

FiREapps Q1 2017 Currency Impact Report: A Survey of North American & European Corporate Earnings

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As part of FiREapps’ ongoing effort to provide insight into how currency affects corporations, every quarter we analyze the earnings calls of 1200 publicly traded North American and European companies (dubbed the “FiREapps 1200”). The companies included in this data set are large multinational firms with at least 15% international revenues in at least two currencies.

This report is organized into four sections:

1. Research highlights for North America and Europe
2. Detail of Currency Impacts on North American corporates
3. Detail of Currency Impacts on European corporates
4. Summary of Currency Impacts on North American and European corporates in Q1 2017

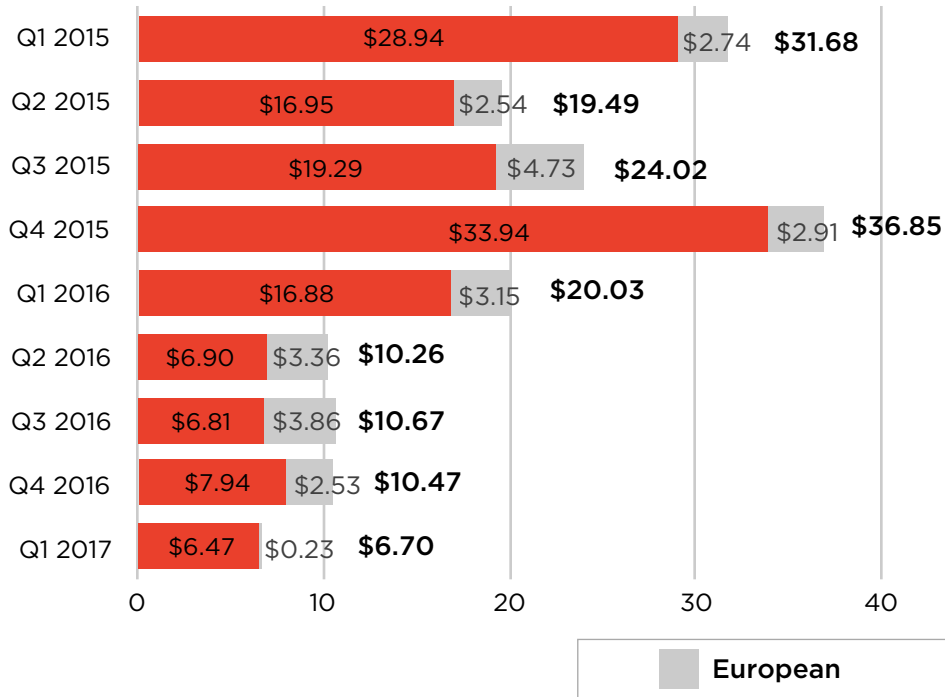


Section 1

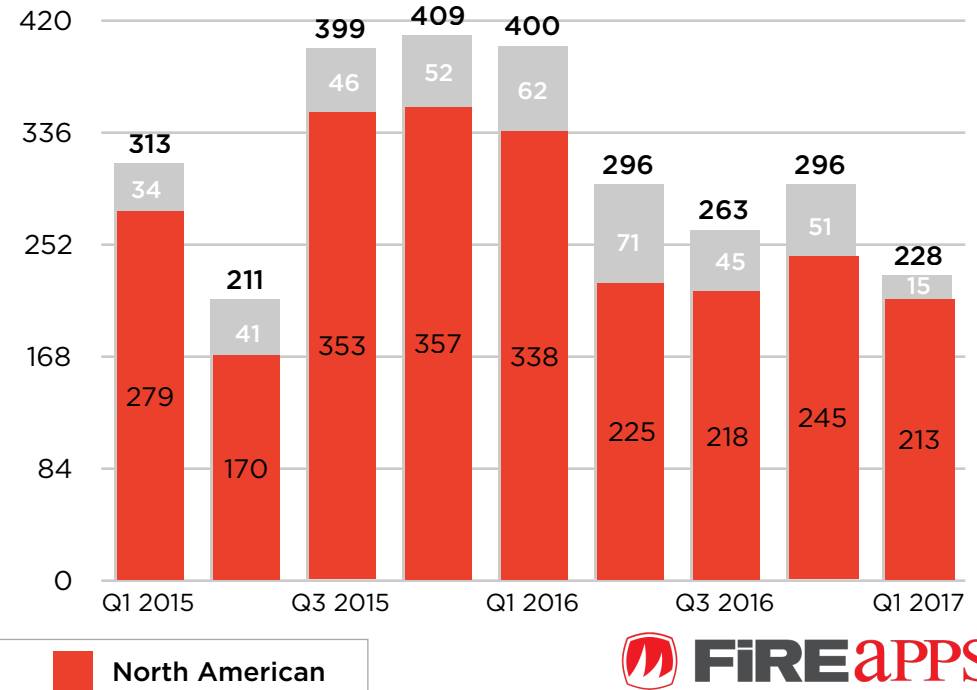
Currency Impact on North American & European Corporate Earnings in Q1 2017 - Research Highlights



Size of Negative Currency Impact Quantified by North American & European Companies (Billions)



Number of North American & European Companies Reporting Negative Currency Impact



Q1 2017 Shows Low Volatility and Decreased Negative FX Impact

In a continued bout of low volatility, Q1 2017 showed a collective negative currency impact of \$6.7 billion by North American and European corporations. The last five quarters have all seen higher volatility than in 2013 and 2014 – a period of low volatility that was followed by a \$14.66 billion increase in negative currency impacts between Q3 2014 and Q4 2014. Looking to previous quarters, there is a pattern of low volatility followed by a steep increase in volatility and negative currency impact.

A total of 228 companies – 213 in North America and 15 in Europe – reported negative currency impacts in Q1

2017, as compared to 400 in Q1 2016. Of the companies quantifying, North American corporations sustained \$6.47 billion in negative impacts and European corporations sustained \$227.77 million.

The decrease in the number of companies reporting shows that many multinationals are still not aware of what their risks are and have been lucky to sustain only minor impacts during the last few low volatility quarters. However, those who are not managing their fx risk and hedge ratios will likely be caught off guard by a spike in volatility that is sure to come.

