

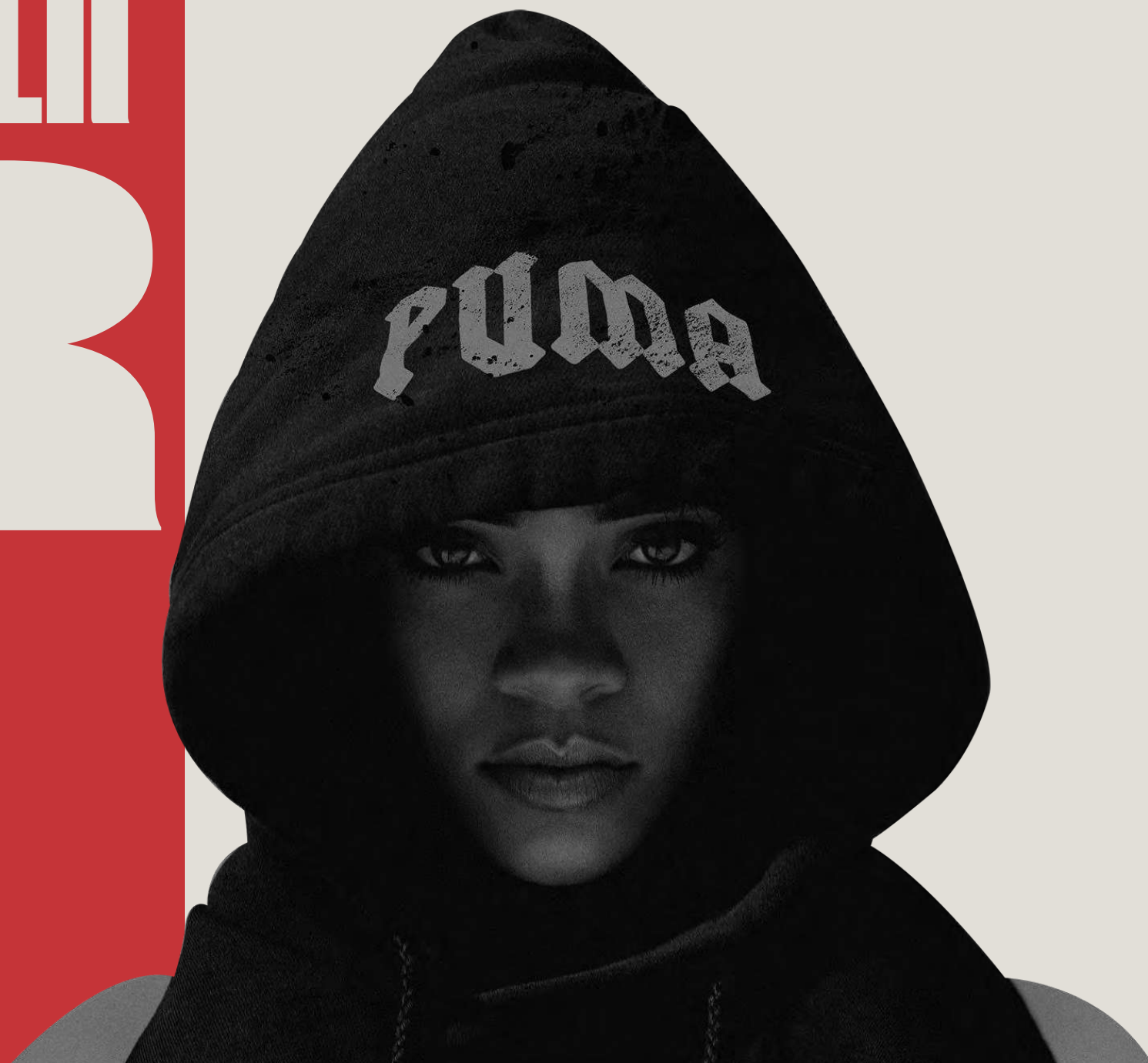
Frank Waechter, Group Treasurer
Barcelona, October 04, 2017

PUMA

**FASTER
THAN
FASTER
THAN
FASTER**



FX RISK: STRATEGIC CONSIDERATIONS TO NOT FALL OFF THE FX CLIFFS

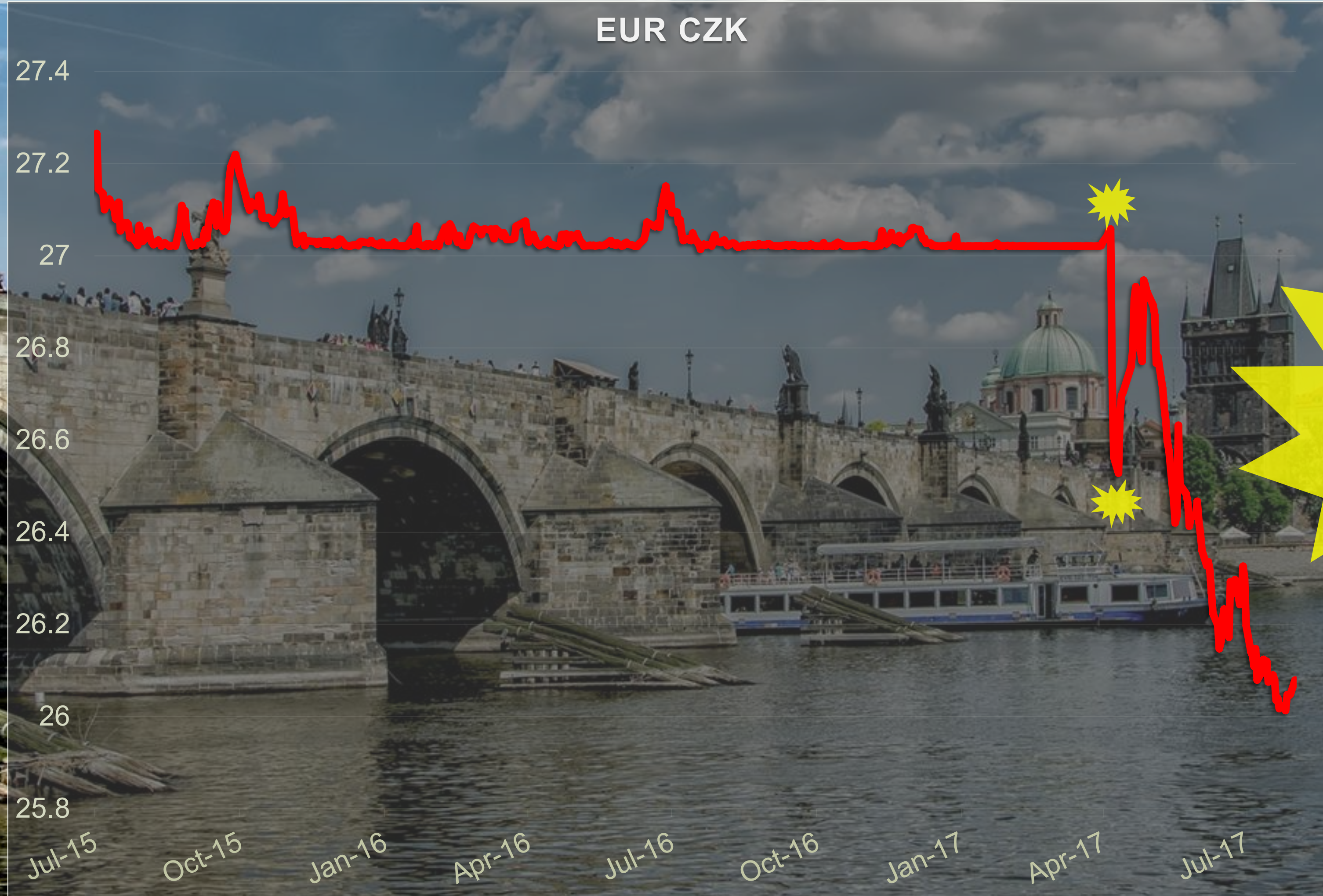


AGENDA

Do FX cliffs and higher volatilities really exist?

