

FX RISK HEDGING AT EADS Harvard Case Solution & Analysis

ISSUES

1. How should EADS hedge its foreign exchange risk?

2. What are the costs and benefits of hedging?

3. How should EADS manage its foreign exchange risk?



BACKGROUND

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AT CROSSROAD

FORWARD CONTRACTS ?

OPTIONS ?

NATURAL HEDGING ?

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EXERCISES ACCORDING TO THE PROBLEM STATEMENT

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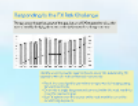
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ISSUES ?



In early May 2008, Jean- Baptiste Pons, Head of Corporate Finance and Treasury at European Aeronautic Defense and Space Company N.V (EADS), a global aerospace and defense company, was preparing for the next week's meeting with the company's senior executives.

Over the last 3 years, Airbus EADS 's commercial jet division and its primary source of revenue, had reported record order intakes, exceeding the company's turnover at that time by 3 factors:

- Since 2006, the U.S. Dollar (\$) had depreciated substantially against the euro (€)
- Airbus billed customers in dollars, while the costs and reported its financial statements in euros
- EADS hedged future revenues with FX forward contract
- EADS considered to choose FX options to hedge its foreign exchange exposures



BACKGROUND



2000

- EADS was established
 - Dual Headquarters located in Paris - France and Munich - Germany
-

2007

- Grown its workforce:
 - Employ 116,500 people in 19 countries
 - Increased its annual revenues from €24.2 billion to €39.1 billion
 - Booked €550 billion of orders, which more than doubled its order backlog to €339.5 billion
 - Had become a major global player and generated more than half of its revenues and sealed around two-thirds of its orders outside Europe
 - Generated €25.2 billion in revenues of Airbus as a core business
-

2008

Airbus' order book of 3,540 aircraft represented roughly 83% of the group's €351.4 billion backlog at list prices

Exhibit 2

BACKGROUND

(€ billions except percentages) 2007

Region	Revenues	% of Revenues	Sourcing	% of Sourcing	Order Intake	% of Order Intake
Europe	€ 17.4	45%	€ 25.3	76%	€ 42.9	31%
North America	€ 7.9	20%	€ 7.3	22%	€ 15.5	11%
Asia-Pacific	€ 8.8	23%	€ 0.4	1%	€ 30.2	22%
Middle East	€ 2.5	6%	€ -	0%	€ 44.2	32%
Rest of the World	€ 2.5	6%	€ 0.1	0%	€ 4.0	3%
TOTAL	€ 39.1	100%	€ 33.1	100%	€ 136.8	100%

