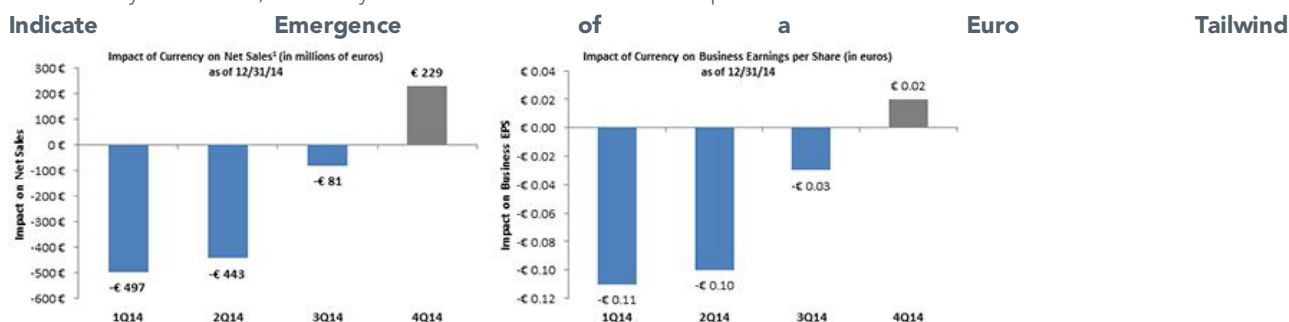


# EUROPEAN GLOBAL EXPORTERS' EARNINGS SHOWCASE IMPACT OF A WEAKER EURO

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As HEDJ, the [WisdomTree Europe Hedged Equity Fund](#) recently crossed \$15 billion in assets, we've been particularly interested to see how global exporters within Europe have been responding to a weaker euro. **Recap of Where the Euro Moved in 2014 and Where It Has Been Heading in 2015<sup>1</sup>** • The euro ended 2013 at \$1.37 and didn't move much in the first half of the year, ending the first quarter at \$1.38 and the second quarter at \$1.37. • The second half of the year was a different story, with the euro ending the third quarter at \$1.26 and then finishing 2014 at \$1.21. • As of March 13, 2015, the euro was below \$1.05. **Matching Our Intuition to Real-World Results** One large holding in the [WisdomTree Europe Hedged Equity Index](#) (the Index HEDJ is designed to track) is Sanofi. As of December 31, 2014, it represented a 4.40% weight in the Index, making it the fifth largest holding overall.<sup>2</sup> Sanofi's February 5, 2015, earnings report provides the perfect example of how European exporters have been responding to a weaker euro. Intuitively, we'd expect that Sanofi's results would show the stronger euro as a headwind, having appreciated in a fairly steady trend since the summer of 2012 when it hit a low of \$1.21<sup>3</sup>. The critical question—did the fourth quarter of 2014, when the euro was substantially weakened, look any different from the first three quarters of 2014? **Sanofi's Fourth-Quarter Results**



<sup>1</sup>Net Sales: Sales after deducting for any returns, allowances or discounts.

Source: Annual Results 2014, Sanofi presentation, 2/5/15. Past performance is not indicative of future results.

## • Quantifying the Euro

**Tailwind:** While the overall impact of the euro on Sanofi's net sales was negative when taking the full year into account, we call attention to the fact that the fourth quarter saw a positive currency impact of nearly a quarter of a billion euros.

Similarly, the impact on business earnings per share was about 0.02 euros<sup>4</sup>. **• Sanofi's Thoughts on 2015:** Within its company presentation, Sanofi said that if December 31, 2014, [exchange rates](#) were applied to its 2015 forecasts, business earnings per share could potentially increase 4% to 5%. Of course, this is an estimate and by no means certain, but it's worth noting that the December 31, 2014, euro exchange rate was \$1.21, whereas the exchange rate on February 5, 2015—the day these results were released—was \$1.15.<sup>5</sup> With Mario Draghi's January 22, 2015, announcement that the European Central Bank would embark on [quantitative easing](#), the case for a strengthening euro has become more difficult to make, so it's possible that Sanofi's first-quarter 2015 results could reflect an even lower euro exchange rate.

**Sanofi Returns More Cash to Shareholders** Sanofi certainly covered more than just the impact of the euro currency in the announcement of its results, and we found two additional points of central interest.<sup>6</sup> **1. 21st Consecutive Annual Dividend Increase:** The company proposed a dividend for the 2014 year of 2.85 euros per share, which would represent

its 21st consecutive year of a dividend increase, as well as a [payout ratio](#) of nearly 55%. 2. **Increase in Net Share Buybacks of Nearly 500 Million Euros:** In 2014, Sanofi's increase in net [buyback](#) activity was 484 million euros, to a total of 1.1 billion euros. It's worth noting that the firm's net buybacks as recently as 2012 were less than 200 million euros, so this represents significant growth. **Economic Growth and Profit Growth Can Be Quite Different** Europe's lackluster economic growth and potential for [disinflation](#) to become [deflation](#) have been widely publicized, and they are major contributing factors to Draghi's January 22, 2015, blockbuster quantitative easing announcement. However, Sanofi's results show us that profit growth and positive results at the company level are not necessarily connected directly to economic growth—especially for significant exporters. Sanofi is a great example of a truly global company that just happens to be incorporated within Europe, and it is a good example of the type of firm that the WisdomTree Europe Hedged Equity Index generates exposure to. <sup>1</sup>Source for three bullets: Bloomberg, with data as of specified periods. <sup>2</sup>Sanofi had a 4.32% weight in HEDJ as of 12/31/14. <sup>3</sup>Source: Bloomberg, as of 7/24/12 when the euro hit \$1.2061. <sup>4</sup>Source: Annual Results 2014, Sanofi presentation, 2/5/15. <sup>5</sup>Source: Bloomberg, with levels of euro measured as of 12/31/14 and 2/5/15. <sup>6</sup>Source for both bullets: Annual Results 2014, Sanofi presentation, 2/5/15.

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## **DEFINITIONS**

**WisdomTree Europe Hedged Equity Index** : Index designed to provide exposure to European equities while at the same time neutralizing exposure to fluctuations between the Euro and the U.S. dollar. Constituents are European dividend-paying firms with a least 50% of their revenues from outside of Europe. Weighting is by cash dividends paid.

**Exchange rate** : The exchange of one currency for another, or the conversion of one currency into another currency.

**Quantitative Easing (QE)** : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

**Dividend** : A portion of corporate profits paid out to shareholders.

**Payout ratio** : The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

**Net share buyback** : Takes both the issuance of any new shares and the buyback of any outstanding shares into account. A positive net share buyback means that more was spent on buying back existing shares than on issuing new shares.

**Buyback** : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

**Disinflation** : Term used to describe instances of slowing inflation, different from deflation in that price levels are still increasing overall, just at a slower rate.

**Deflation** : The opposite of inflation, characterized by falling price levels.