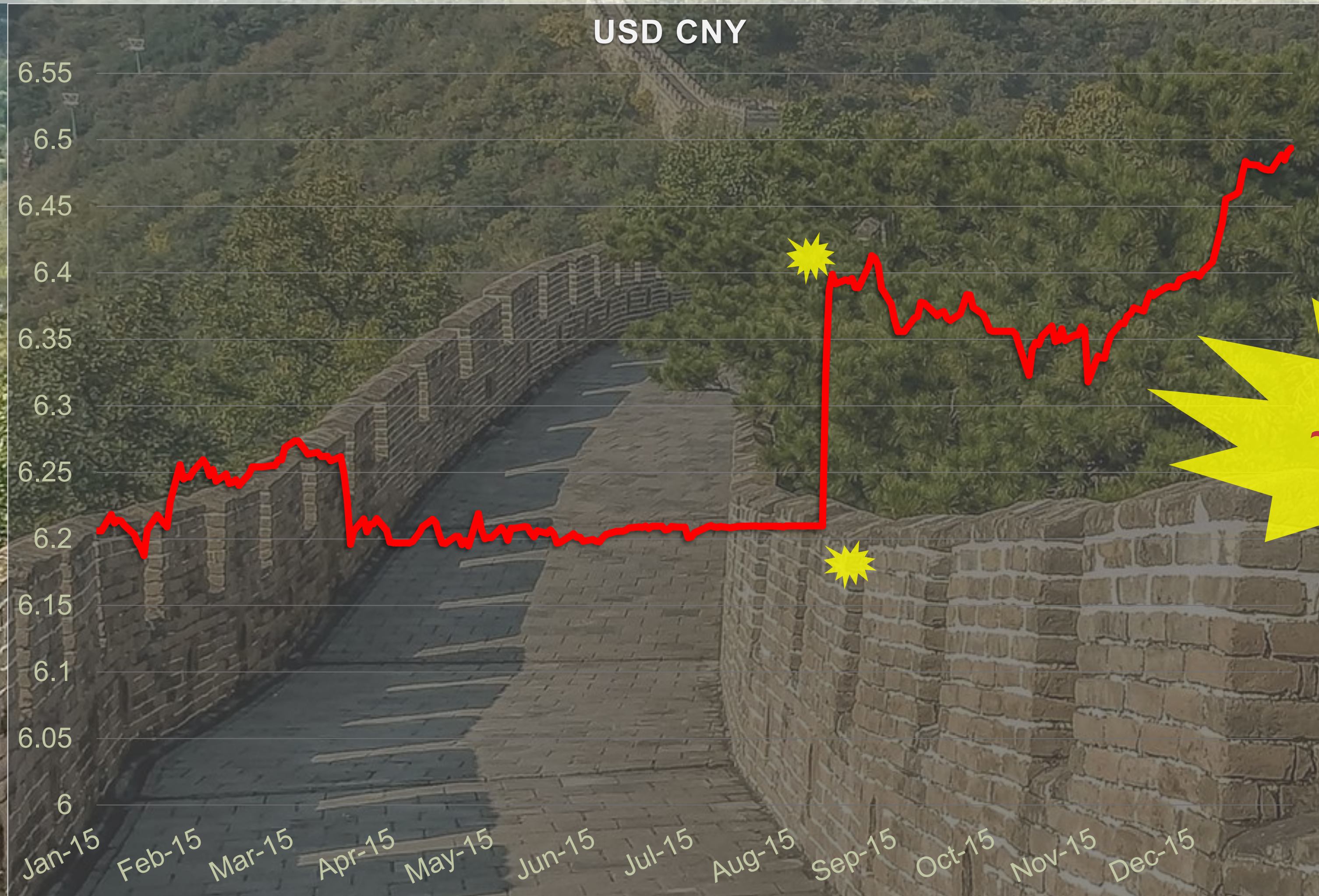
What would be a good line up to not get blown out of the game?

Do FX cliffs and higher volatilities really exist? (1 of 7)



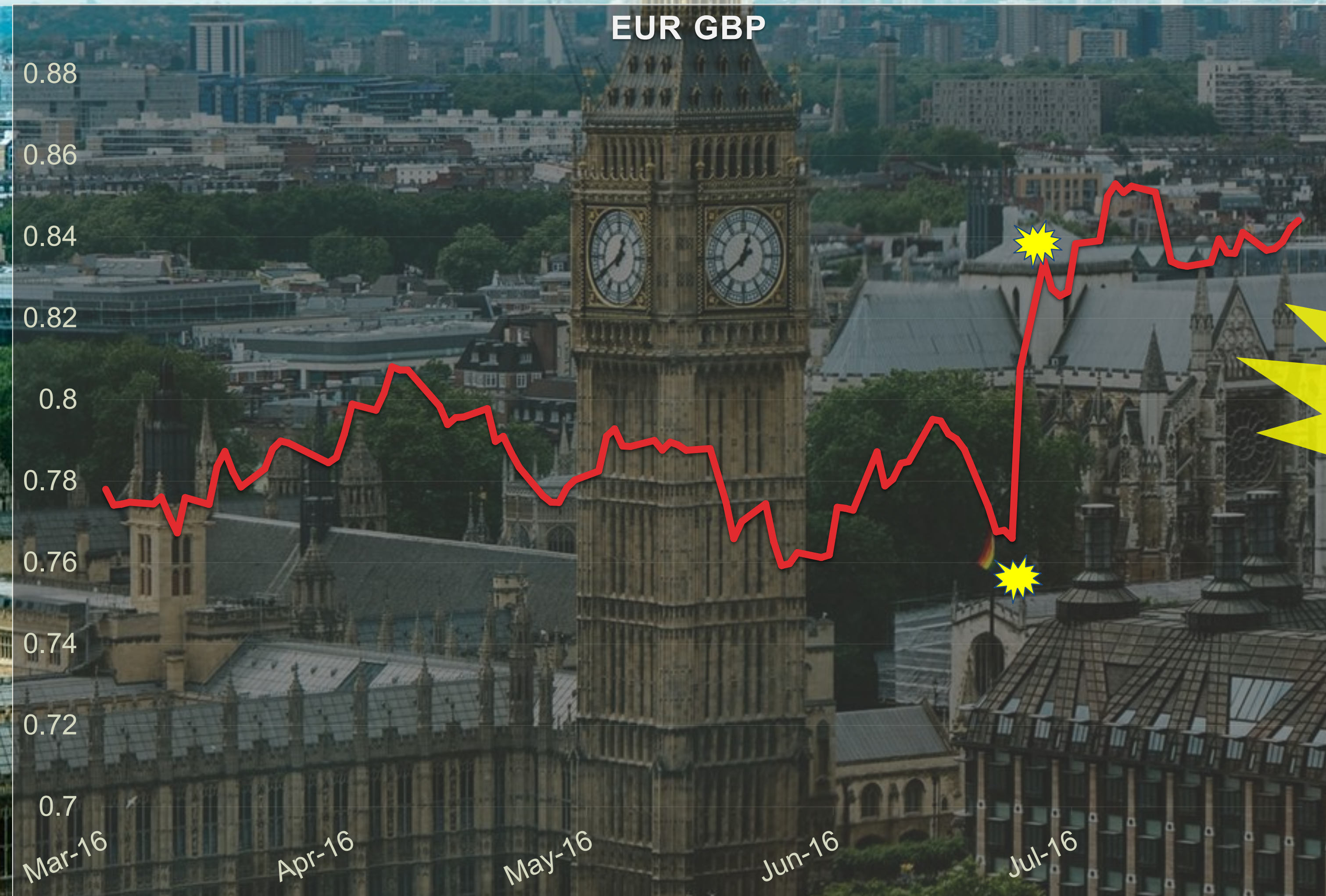
No, don't think so!?
~2%

Do FX cliffs and higher volatilities really exist? (2 of 7)



