Managing Financial Risk with Global Operational Excellence

End-to-End FX Best Practices

Jabil FiREapps Hedge Trackers
Overview of Today’s Session

• How Jabil became currency agnostic
• Why currency risk matters to CXOs
• What questions changed the game for Jabil
• When “good enough” isn’t
• Where to get started on end-to-end FX
Agenda

- Introductions
- FX Market Impacting Corporate Earnings & EPS
- Changing Regulatory Landscape
- Jabil Case Study: Best Practices in End-to-End FX
- Round Table Discussion
- Resources
Introductions

• **Luis Montiel, Director of Treasury, Jabil**
  Luis Montiel, Director of Treasury in charge of Financial Risk Management and Capital Markets, joined Jabil in 2011 managing Global Cash Management and Capital Markets. Prior to joining Jabil, Mr. Montiel worked for Celanese where he held leadership roles in the finance organization serving as Manager of SEC and External Reporting, Treasury and Financial Risk Management, Treasury and Corporate Finance, and Business Line Controller. Previously, he also held leadership roles at Winn-Dixie Stores and Acosta Sales and Marketing. Mr. Montiel, a Certified Public Accountant, holds a B.A. in Finance from Flagler College, a B.B.A. in Accounting from University of North Florida and an M.B.A. from the University of Virginia, Darden Graduate School of Business Administration.
Introductions

• **Helen Kane, President, Hedge Trackers, LLC**
  Helen Kane, President, founded Hedge Trackers, LLC in April 2000. Her duties involve monitoring FASB/IASB pronouncements, reaching out to accounting firm derivative accounting specialists, overseeing auditor and SEC responses, and consulting with clients contemplating complex derivative accounting applications. Helen chairs both the East and West Coast annual Accounting for Derivatives Conferences featuring derivative specialists from the FASB and SEC. She also provides training to audit firms, state regulators, the AICPA Credit Union Conference, and guest lectures at local universities.

• **Wolfgang Koester, CEO, FiREapps Inc.**
  Wolfgang Koester is the chief executive officer and co-founder of FiREapps. He has over 25 years of experience in developing and implementing currency risk management programs for Fortune 2000 companies and governments. Koester is a member of Global Finance's "Who's Who in Foreign Exchange" and a board member of ACI International. He is a frequent speaker at university and industry events and a regular contributor to industry publications including WSJ, The Economist, Financial Times, AFP Exchange, as well as networks such as CNBC, Fox Business and Bloomberg.
Currency Risk is Business Risk

Wolfgang Koester
Currency Risk is a Top CXO Priority

Corporate America's Multi-Billion Dollar Currency Problem

How's this for a statistic: currency fluctuations resulted in $22.7 billion in aggregate losses during the third quarter for some of the biggest U.S.-based multinationals.

CFO Journal

Currency Cost U.S. Companies Least $4 Billion in Second Quarter

Stakes Rise as the Yen Sinks

U.S. Companies Look for Cost-Effective Hedges to Ward Off Exchange Rate Risk

Beware the Central Bankers and their Currency Wars of Attrition

Central banks are increasingly acting as the main drivers of the financial markets, as already demonstrated this year by the US Federal Reserve and the Bank of Japan (BoJ). Phil McHugh of Currencies Direct suggests that corporate treasurers could face a further bout of volatile...
Emerging Markets Offer Growth and Risk

73% of companies feel they need to accelerate efforts or may already be too late to build satisfactory market share in high-growth markets.

57% of respondents to our survey acknowledge that they need to “reassess” or “fundamentally rethink” their approaches and capabilities to compete and win in high-growth markets.

Emerging economies are becoming the key shapers of global trade and investment, both as sources and destinations.

Figure 15: Journey to multidirectional trade (LHS: Export value, US$ billion; RHS: Indexed export value, 2000 = 100)

Source: IMF Direction of Trade Statistics
Increasing number of companies disclosing negative currency impacts to EPS over last 2 years

- FY 2012: $50B headwind
- 2 years of negative headwinds
- Q2 2013: $4B headwind
- Q2 2013: $.03 EPS avg headwind
- Drivers of volatility: EUR Zone impacts waning, but central bank activity and “currency war” having material impact on corporate results

FiREapps Q2 Earnings Research Report: http://www2.fireapps.com/l/21252/2013-09-18/5185t
### What Currencies are CXOs Talking About?

#### Currency Culprits

Top 5 Currencies Mentioned During Earnings Calls as Impactful

<table>
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<tr>
<th># of companies mentioning</th>
<th>2012 Q3</th>
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**Association for Financial Professionals**

**AFP® Annual Conference**
Currencies Pose New Risks
Some Companies Prepare Strategies for Dealing With Future Volatility in Europe

BY EMILY CHASAN

After taking steps earlier in the year to shield themselves from Eurozone banks and the collapsing Greek economy, some companies are using the summer months to fine-tune their approach to dealing with future volatility.

