EXECUTIVE SUMMARY

MANAGING CURRENCY RISKS IN CROSS-BORDER M&A

The strength of the dollar, a favorable interest rate environment and an abundance of cash on hand may make this a good time for domestic companies to invest outside the U.S. However, companies considering a cross-border merger or acquisition should evaluate the currency risk during the due-diligence stage of the deal to ensure that currency rate volatility does not adversely affect the target price.

You can perform a "Value at Risk" analysis to quantify the currency risk between now and the time of closing by multiplying the amount of foreign currency that you will need to acquire the target, times the volatility factor for the particular currency.

You should then evaluate the various hedging products that are available to help manage the risks you have identified, including forward contracts, option contracts, currency swaps and cross-currency interest rate swaps. After that evaluation, the selection of a specific hedging strategy requires matching the hedging product to the deal specific risk.

Hedges of anticipated M&A activity do not qualify for hedge accounting treatment. Derivative mark-to-market adjustments will need to be made to your P&L statement.

As you evaluate your risk, consider the following questions:

1. How are you funding the investment? With cash or leverage?
2. What is the currency mix of the free cash flow the acquisition will generate?
3. What is the target's price and currency denomination?
4. How likely is it that the deal will close? How long will it take to close?

STEP 1 Define Risk Management Objective

STEP 2 Identify and Quantify Risks

STEP 3 Identify Hedging Strategies to Manage Risks

STEP 4 Select Appropriate Hedging Strategy

STEP 5 Execute Strategy with Hedge Counterparty

HEDGING ROADMAP

Through basic deal analysis and the application of the appropriate hedge products, currency risk can be identified and reduced.

For more detailed information on this topic, view the related video "Managing Currency Risks in Cross-Border M&A" at pnc.com/ideas, contact your foreign exchange advisor or

William Brandenburg
312.384.4696
william.brandenburg@pnc.com

The information contained herein ("Information") was produced by an employee of PNC Bank, National Association's ("PNC Bank") foreign exchange and derivative products group. Such Information is not a "research report" nor is it intended to constitute a "research report" (as defined by applicable regulations). The Information is of general market, economic, and political conditions or statistical summaries of financial data and is not an analysis of the price or market for any product or transaction.

This document and the Information it contains is intended for informational purposes only, and should not be construed as legal, accounting, tax, trading or other professional advice. You should consult with your own independent legal, accounting, tax and other professional advisors before taking any action based on this Information. Under no circumstances should this document or any Information contained herein be considered a recommendation or solicitation to buy or sell any products or services or a commitment to enter into any transaction. Eligibility for particular products or services is conditioned upon PNC Bank's subsequent formal agreement, which will be subject to internal approvals and binding transaction documents. The Information contained herein on exchange and interest rates, commodity prices and market indices are gathered from sources PNC Bank believes to be reliable and accurate at the time of publication. Therefore, PNC Bank makes no representations or warranties regarding the Information's accuracy, timeliness, or completeness. Further, all performance, returns, prices, or rates are for illustrative purposes only, are subject to firm quotes, may not be achievable or indicative of future performance, actual results will vary, and may be adversely affected by exchange rates, interest rates, commodity prices or other factors. Markets do and will change. Any Information, values, estimates, or opinions expressed or implied herein are subject to change without notice. Under no circumstances is PNC Bank liable for any lost profits, lost opportunities, or any indirect, consequential, incidental, special, punitive, or exemplary damages arising out of any use, reliance, or any opinion, estimate or Information contained herein or any omission therefrom. PNC Bank, its predecessors, and affiliated companies may serve, either currently or within the previous three years, as underwriter, placement agent, market maker, manager, initial purchaser, broker, or deal as principal in any security, derivative or other instruments mentioned in this document. Any such relationship may differ materially from transactions contemplated herein. In addition, PNC Bank, its affiliated companies, shareholders, directors, officers, or employees may at any time acquire, hold or contemplated herein (including hedging and trading positions) which may impact the performance of a product described in this document. Early termination of a foreign exchange or derivative transaction may require payment of a termination amount to or from PNC Bank depending on market rates or prices at the time of termination. The Information contained herein is confidential and may not be disclosed, duplicated, copied, disseminated or distributed by any means to any other person or entity without PNC Bank's prior written consent.

PNC is a registered service mark of The PNC Financial Services Group, Inc. ("PNC"). Foreign exchange and derivative products are obligations of PNC Bank, **Member FDIC** and a wholly owned subsidiary of PNC. Foreign exchange and derivative products are not bank deposits and are **not FDIC insured**, nor are they insured or guaranteed by PNC Bank or any of its subsidiaries or affiliates.

©2015 The PNC Financial Services Group, Inc. All rights reserved.

CIB ENT PDF 0815-074-196576