LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

Case Studies in Financial Engineering

CASE 3

Hedging at Porsche

Michigan Ross School of Business, Case No. W04C40
August 6, 2015

Sept. 2020

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1. How do you distinguish between speculation and risk management?

2. In which extent should companies hedge risks? Should Porsche hedge its foreign exchange risks?

3. Evaluate the impact of foreign exchange hedging strategies on the risk profile of the company's cash-flows from foreign sales and identify an optimal hedging strategy.

4. Assess the potential benefits and the risks involved in using options to build a stake in another company. Do you agree with the assertion that Porsche was speculating with shareholders money and becoming a hedge fund that neglected its core business?

5. Analyse the differences between shareholders and management regarding the appropriate risk management policy.

6. Suppose that Porsche reviews its hedging strategy at the end of Nov.2007 for the cash-flows expected from the North American market in 2009, considering 3 scenarios:

(i) Base scenario – sales = 32,750 vehicles
(ii) Unfavourable scenario – sales 30% lower than in base scenario
(iii) Favourable scenario – sales 30% higher than in base scenario

Assumptions:
(i) Average sale price per vehicle - $90,000
(ii) All sales area realised at the end of Nov09
(iii) Cost per vehicle – 60,000€

Characterise the dependence of Porsche cash-flows (net of variable costs) from the North American market on the $/€ spot exchange rate if:

a) Porsche does not hedge its currency risk at all
b) Porsche hedges its currency risk by buying 2-year European at-the-money put options on US$ in sufficient quantity to have the right to sell an amount of USD equal to the expected 2009 sales.