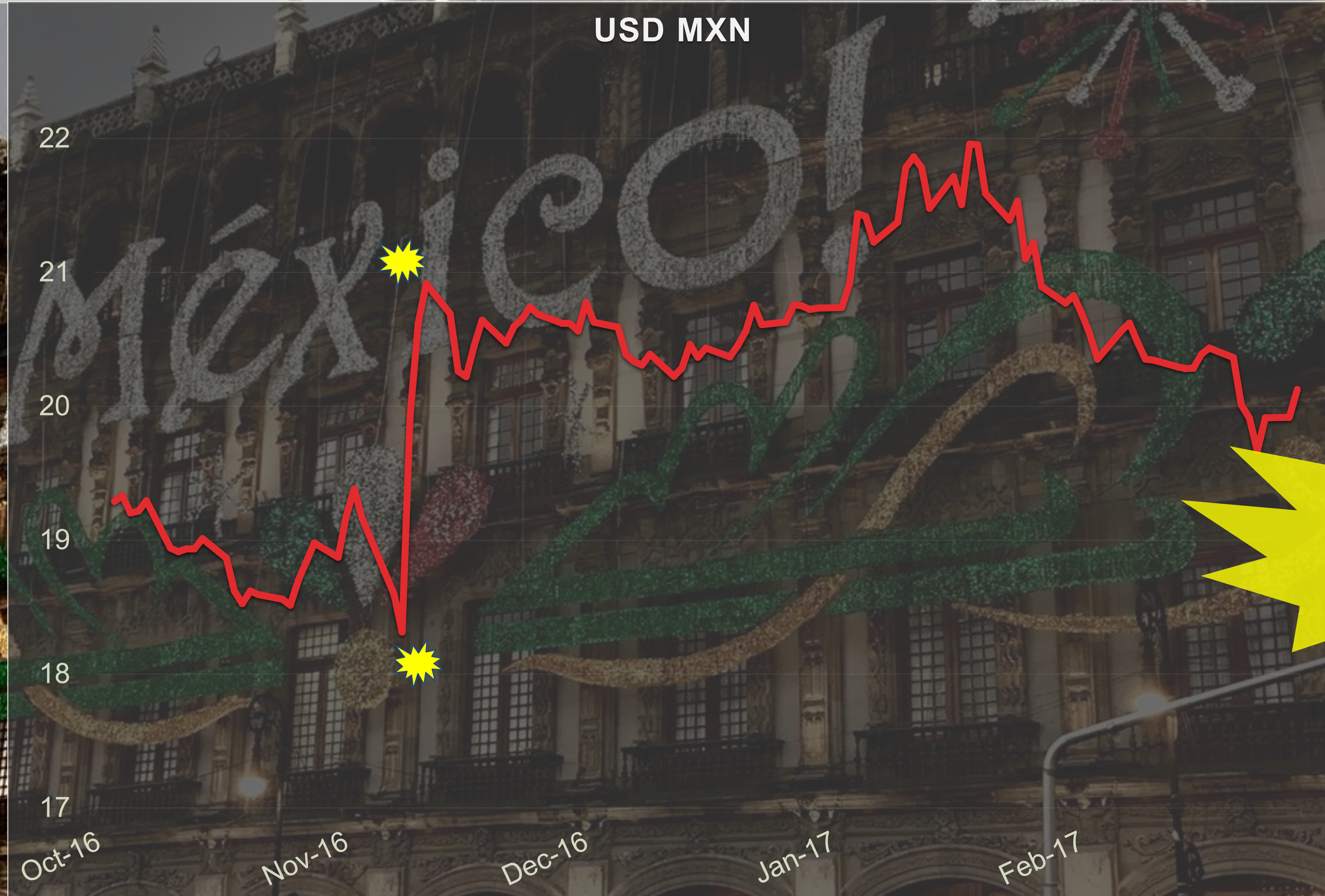
Rather not !?
~3%

Do FX cliffs and higher volatilities really exist? (3 of 7)



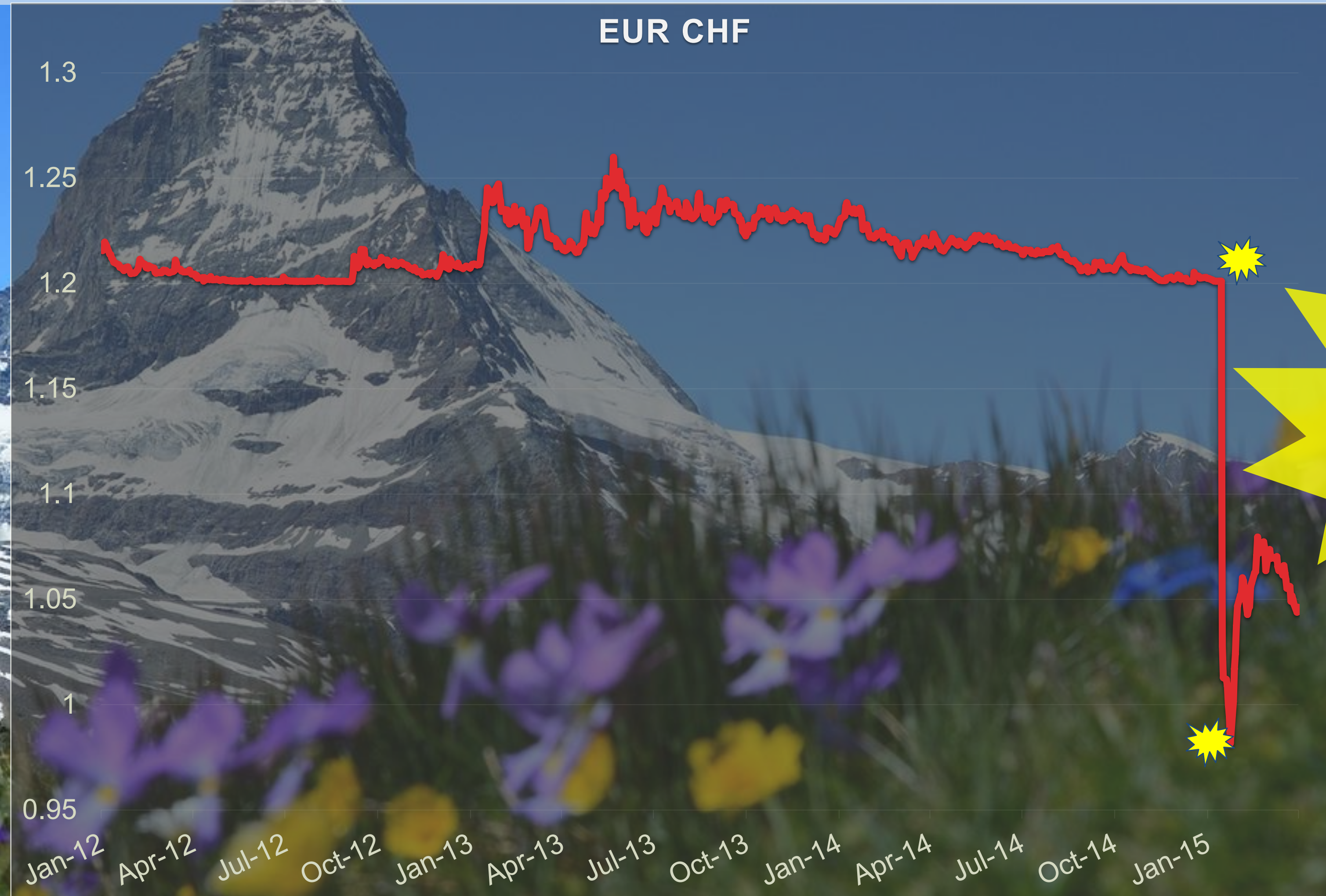
Probably!
~8%

Do FX cliffs and higher volatilities really exist? (4 of 7)



