

AFP®



# Annual Conference

OCTOBER 27-30, 2013 | LAS VEGAS

ORIGINAL → ESSENTIAL → UNBIASED → INFORMATION

## Transforming Brocade's FX Hedging Program

October 2013

Jean Furter  
VP Treasurer

Yun Kong, CTP  
FX and Treasury  
Operations Manager

# Brocade Business Background

- Brocade is the leader in data center fabric networking solutions
- Founded in 1995 / IPO in 1999 / NASDAQ: BRCD
- The Company is headquartered in San Jose, CA and operates worldwide with 4,200 employees generating \$2.2 billion in revenue
- Operating expenses at international subsidiaries create most of the Company's foreign currency exposures
- All worldwide treasury activities are centralized and managed out of the headquarters in San Jose, CA

# Transforming Treasury

- Why transforming?
  - Vision
    - Value
    - Insight
  - Current state and course of business not aligned to Vision
    - Clear definition of end-state and key attributes
    - Roadmap
  - Talent Management
    - Develop
    - Retain and attract talent
- How to transform?
  - Connect
    - Internal
    - External
  - Execution Roadmap
    - Basics under control
    - Step-by-step
  - Benchmarking and best practices

# Transforming Foreign Currency Hedging

## Applying Transformation Principles to FX Hedging

- Vision
  - Value
    - Manage vs. transact
    - Full end-to-end ownership and control
    - Delivery measured by metrics
    - Drive changes
  - Insight
    - Full visibility on currency exposures and income statement impact
    - Alternative evaluations
    - Management reporting vs. reporting numbers
    - Strategic and business intimacy

# Brocade FX Risk Management

## Before transformation



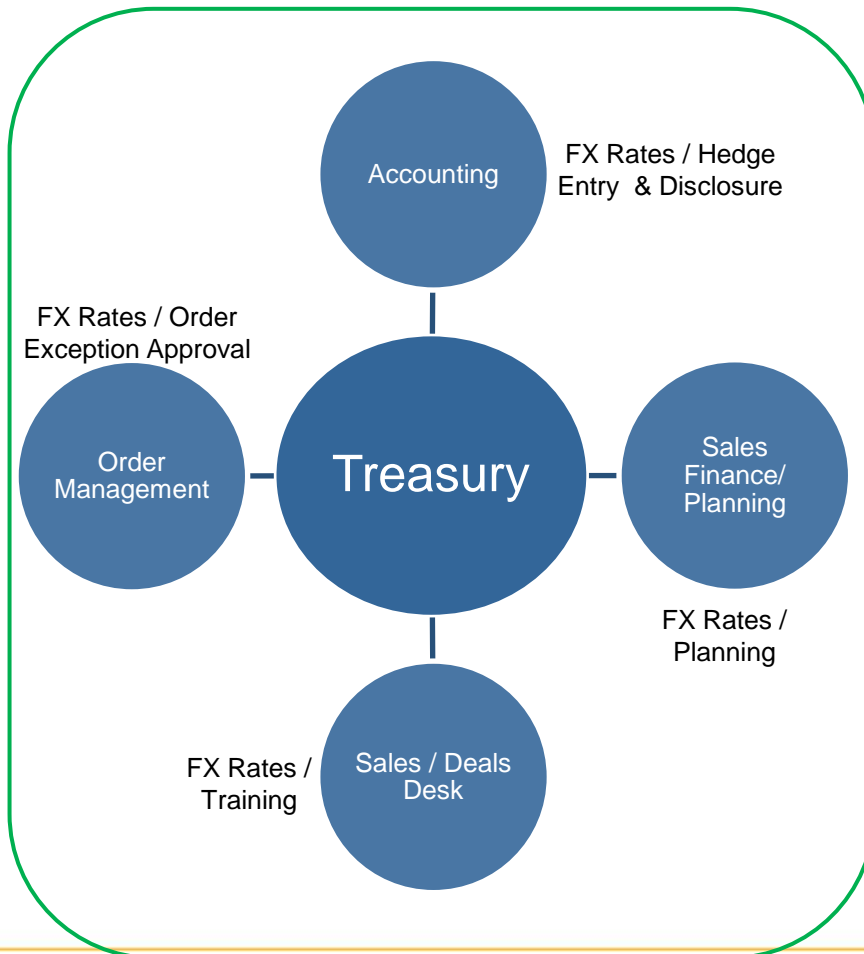
### Past

- Lack of Treasury leadership in guiding corporate FX hedging activities
- Lack of visibility on FX exposures, in addition sub-optimal hedging programs
- System limitations related to processing FX transactions and hedging activities
- FX hedging activities were isolated from rest of the business, and lacked of management support

**Basic Hedging program  
to minimize FX fluctuation**

# Brocade FX Risk Management

## After transformation



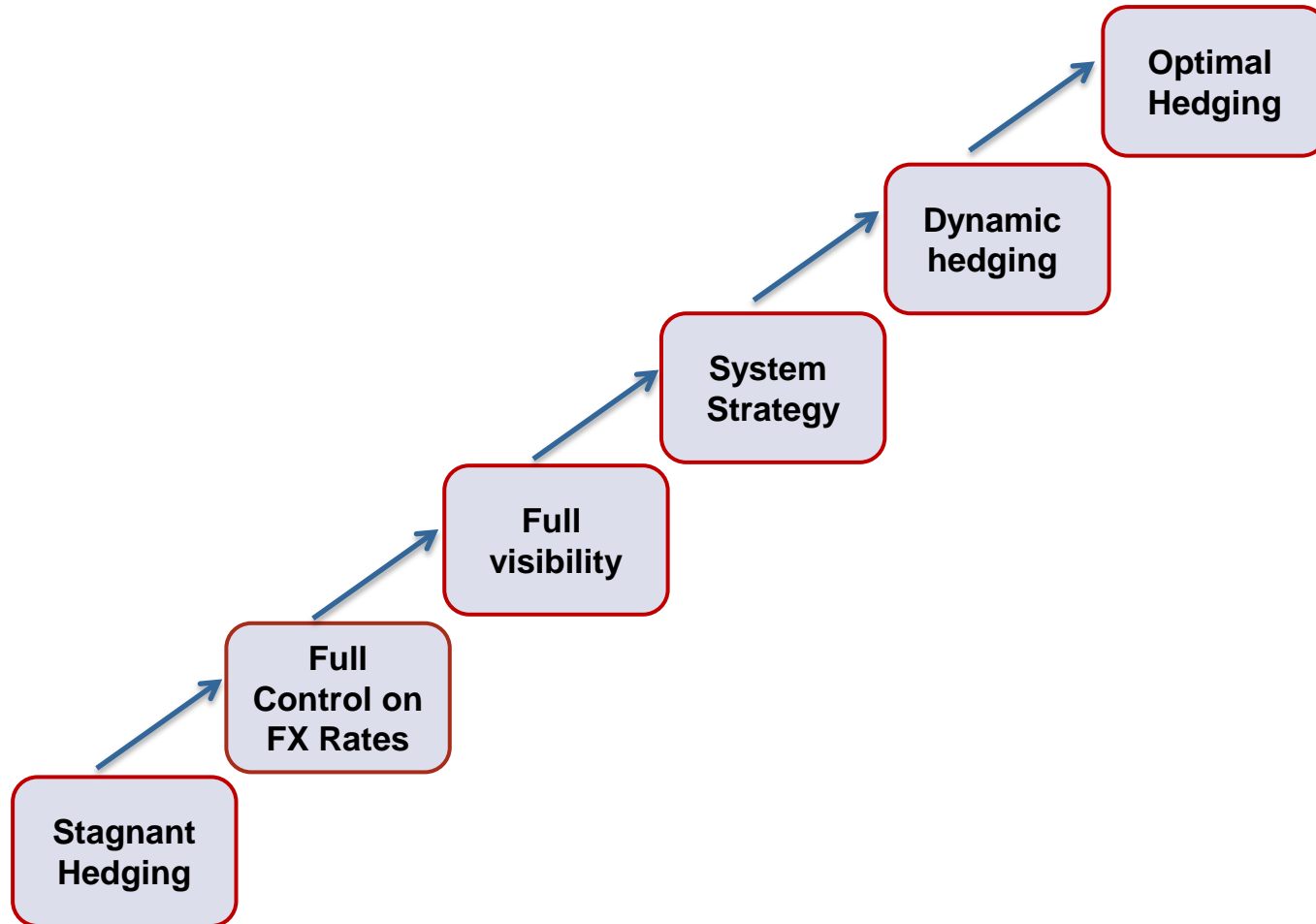
**Optimal FX risk management to minimize earnings impact**

