AFP®
Association for Financial Professionals®

Annual Conference

OCTOBER 27–30, 2013 | LAS VEGAS

ORIGINAL→ESSENTIAL→UNBIASED→**INFORMATION**

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.

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Currency Risk is Business Risk

Wolfgang Koester

Currency Risk is a Top CXO Priority

Forbes

Steve Schaefer, Forbes Staff
If you can put the word market after it, I cover it.

MARKETS | 12/04/2012 @ 7:20AM | 2,521 views

Corporate America's Multi-Billion Dollar Currency Pro

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 Journ

Data Dashboard | Deals Dashboard | CFO Report | Complian

September 19, 2013, 4:31 PM ET

Currency Cost U.S. Co Least $4 Billion in Second Qu

CFO JOURNAL | Updated May 13, 2013, 10:01 p.m. ET

Stakes Rise as the Yen Sinks

U.S. Companies Look for Cost-Effective Hedges to Ward Off E

THE WALL STREET JOURNAL.

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U.S. EDITION | Thursday, December 27, 2012 As of 7:42 PM EST

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MARKETS | Updated December 27, 2012, 7:42 p.m. ET

Japan's Call for Weaker Yen Spurs Talk of Copycat Moves

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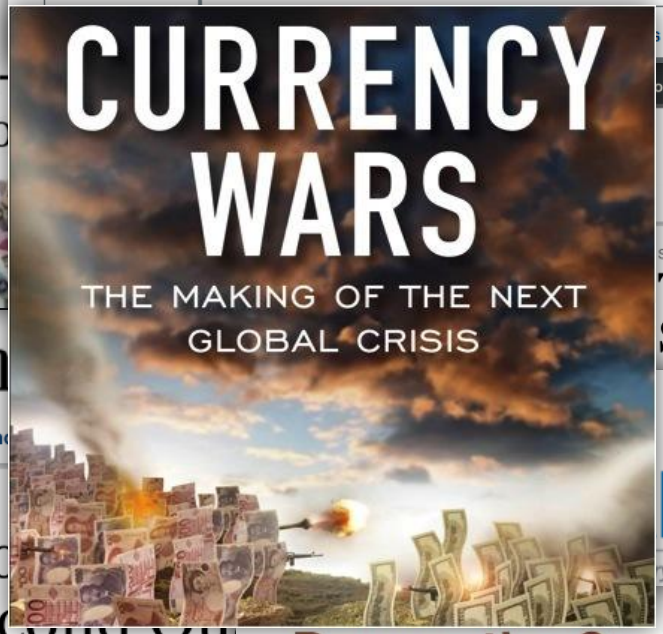


CFO Journal.

Data Dashboard | Deals Dashboard | CFO Report | Compliance | Capital | Liquidity | Mana