Maybe yes!
~12%

Do FX cliffs and higher volatilities really exist? (5 of 7)



Can't be ignored!!
~18%

Do FX cliffs and higher volatilities really exist? (6 of 7)

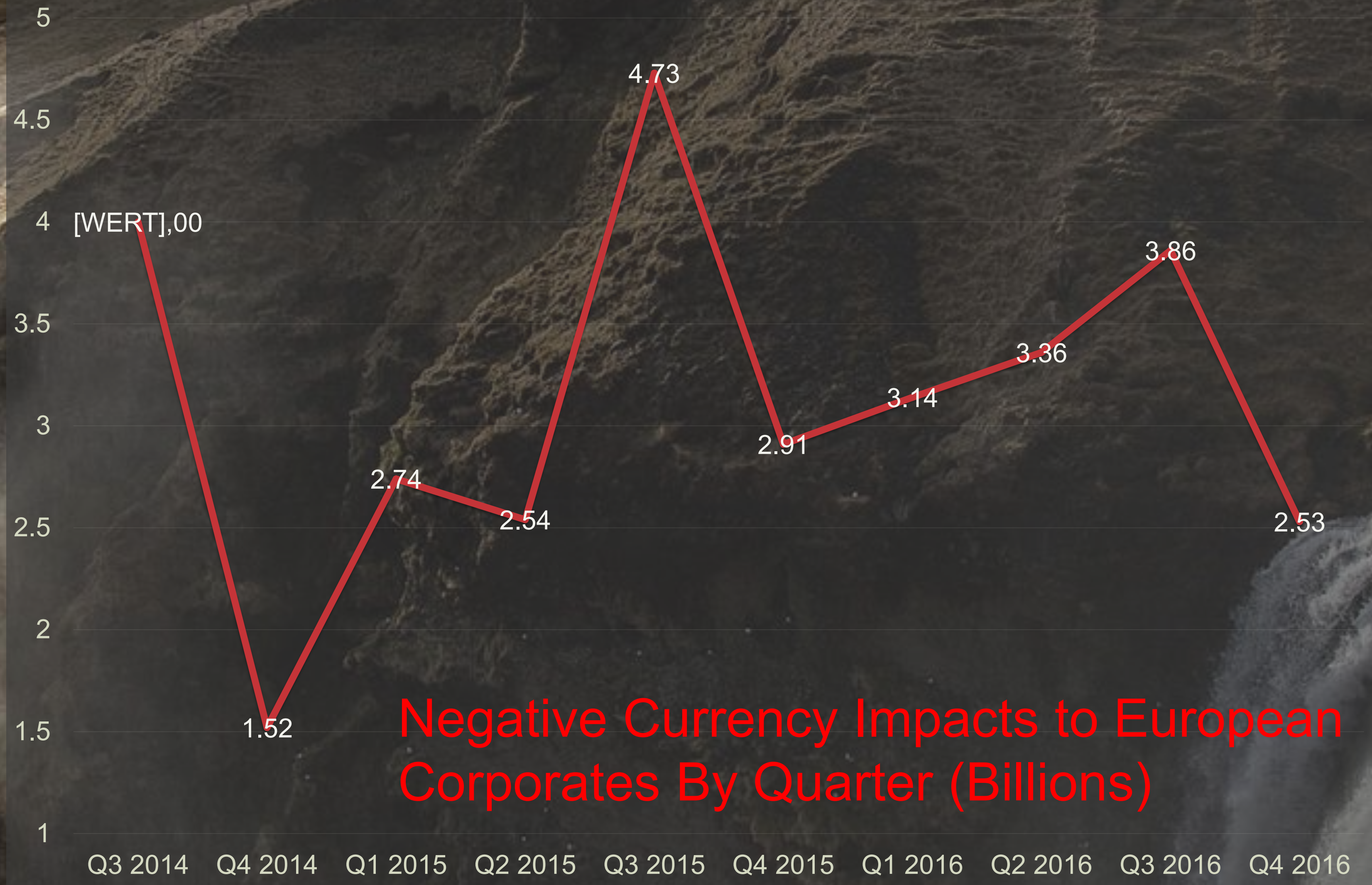


Do FX cliffs and higher volatilities really exist? (7 of 7)

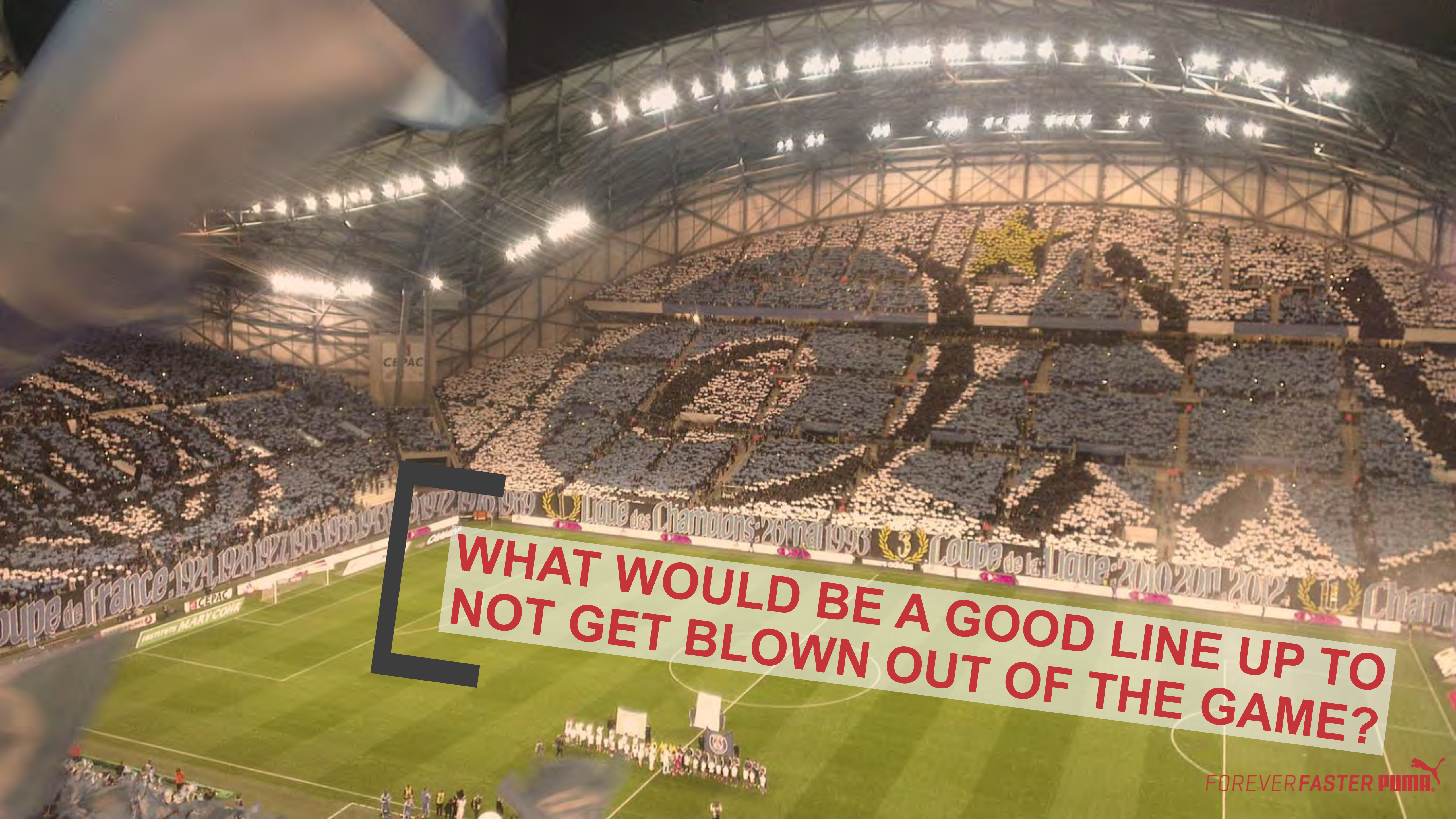


Sh....t!!
~25%

Do FX cliffs and higher volatilities really exist? **YES!**



Negative Currency Impacts to European Corporates By Quarter (Billions)