### Now

- Full control on FX rates and clear Treasury leadership in all FX hedging activities
- Clear visibility on FX exposures and variances, excellent variance reporting, and optimal hedging programs
- ERP System enabled for FX transactions and systematic processes
- Cross-functional coordination and executive support on hedge programs

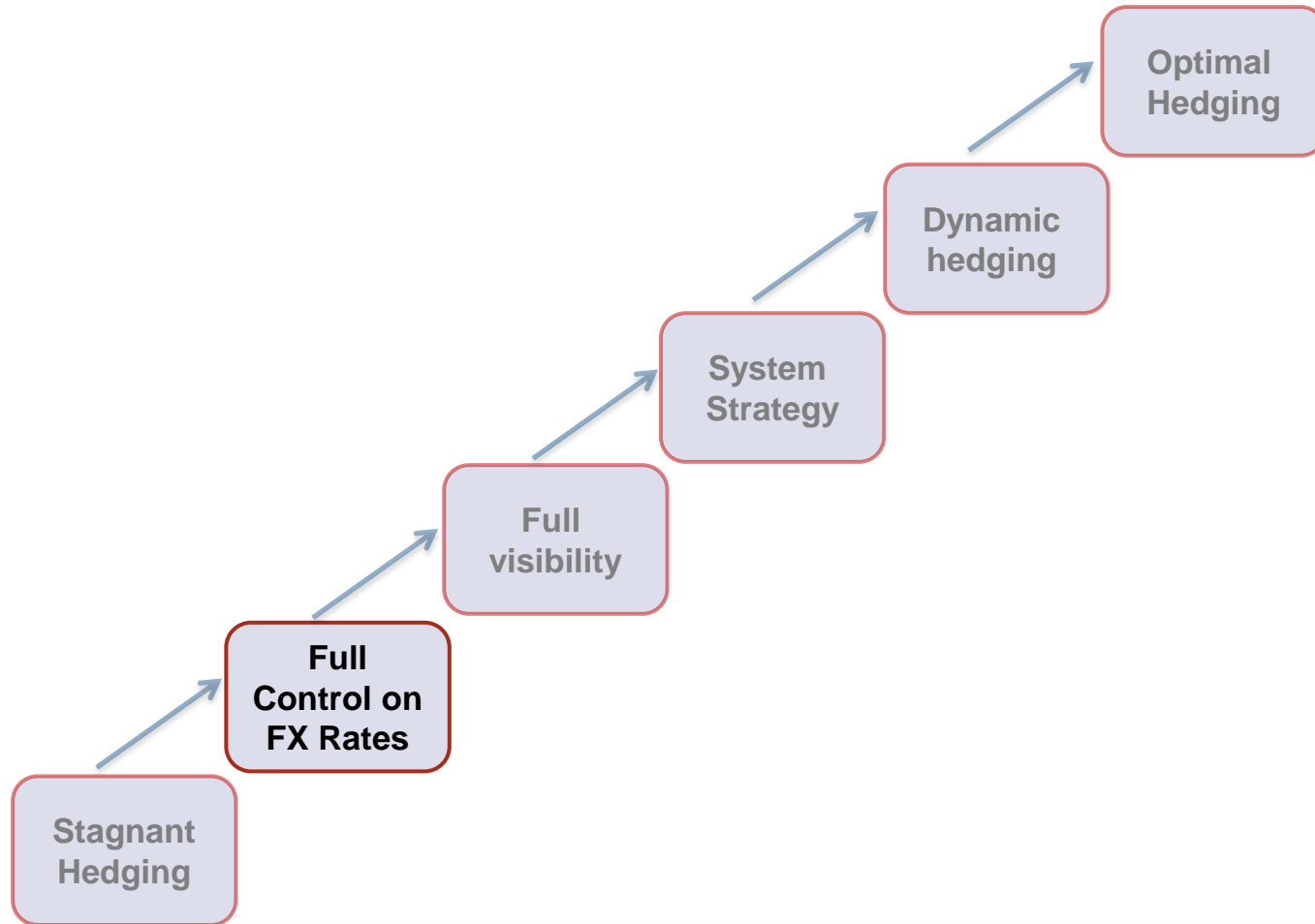