September 20, 2013, 6:56 AM ET

The Morning Ledger: Currency Swings Cost Companies Money

gtnews | An Association for Financial Professionals® Company

EASURY BRIEFING

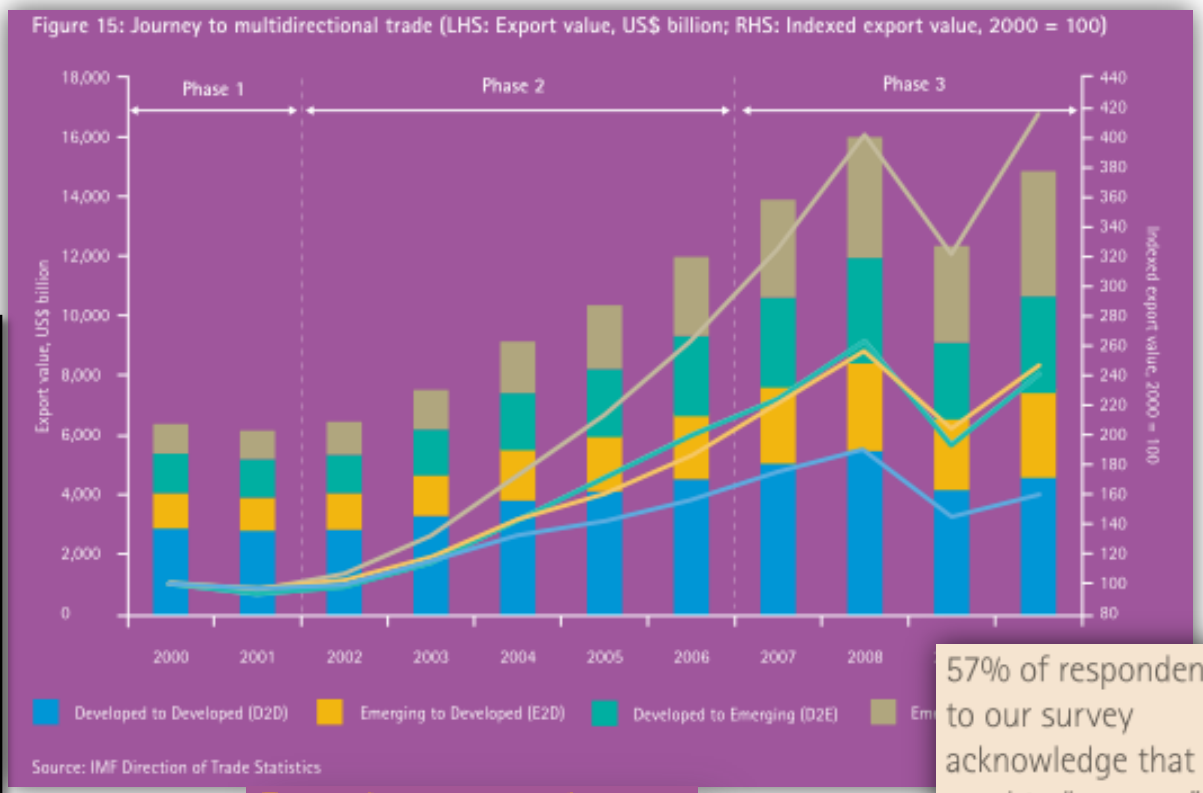
y and Finance | August 2013

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.



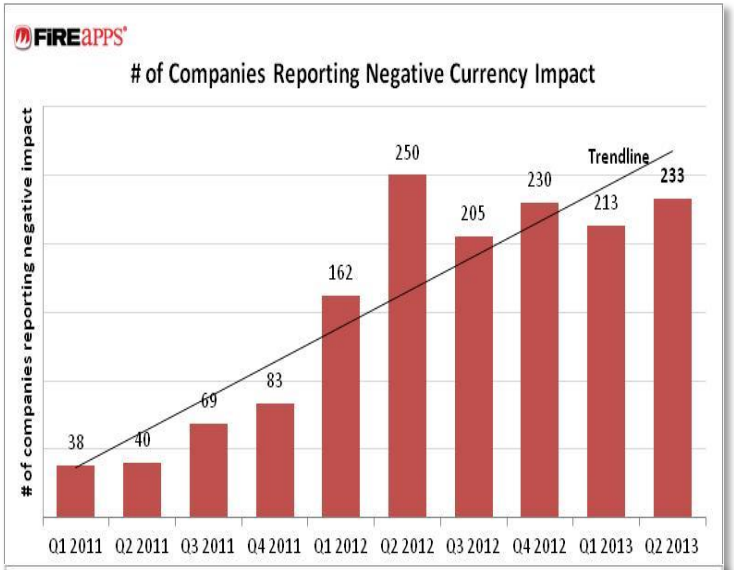
Emerging economies are becoming the key shapers of global trade and investment, both as sources and destinations.

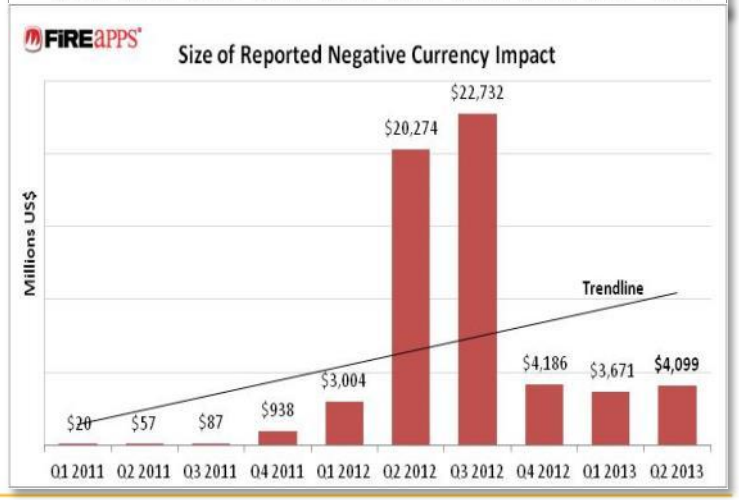
57% of respondents to our survey acknowledge that they need to "reassess" or "fundamentally rethink" their approaches and capabilities to compete and win in high-growth markets.

