



November 22nd 2018

**Interest Rates and Brexit
Implications**





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2. FX Trends
3. Strategic Considerations.





1. Interest Rates

- EUR short-term rates
- EUR long-term rates
- Current Yield Curves.

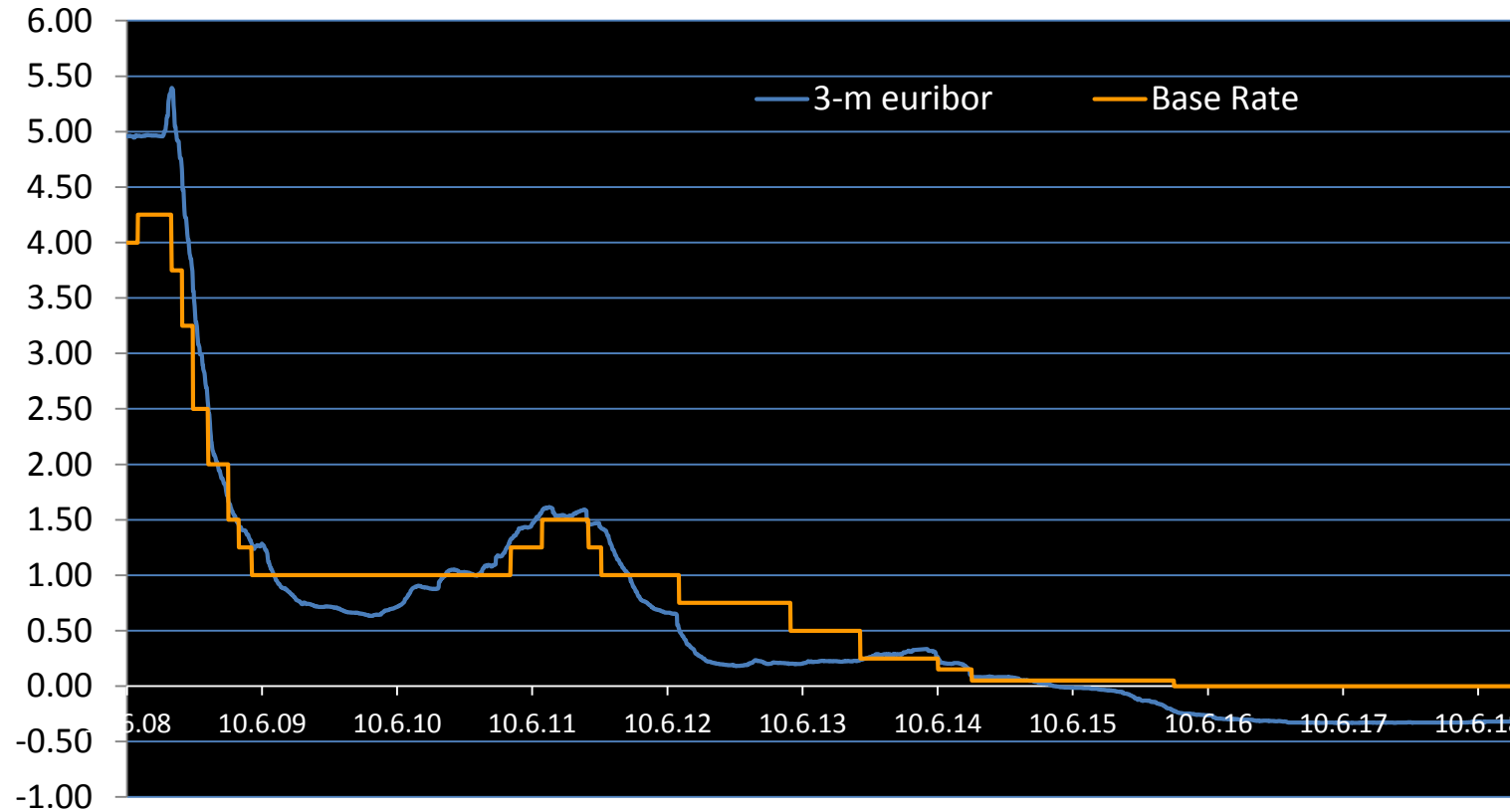


Impact of higher interest rates?