Top 5 Most Volatile G20 Currencies



Top 5 Most Volatile Currencies as Weighted by GDP %



Recent Currency Crises

Currency Cycles are Now Measured in Quarters, Not Years

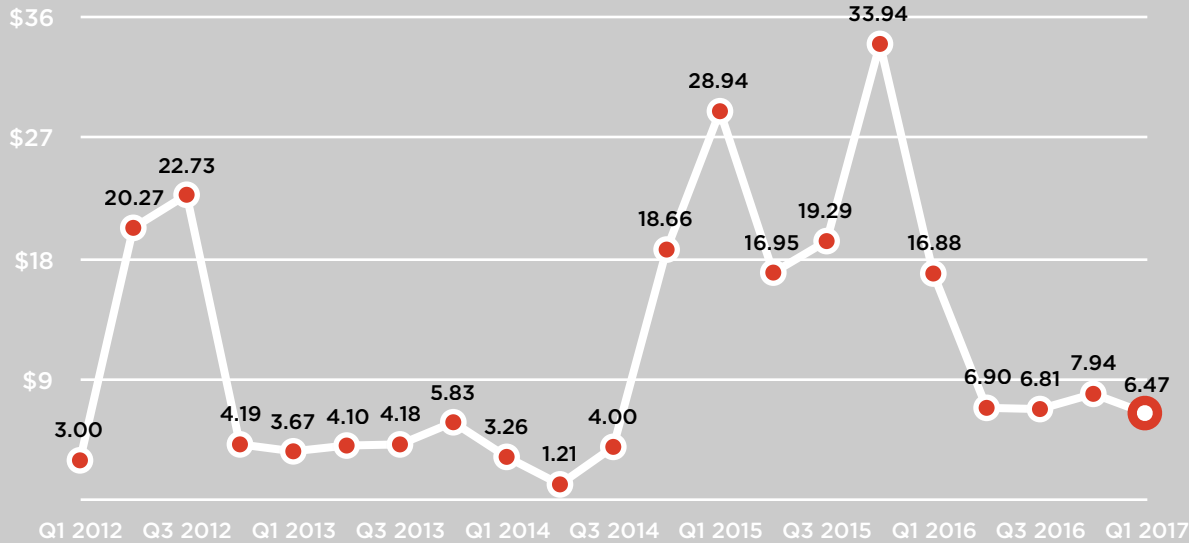
Crisis Quarter	Currency	Crisis Quarter	Currency	Crisis Quarter	Currency	Crisis Quarter	Currency
Q3 2012	EUR	Q2 2014	EUR	Q3 2015	CNY	Q2 2016	GBP
Q4 2012	JPY	Q4 2014	RUB	Q3 2015	BRL	Q4 2016	MXN
Q1 2013	VEF	Q1 2015	CHF	Q4 2015	ARS	Q2 2017	BRL
Q1 2014	Emerging Markets	Q1 2015	EUR	Q1 2016	JPY		

Section 2

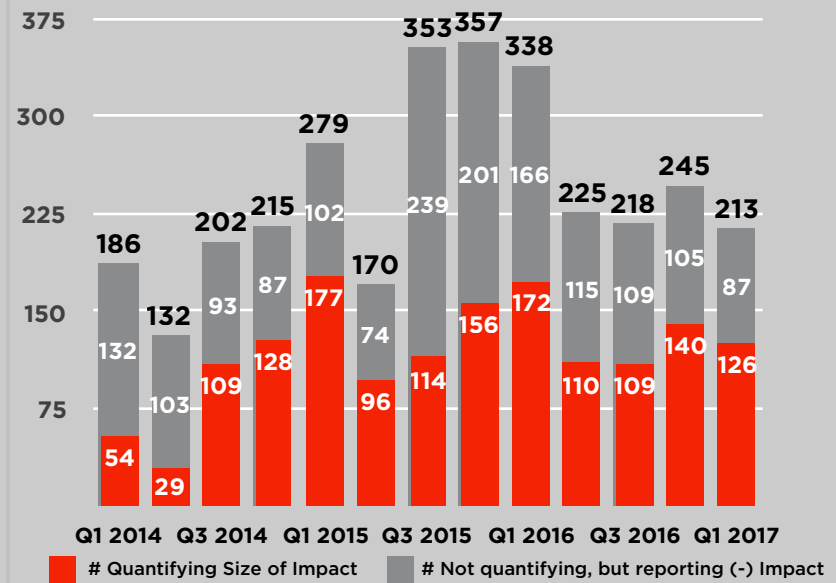
Details of Currency Impact on North American Corporate Earnings



North American Negative Currency Impacts By Quarter (Billions)



of North American Companies Quantifying & Reporting Negative Currency Impacts By Quarter



Details of Currency Impact on North American Corporate Earnings

Of the 850 North American-based multinational corporates that FiREapps analyzed in the first quarter of 2017, 213 companies reported negative currency impacts—13.1% lower than the number of companies in Q4 2016.

213 companies reported headwinds in Q1 which represents about 25% of the data set reporting a negative impact from currency.

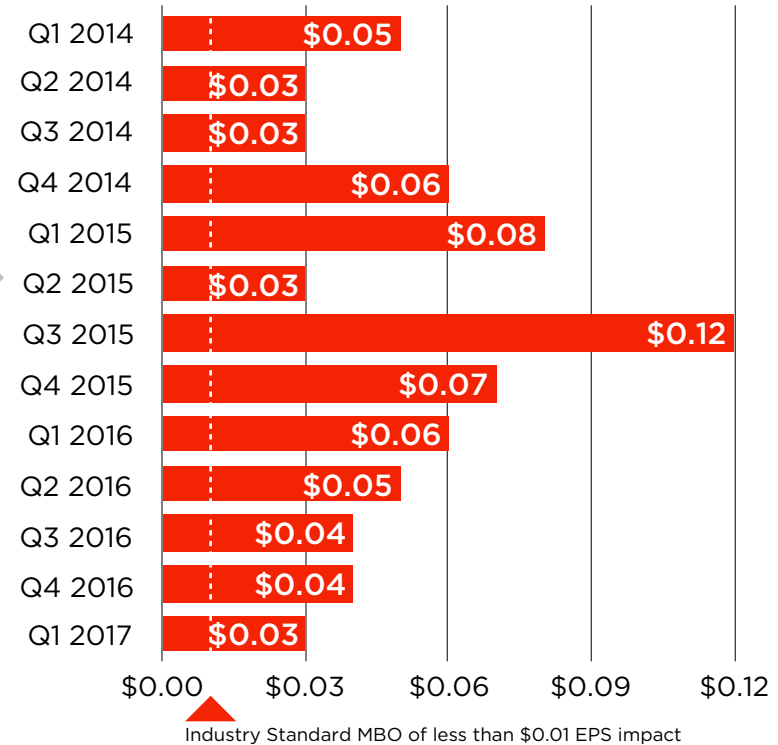
This decrease in volatility is a dramatic drop from Q1 2016, but continues a pattern of low volatility that has occurred the last few quarters. Still, 25% is notable as it shows only a slight negative deviation from last quarter's 29%.