FX Impacting Corporate Earnings and EPS

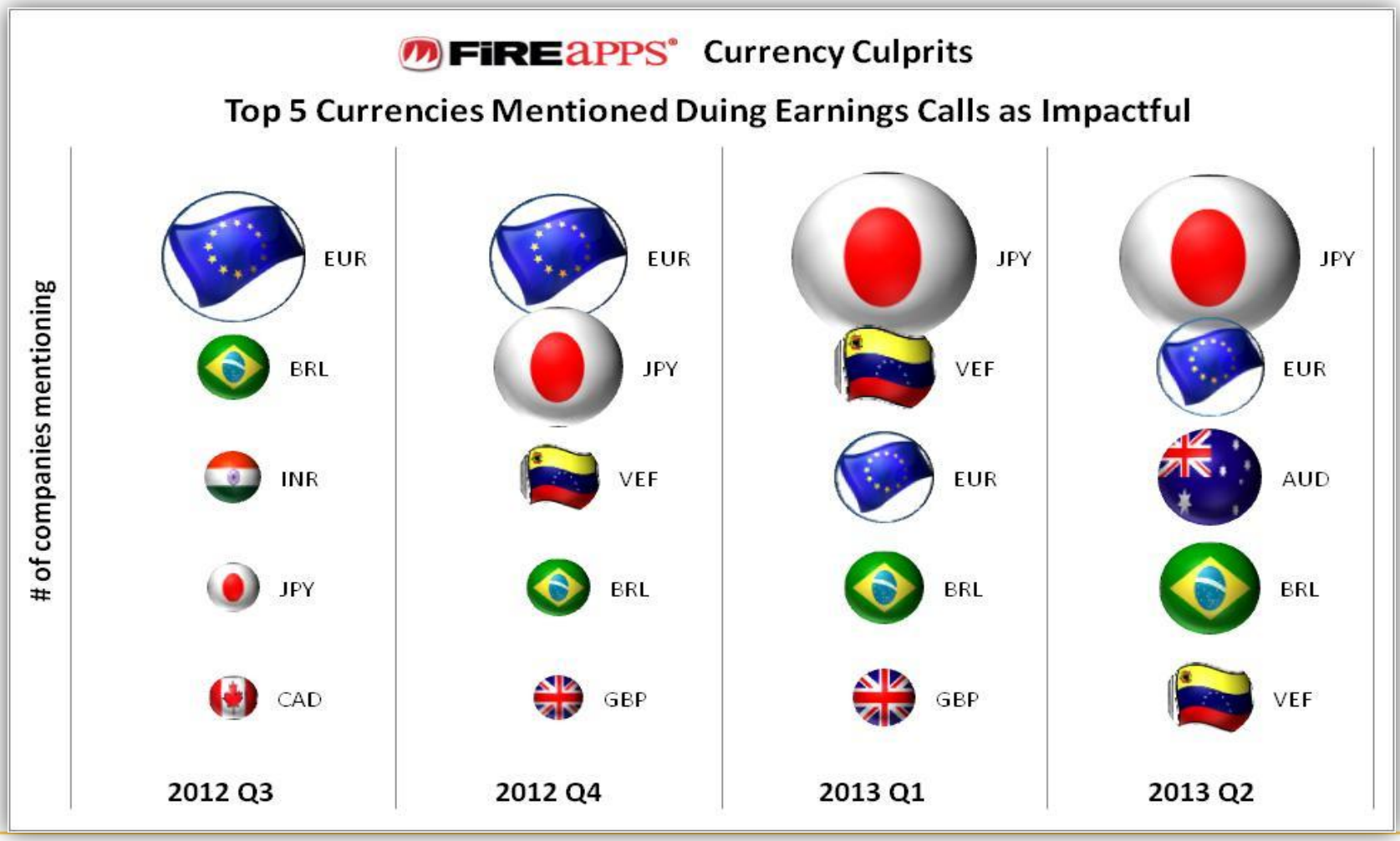
- Increasing number of companies disclosing negative currency impacts to EPS over last 2 years
- FY 2012: $50B headwind
- 2 years of negative headwinds
- Q2 2013: $4B headwind
- Q2 2013: $.03 EPS avg headwind
- Drivers of volatility: EUR Zone impacts waning, but central bank activity and “currency war” 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?



Analyst Questions Getting Tougher

THE WALL STREET JOURNAL. ** Tuesday, August 14, 2012 | B5

CFO JOURNAL.

Currencies Pose New Risks

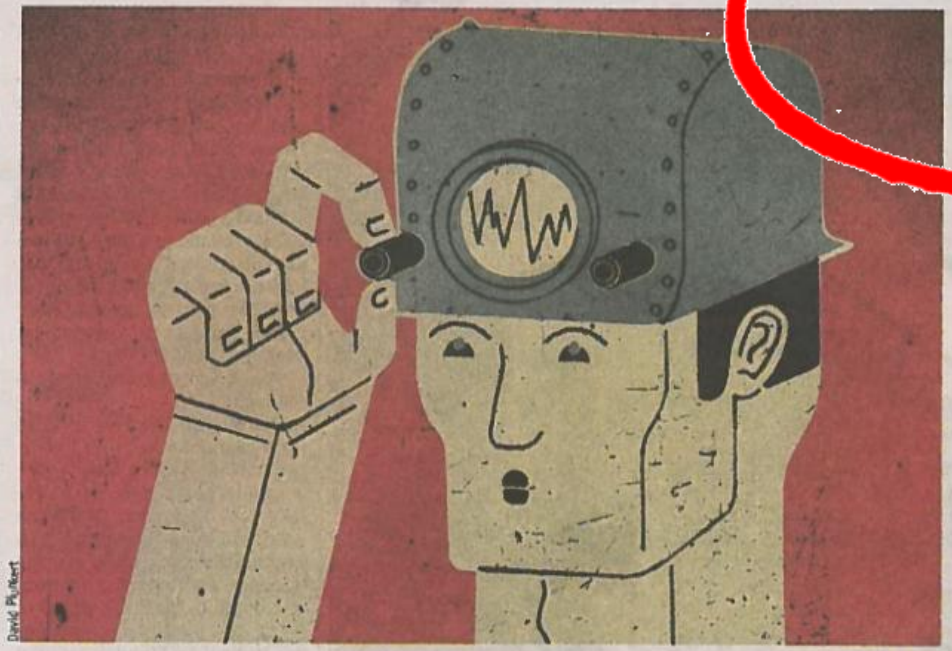
Some Companies Prepare Strategies for Dealing With Future Volatility in Europe

By Emily Chasan

After taking steps earlier in the year to shield themselves from European 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 euro zone are plotting out moves for a potential crisis.