**WHAT WOULD BE A GOOD LINE UP TO
NOT GET BLOWN OUT OF THE GAME?**

PUMA NUMBERS AT A GLANCE

PUMA Group	FY 2016
NET SALES (in EUR M)	3,626.7
GROSS PROFIT (in EUR M / % of Net Sales)	1,656.4 (45.7%)
OPEX (in EUR M / % of Net Sales)	-1,544.5 (-42.6%)
EBIT (in EUR M / % of Net Sales)	127.6 (3.5%)
FREE CASH FLOW B4 ACQ. (IN EUR M)	56.5

By Product Segments	NET SALES (% of Group Net Sales)
FOOTWEAR	45%
APPAREL	25%
ACCESSORIES	18%

By Region	NET SALES (% of Group Net Sales)
EMEA	22%
AMERICAS	37%
ASIA/PACIFIC	25%

PUMA,,S LINE UP IN FX-MANAGEMENT

Coach + president

FX-strategy for target setting

FX-guideline for proper execution

KPI,,s for controlling

ensure link with operative business

proper FX-hedging execution

active or passive FX-Mgmt.

local or central FX-hedging

FX Hedging approach

FX-Exposure

FX-risk analysis (KonTraG)

FX Hedging counterparties

FX-hedging instruments

regulatory (e.g. EMIR, MiFID)

Hedge Accounting

goalie

defense

midfield

attack

GOOD KNOWLEDGE ABOUT FX-EXPOSURE IS THE GOALIE

No 1 FX-Hedging Myth: I REALLY know my exposure

- Without knowing your exposure, evaluation of risks is not possible
- No exposure means missing basis for deciding a hedging strategy.
- Typically exposures are determined through: 1) risk identification, 2) risk quantification, 3) analyzing risk capacity

- Loads of risk make exposure measurement difficult & confusing.
- Within a multinational corporate exposure measurement needs awareness of internal processes and contracts.
- An exposure is only one component in risk management, which is incomplete without formulated goals and hedging strategy.

FORECASTING (IN-) ACCURACY IMPACT

A simplified PUMA-example on impact of missed forecasting accuracy

- Forecast purchase amount Sales sub = sales amount of Trading Entity 100 mEUR
- Actual purchase amount Sales sub = sales amount Trading Entity 110 mEUR

→ Forecasting accuracy 90%

Entity Sales	Unhedged purchase amount Sales subs = sales amount of Trading entity	10	mEUR
	FX rate change on sales side	0%	
	P/L impact from sales Trading Entity/ purchase Sales Sub	-	mEUR

Entity Purchases	Trading Entity unhedged purchase	9	mEUR
	FX rate change on purchase side	10%	
	P/L impact from Trading Entity purchase	0,9	mEUR

Total P/L Impact -0,9 mEUR

PUMA'S SETUP CENTRALIZES FX-RISKS BUT REQUIRES BOTTOM-UP INPUT ON FX-EXPOSURES

Involved parties:

Country

Regional hub

HQ,,s

Communication flow / plausibility checks:

France

1.

Europe

2.

Treasury

4.

Trading Entity

3.

Controlling

Submission for hedging

Sanity-check and alignment

Local exposure (LC)

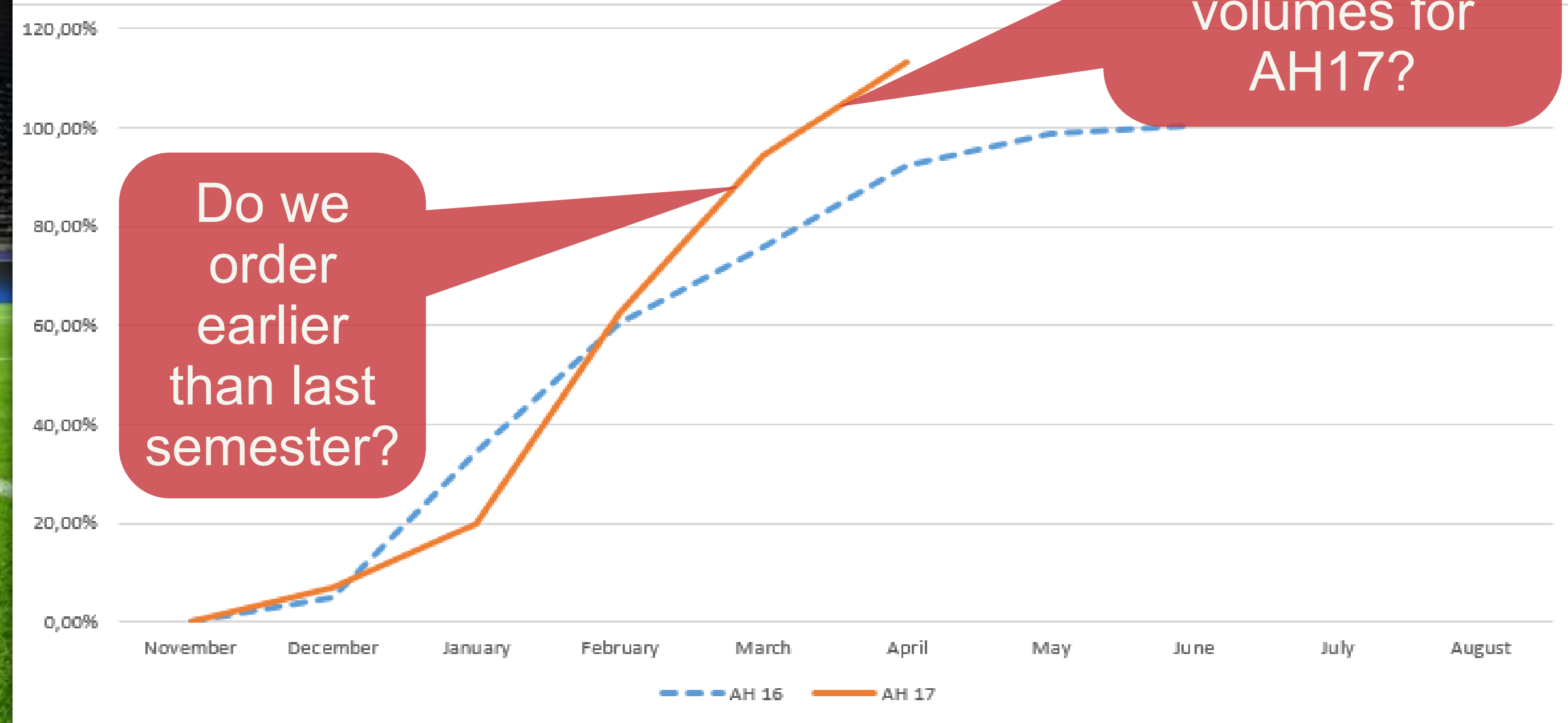
Sanity-check & pre-consolidation

Rules:

- Clear responsibility: Country submits and Regional Hub validates and releases.
- Several and repeating forecasts from countries. But: Do they get better as closer execution gets?
- Minimum forecasting accuracy (thresholds). But: Are there consequences if forecasting accuracy outside required range?