# Brocade FX Risk Management

## FX Hedging Transformation Roadmap



# Brocade FX Risk Management

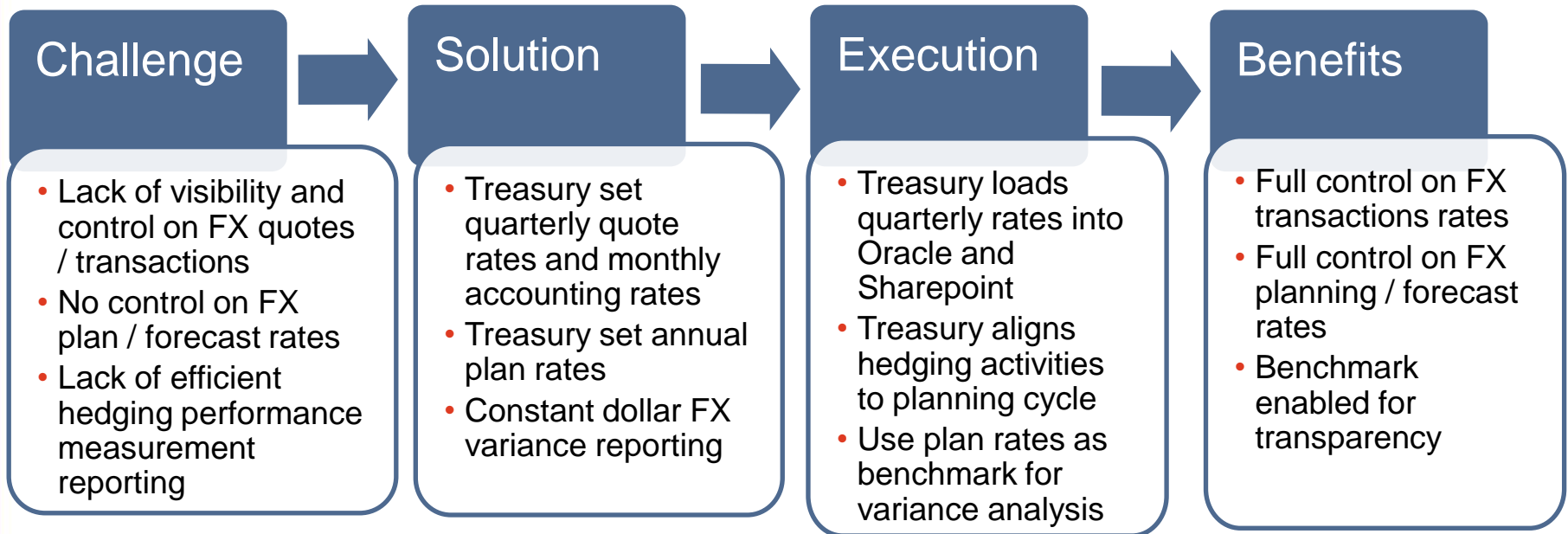
## FX Hedging Transformation Roadmap





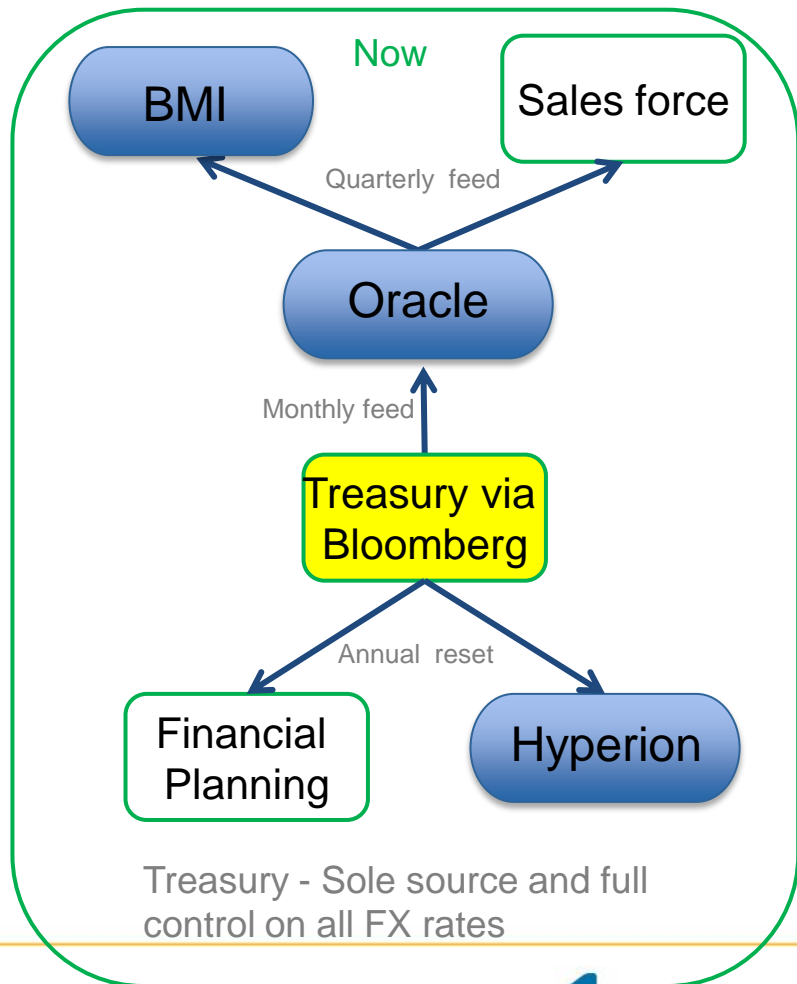
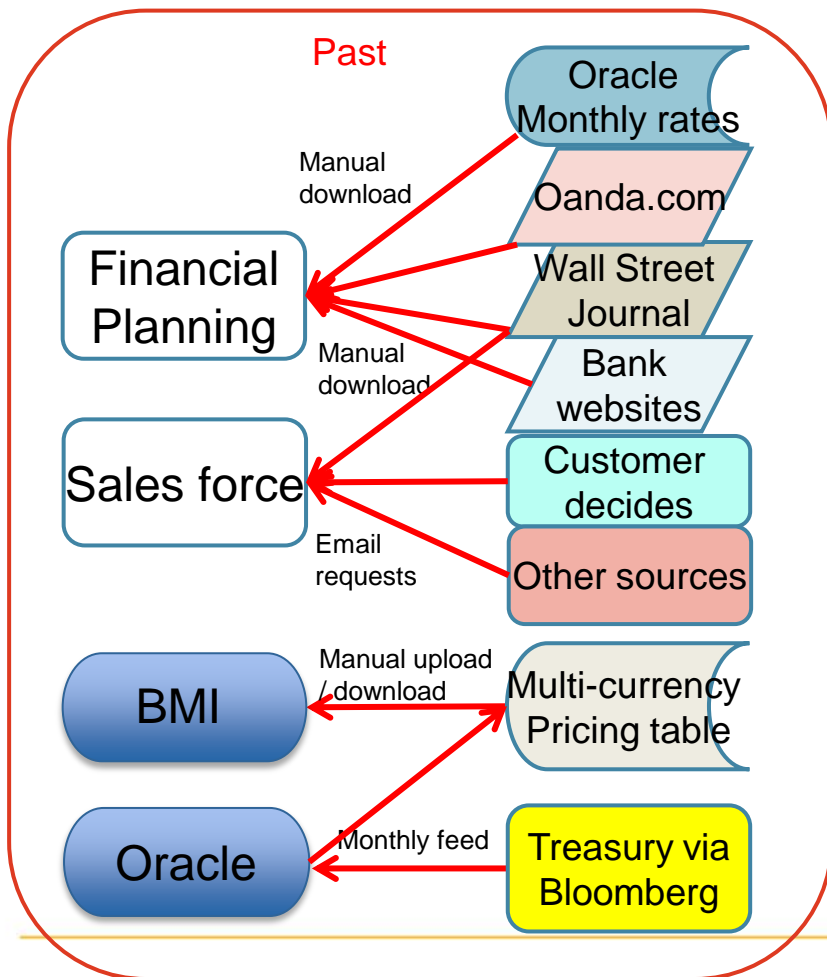
# Brocade FX Risk Management

## Full Control on FX Rates for Planning and Quoting



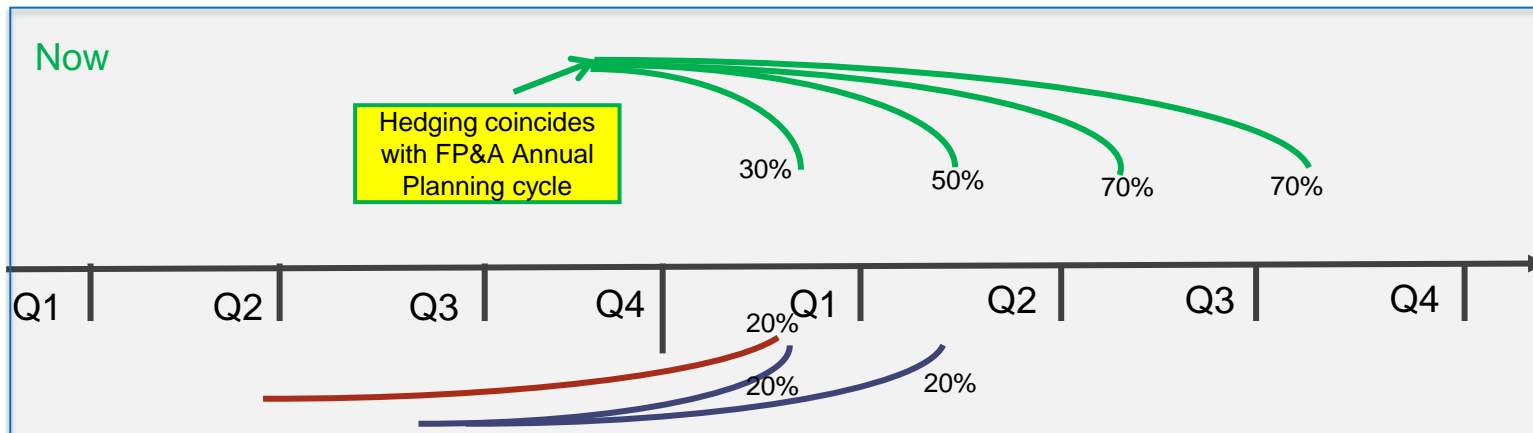
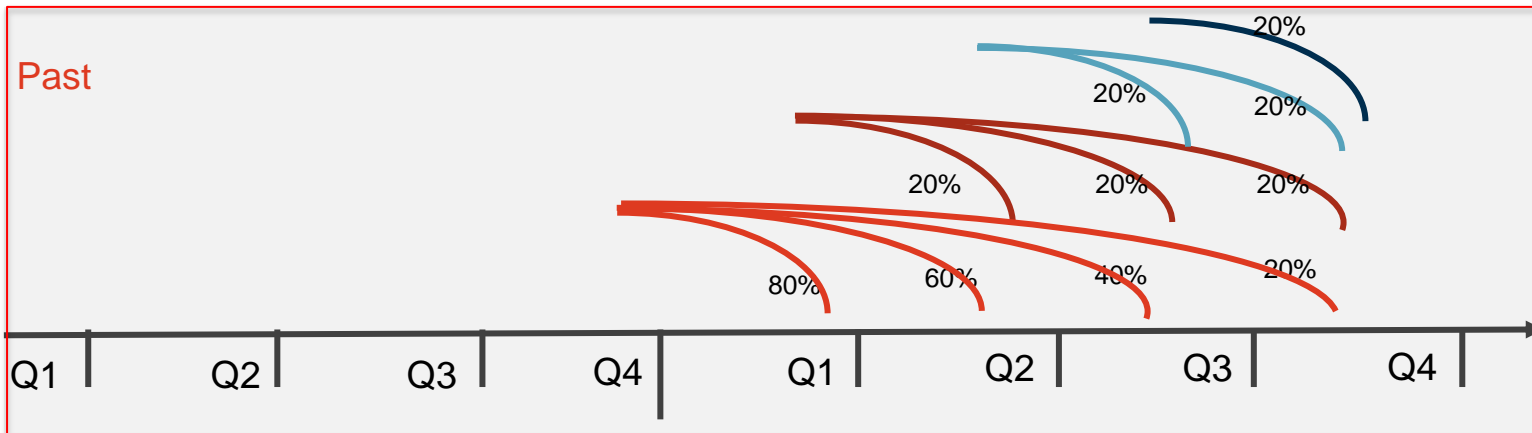
# Brocade FX Risk Management