David Plunkert

At Santa-Clara, Calif.-based laboratory testing-services company **Evans Analytical Group** LLC, CFO Christine Russell has been preparing 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

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

The Big Number

34%

Amount of companies receiving questions from analysts about foreign exchange in second-quarter earnings calls

Risks related to foreign exchange fluctuations are getting more attention from Wall Street analysts. During second quarter earnings calls, 34% of multinational companies were questioned by analysts about foreign exchange issues, up from 23% in the first quarter, according to a review by foreign exchange risk-management company FIREapps.

Finance chiefs are fielding tougher questioning in general, according to Wolfgang Koester, chief executive of FIREapps. But currency volatility, he said, has made forex a particular topic of interest. "Given the trajectory of the euro, this is starting to draw analysts' attention," Mr. Koester said. Foreign exchange issues had more material impacts on sales

Johnson during its earni[illegible] call about the impact of local [illegible]rency on its operating ma[illegible]s after the company blamed [illegible]ency issues for a 4.2% hit on [illegible]world-wide sales. And when **[illegible]eywell** Inc. adjusted its sale[illegible] dook downward by $20[illegible]illon due to foreign exchan[illegible]adwinds, Sanford C. Be[illegible] analyst Steven Win[illegible]ited to know [illegible]r a stronger dollar could become a competitive issue.

Analysts were most likely to ask companies to quantify the impact of currency on earnings, revenue, expenses and net income, according to FIREapps. Other requests included questions on how currency rates would affect corporate forecasts, how companies are managing their currency risk and how foreign exchange rates are impacting supply chains. "At the end of the day, you've had a lot of surprises created by foreign exchange and analysts don't like to be surprised," he said.

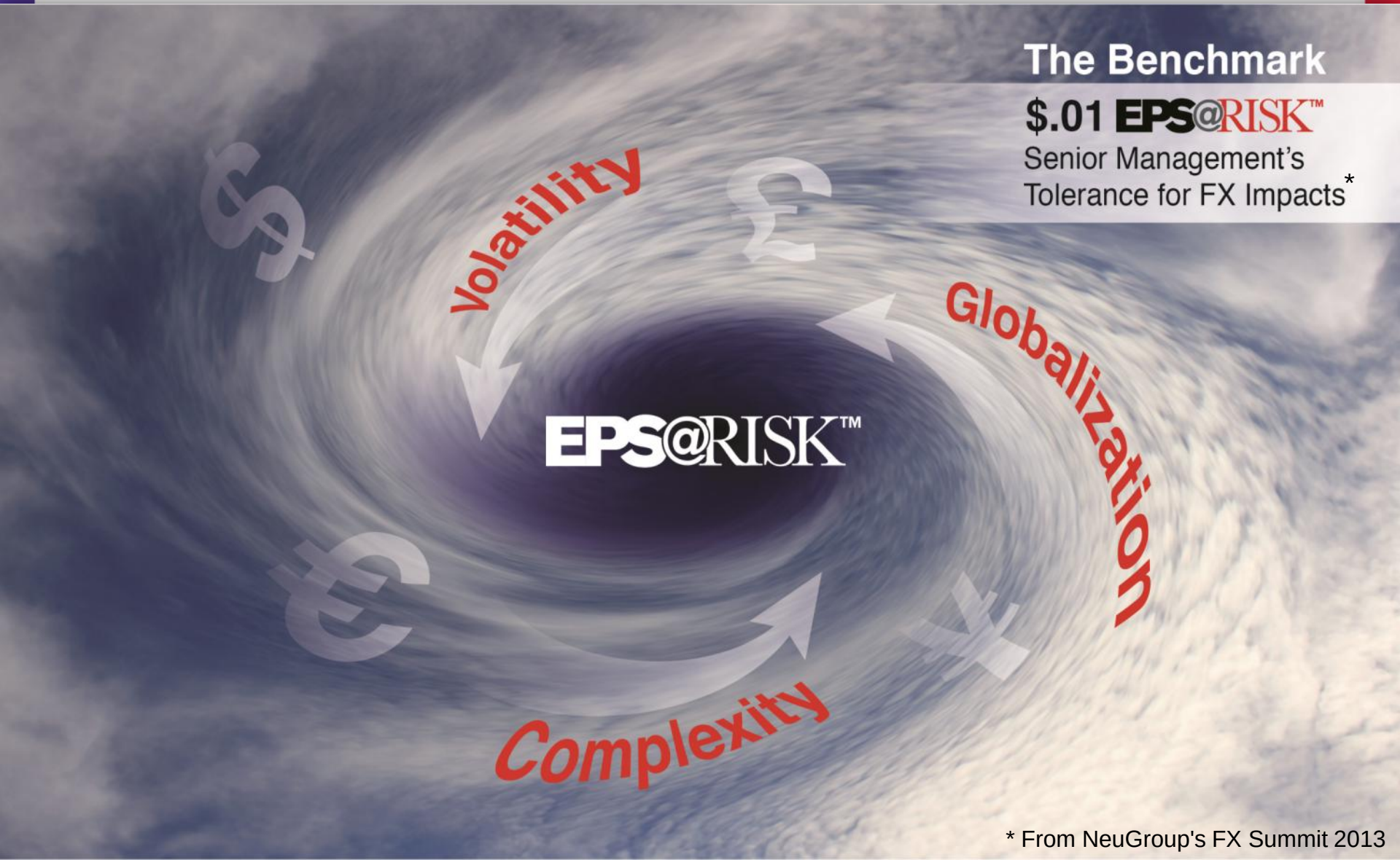
Emily Chasan

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



* 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

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*

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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**

