Business Case: Traduro S.L.

Traduro S.L. ("Traduro") is a publicly listed Spanish manufacturer of construction and large agricultural equipment. Since its original founding in 1978 until the early 2010s, it focused exclusively on the Spanish market. However, in 2014 it began to pursue a very aggressive international marketing strategy, with a particular focus on the North American market, which has been met with considerable success. As a result, over 60% of its sales are now outside of its home market, primarily in the U.S.

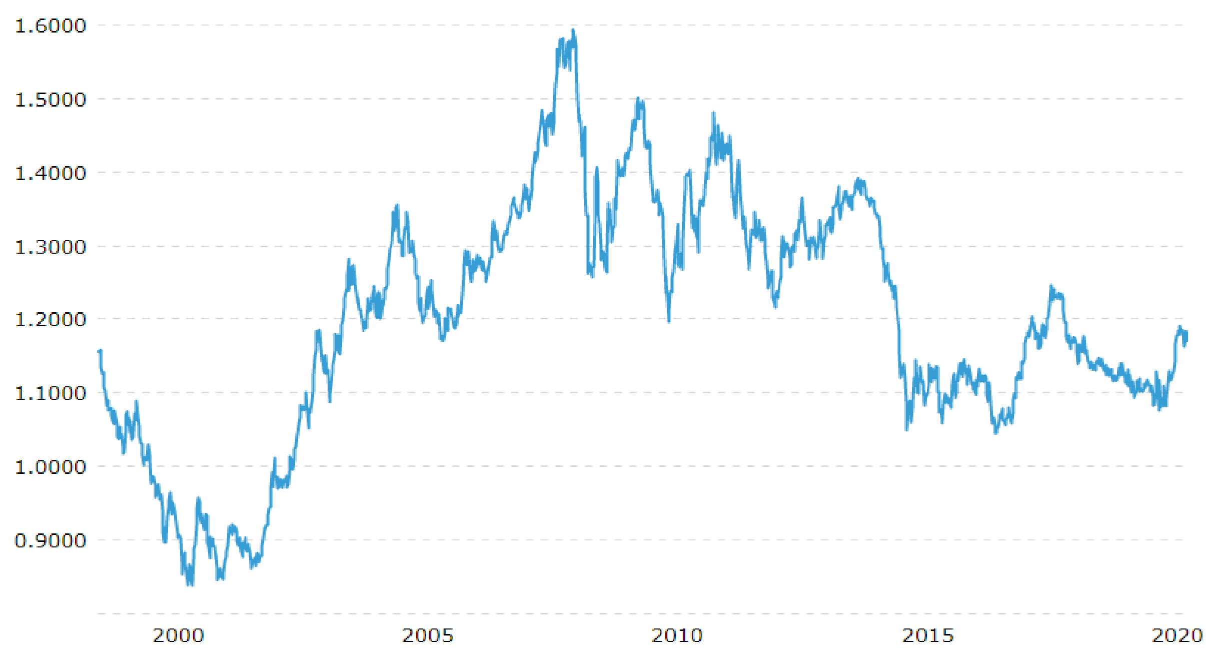
Table 1 - Global Sales Distribution (millions Euro)

Market	2014	2015	2016	2017	2018	2019
Spain	289	334	379	425	453	566
Other EU	56	78	121	145	162	188
Mexico	-	38	67	92	130	167
U.S.	68	241	393	569	787	994
Canada	-	-	27	57	88	113
Total	413	691	987	1,288	1,620	2,028

This growth has prompted the need for a significant expansion in Traduro's existing production facilities, which are currently located in the Catalonia Region of Spain.

With the increasing proportion of revenues coming from North America, Traduro net earnings (which are reported in its local currency, the Euro) have become increasingly impacted by changes in foreign exchange rates, particularly relative to the US$.

Chart 1 – Euro/US$ Exchange Rates 2000-2020



http://www.macrotrends.net/2548/euro-dollar-exchange-rate-historical-chart

The significant volatility in exchange rates over the last few years, coupled with the increasing growth of global revenues, have made net earnings much more volatile and difficult to predict. This has begun to impact Traduro's dividend policy and debt service coverage levels, since all of Traduro's financing to date has been raised in the local market on a Euro-denominated basis. This issue has been getting a lot of coverage in recent analysts' reports and has been a key theme in discussions with potential investment bankers as management begins to make the rounds in securing the additional financing required to support its planned production expansion project.

Management has undertaken various reviews in the past aimed at exploring the possibility of hedging its currency exposure, but has resisted doing so to date. This position is largely based on their expectation that global financial markets will be characterized by a long term secular trend of US$ strengthening against virtually all other major global currencies, particularly the Euro.

Questions

1. How would you describe management's risk appetite for currency risk? Do you think this appropriate?
2. What range of risk management actions might be available to deal with the currency risk?
3. If they were to begin hedging, what should be the purpose/desired outcome of the hedging strategy?
4. Select 1-2 of potential management actions and provide a high level qualitative assessment of the following;
    a. What are key benefits?
    b. What could go wrong?
    c. What new risks might the risk response introduce?
    d. Would it meet the desired purpose?
    e. How easy is it to adjust/modify?
5. What recommendations would you offer to Traduro for dealing with its currency risk?