PUMA EXAMPLE ON CONSTANTLY CHALLENGING INPUTS

in local Currency	AH16 Orders	AH 16 Exp.	AH17 Orders	AH 17 Exp.
Total	22.743.713	22.638.910	30.398.161	26.799.129
November	42.450	0,19%	0	0,00%
December	1.076.529	4,94%	1.860.559	6,94%
January	6.635.836	34,25%	3.400.982	19,63%
February	5.929.500	60,45%	11.448.523	62,35%
March	3.455.195	75,71%	8.621.838	94,53%
April	3.808.345	92,53%	5.066.259	113,43%
May	1.440.412	98,89%		
June	355.446	100,46%		
July				
August				



EMBEDDING FX-MGMT INTO BUSINESS AND CENTRALIZING FX-RISKS ARE THE BEST DEFENSE

ensure link with operative business

local or central FX-hedging

FX-risk analysis (KonTraG)

regulatory (e.g. EMIR, MiFID)

defense

DECENTRAL VS. LOCAL HEDGING: CHALLENGES WITHOUT CENTRALIZATION

FROM ...

2/3

Local hedging



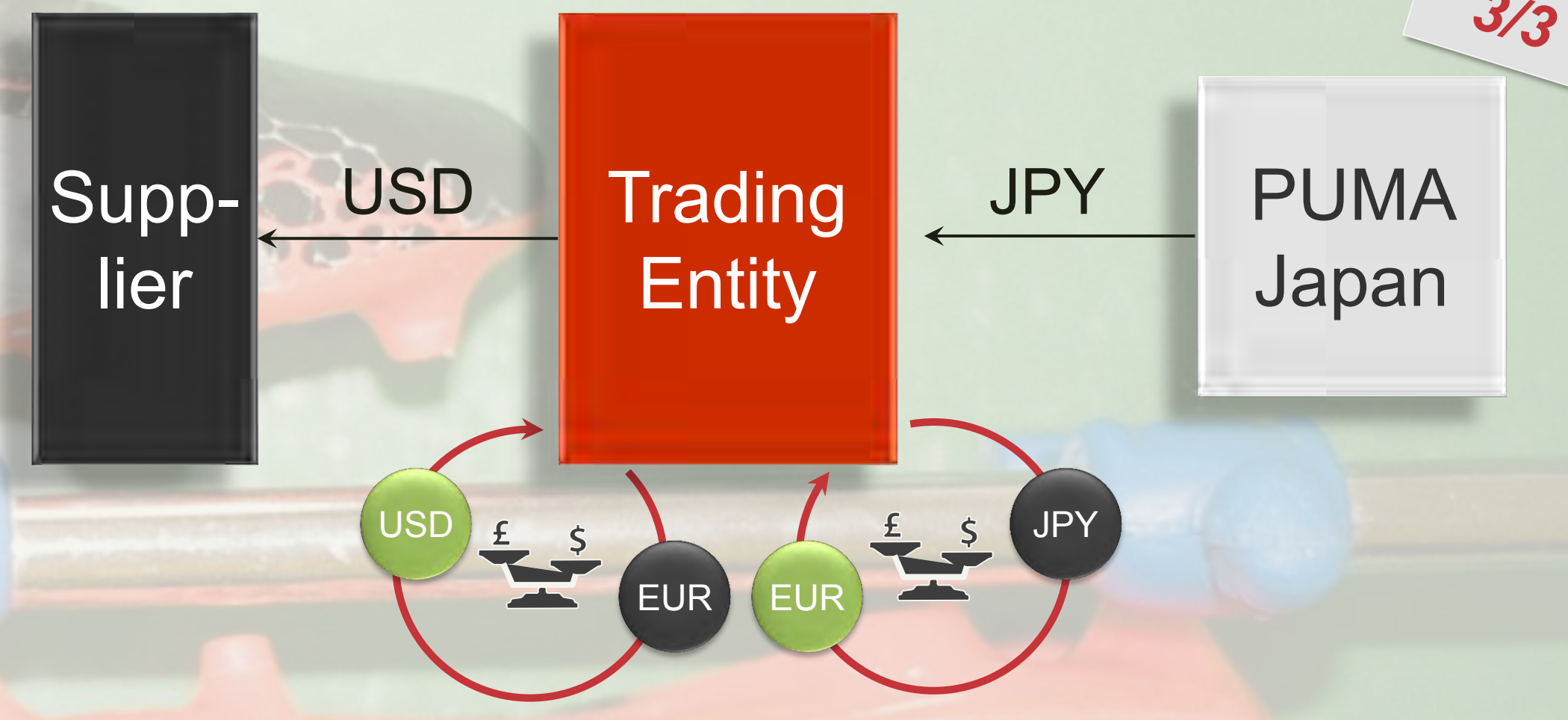
1/3

Hedge Pool

Central hedging in few denominated entities

... TO NEW SET-UP

3/3



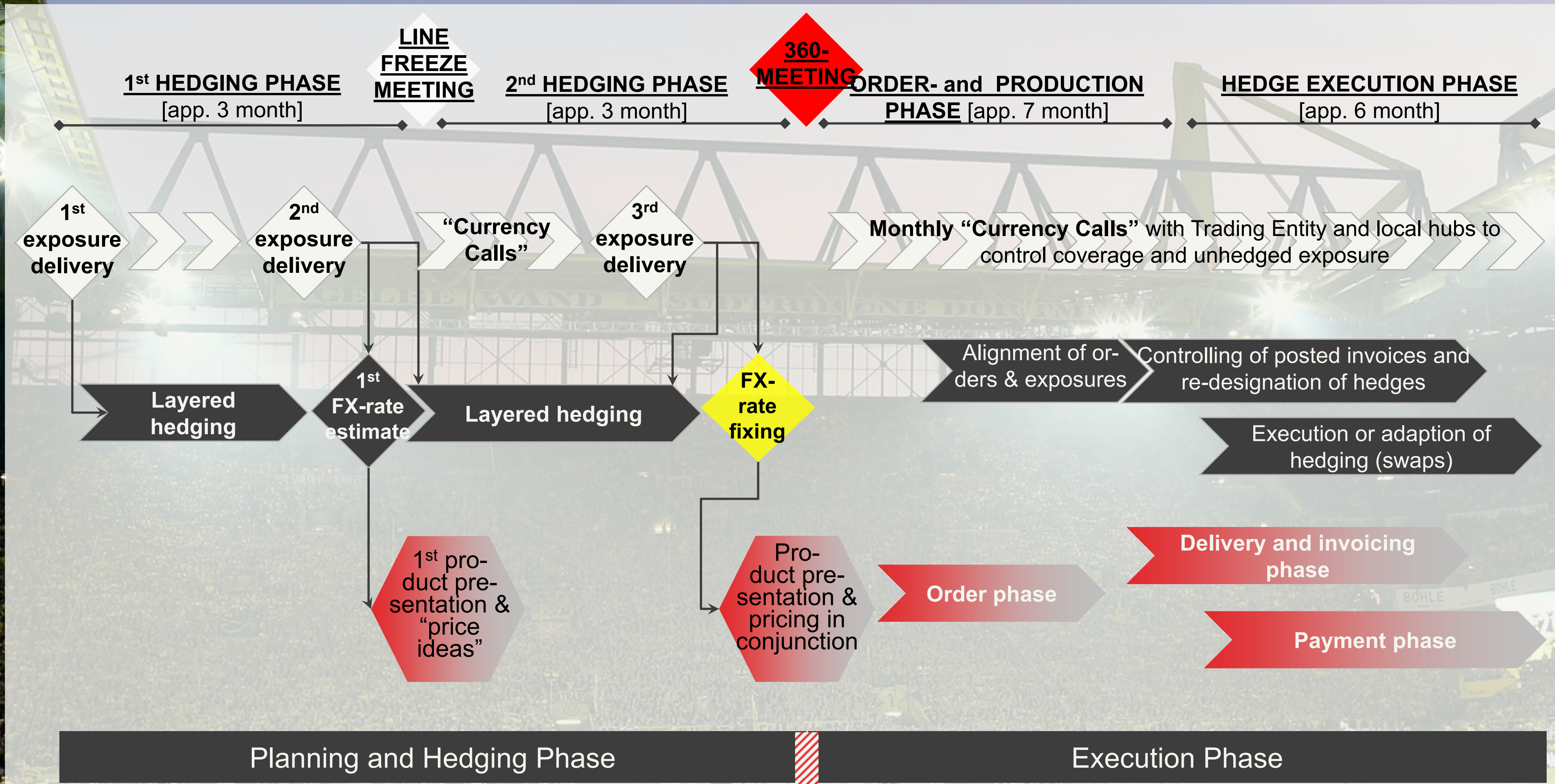
Observations

- Given group-wide hedging strategy not always properly executed locally
- FX effects dilute local PnL
- Local hedging requires specific know-how, constant market observation and regular hedge accounting justification

Reasons for centralization

- Volatility and challenging market environment requires quick & solid decisions for FX-strategy + proper execution
- Local subs should no longer be bothered by FX-effects
- Economies of scope and scale with hedging
- Central hedge accounting justification with audit easier

PUMA USES HEDGED RATES AS BASIS FOR LOCAL PRODUCT PRICING IN LC OF THE COUNTRIES



FX RATE FIXING: CALCULATION AS A BALANCING ACT REGARDING UNHEDGED EXPOSURES

The FX rate fixing on Trading Entity level for a certain season is determined by two factors:

1. Average FX hedge rate derived from the FX hedges which are already concluded at the time of FX rate fixing.
2. Forecast FX rates by FX consensus (experts) for the relevant period for the unhedged part of the exposure.

$$\left(\frac{\text{Average FX hedge rate}_{AH15} \times \text{Hedged Exposure}_{AH15} + \text{FX forecast rate}_{AH15} \times \text{Unhedged Exposure}_{AH15}}{\text{Exposure}_{AH15}} \right) + \text{Markup} = \text{FX Rate}_{AH15}$$

FX rate fixing (esp. for unhedged exposures) is a balancing process between risk mitigation and not putting PUMA-subs out of the market with “expensive” Emerging Market FX-rates:

- Hedging costs up to x% are seen as „Insurance premium“ → high (conservative) hedging coverage required
- Hedging costs between x% & y% are negatively affecting LC sourcing costs of subs → coverage reduced
