENSATE FOR UK MARKET and still repay debt?

•Develop new products to grow ROI revenues and help access new markets

NEEDS INVESTMENT and CAREFUL FINANCIAL PLANNING

•Increase price to retailers

PROBABLY NOT VIABLE AND MIGHT HAVE VOLUME IMPACT

Beehive – Assessing Options

Run forecast scenarios:

What happens if we….

a)Stop all UK growth or even leave UK and seek retail markets in mainland EU and further growth in ROI– harder slower sell, need to invest in product and labelling changes, higher overheads for marketing….

b)Source raw materials outside UK – cost? Lead times?

c)Develop new products to enter new marlets

Create financial forecast showing impact of these measures including investments in IT, equipment, NPD, inventory, need to fund period before strategy works…

Conclusions….

a) *Measuring your exposure using flexible forecasting tool is crucial first step*

b) *"treasury" actions such as hedging currency or raw material input costs are only of very short term benefit – stop you watching the £/€ exchange rate 24/7 but WILL NOT solve the problem*

c) *Most of the real solutions require investment/ business repositioning and have to be carefully planned*

d) *Good financial data eg per unit SKU costings and gross profit essential to decision making*

Recommendations….

a) ***Identify and measure your exposures and agree a clear plan that reflects the financial implications of your mitigation decisions***

b) ***Ensure your financial reporting system can monitor delivery of the plan and ongoing product profitability***

c) ***If currency exposures are significant, hedging may be useful as short term tactic, natural hedge always best but not always viable***

BREXIT, Alison Cowzer and the East Coast Bakery

“We’ve changed our entire focus on the business plan away from the UK. We’re now looking at 20% of our business in that area instead of 80% – that’s a huge change for a business that is only 18 months old,”

BREXIT, Alison Cowzer
and the East Coast Bakery

Under World Trade Organisation (WTO) rules, which the UK will default to if no trade deal is struck with the EU, there are around 50 different factors that determine the tariffs on imported biscuits.

BREXIT, Alison Cowzer and the East Coast Bakery

“If it all crashes and we end up with WTO tariffs in place, we will have a tariff on our exports to the UK between 9% and 23% depending on the type of biscuit. That is your margin gone, shot, finished. Close the doors.

Best time to Mitigate:

While you are still on the Ground: That's NOW

Thank You

What about other sectors?

- Services
  - Tech services
  - Consulting
  - Software/ licenced services
- Life sciences
  - Pharma
  - Medical instruments

What about other sectors?

- Construction
- Engineering

- Green tech
- Fintech
- Traveltech