Among the companies actually quantifying the negative currency impacts, the negative impact quantified was \$6.47 billion¹.

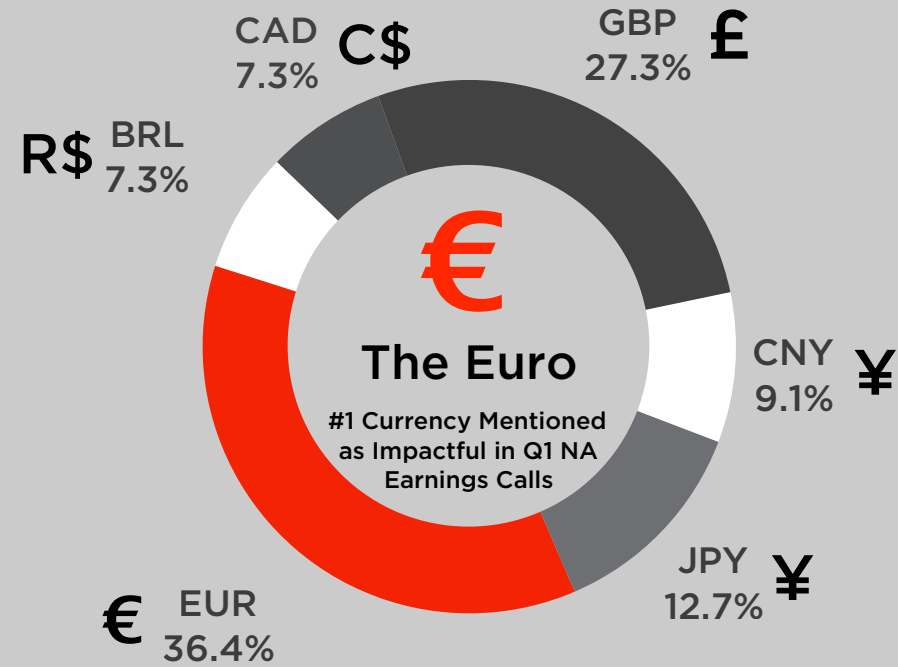
The average (-) EPS impacted reported by the 32 quantifying companies was \$0.03. As a point of reference, leading multinationals have set a management objective for their FX managers of less than \$0.01 in EPS impact.

¹As reported before, impacts are likely to be underestimates. There are two reasons why: First, it is almost certain that companies which faced currency headwinds did not specifically point them out. Second, of the total number of companies that did report negative impacts, 59% of them actually quantified the impact.

Average EPS Impact Reported By North American Corporates



Top 5 Currencies Most Referenced By North American Corporates as Impactful in Q1 2017