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**

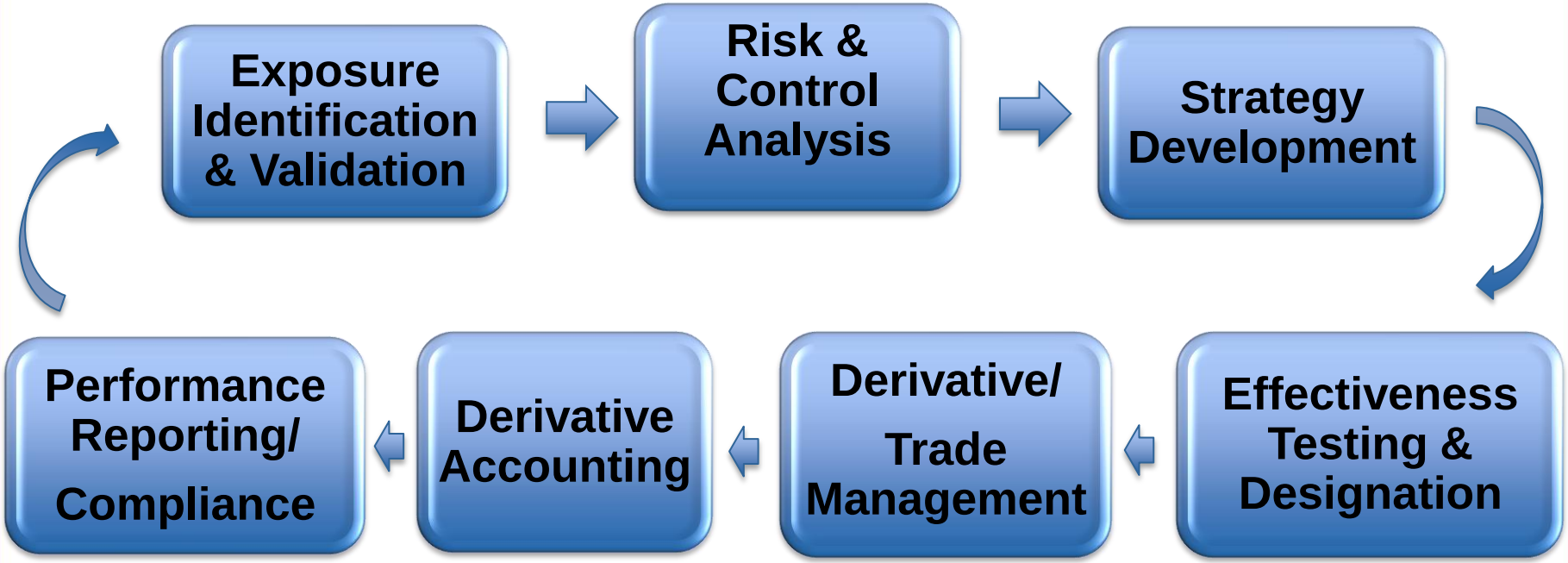
Eyes on Counterparty

- **Pending DF protocols**
- **Evaluate credit strategies**
  - Collateral
  - Threshholds
  - 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