One strategy has been to sweep cash out of euros nightly and into other currencies to reduce foreign-exchange exposure, while others are looking at alternative payments in case customers flee the euro or run out of cash. Still more are trying to put in early-warning systems to identify risk.

Drug maker GlaxoSmithKline PLC and a handful of other big European companies have been sweeping cash raised during the day out of euros nightly to hedge risks of overnight devaluation. But even companies farther away from the center of the eurozone are plotting moves for a potential crisis.

At Santa-Clara, Calif.-based laboratory testing-services company Evans Analytical Group LLC, CFO Christine Russell has been planning a version of the standby, she said. “If there was some disaster, we still have to be ready to do business tomorrow.”

German chemical company BASF SE is going so far as to mine for minerals and it sometimes accepts molasses as payment from customers in Brazil, Mr. Muenstermann said. He says the company would be selective in what up three months ago it has been looking closely at how it would pay employees and fund operations in Europe in a crisis scenario. The company has offices in a number of the world’s largest countries. The company has offices in 60 countries.

Top Concerns
Questions ranked by most-asked
1. Can you quantify the currency impact to revenue, expenses, net income and EPS and percent change?
Increasing Challenges and Expectations

The Benchmark
$.01 EPS@RISK™
Senior Management’s Tolerance for FX Impacts

* From NeuGroup’s FX Summit 2013
State of Industry circa 2009

- Accounting
- Trade Execution
- Derivative Accounting

- Enterprise Visibility
- Scenario Analysis
- Risk/Reward Tradeoffs
FX Exposure Management
The Missing Piece

Data Integrity

Workflow Orchestration

FX Exposure Management

Actionable Intelligence

Fact-Based Collaboration

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What Are Multinationals Doing to Win?

- Upgrading FX programs to cover portfolio of currencies
- Expanding analysis across entire income statement
- Managing FX end-to-end program performance
- Leveraging cloud-based analytics to change the game
- Asking different questions
Regulation Driving New Look at Hedge Program

Helen Kane
Policy or Pablum?

• **Drivers**
  – Dodd-Frank
  – Stale thinking

• **Objective**
  – “Mitigate” ???
  • Bring Value
  • Protection
    – Margins
    – Cash Flow
    – EPS
  • Deliver Results

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Policy as Foundation

Risk & Control Analysis

- Policy Establishment
- Assess & Detail Appropriate SOX Controls
- Risk Assessment
- GAAP Accounting Review

- Bring Value
- Protection Margins
- Cash Flow
- EPS
- Deliver Results
Know Where to Drive Value

- Accounting Exposure
  - FX Gain/Loss
  - CTA
  - Consolidation reporting
  - 3rd Currency contracts
- Economic Exposure
  - Margin
  - Cash
Beyond Data Capture

• Understand exposure trail
  – P&L (consolidations) and
  – Balance Sheet

• Identify global short/long net position
  – Identify opportunities to naturally hedge

• Align data requests with key reporting
  – Revenue & Expense activity, not balance forecasts
Conflicts

• Cost Plus Interco Balance Exposure
  – What are eventual economic cash flows?
  – Double hedge?

• Non-USD Cash Held Offshore
  – Consolidation without cash flows
  – EUR held in EUR functional tax entity
  • What if it were INR
Eyes on Counterparty

• Pending DF protocols
• Evaluate credit strategies
  – Collateral
  – Thresholds
  – Spreads
• Reconciliations
Regulatory Review

- Board (Committee)
  - End-user risk
    - Annual election - delegating for transactions
    - Review of cost/benefit of End User exception
  - Hedging commercial risk
    - Accounting motivated transactions?
  - Team has the skill set to play
    - Define skill set
    - Authorize individuals to trade
  - New instrument/strategy analysis
Objective to Performance Reporting

- Exposure Identification & Validation
- Risk & Control Analysis
- Strategy Development
- Derivative/Trade Management
- Effectiveness Testing & Designation
- Derivative Accounting
- Performance Reporting/Compliance

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Jabil Case Study
End-To-End FX: From Exposure to Disclosure

Luis Montiel
About Jabil

- Entering our 48th year in business
- 3rd Largest Mfg Services Provider
- Investment Grade Balance Sheet
- Dividend Paying Since 2006
- 24.1 Million Manufacturing Square Feet
- 60+ Sites in 33 countries on 4 Continents
- 165,000 Dedicated Employees

Global Electronics Solutions For a Changing World
Strong Revenue Growth

2000 – 2013
$ in Billions

CAGR 13.4%

FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13E
$3.6 $4.3 $3.5 $4.7 $6.3 $7.5 $10.3 $12.3 $12.8 $11.7 $13.4 $16.5 $17.2 $18.3

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Jabil’s Global FX Notional Value

- ~$1B balance sheet hedges
- ~$800M cash flow hedges
The Challenge

• **Visibility**
  – Lack of enterprise visibility into accurate, complete and timely exposures and associated risks
  – Manual processes to collect summary exposure data from business units monthly

• **Cost/Effectiveness**
  – Transition from “transactional” to “net balance” FX process
  – Cost/benefit of different hedging strategies unclear

• **Compliance**
  – Complex, ever-changing regulatory/reporting landscape
Currency Risk at Jabil

• **Transactional exposure**
  - The **cash flow exposure** that results from activities in **non-functional currencies**; these may be third party or inter-company (i.e. trade sales/payables, debt, royalties/license agreements, etc.).