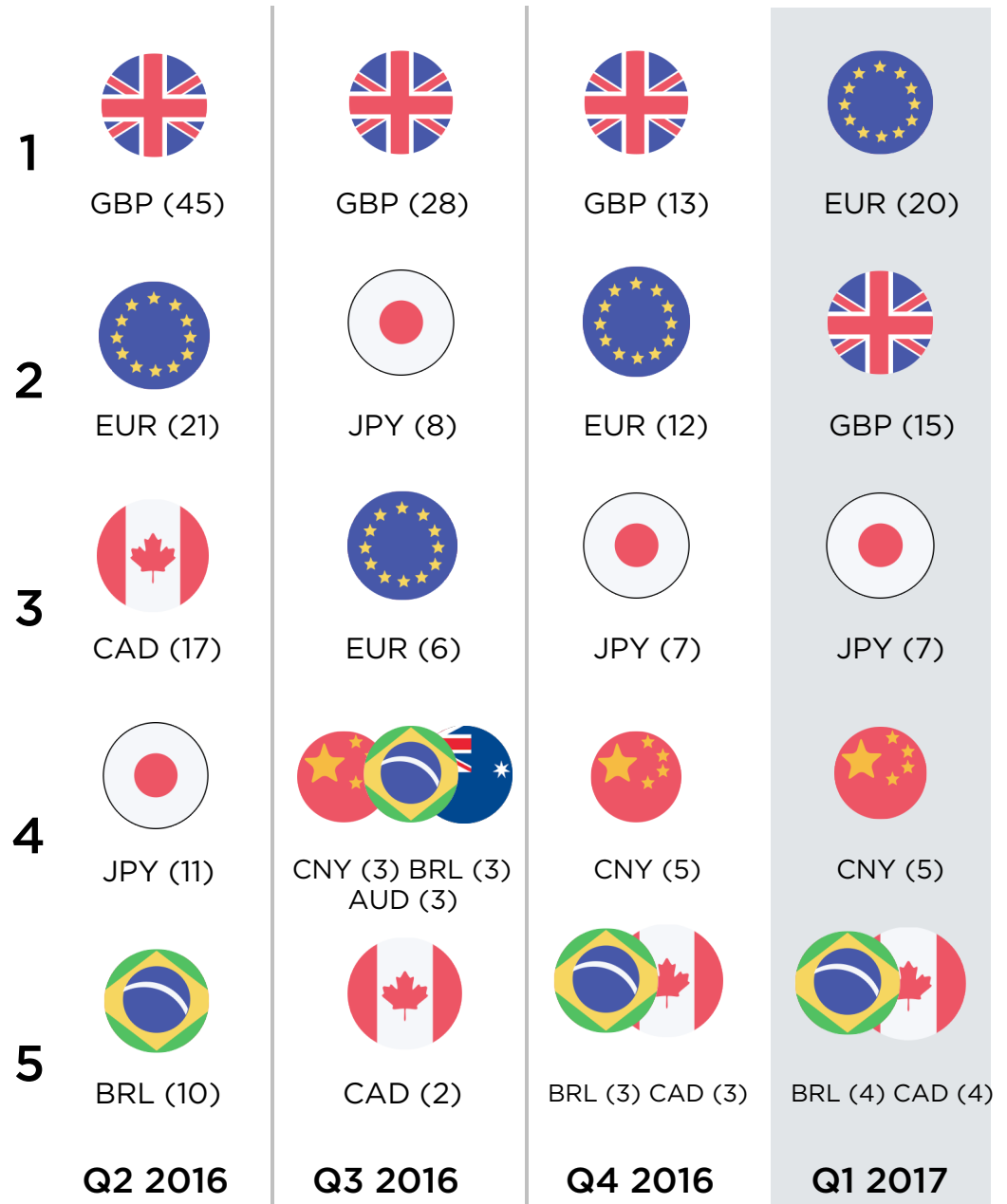


The Most Impactful Currencies on North American Corporate Earnings

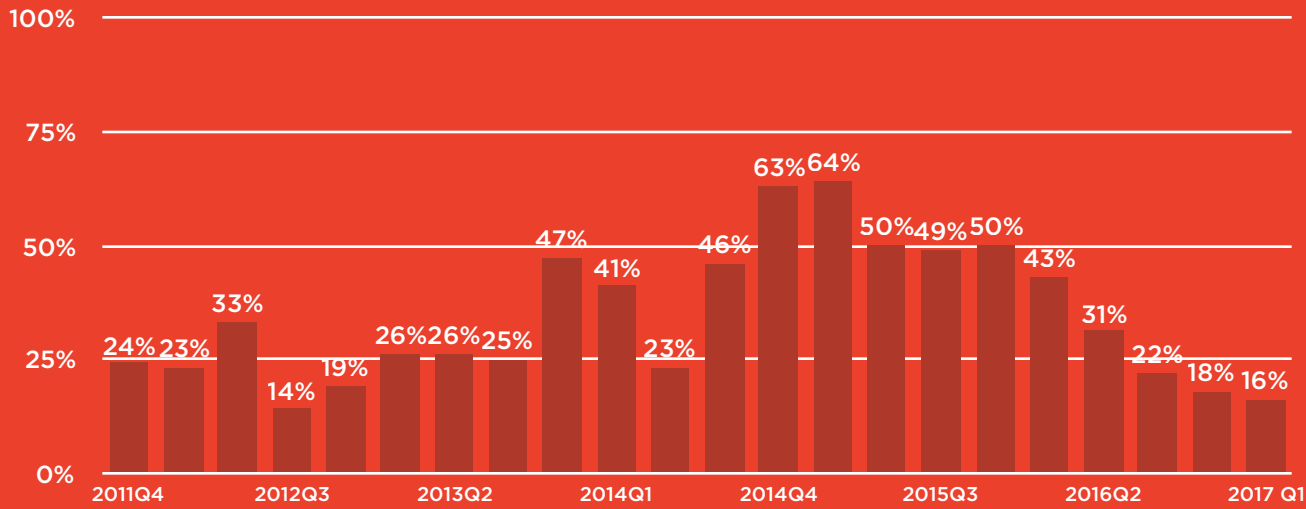
The five currencies mentioned most often among the 850 North American corporates' Q1 earnings calls were the euro, British pound, Japanese yen, Chinese renminbi, and an equal amount of mentions between the Brazilian real and Canadian dollar. The Aussie dollar was the 6th most mentioned currency.

North American companies reported the euro slightly more often than the British pound as being impactful relative to other currencies, showing a decline in the recent trend. However, it still remains clear that significant impacts came from a range of currencies—highlighting the importance (and complexity) of managing currency risk against the entire portfolio of exposure currencies.

Top 5 Currencies Referenced By North American Corporates as Impactful by Quarter - Last 4 (# of North American Companies Mentioning Each)



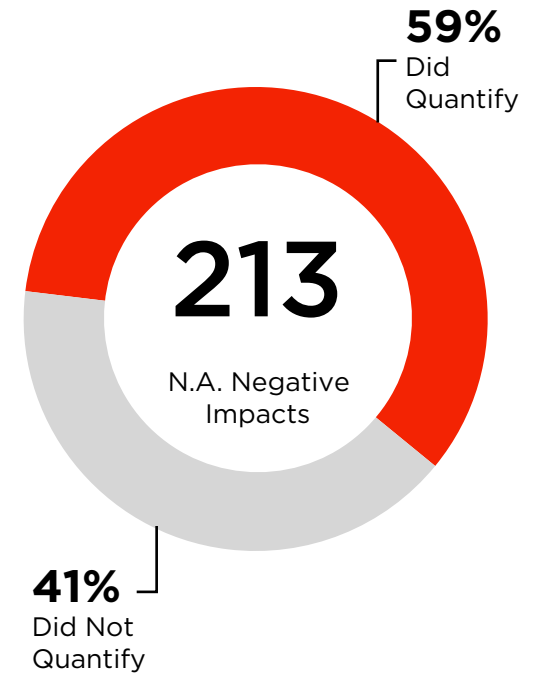
% North American Corporates Reporting Impact (+ or -) Who Fielded Analyst Questions



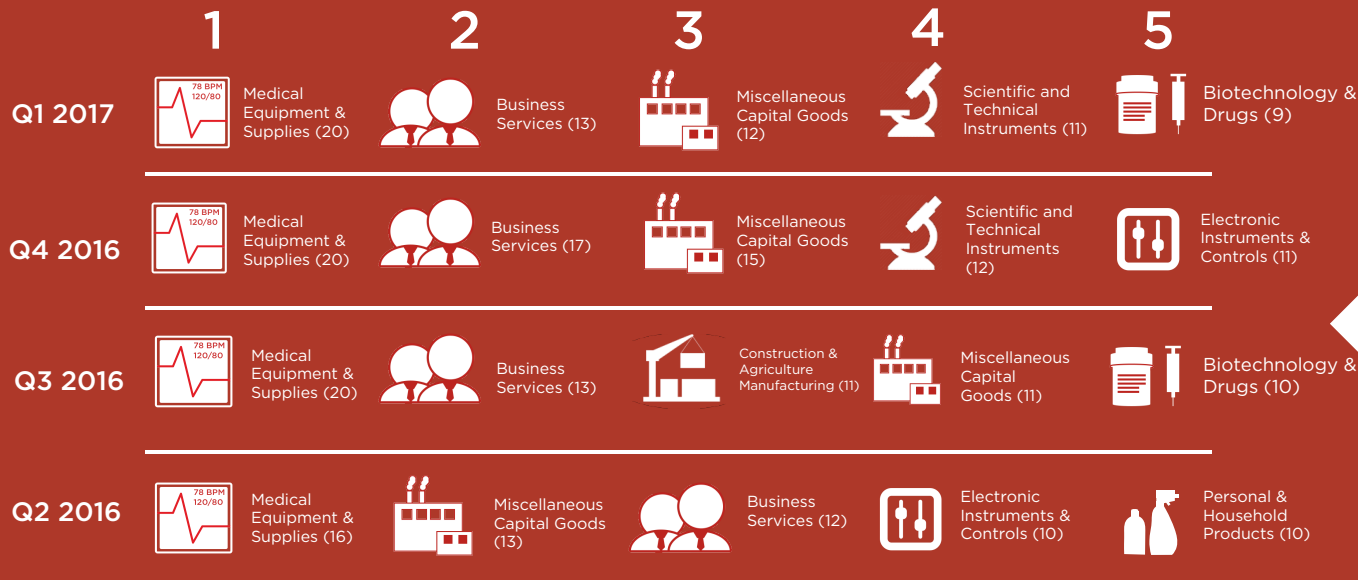
Analyst Questions to North American Corporates