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Jabil Case Study

End-To-End FX: From Exposure to Disclosure

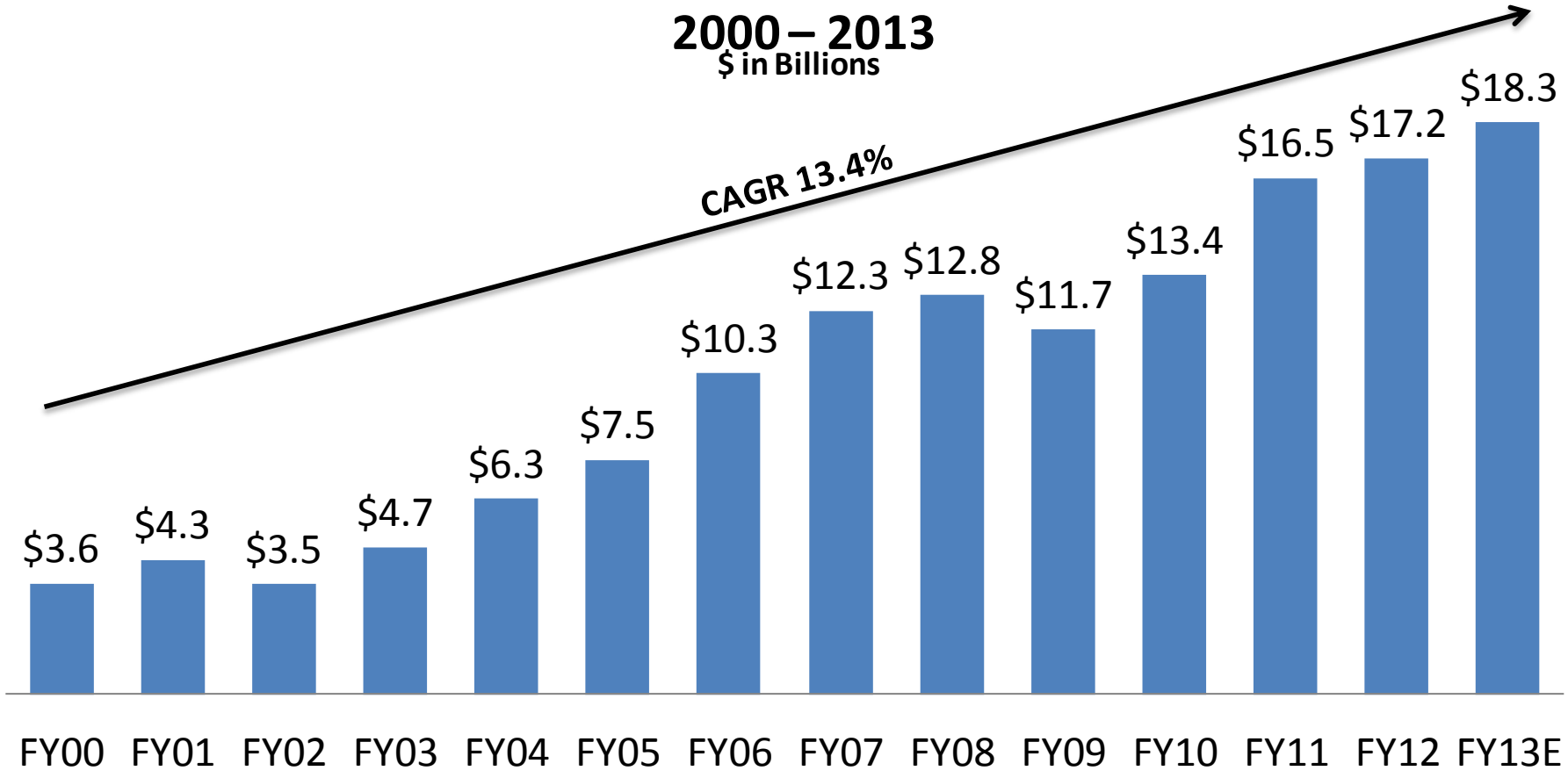
Luis Montiel

About Jabil

Global Electronics
Solutions For a Changing World

- 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

Strong Revenue Growth



Jabil's Global FX Notional Value

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.)