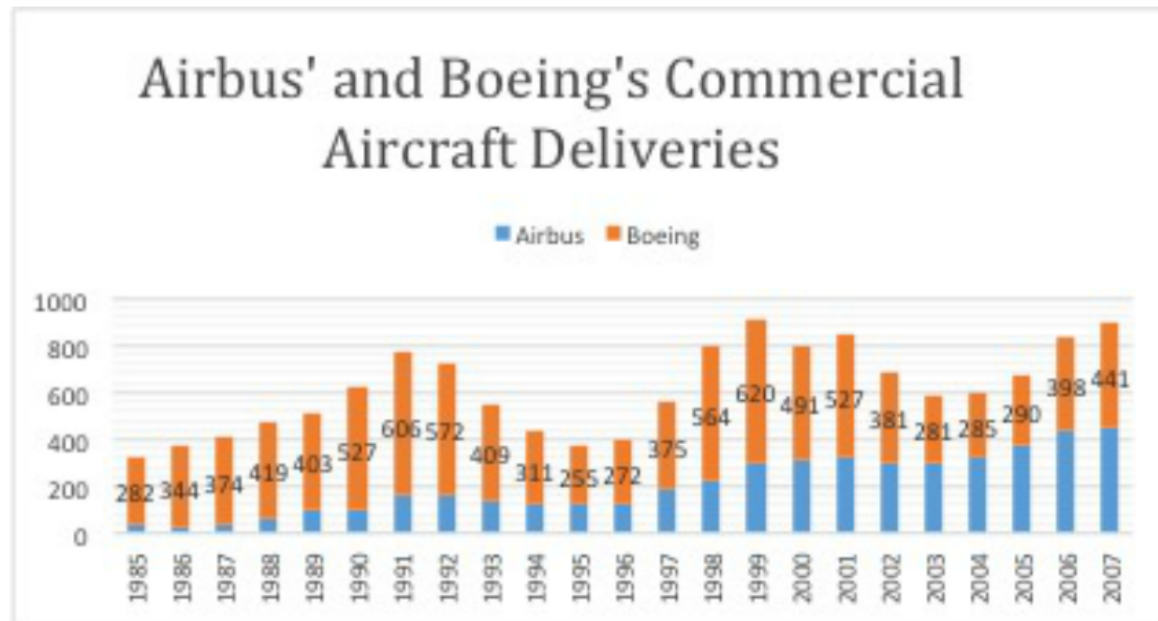
Division	FY 2007 Results			Description
	Sales	EBIT	Backlog	
Airbus	€ 25.126	€ (881)	€ 283.829	A leading producer of commercial aircrafts of more than 100 seats with a presence across all airliner segments: from the A320 single-aisle jet to the A380 super jumbo for 600 passengers
Eurocopter	€ 4.172	€ 211	€ 13.455	The world's biggest civil and military helicopter manufacturer with products like the Tiger military combat helicopter
Defence & Security	€ 5.465	€ 340	€ 17.886	A global leader in security solutions for armed forces and civil security. It also made EADS the major partner in the Eurofighter combat aircraft consortium and a stakeholder in a leading missile systems provider MBDA
Military Transport Aircraft	€ 1.140	€ (155)	€ 19.932	Utilized existing Airbus platforms to manufacture special mission planes for military purposes such as in-flight refueling, coastal surveillance, or military equipment transportation
Astrium	€ 3.550	€ 174	€ 12.895	The global leader in launcher systems and a producer of satellites and orbital infrastructure for public and defense markets
Other Businesses	€ 1.269	€ 94	€ 2.444	Included: regional turboprop manufacturer ATR; Aerostructures, Systems, and Services division; and Maintenance businesses
Total	€ 39.123	€ (446)	€ 339.532	N/A

Exhibit 3

(€ millions) 2007

The Aerospace Industry

Airbus' and Boeing's Commercial Aircraft Deliveries, Number of Aircraft 1985 - 2007



Airbus' management attributed their long term catch up with Boeing to many factors:

- launching new aircraft more frequently than their rival
- catering to airlines' growing need for lower operating costs by cutting their jets' fuel consumption
- using common cockpit elements across all aircraft families to decrease air carriers' training costs
- tapping the low cost airline segment and luring air carrier from emerging market

- 2007, Boeing and Airbus 50% airliner market share
- 2007, the airliner market stood at 894 jet deliveries and set a new record of 2754 orders
- 2008, The Dollar had remained the currency of commercial aircraft transaction

EAD'S STRATEGY AND FINANCIAL PERFORMANCE



EADS

- 
- Becoming the worldwide leader in air and space platforms and systems
 - Targeting a 10% EBIT margin by 2015
 - Reaching €80 billion in turnover by 2020, half of which would come from Airbus
 - Lifting non-European sourcing from 23% to 40% by 2020

Financial Performance

	2005	2006	2007
Revenues	34.206	39.434	39.123
EBIT	2.852	399	52
Net Income	1.676	99	-446
Earnings per Share	2.11	0.12	-0.56
Dividend per Share	0.65	0.12	0.12
Net Cash Position	5.489	4.229	7.024
Order Intake	92.551	69.018	136.799
Order Book	253.235	262.81	339.532

(€ millions, except per share amounts)