16% of corporates reporting currency impact fielded questions about currency impacts from analysts during their earnings calls in the first quarter— a surprisingly lower percentage than in previous quarters, including Q1 2016.

% Quantified of All Reported (-) North American Impacts



The Most Impacted North American Industries



The Most Impacted North American Industries

- › The industries with the most companies reporting currency impacts in Q1 were “the usual suspects” with Scientific and Technical Instruments making its second appearance
- › Business services (which made it back onto the list in Q3 2015 after a prolonged absence) has now been impacted for 7 consecutive quarters.
- › Medical Equipment and Supplies and Miscellaneous Capital Goods made the list in all of the past six quarters.

Recap: Currency Impact on Q1 2017 North American Corporate Earnings

- 213 companies reported negative currency impacts— 13.1% less than the number of companies in Q4 2016, and 16 fewer than the average (229) of the prior 3 quarters
- Of those who quantified, the negative impact totaled to \$6.47 billion. That is 18.5% lower than in Q4 2016
- This is the third quarter in a row where less than 30% of the North American corporates surveyed reported a currency headwind (negative impact to earnings); this quarter only 25.1% of North American corporates reported a headwind
- The average negative impact on EPS was \$0.03— 3x more than the \$0.01 management objective leading multinationals have for their FX managers.

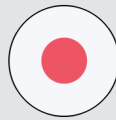
Top 5 Currencies Mentioned as Impactful in Q1 North American Earnings Calls



EUR (20)



GBP (15)



JPY (7)

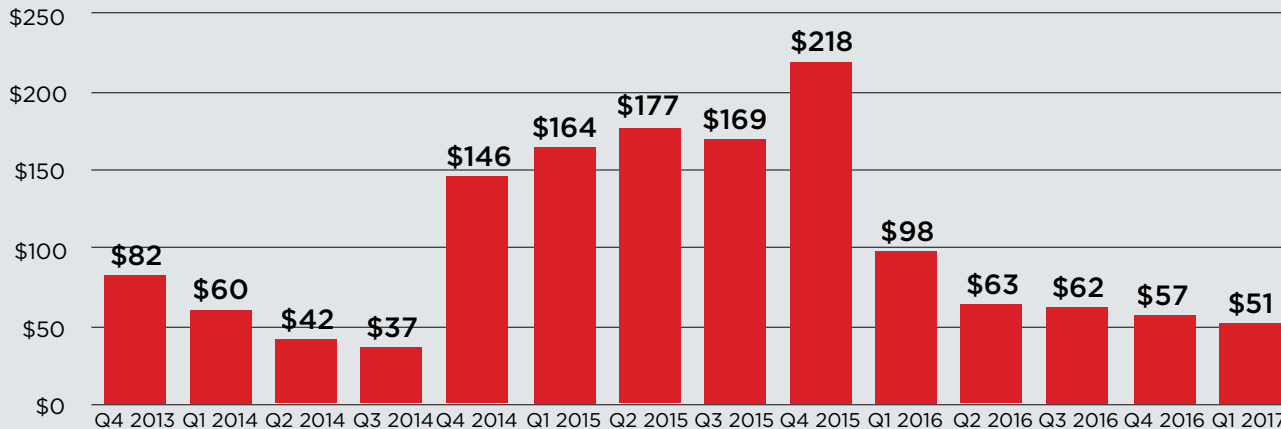


CNY (5)



CAD (4) BRL (4)

Average Per Company (-) Quantified Impact Reported by North American Corporates



Total Reported (-) Quantified Impact Among North American Corporates in Q1

\$6.47 billion

Total North American Corporates Who Reported Negative Impact from Currency in Q1 2017