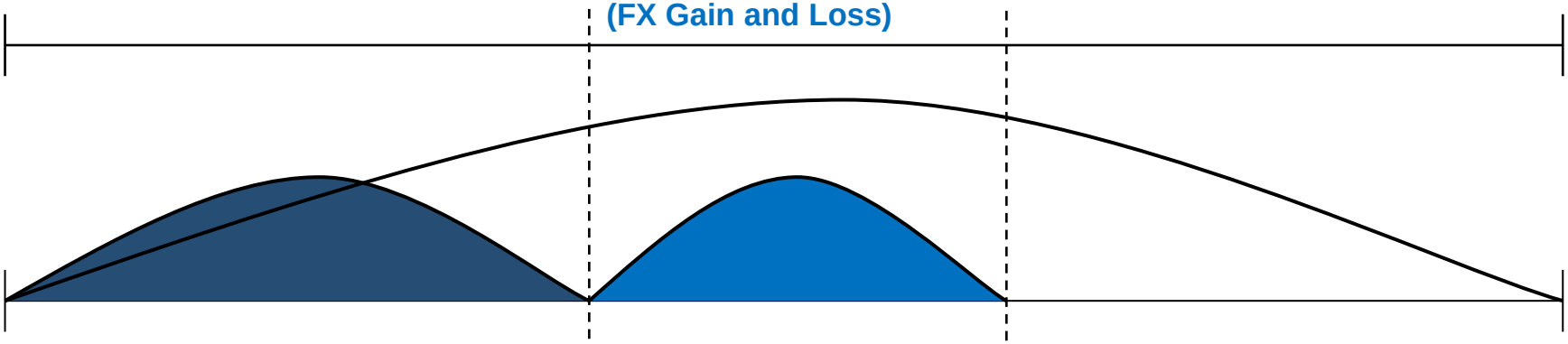
Jabil's Hedging Approach

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

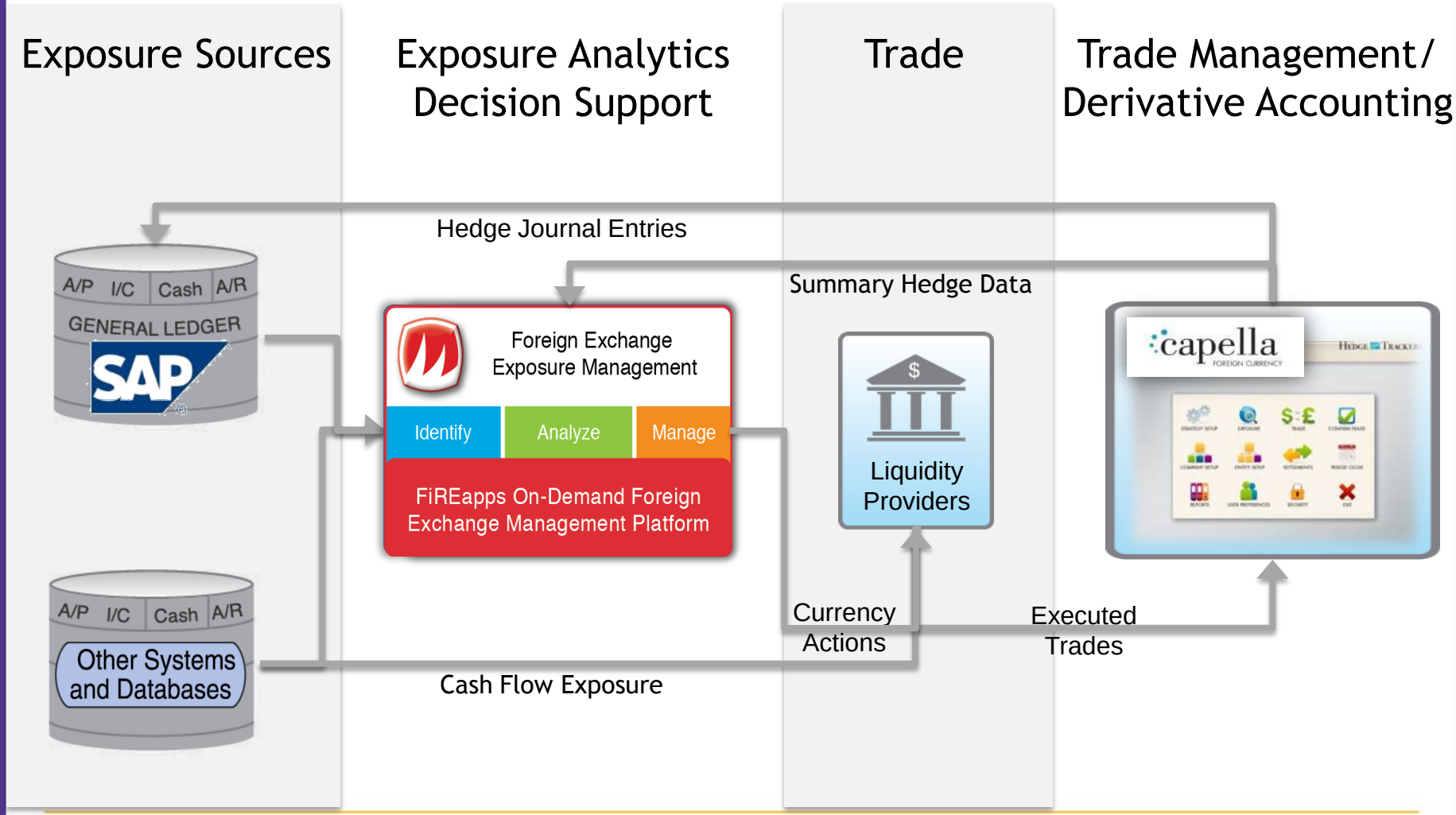
Sales/Expense Recorded

Cash Flow

Translation at Consolidation

Strategic Program	Rolling Program	Strategic Program
• EPS and cash risk	• EPS and cash risk	• EPS
• "Above the line" via Operating Income	• "Below the line" via FX Gain or Loss line	• FX changes booked in OCI via CTA
• Designated hedges under hedge accounting	• Non-designated hedges	• Designated hedges under hedge accounting

End-To-End FX Exposure Management



"It's not just the answers I get with FiREapps, it's the questions I can ask - that *changed the game for us.*"

