INFRASTRUCTURE M&A / TREASURY & FX

The Line Below the Model

FX exposure and treasury structuring routinely get underweighted in infrastructure M&A relative to valuation and financing terms · and it's the gap most likely to erode returns after close.

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Most infrastructure deal diligence spends the majority of its time on two lines: valuation and financing terms. The line that actually erodes returns after close is usually a third one that got a paragraph instead of a workstream · currency.

Valuation models price a single FX assumption; the asset lives with a distribution.

A base case with one exchange-rate path is a modeling convenience, not a risk assessment. Infrastructure assets run for decades, span construction and operating phases with different currency exposures at each stage, and the actual path FX takes over that horizon will not match the flat-line or smooth-glide assumption in the model. Sponsors who treat that single line as the risk, rather than as a placeholder for a range, are underwriting a distribution they haven't actually looked at.

Debt service currency mismatch is the most common structural blind spot.

When financing is denominated in a hard currency but revenue comes from local-currency tariffs or off-take contracts, covenant compliance quietly becomes an FX bet dressed up as a credit metric. A debt service coverage ratio that looks comfortable in the base case can compress fast on a currency move that has nothing to do with the asset's operating performance · and by the time it shows up in a covenant breach, the currency exposure has already done its damage.

Treasury structuring gets a fraction of the diligence attention that tax structuring gets, despite comparable P&L impact.

Netting arrangements, intercompany loan terms, and cash repatriation mechanics across jurisdictions are where multi-jurisdictional operators actually feel currency risk day to day · not in the headline FX rate, but in the friction and timing of getting cash out of the entity that holds it. Running treasury across multiple currencies and jurisdictions makes this concrete fast: withholding rules, repatriation timing, and intercompany loan terms can silently erode a targeted IRR in ways a valuation model never captures, because it was never asked to.

The questions sponsors should put to their advisors before signing, not after.

What hedge ratio is embedded in the base case, and who decided it? Who bears basis risk between the hedge instrument and the actual exposure? What's the treasury structure for moving cash across the jurisdictions this deal touches, and what's the worst-case repatriation timeline if that structure needs to unwind? These aren't questions that belong in a side conversation with treasury after the term sheet is signed · they're structuring questions, and they belong in the same workstream as valuation and financing from the start.

Currency risk in infrastructure deals isn't hard to model. It's easy to underweight, because it doesn't show up as its own line item the way valuation multiples and financing spreads do · it shows up later, distributed across the life of the asset, in a place the original deal team is rarely still watching.

For anyone structuring cross-border infrastructure deals: is FX risk owned by the deal team, or handed off to treasury after signing?

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