213 Corporates

Negative EPS Impact (Avg.) Quantified Among North American Corporates in Q1

\$0.03

***Industry Standard MBO Is less than \$0.01 EPS impact

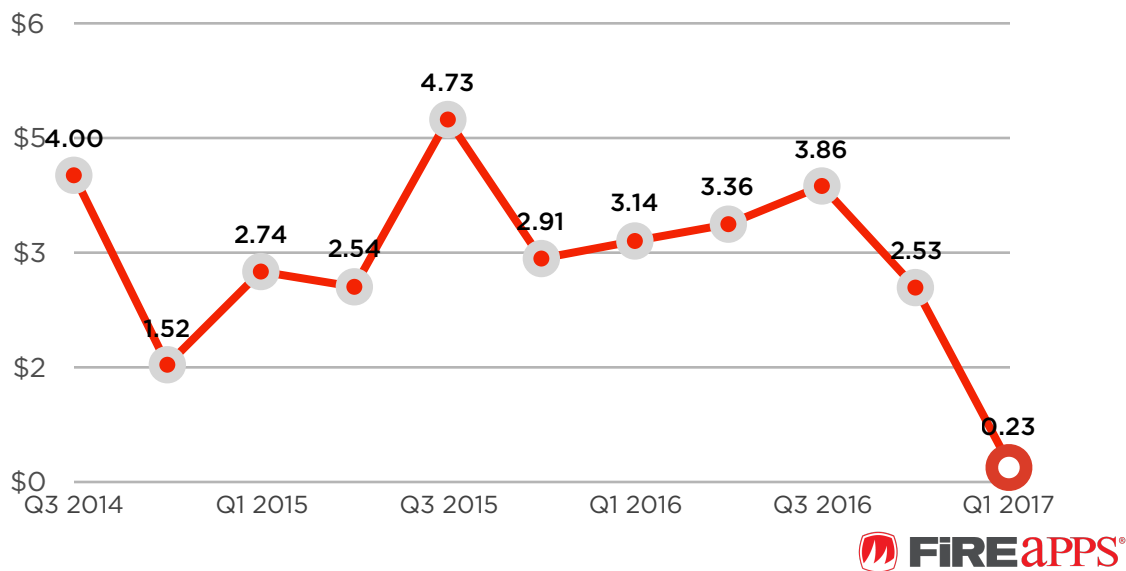


Section 3

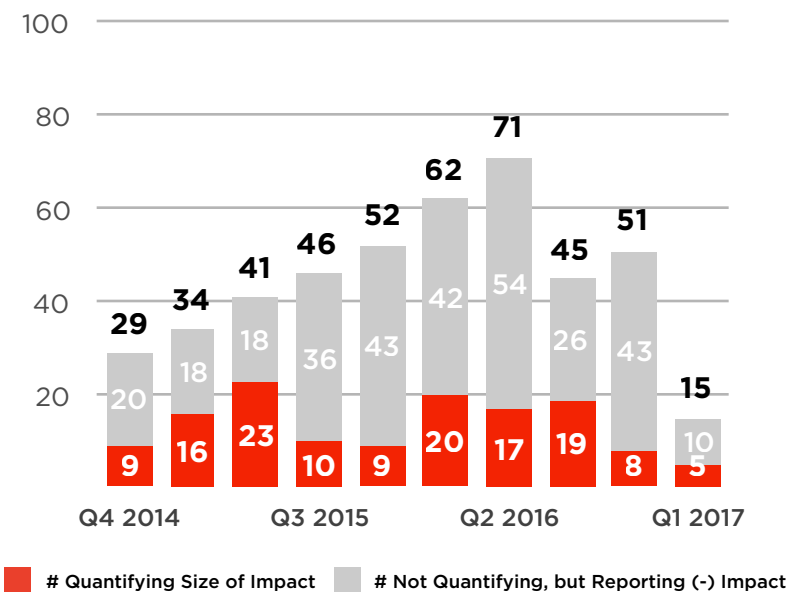
Details of Currency Impact on European Corporate Earnings



Negative Currency Impacts to European Corporates By Quarter (Billions)



of European Companies Quantifying & Reporting Negative Currency Impacts By Quarter



Detail of Currency Impacts on European Corporate Earnings

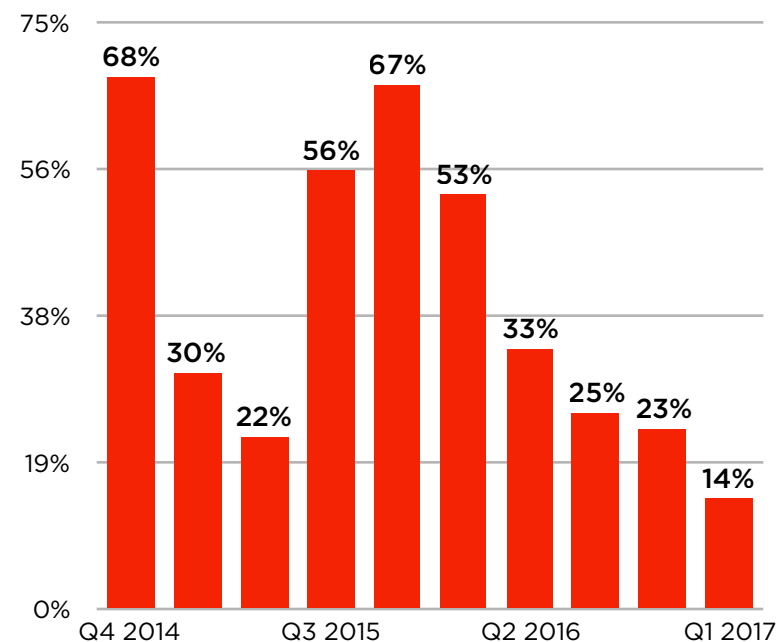
In the first quarter of 2017, 15 of the 400 Europe-based multinational corporates that FiREapps analyzed reported negative currency impact (“headwinds”). Across the companies that actually quantified the negative currency impact, total losses amounted to €211.1 million (\$227.8 million).²

29 companies reported positive currency impacts (“tailwinds”) in the fourth quarter (up 11 from in Q4 2016).

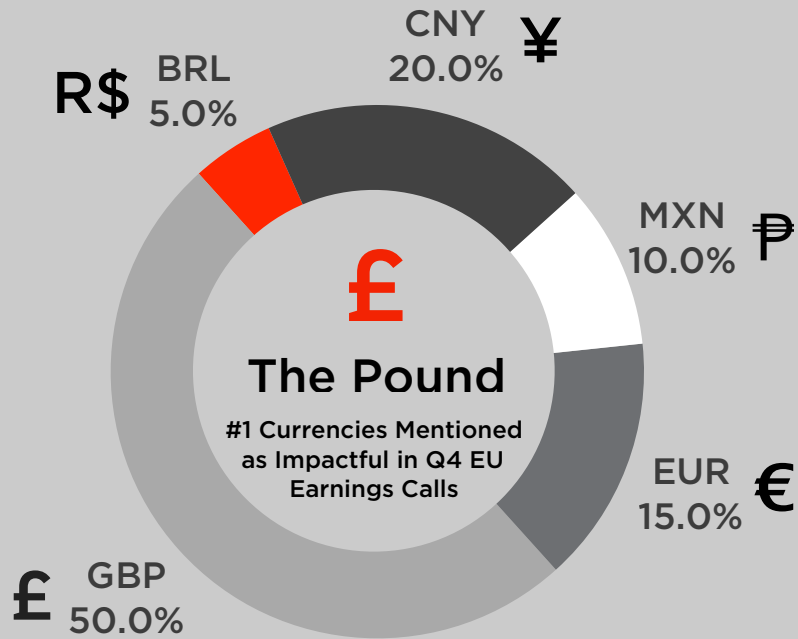
In the first quarter of 2017, 13.6% percent of European corporates reporting currency impact fielded questions about currency impacts from analysts during their earnings calls. This is the fifth quarterly decline in a row. Corporate leaders must be prepared to answer analysts’ questions about the steps they are taking to mitigate currency impact, for all currencies on which the company is exposed.