• **Translational exposure**
  - The exposure that results from **translating** the **functional currency** financial statements of foreign subsidiaries into the **group currency** of the parent. Gain/loss on FX translation of foreign net investment is revalued through **CTA**.

• **Contingent exposure**
  - Foreign exchange exposure arising from a potential future transactional event (i.e. potential acquisition or divestiture, bid-to-award risk, etc.)
Jabil’s Hedging Approach

Jabil’s approach to the foreign currency exposures

Forecast risk
“Cash Flow Hedges”
Hedge margin volatility (P&L)

Transaction risk
“Balance Sheet Hedges”
Hedge remeasurement
(FX Gain and Loss)

Translation risk

Budget/Forecast
Strategic Program
- EPS and cash risk
- “Above the line” via Operating Income
- Designated hedges under hedge accounting

Sales/Expense Recorded
Rolling Program
- EPS and cash risk
- “Below the line” via FX Gain or Loss line
- Non-designated hedges

Cash Flow
Strategic Program
- EPS
- FX changes booked in OCI via CTA
- Designated hedges under hedge accounting

Translation at Consolidation
“It’s not just the answers I get with FiREapps, it’s the questions I can ask - that *changed the game for us.*”

- Luis Montiel, Director of Treasury
Measuring FX Program Success

Questions:
– Can we change the exposure?
– What is the hedge effectiveness?
– How much is the hedge costing?
– What if we did not hedge a particular exposure?
– What is the impact of the cash flow hedges to margins?
Measuring FX Program Success

Questions:

– What is the asset or liability by counterparty?

– What is the portfolio’s average days to maturity?

– What is the notional value by counterparty?
From October 2012 to June 2013, the Yen moved by more than 30% and Jabil’s exposure ranged from low teens to 200M USD equivalent. **The volatility did not impact Jabil’s results**
Benefits

- **End-to-End process with FiREapps and Capella**
- **FiREapps**
  - on-demand analytics versus monthly cycles
  - period over period analysis to identify trends and adjust
  - reduced time to FX exposure visibility from 1 day to <5 minutes with distributed signoffs with consolidated oversight
- **Capella**
  - disclosure tables
  - database of record for all derivatives
  - reduced time to reporting and disclosures
- Single, trusted truth for exposures, fair value, and disclosures
Panel Discussion
In Summary

- Currency agnostic Jabil is built for growth
- Currency risk puts corporate EPS@RISK™
- Better data, better questions, better results
- 2009 FX approaches no longer “good enough”
- Getting help on your FX journey is easy
Hedge Trackers

- 13 years providing derivative accounting tools, outsourcing and advisory services.
- Capella Foreign Exchange
- 30 Technical Derivative Accountants supporting clients
- Trainings and Webinars

More info:
HedgeTrackers.com
FiREapps Videos

Google Leverages FiREapps to Manage Currency Risk Portfolio
Brant explains how Google exceeded aggressive FX program benchmarks with automation, analytics and actions for their complete portfolio – including smaller, more volatile currency.
08/26/2013

Cabot Uses FiREapps to Exploit Natural Hedges and Cut Time Spent on FX 65%
Catherine shares Cabot’s payoff for partnering with FiREapps including natural hedges that save transaction costs, and cutting time spent on FX by 65%.
08/26/2013

FLIR Organically Eliminates 50% Exposure with FiREapps
Randall outlines FLIR’s return on FiREapps including 50% organic exposure elimination and an optimized external hedging program that continuously adapts to volatile currency markets.
08/26/2013

Download the FLIR Case Study Now

Red Hat Pleasantly Surprised by Ease of FiREapps Enrollment
Frank shares how Red Hat spared scarce IT resources and found out just how easy it is to leverage cloud analytics for FX exposure management.
08/15/2013

Download the Red Hat Case Study Now

Hubbell Quickly Finds Just What They Need to Ramp Up Their FX Program with FiREapps
Howard tells how his lean treasury organization leveraged FiREapps On Ramp™ to quickly establish a formal FX exposure management process in support of Hubbell’s international

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Free Consultation

Q2 Earnings Research

Multi Currency Accounting
Thank You for Your Time