Re-engineered FX business controls and processes



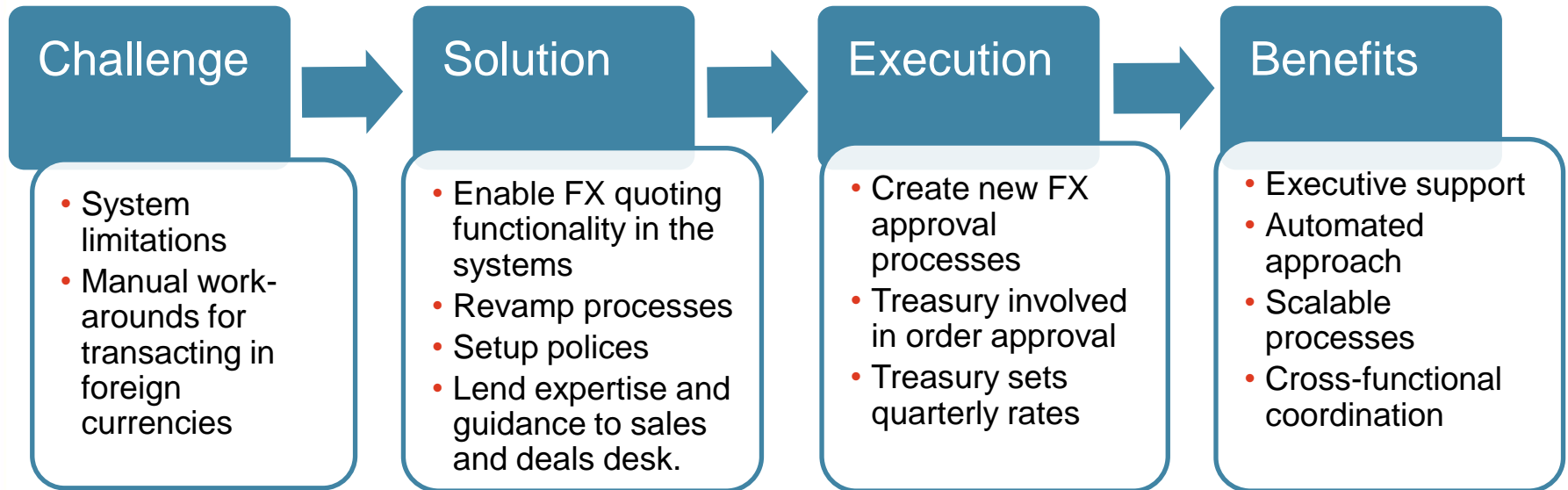
# Brocade FX Risk Management

## Alignment of hedging to planning



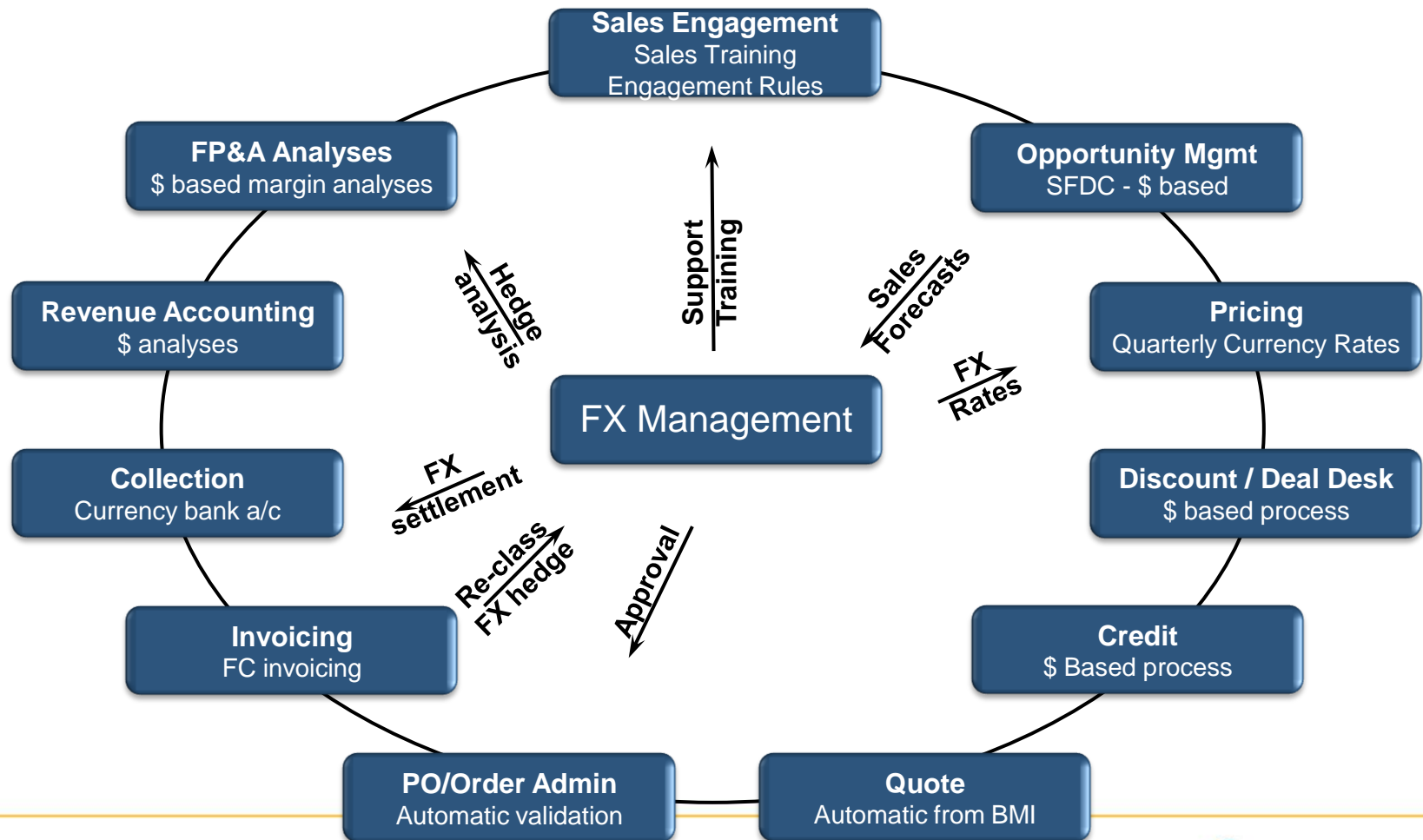
# Brocade FX Risk Management

New programs to enable foreign currency businesses



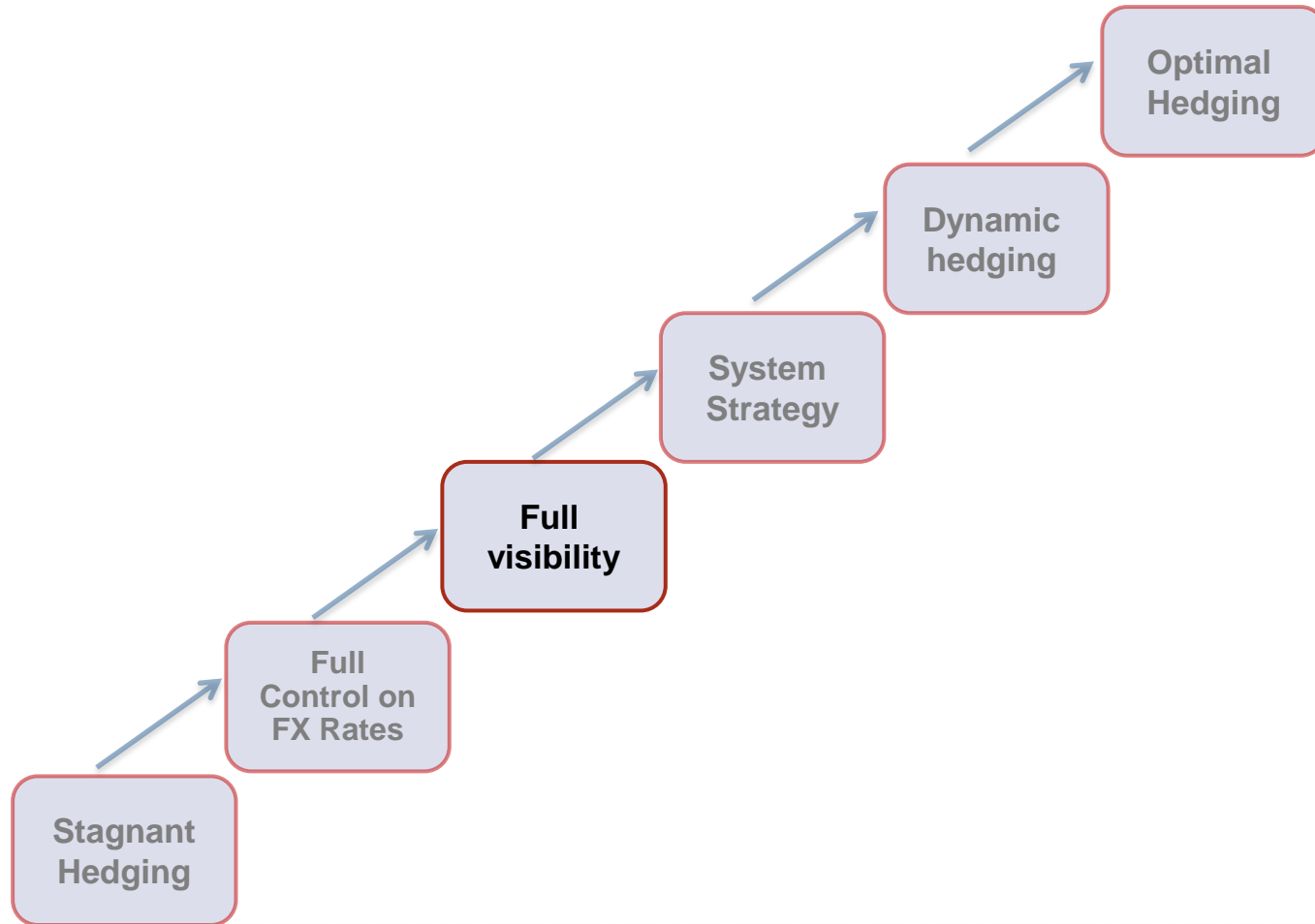
# Brocade FX Risk Management

Established automated and structured FX business cycle



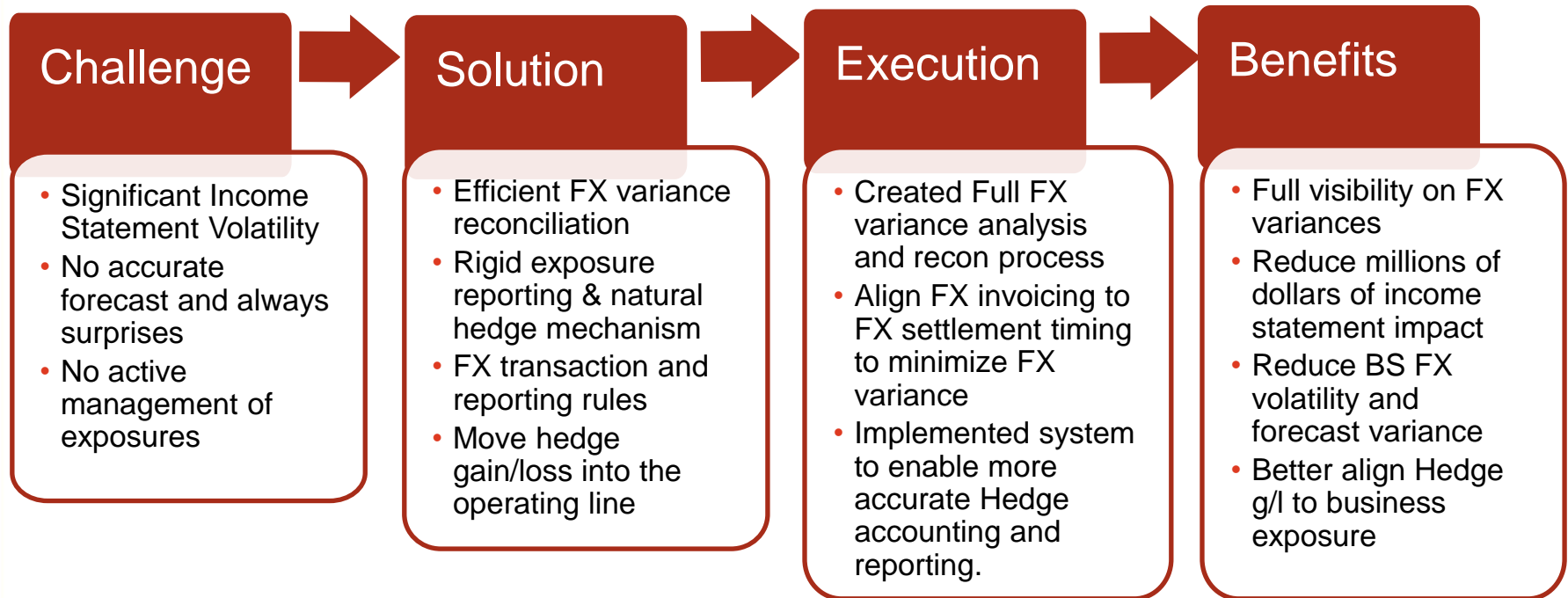
# Brocade FX Risk Management

## FX Hedging Transformation Roadmap



# Brocade FX Risk Management

Full visibility on BS and IS FX exposure



# Brocade FX Risk Management

## Streamlined exposure reporting and management processes

### Full range of coordinated FX exposure management activities

Key Stakeholder	Monthly	Quarterly	Annually
FX Risk Committee		Hedging proposal & KPI	FX Hedging Strategy and Policy Update
Treasurer	BS Exposure Reporting & hedging recommendation	CF Exposure reporting & hedging recommendation	FX strategy Proposal
FP&A	FX variance forecast (m2 & m3)	Variance analysis in Close binder review	FX plan rates reset
SEC Accounting		Hedge Accounting & FX Risk/Hedge Disclosure	Annual FAS52 review
Tax		Manual Tax reserve table in Foreign Currency. Hedging memo and FX breakdown	
GL Accounting	FX transaction reports and cash flow update	Revaluation GL account list update	
Order Management	FX rates update	FX rate update and BMI FX quote report	