² As is the case for North American corporates, these impact numbers are likely to be underestimates. There are two reasons why: First, it is almost certain that companies which faced currency headwinds did not specifically point them out. Second, of the total number of companies reporting negative impacts, 33% of them actually quantified the impact.

% European Corporates Reporting Impact (+ or -) Who Fielded Analyst Questions



Top 5 Currencies Most Referenced By European Corporates as Impactful in Q1 2017



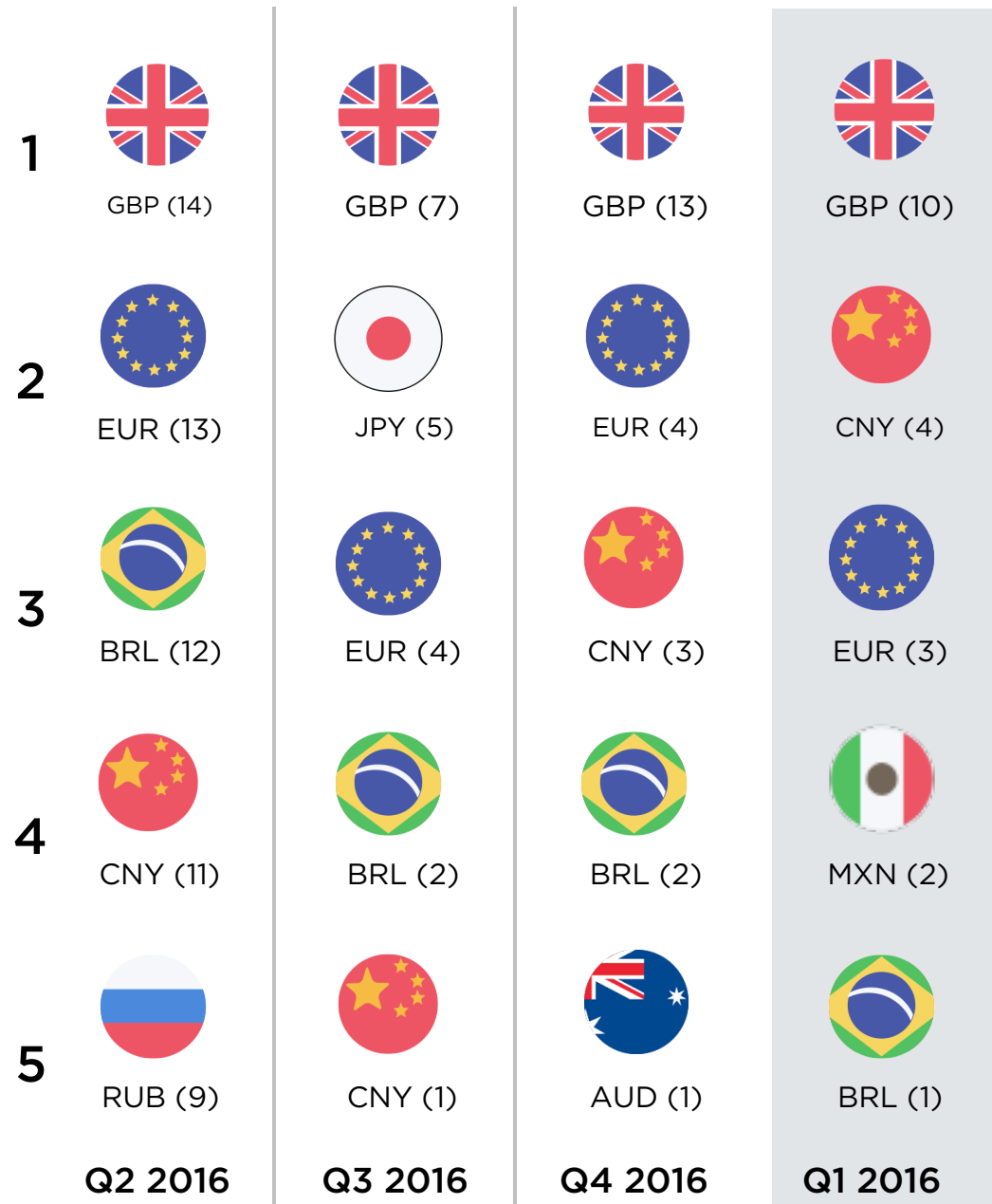
Most Impactful Currencies on European Corporate Earnings Calls

Notably, the pound topped the list this quarter of most impactful currencies by more than double — no doubt still driven by Brexit. Three of the five currencies mentioned most often as impactful by European corporates (the “Currency Culprits”) in the first quarter were usual suspects— the euro, Brazilian real, and Chinese yuan.

Surprisingly, the Mexican peso makes its first appearance as a currency culprit in a while, which correlates nicely with its fifth position as most volatile and most volatile by GDP (pg. 4).

Like their North American counterparts, European corporates are sustaining currency surprises in all markets, across a mix of regions. It is for this reason that an increasing number of multinational corporates manage currency risk across the complete portfolio of currency pairs to which they are exposed.

Top Currencies Referenced By European Corporates as Impactful by Quarter - Last 4 (# of European Companies Mentioning Each)



Recap: Currency Impact on Q1 2017 European Corporate Earnings

- 15 of the 400 Europe-based multinational corporates that FiREapps analyzed reported negative currency impact (“headwinds”).
- Across the companies that actually quantified the negative currency impact, total losses amounted to €211.1 million (\$227.8 million).
- 13% of European corporates reporting currency impact (positive or negative) fielded questions about currency impacts from analysts during their earnings calls.
- The British pound topped the list of most talked about currencies for the fourth time in a row, after its debut in the top 5 in Q4 2015. The Chinese yuan made the currency culprits list for the seventh quarter in a row. Prior to Q3 2015, the Chinese yuan never before made the list.
- Two of the European industries (Biotech and Auto) were amongst the most companies reporting currency impacts in the first quarter were on the list for all four quarters of 2016 and now the first quarter of 2017

Top 5 Currencies Mentioned as Impactful in Q1 European Earnings Calls



GBP (10)



CNY (4)



EUR (3)



MXN (2)



BRL (1)

Total Reported Negative Impact Among European Corporates in Q1

\$227.8 million

Average Per Company Negative Impact Quantified

\$45.6 million

The Most Impacted European Industries

1



Retail and Apparel (5)

2



Auto & Truck (4)