Cost of Debt		X
Financial Covenants		X
Disposable Income/Demand		X
Deposits	X	
Availability of Credit/ working capital		X
Pensions – bond prices		X
Pension – Equity Values		X?
Company Valuation	?	?



3-m euribor and ECB Base



EUR 3-year swap (10-year trend)



EUR 3-year swap (1-year trend)



Irish Government 10-year gilts



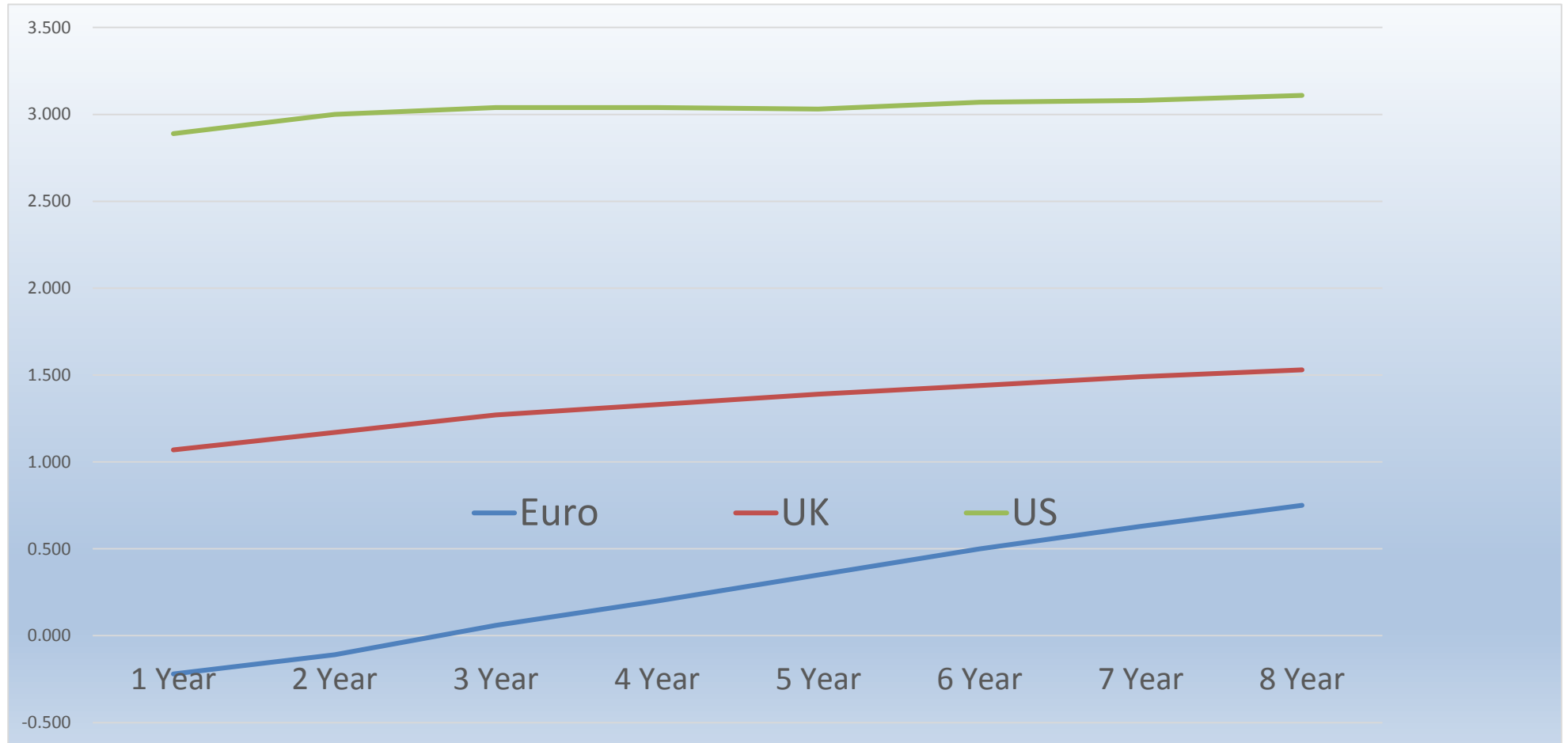


Banking consequences

- Macro impact on the business
- Micro impact on the debt service capability of the business
- Stress-testing of higher rate moves on borrowing submissions
- Requirement to fix interest rates?
- Higher margin (higher credit risk)?