International Controllership	Hedging Progress bill settlements & recording	IC policy governed settlements	



# Brocade FX Risk Management

## Full visibility on FX exposures and variances

Actual FX Gain / (Loss)

July 2013

FX variance analysis based on respective FX exposures

\$ 000's	Interco	Cash	AP	TAX	AP	VAT	Hedge related - reclass	Hedge related - reverse	Total
FX Gain/ (Loss)	369	67	(113)	(71)	(29)	(26)	29	(96)	130

Currency	Interco	Cash	Receivables	Payables	Accrued Tax	VAT	Tax Reserve (Manual)	VAT Adjustment	Grand Total	Total European Exposure
AED	(2,064)									
AUD		275,701	287,434	(5,902)						
BRL				(40,151)					(40,151)	
CAD	25,023		236,555			362,988			624,566	
CHF	(22,102)	17,931,978	82,983	(878,420)	(16,447,372)	27,269	(4,279,239)		(3,584,903)	(3,584,903)
CNY	(575,970)								(575,970)	
CZK		8,060				929,374	(983,374)		(45,940)	(45,940)
DKK				(4,466)		(5,006)			(9,461)	(9,461)
EUR	552,724	1,620,144	3,437,957	(342,016)		(104,045)			5,164,764	5,164,764
GBP	(1,937,541)	333,066	241,400	(14,793)		97,747			(1,280,122)	(1,280,122)
HKD	4,862,261								4,862,261	
INR	427,382								427,382	
JPY	95,163					2,411			97,574	
KRW	66,720								66,720	
MXN	27,553								27,558	
PLN	(19,310)	354,043				675			335,409	335,409
SAR	4,107,886								4,107,886	
SEK	(55,917)								(55,917)	(55,917)
SGD				(16,951)		7,948			(9,003)	
TWD	586,023								586,023	
Grand Total	8,137,838	20,522,992	4,286,329	(1,302,689)	(16,447,372)	1,296,685	(5,262,613)		11,231,168	523,831