3



Biotechnology and Drugs (3)

4



Airlines (2)

5



Electronic Instruments & Controls (1)

Q1 2017

Q4 2016

To

Miscellaneous Fabricated Products (4)



Personal and Household Products (4)



Aerospace & Defense (3)



Biotechnology & Drugs (3)

Q3 2015



Construction Services (6)



Medical Equipment & Supplies (4)



Miscellaneous Capital Goods (4)



Auto & Truck (3)



Biotechnology & Drugs (3)

Q2 2016



Auto & Truck (7)



Biotechnology & Drugs (5)



Chemical Manufacturing (5)

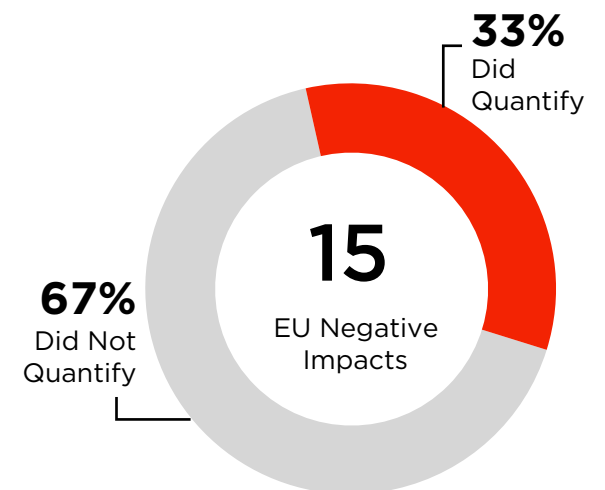


Construction & Agriculture Machinery (4)



Electronic Instruments & Controls (4)

% Quantified of All Reported (-) European Impacts

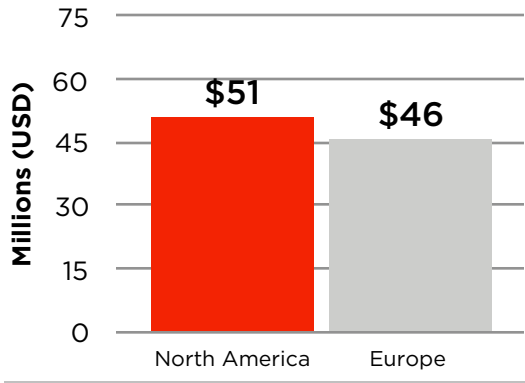


Section 4

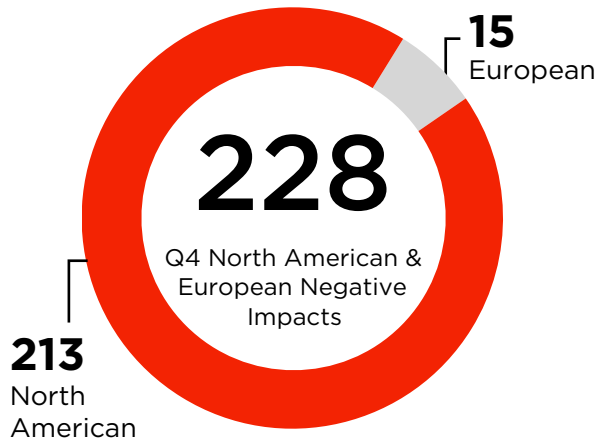
Summary of Q1 2017 Currency Impact to North American and European Corporates



Average Per Company Quantified Negative Currency Impact in Q1 2017



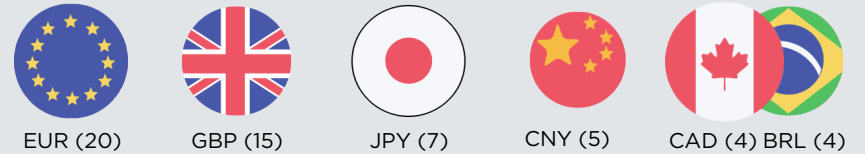
Number of Companies Reporting Negative Currency Impact in Q1 2017



Summary: FiREapps Q1 2017 Currency Impact Report

- > The total quantified **negative impact in Q1 2017 was 67% smaller than Q1 2016, totaling \$6.70 billion**, with \$6.47 billion coming from North American corporates alone
- > Of the **228 reported headwinds**, 93% were reported by North American Corporates; 131 (57%) were quantified globally - higher than the 48% quantified globally in Q1 2016
- > **Euro took first place** as the top currency mentioned as impactful by North American corporates for the first time since Brexit and the **pound remained** top for the fourth quarter in a row for European corporates
- > In Europe, this was the seventh quarter in a row that GBP made an **appearance on the top 5 list after debuting on the European list in Q3 2015**
- > The percentage of Corporates reporting a currency impact who **received questions from analysts** was exceedingly low in both **Europe (14%)** and **North America (16%)**

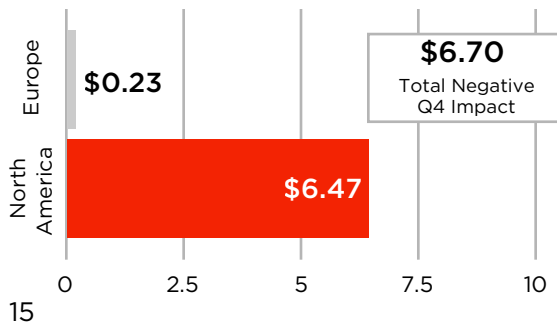
Top 5 Currencies Mentioned as Impactful in Q1 North American Earnings Calls



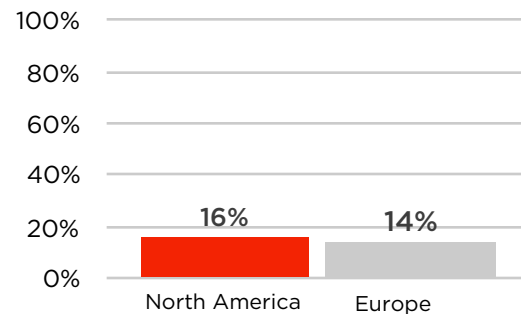
Top 5 Currencies Mentioned as Impactful in Q1 European Earnings Calls



Size of Negative Currency Impact Quantified by North American & European Companies in Q1 2017 (Billions)



% Corporates Reporting Impact (+ or -) Who Fielded Analyst Questions in Q1 2017



Top 5 Currencies Referenced as Impactful in Q1 2017 Earnings Calls

