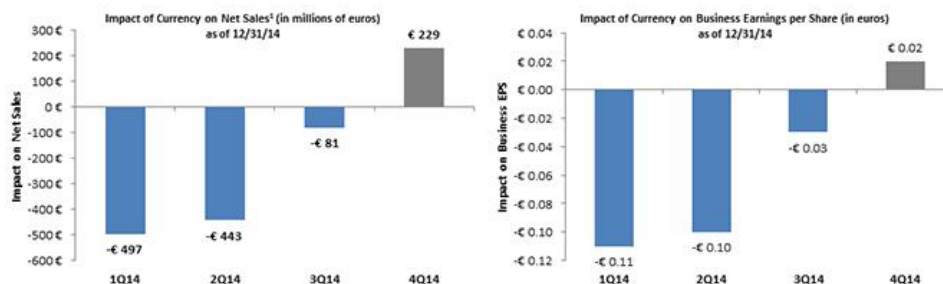


EUROPEAN GLOBAL EXPORTERS' EARNINGS SHOWCASE IMPACT OF A WEAKER EURO

Christopher Gannatti – Global Head of Research
03/25/2015

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 2015¹** • 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.² 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 \$1.21³. 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 Indicate Emergence of a Euro Tailwind**



¹Net 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 euros⁴. • **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 \$1.15.⁵ 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.⁶ 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. ¹Source for three bullets: Bloomberg, with data as of specified periods. ²Sanofi had a 4.32% weight in HEDJ as of 12/31/14. ³Source: Bloomberg, as of 7/24/12 when the euro hit \$1.2061. ⁴Source: Annual Results 2014, Sanofi presentation, 2/5/15. ⁵Source: Bloomberg, with levels of euro measured as of 12/31/14 and 2/5/15. ⁶Source for both bullets: Annual Results 2014, Sanofi presentation, 2/5/15.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

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.