



Chapter 19

Kilgore Custom Milling
Enterprise Risk Management



Introduction

- Background
- The management team
- The company
- The new contract
- The financial risk management meeting

Background

- Kilgore Custom Milling
 - Small private manufacturer
 - Power window assemblies
 - Based in southern Ontario, Canada
- Pursued contracts to supply plants in the U.S.
 - Successful in negotiating a contract with Japanese manufacturer
- Previous international contracts resulted in loss
 - Due to currency volatility

The Management Team

- Owner and CEO
 - Steve MacLinden
 - Left day-to-day operations for the rest of the team
- Manufacturing and Plant operations
 - Rory Sullivan
- Sales and Client relationships
 - Casey Dobblestyn
- Treasurer and CFO
 - Cathy Williams

The Company

- Privately owned
 - 100% by Steve MacLinden
 - Planning to retire in 5 – 10 years
- Main focus is cash flow management
- Concerns with currency related cash flow issues
- Additional concern about inflation differences
 - Between U.S. and Canada

The New Contract

- Dramatically increase sales
 - Over 100% for 5 years
- Complex and exacting specifications
- All proceeds in U.S. dollars
 - Kilgore must manage financial risk
- Contract could be extended for 3 years
 - But at the same price, benefitting the buyer

The Financial Risk Management Meeting

- U.S. and Canadian dollars near par
 - Caused concern over U.S. competition
- Multiple options to deal with currency risk
 - Long term swap contracts
 - Short term forward contract
 - Currency options
- Management team lack understanding of the options
- More open questions than answers
- Lots more to do ...