

Rabobank's ownership based stock financing provides ideal solution for the seasonality of the Irish dairy industry

Rabobank's Kevin Brady outlines the development of the tailored financing solution the bank developed for Ornuu, the producer of Kerrygold, to allow it to reduce seasonal volatility in its working capital.

Ornuu approached us in 2015 to discuss working capital solutions to finance the high level of seasonality in their business.

Ornuu has been extremely successful in growing the Kerrygold brand internationally in recent years, particularly in the US and German markets. Due to the fact that Kerrygold butter is



Kevin Brady

made exclusively using milk from grass fed cows, the production process peaks during the spring and summer months, following the lactation cycle of the Irish dairy herd. Sales of Kerrygold are reasonably stable throughout the year, which means that Ornuu must build up high levels of stock during the spring and summer months to ensure that they have enough product to sell in winter. This inventory build increases the working capital requirement in the business.

'Brightfield holds the inventories in 3rd party warehouses for a period of up to 280 days before completion of the forward sale, thus delaying recognition of the stocks on Ornuu's balance sheet for this period.'

The Rabobank solution was a Just-in-Time, Structured Inventory Product ('SIP'). The SIP involves a trading subsidiary of Rabobank, Brightfield Trading BV ('Brightfield') purchasing butter and other specified dairy commodities directly from Ornuu's suppliers and simultaneously enter into a forward sale contract with Ornuu. Brightfield holds the inventories in 3rd party warehouses for a period of up to 280 days before completion of the forward sale, thus delaying recognition of the stocks on Ornuu's balance sheet for this period. This has helped Ornuu to reduce the seasonal volatility in its working capital, and allows Ornuu make more efficient use of its core borrowing facilities in continuing to expand its

business. The SIP solution has also helped Ornuu's suppliers manage their own working capital position at a time of increasing dairy commodity prices, as Brightfield pays them earlier.

The SIP structure is applicable to more than just the dairy sector and can be replicated across any sector that deals in commodities or near commodity stocks. It can be structured at either supplier or off taker side and structures can be either on balance sheet or off balance sheet. When banks look at structured working capital financing, they typically look at a company's receivables book first.

Receivables financing in Ireland is a far more mature market, with numerous solutions available, from traditional invoice discounting and factoring lines to selective receivables purchase facilities and securitisation structures. Stock financing is less developed however and this is an area where Rabobank sees significant opportunity to add value.

If you are operating in the Food & Agriculture supply chain in Ireland and would like further information on Rabobank's SIP structures, you can contact Kevin Brady, Director, Global Corporate Clients on 01 607 6135.

Operate in the Food Chain? Then we're the bank for you.

Wherever you are in the global food chain – producer, trader, processor or retailer – Rabobank is uniquely qualified to help you succeed. As the world's leading F&A bank, we offer specialised products and services at each link in the chain.

From financing harvest and inventory to hedging against volatile commodity prices or optimally structuring capital, we are there for you. Rabobank has been in Ireland since 1994, and we now have a strong and growing position in banking the Irish F&A sector. With our roots as a farmers' cooperative, Rabobank has consistently provided financial backing and expertise in your field. From farm to fork.

www.rabobank.ie



Rabobank Dublin

Financial experts in Food & Agribusiness.

For further information, please go to:
www.rabobank.ie

Rabobank Dublin is a branch of Coöperatieve Rabobank U.A., a Dutch co-operative bank incorporated in The Netherlands and licenced by the Dutch Central Bank. Rabobank Dublin is regulated by the Central Bank of Ireland for conduct of business rules



Rabobank