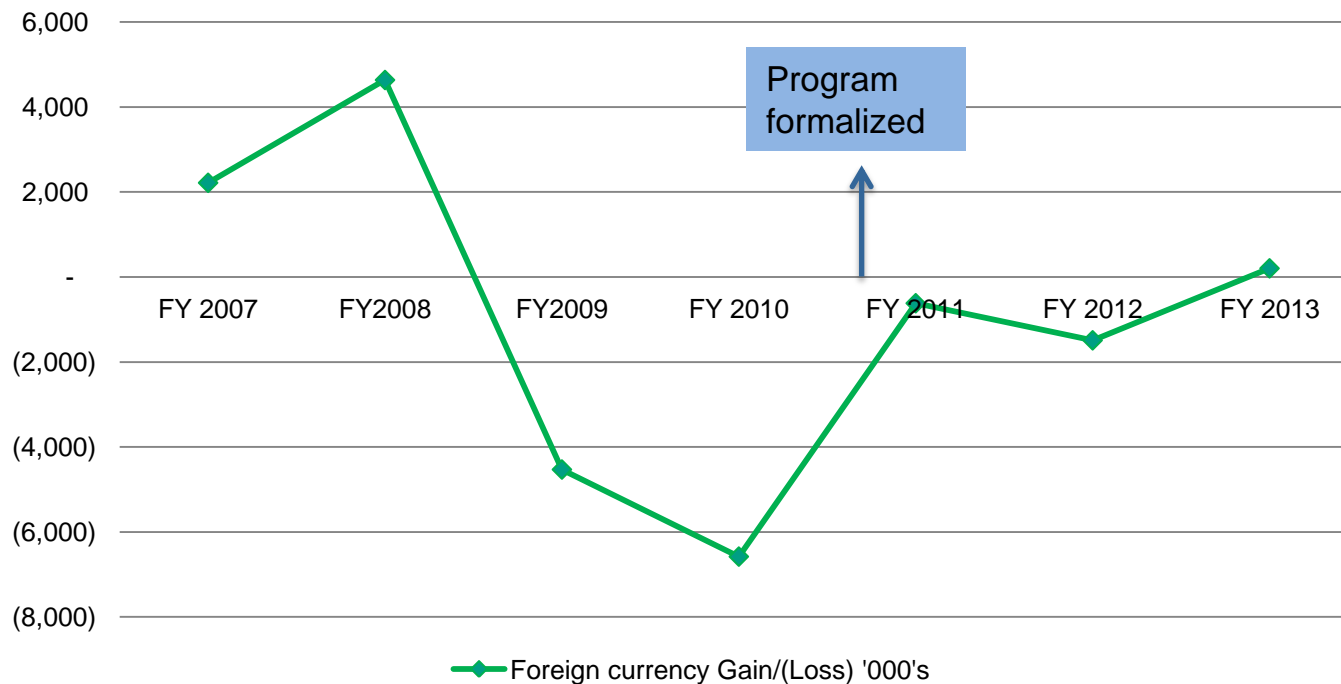
Netting of high balance and very volatile currencies