Current Yield Curves





2. FX Trends

- EUR/GBP
- EUR/USD



EUR/GBP long-term trend



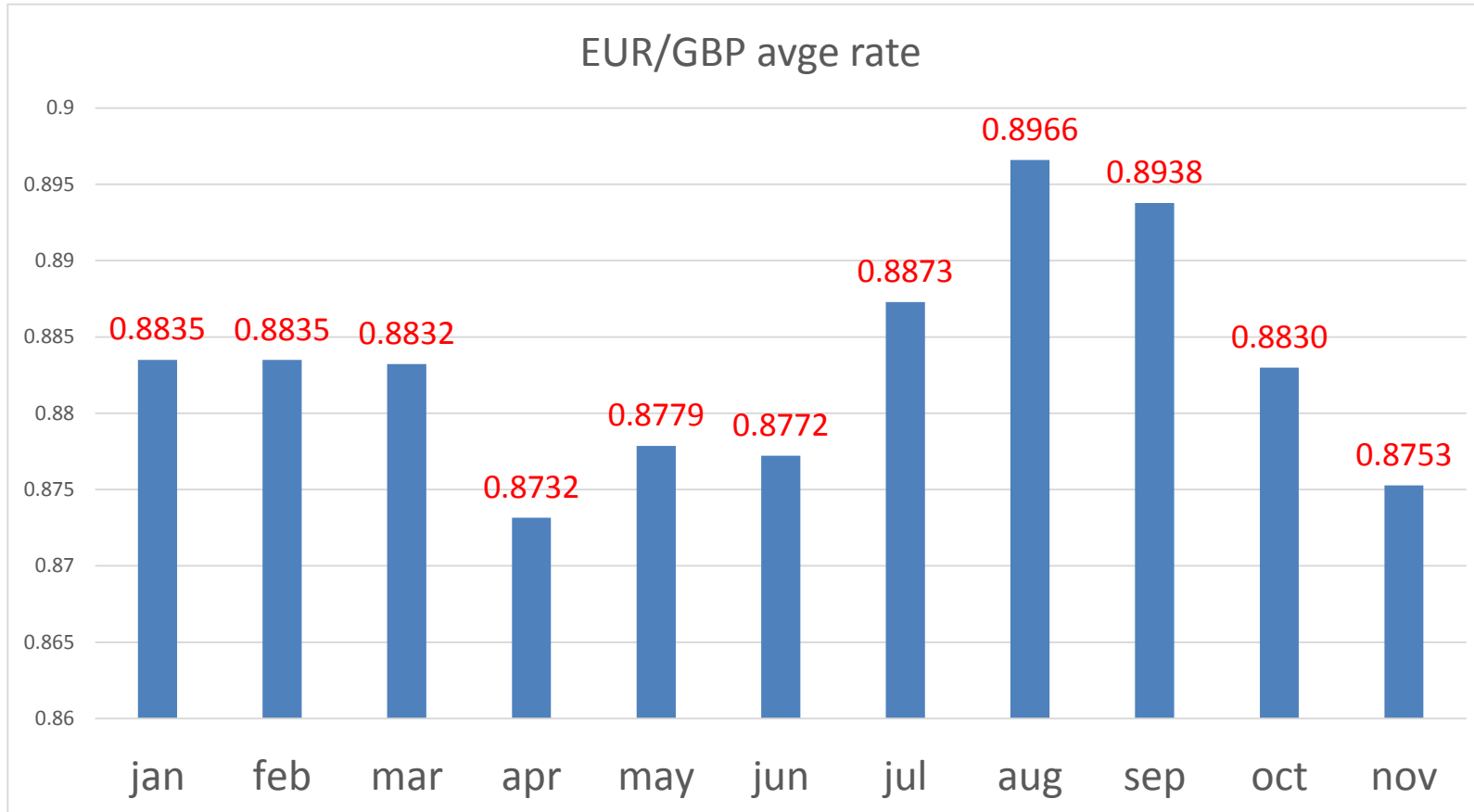
EUR/GBP since Brexit



Watch the volatility



Watch the volatility



EUR/GBP averages....been here before

EUR/GBP	High	Low	High to Low %	Average	Average Index 2000=100
2018	0.9099	0.8618	5.58%	0.8834	145
2017	0.9306	0.8313	11.95%	0.8765	144
2016	0.9365	0.7308	28.15%	0.8192	134
2015	0.7874	0.6930	13.62%	0.7263	119
2014	0.8400	0.7755	8.32%	0.8063	132
2013	0.8814	0.8083	9.04%	0.8493	139
2012	0.8505	0.7753	9.70%	0.8115	133
2011	0.9083	0.8283	9.66%	0.8681	142
2010	0.9148	0.8065	13.43%	0.8579	141
2009	0.9519	0.8397	13.36%	0.8915	146
2008	0.9803	0.7388	32.69%	0.7972	131
2007	0.7388	0.6534	13.07%	0.6845	112
2006	0.7021	0.6662	5.39%	0.6819	112
2005	0.7043	0.6607	6.60%	0.6839	112
2004	0.7107	0.6541	8.65%	0.6786	111
2003	0.7255	0.6467	12.18%	0.6920	114
2002	0.6534	0.6066	7.72%	0.6288	103
2001	0.6443	0.5939	8.49%	0.6220	102
2000	0.6416	0.5673	13.10%	0.6094	100