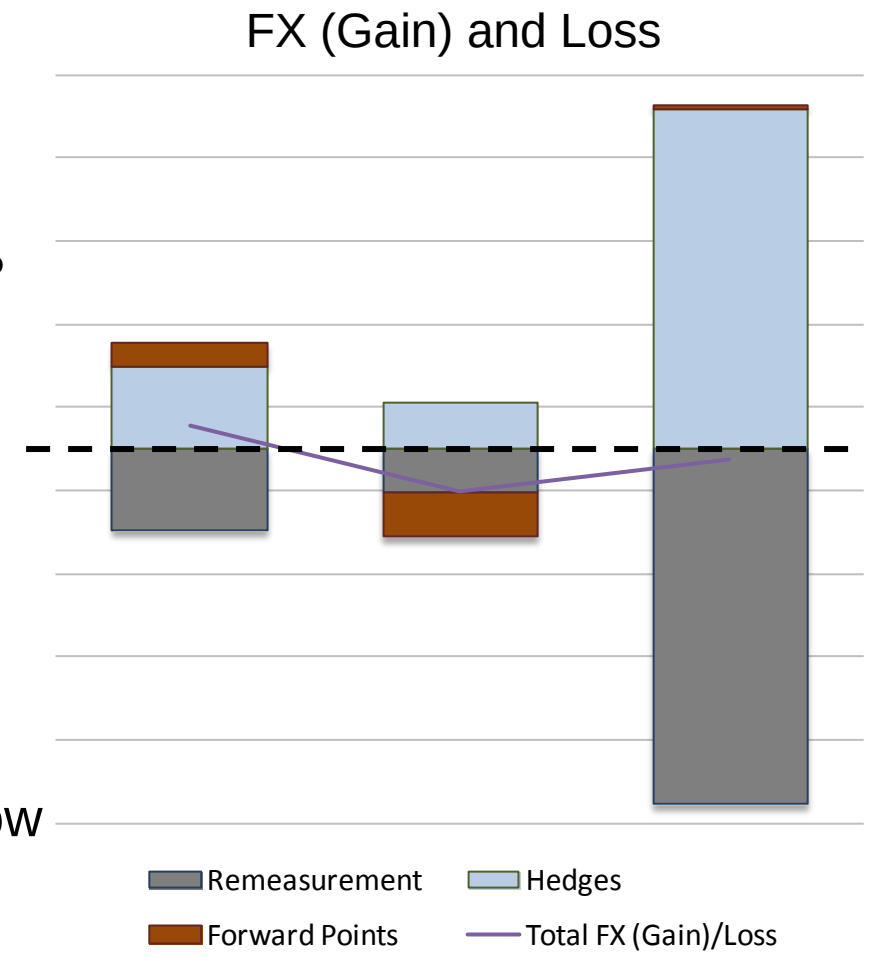
- Luis Montiel, Director of Treasury

JABIL

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?

ALL STREET JOURNAL.

Lehman Faces Mounting Pressures

Stock Drops 45% as Capital-Raising Talks Falter; Firm Discusses Sale of Assets

THE WALL STREET JOURNAL.

LEHMAN BROTHERS | Merrill Lynch | AIG

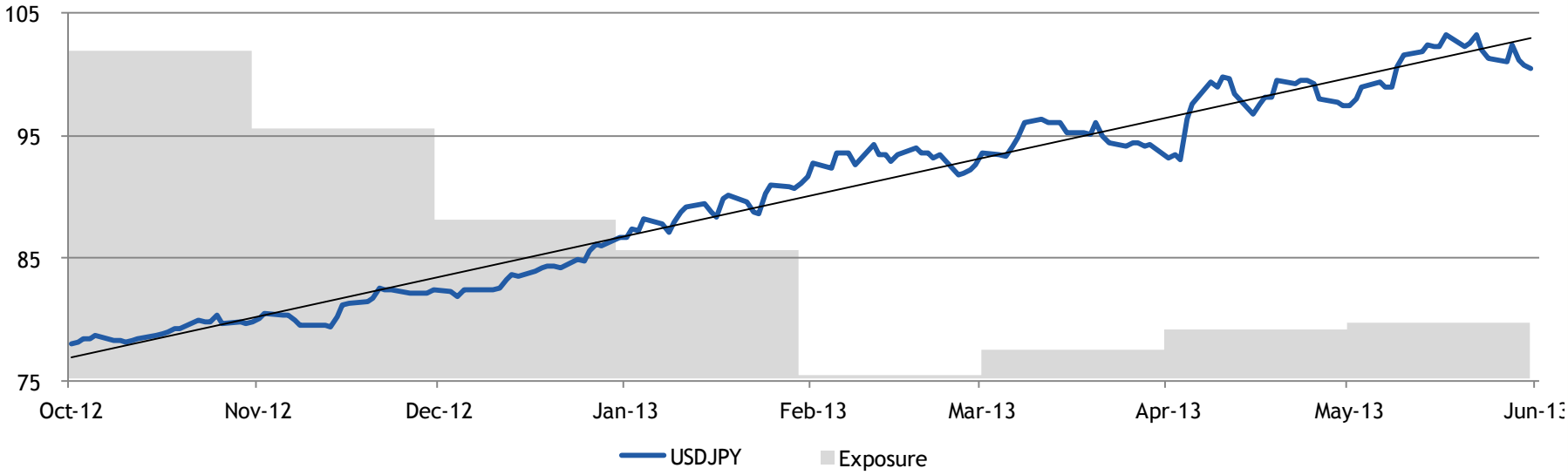
Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets; Move Cap a Momentous Weekend for American Finance

Ultimatum By Paulson

Being Currency Agnostic Pays Off

USDJPY Volatility
And Balance Sheet Exposure



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

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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

Making hedging and hedge accounting accessible

- **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

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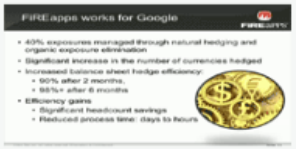


Google Leverages FiREapps to Manage Currency Risk Portfolio

Brent 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

Randahl 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 it easy it is to leverage cloud analytics for FX exposure management.

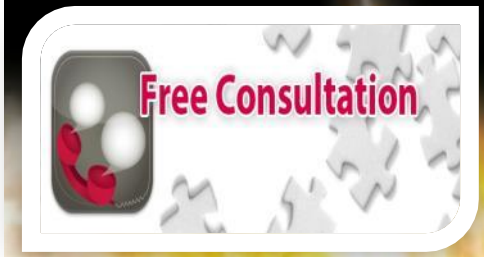
08/15/2013

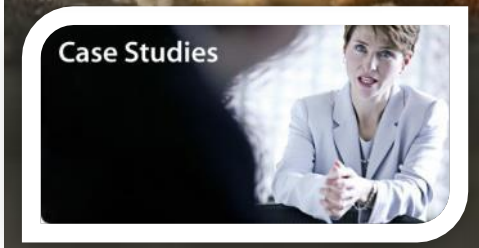
Download the Red Hat Case Study Now

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

Click to learn more:





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