

Jess

From: Sean@bank.com
Sent: Wednesday, 12:42 AM
To: Jess@bank.com
Subject: Risk factors

Hey Jess,

I hesitate to ask – but how was your yoga class last night? Are you absolutely positive that the team there doesn't need another analyst on board? I'm only 9 hours away – and would enjoy the opportunity to experience the laid-back approach to work that you seem to have mastered!! Anyway back to the task at hand.

So there has been a bit of back-channel communication with the client's people since we had our teleconference with Paul. It seems that there are three important points that they want our take on:

1. Debt financing,
2. Broad FX exposure, and
3. Specific exposure in China

First up, let's consider debt financing. Have a look at the following link where Hasbro actually provide a fair bit of detail about exactly what's going on with their debt over the next few years: <http://goo.gl/1qpKjw>. Some key things for you to touch upon in your report: Assuming that Hasbro want the same sort of leverage levels as they currently have, what is the nature of the risk they are facing in the next couple of years? How have they sought to manage this risk? What actions (list two I reckon) might Hasbro have to take if the worst case scenario comes about – like the credit crunch of the 2000s?

Second – let's shift our focus to Hasbro's 2014 annual report [see here: <http://goo.gl/qduKWj>]. Starting on page 11 you will see that Hasbro list the many different factors that contribute to the risk of the firm. As you can see a lot of these factors are product demand-related – rather than market driven – and hence not really our concern. What you can see on the bottom of page 14 and extending into the next page is a mention of FX exposure. In our own words we need to briefly explain this source of risk for the client. Having done so – we need to identify whether there are any market instruments that we might be able to employ to hedge a particular FX risk (name at least 2 derivatives that we might use) – and identify the true cost that might be faced by Hasbro if they use an instrument that costs nothing up front (that is; has no premium).

Finally – China. The client has been burnt before on an investment in a company that had a lot of its supply chain located in China, so we want to make sure that the client knows that we are aware of issues that might arise. There are two sections you will need to have a look at here – firstly the section starting half-way down page 18 and then the section starting halfway down page 20. Briefly describe for the client – in your own words – how Hasbro's reliance on third-party manufacturers in China might create problems. Finally – suggest one way in which Hasbro might be able to mitigate this risk in the future.

One last tip – stick to the references I have provided rather than going beyond. I have checked my sources with the firm's lawyers and they have signed off so don't stray okay? Okay – that's me done. Good luck with the report writing – I have to try to catch up on some sleep Talk soon.

Cheers,
Sean