EUR/USD long-term trend

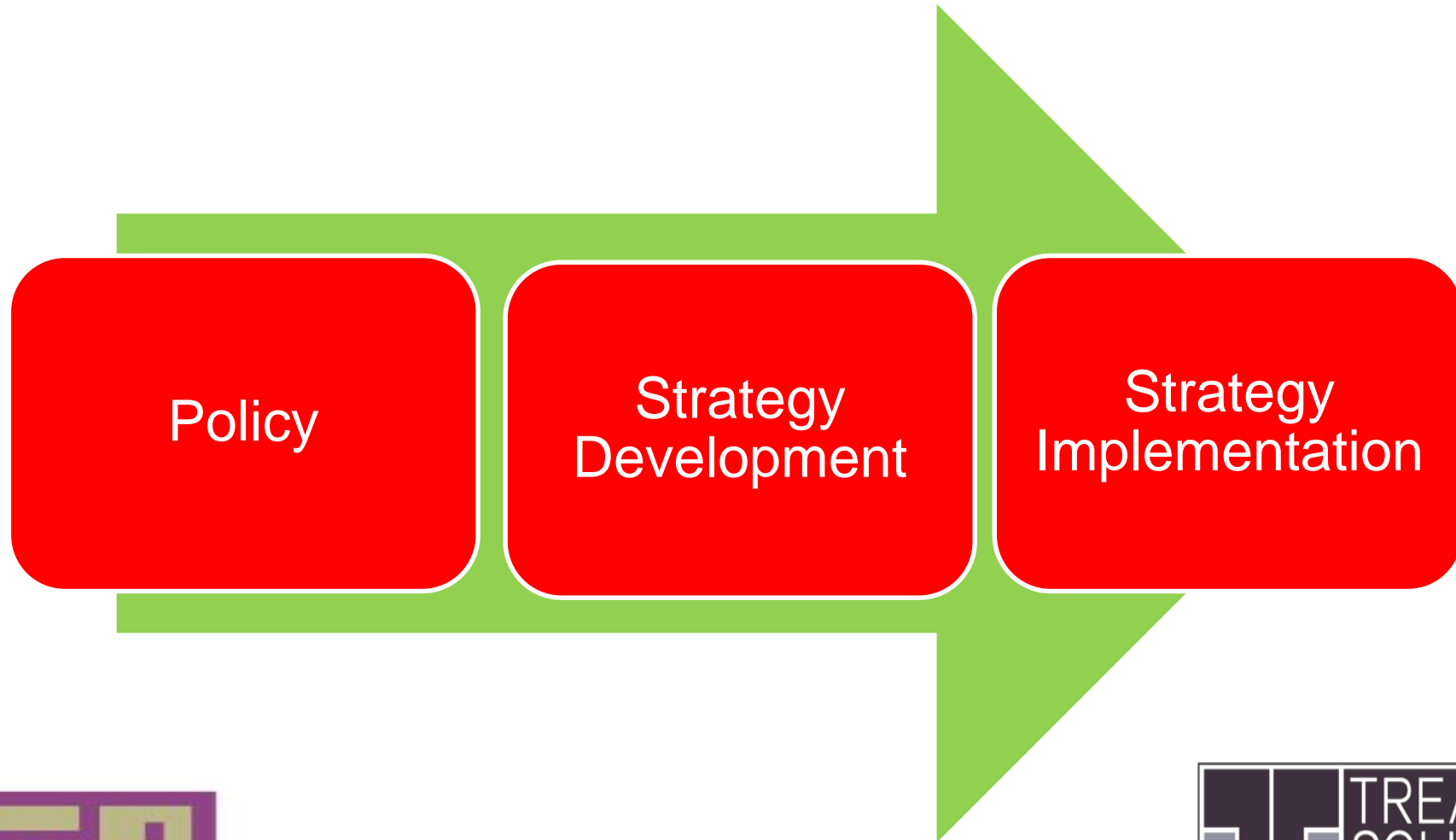




3. Strategic Considerations



Strategy



Gross Margin and FX

Sales increase required to offset adverse FX moves

	FX Move					
Margin	1%	2%	3%	4%	5%	6%
20%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%
21%	4.8%	9.5%	14.3%	19.0%	23.8%	28.6%
22%	4.5%	9.1%	13.6%	18.2%	22.7%	27.3%
23%	4.3%	8.7%	13.0%	17.4%	21.7%	26.1%
24%	4.2%	8.3%	12.5%	16.7%	20.8%	25.0%
25%	4.0%	8.0%	12.0%	16.0%	20.0%	24.0%
26%	3.8%	7.7%	11.5%	15.4%	19.2%	23.1%
27%	3.7%	7.4%	11.1%	14.8%	18.5%	22.2%
28%	3.6%	7.1%	10.7%	14.3%	17.9%	21.4%
29%	3.4%	6.9%	10.3%	13.8%	17.2%	20.7%
30%	3.3%	6.7%	10.0%	13.3%	16.7%	20.0%
31%	3.2%	6.5%	9.7%	12.9%	16.1%	19.4%
32%	3.1%	6.3%	9.4%	12.5%	15.6%	18.8%
33%	3.0%	6.1%	9.1%	12.1%	15.2%	18.2%
34%	2.9%	5.9%	8.8%	11.8%	14.7%	17.6%
35%	2.9%	5.7%	8.6%	11.4%	14.3%	17.1%





Financial Covenants

- This could be the catalyst for bank pressure
- Differences in the EUR/GBP mix of Debt and Ebitda/Interest will have an effect
- Differences in average and closing rates also impact on these
- You need to assess this impact.





Other Currency Strategy Considerations

- Know
 - Currencies of exposures
 - Scale of exposures
 - Timing of exposures
 - Certainty of exposures (volume and timing)
 - Customer/supplier knowledge of FX movements (do they seek price decreases if you have a favourable FX movement?)
 - Current policy or practice
 - Current FX reporting content and frequency
 - Number and location of foreign currency bank accounts.





Borrowing Arrangements

- Only tested in times of crisis
- So focus on quality of arrangements
- Ability to withstand a slowdown is a competitive advantage
- Ability to move quickly to buy stressed businesses even more compelling an argument
- US corporate debt levels could be next “sub-prime”...global impact of this?
- Refinance now to bring your business through Brexit!





Summary

- Lot of FX volatility likely in the short-term
- EUR longer-term interest rates likely to start moving in 2019?
- Identify weaknesses and fix NOW
- Identify potential opportunities and act now?
- Improve your banking/lender interaction – mutual dependency
- Don't hesitate to look for help!





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