- Hedging costs above y% only allow hedging before FX-rate fixing, if outlook is clearly negative and after individual approval of CFO
- But: Minimum coverage before FX-rate fixing independent from hedging costs and outlook is a Must.

MIDFIELD ENSURES SOUND LAYERED HEDGING APPROACH AND PROPER EXECUTION

proper FX-hedging execution

FX Hedging approach

FX Hedging counterparties

Hedge Accounting

midfield

PUMA APPLIES LAYERED HEDGING FOR EVEN FX-RATE DEVELOPMENT

Adapted principles of FX hedging @ PUMA



Principles of layered hedging

LAYERED HEDGING				12m ROLLING HEDGING					
	3 months	6 months	9 months	12 months		3 months	6 months	9 months	12 months
1 E	100% of 12m exp.				1 E	100%			
2 X		75% of 6m exposure hedged			2 X		100%		
m P			50% of 9m exposure hedged		m P			100%	
o O				25% of 12m exposure hedged	o O				100%
n S					n S				
t U					t U				
h R					h R				
s E					s E				

At any time 25% of 12m exposure, 50% of 9m exposure, 75% of 6m exposure and 100% of 3 m exposure are hedged

Pro's and Con's of Layered Hedging

Pro's

- Hedge rate is much **closer to average FX-rate** development
- **More even hedge rate** development
- Favorable, if USD trend is weakening

Con's

- On 12 months perspective open position is 62,5%
- Unfavorable, if currency is getting stronger steadily

PUMA HEDGING SYNCHRONIZED WITH FIXED MONTHLY DUE DATES AGREED WITH ALL PARTNERS

each 11th

each 13th

each 15th

each 16th & 20th

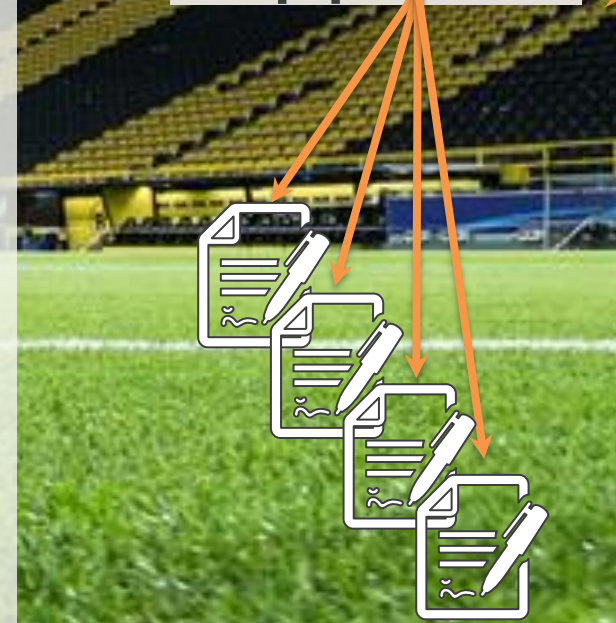
Inflow Subs
in LC's



Multiple IC
invoices
"grouped" in
one payment
per Sub to
Trading Entity



Outflow to
suppliers



Several supp-
plier invoices
grouped to
one payment
from Trading
Entity

HEDGING APPROACH & USE OF INSTRUMENTS TO BE CONSIDERED AS ATTACK OF FX-MGMT LINE UP

active or
passive
FX-Mgmt.

FX-hedging
instruments

attack



ACTIVE VS. PASSIVE FX-MANAGEMENT



Through investment decisions which should increase the performance of a portfolio a new risk will be taken = active risk.

Recognize profits on the basis of revenues and costs.

Choice of the “right” instrument (swap/ forward/ spot/ option) or choice of the “right” moment.

Options are one central element, no or only little limitation of use.

No limit from operational business, the only target is to maximize profit considering a given framework.

Active

Passive

Risk orientation

Profit center vs. Cost center

Instruments

Optional Structures

Flexibility

Market risk of existing (operative) underlying is the only risk to mitigate. Level of risk will be specified through benchmarks.