De-emphasize high balance but less volatile currencies

# Brocade FX Risk Management

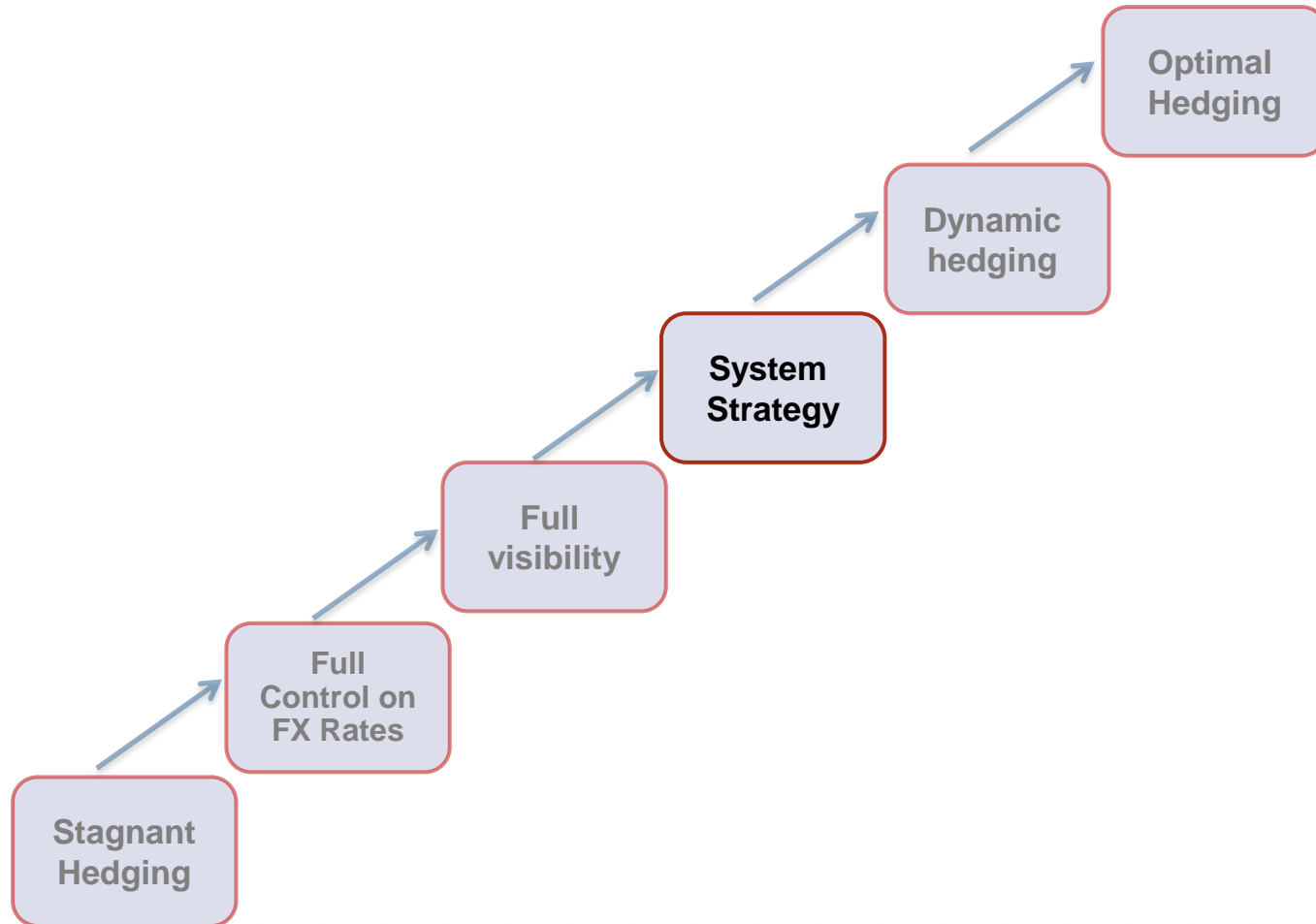
## Reduced FX income statement impact

### Reduced FX Gain/(Loss) / PL volatility



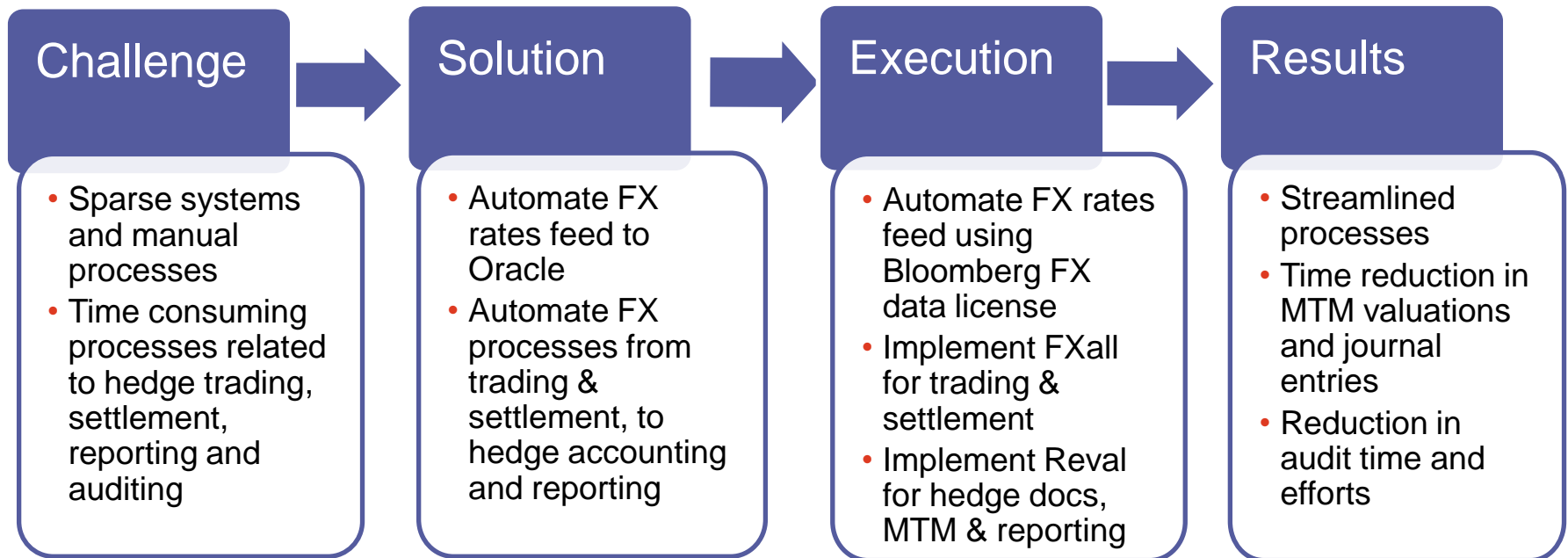
# Brocade FX Risk Management

## FX Hedging Transformation Roadmap



# Brocade FX Risk Management

## System Implementation



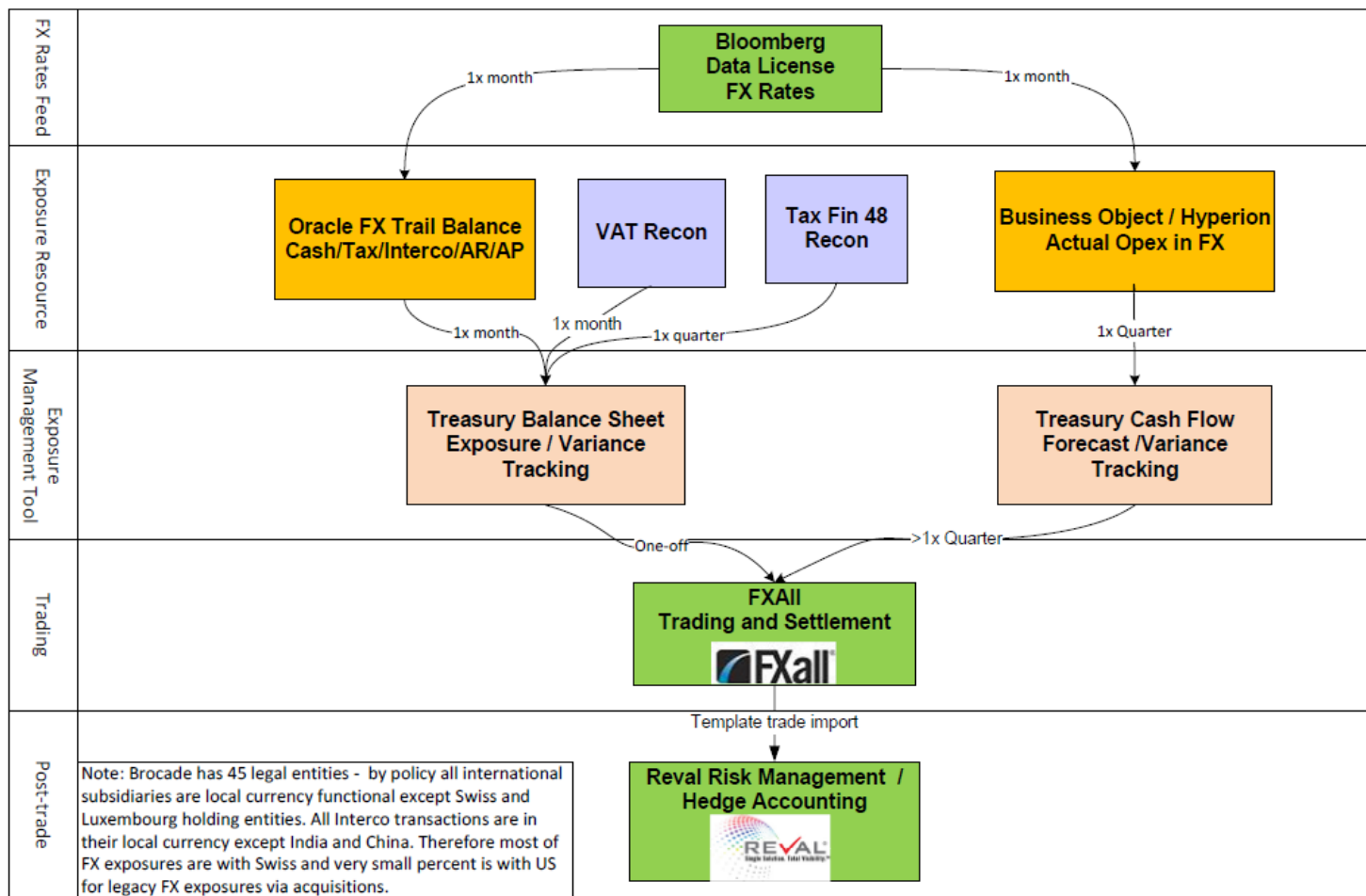
# Brocade FX Risk Management System Strategy

- Oracle / Hyperion
  - FX rates fed from Bloomberg
  - Automatic FX business quote and approval
  - FX Exposure / Variance analysis reports
- FXall
  - Multi-bank pricing on spot, forwards and options
  - Template based batch trading
  - Automatic settlement and reporting
- Reval
  - Post-trade activities including hedge documentation, MTM valuation, hedge effectiveness testing, hedge accounting and reporting
  - Risk management
    - Exposure capture with multi-level structure
    - Stress-testing
    - Scenario analysis
    - Hypothetical strategy

# Brocade FX Systems



## Brocade FX Exposure System Balance Sheet and Cash Flow Hedging



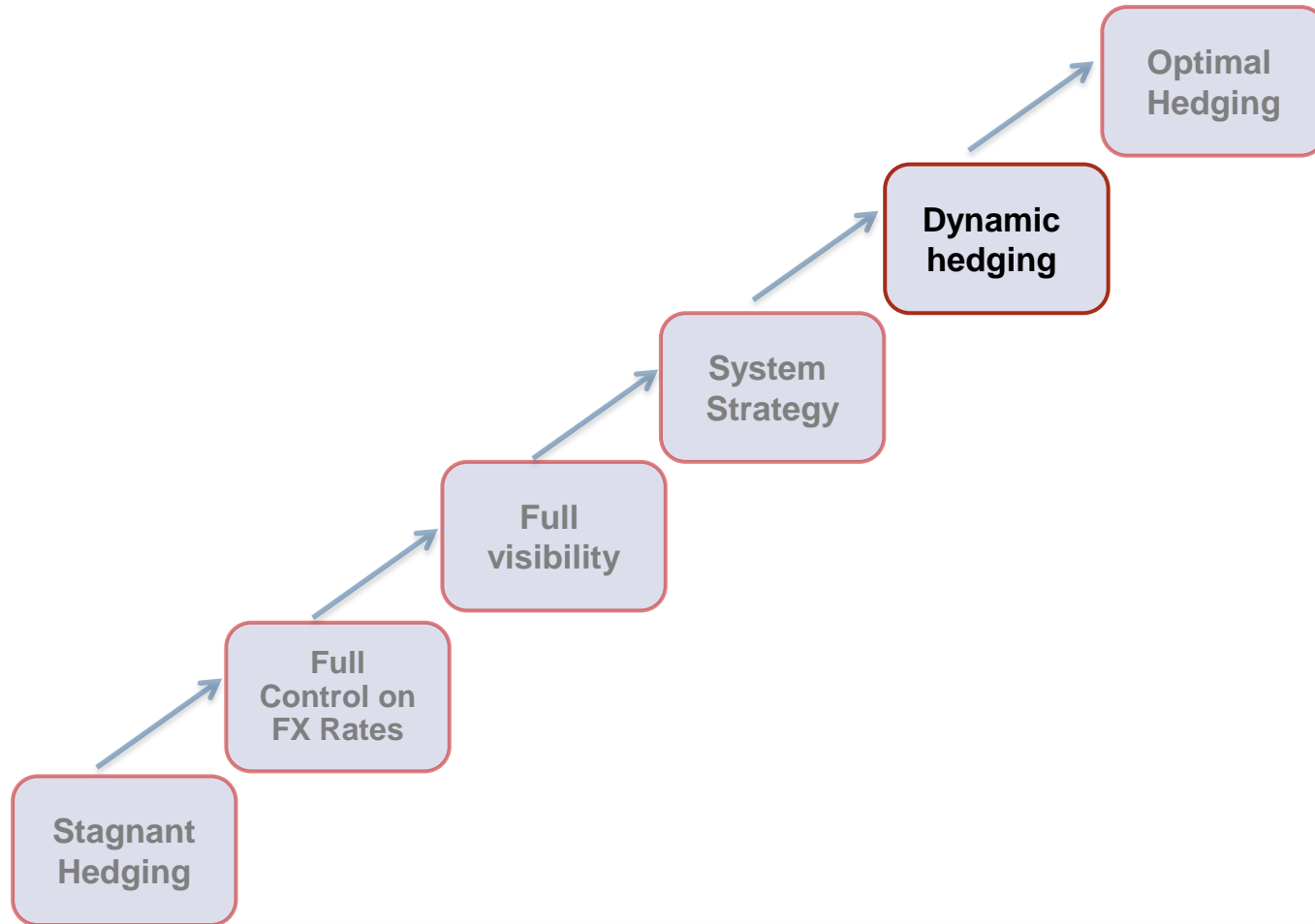
**LEGEND**

- = FX system
- = Manual
- = Excel
- = ERP System

Brocade Confidential Information. For Internal Use Only.