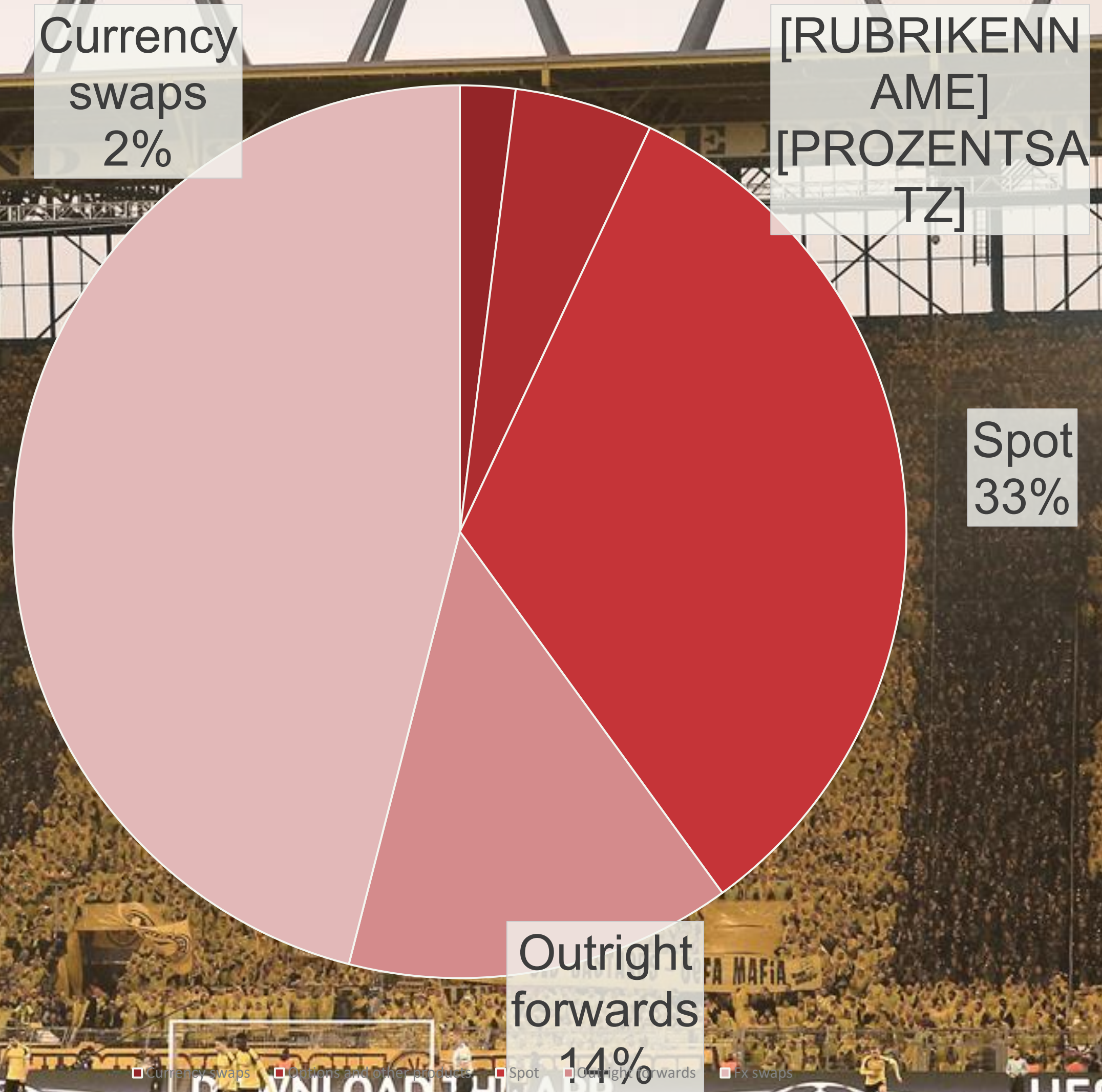
Various types of costs are measured, allocated and optimized.

The target of passive management is cost efficient mapping of a market or a risk level = “Indexing”.

The use of optional instruments is very limited.

Quite limited flexibility in accordance with underlying operational business and detailed guidelines.

USE OF FX-INSTRUMENTS BY CORPORATES SHOW A CLEAR TREND TO UNCONDITIONAL INSTRUMENTS



Currency swaps
2%

[RUBRIKEN
AME]
[PROZENTSATZ]

Fx swaps
46%

Spot
33%

Outright
forwards
14%

Source: Bank for International Settlements Triennial Central Bank Survey. Net-net basis, daily averages in april 2016

Currency swaps Outright forwards Spot Fx swaps

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FOREVER FASTER PUMA

PUMA FOLLOWS A PASSIVE APPROACH WITH LIMITED (BUT GIVEN) FLEXIBILITY

Active

Passive

Risk orientation:

PUMA targets at least the average market rate of the actual hedging period!

Profit center vs. Cost center:

Group Treasury is organized like a cost (better service) center because any speculation (= additional risk out of new open positions) is strictly prohibited.

Instruments:

Mainly fixed (unconditional) plain-vanilla instruments allowed as only they qualify for IFRS Hedge Accounting.

Flexibility:

PUMA's Fx hedging approach is strict orientated to the operational business. Only few variable elements like

- Within a layer timing of hedges is flexible!
- Hedging of currencies with higher hedging costs is aiming for a lower target coverage!

EXECUTIVES DEFINE CLEAR STRATEGY AND GUIDELINES, COACH STEERS WITH SUITABLE KPI,,S

Coach + Executives

FX-strategy
for target
setting

FX-guideline
for proper
execution

KPI,,s for
controlling

SUITABLE KPI,S TO MEASURE HEDGE PERFORMANCE AND WHAT CAN BE DERIVED FROM THEM?

What is a good KPI?

- Defined by executives & cascaded throughout the organization
- Reflect relevant, strategic value drivers with a clear responsibility
- Provide context, thresholds, targets and benchmarks
- Empower responsible users and lead to positive action

What can be measured with and derived from a good KPI?

- KPI"s measure the performance of executing a defined hedging strategy
- KPI"s measure the quality of input, the performance and timeliness of execution
- KPI"s serve for an overall performance measurement from planning via hedging until execution phase

What can NOT be answered with a KPI to measure hedge performance?

- If a hedging strategy itself is favorable or not, cannot be measured!
- Reasons & background for a specific result of a KPI must be added as comments
- KPI"s are sometimes a bit "blind" with disruptive events (e.g. Brexit decision)

5 KPI'S DEFINED FOR PUMA'S HEDGING STRATEGY

KPI 1

KPI's measuring the competitive advantage of central and layered hedging e.g.

- Average hedge rate (minus hedging costs) ↔ average ECB-rate

KPI 2

KPI's measuring the variation of the planned exposure during the semester e.g.

- Development/Deviation of the planned exposure to different points in time
- Comparison of planned exposure at FX-rate fixing with actually executed payments

KPI 3

KPI's measuring the flexibility granted e.g.

- Degree of accordance between Sales and CoGs-hedge

FX rate fixing

KPI 4

KPI's measuring the timely of payments. e.g.

- Number of FX-swaps necessary during execution phase
- Costs of additional FX-swaps during execution phase

KPI 5

KPI's measuring the realized performance of the full settlement in one semester e.g.

- Actually executed hedge rate for hedged exposure plus spot rate for unhedged part,
- Roll-over effects
- Currency result between invoicing and payment

Planning and Hedging Phase

FX risk transfer to Trading Entity

Execution Phase

SUMMARY: PUMA,,S LINEUP IN FX-MANAGEMENT

Coach + president

FX-strategy for target setting

Agreed with Shareholder

FX-guideline for proper execution

Done by Group Treasury agreed with Executives

KPI,,s for controlling

5 KPI"s defined & implemented

ensure link with operative business

IC product prices in LC

proper FX-hedging execution

Stringent due dates

active or pas-sive FX-Mgmt.

Passive with little flexibility

FX-Exposure

Done locally, agreed regionally and cross-checked with a KPI

local or central FX-hedging

central

FX Hedging approach

Layered

FX-risk analysis (KonTraG)

Materiality checks

FX Hedging counterparties

Kering, Group Core Banks only

FX-hedging instruments

Unconditional instruments

regulatory (e.g. EMIR, MiFID)



Hedge Accounting



goalie

defense

midfield

attack

THANKS VISITING OUR STADIUM