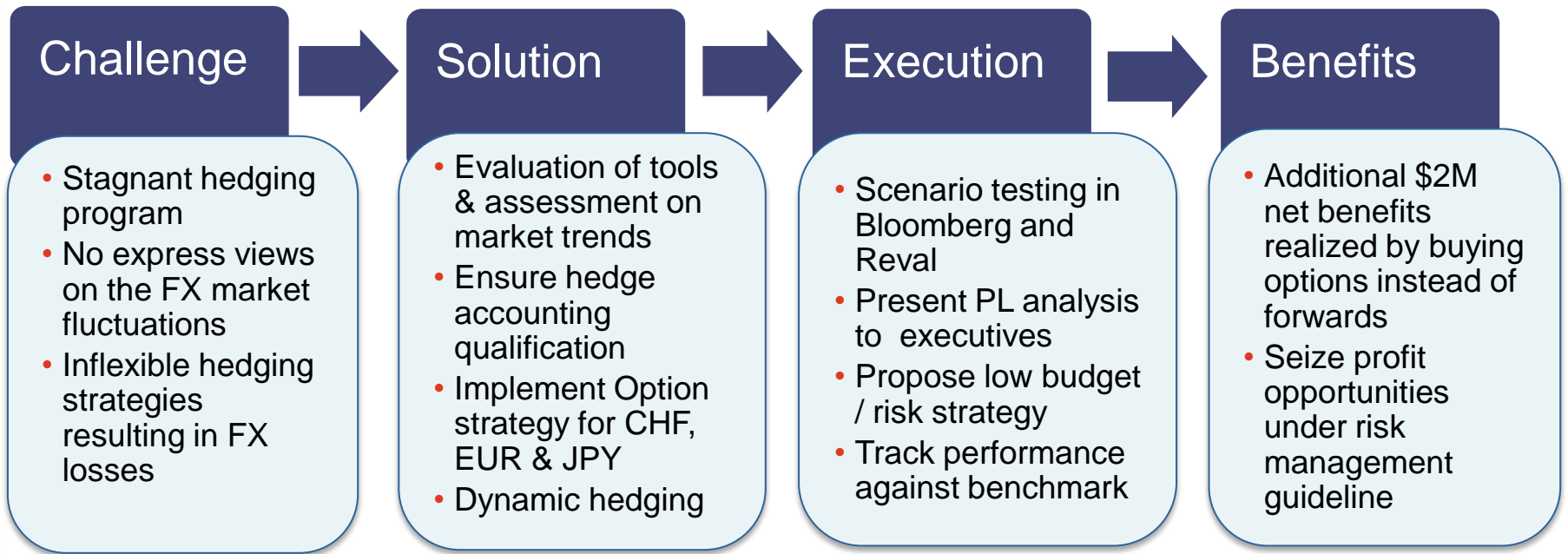
# Brocade FX Risk Management

## FX Hedging Transformation Roadmap



# Brocade FX Risk Management

## Dynamic Hedging





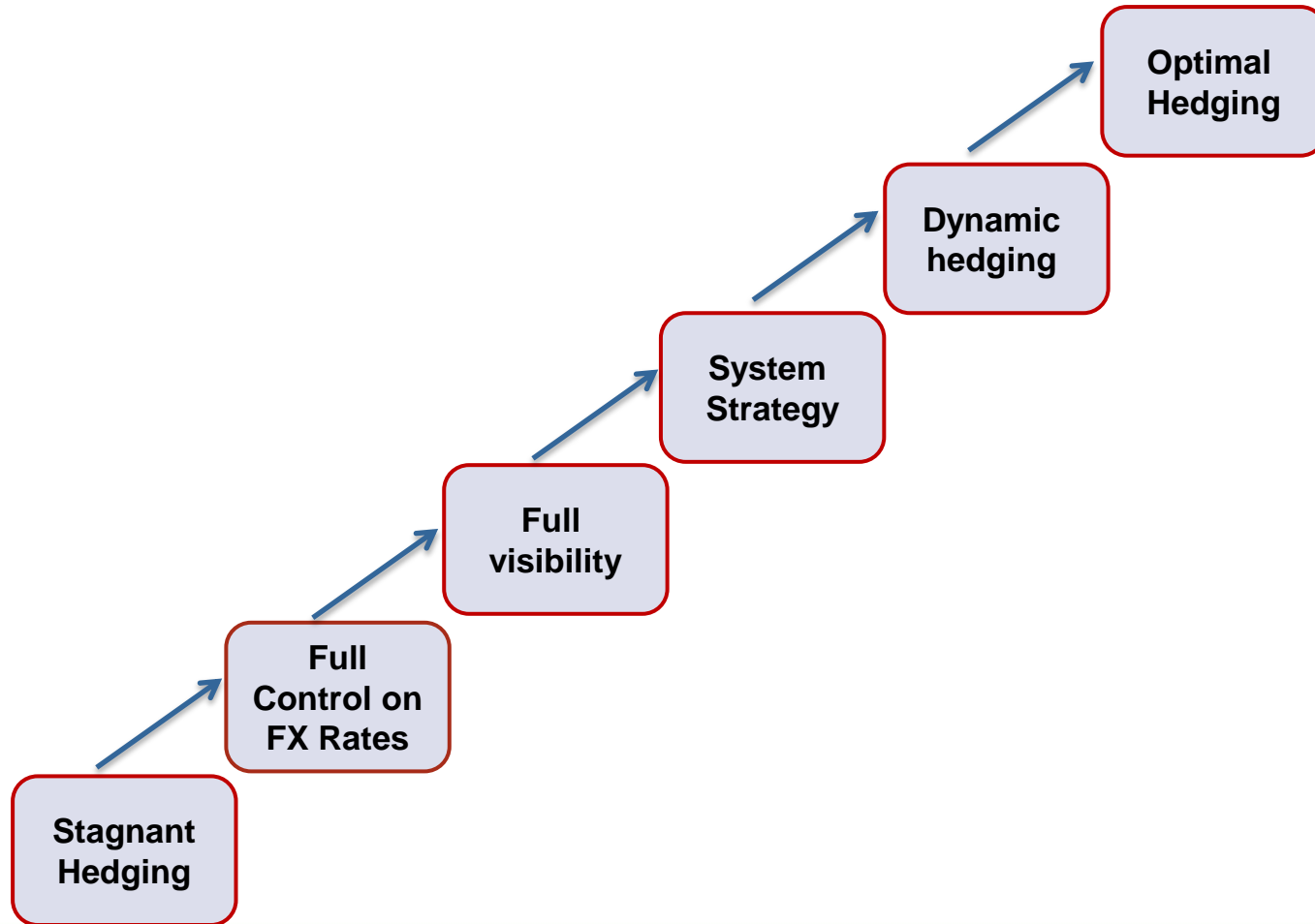
# Brocade FX Risk Management

## Dynamic hedging

- Various strategies based on analysis on currency characters
  - INR NDF forward rates advantage
  - CHF overbought in 2011
  - JPY overbought in 2012
  - EUR fluctuations in 2013
- Alternative strategies using Options
  - Pass hedge accounting test by running hypothetical portfolio in Reval
  - Gain FX Risk Committee support with profit / loss analysis
- Repositioned certain hedge positions
  - Sell and Buy at different levels on EUR fluctuations
  - Enter into forwards at more favorable levels, and de-designate option hedges
- Recommend flexible hedging ratios and time horizons
- Benchmark with banks and peers

# Brocade FX Risk Management

## FX Hedging Transformation Roadmap



# Q & A