

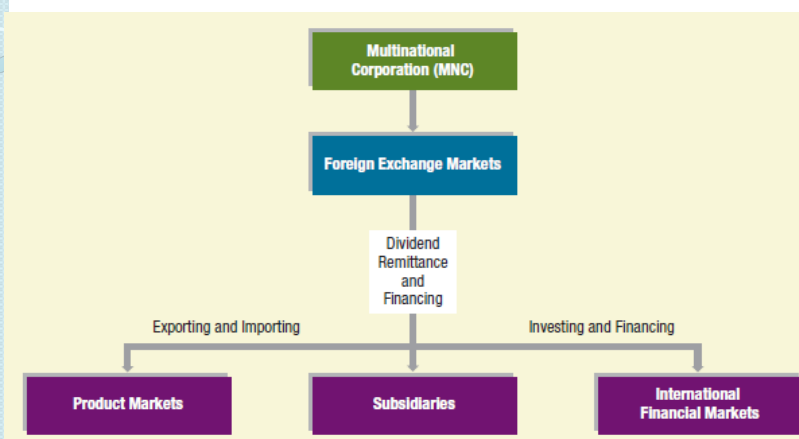
INTERNATIONAL CORPORATE FINANCE

International Financial Environment

Anna Chmielewska

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Multinational Corporations (MNCs)



Source: J. Madura, International Financial Management

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MNCs objectives

- Maximise value for shareholders
- Key decisions
 - Discontinue or expand business in a country
 - Pursue new business in a country
 - Enter new country
 - How to finance business in a country

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Why and how to pursue international business?

Why?

- Comperative advantage
- Imperfect markets
- International product life cycle

How?

- International trade
- Licencing to Franchising
- Joint ventures
- Acquisition or establishment of new sub

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Agency problem

- Discrepancy between management and shareholders interest
- Reasons
 - personal motivations
 - wrongly set KPIs
 - corporate governance
 - misleading information
- How can MCN manage agency problems?
- Centralised or de-centralised management?

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Agency problem

Case Study: Asseco SEE

- Justification to go to the Balcans
- Export / NewCo / Acquisition
- IT Company – where is the key value
- Agency problem – key risk
- How to mitigate
 - Large discrepancy vs value of Asseco and the target
 - Diversification benefit causes misalignemnt

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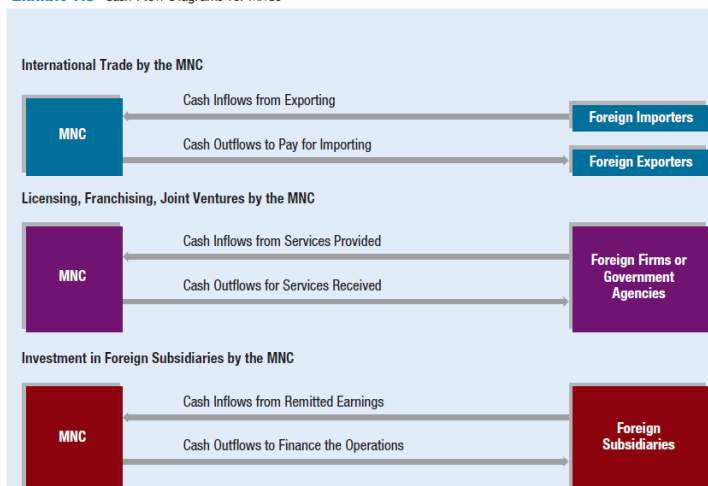
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Type of involvement vs cash-flows

Exhibit 1.3 Cash Flow Diagrams for MNCs



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Risks to MNC's value

- International economic conditions
- Political risks
- Foreign exchange risks

- How does it affect cost of capital?
 - Role of uncertainty

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Case: Nantucket

22. Impact of International Business on Cash Flows and Risk Nantucket Travel Agency specializes in tours for American tourists. Until recently, all of its business was in the United States. It just established a subsidiary in Athens, Greece, which provides tour services in the Greek islands for American tourists. It rented a shop near the port of Athens. It also hired residents of Athens who could speak English and provide tours of the Greek islands. The subsidiary's main costs are rent and salaries for its employees and the lease of a few large boats in Athens that it uses for tours. American tourists pay for the entire tour in dollars at Nantucket's main U.S. office before they depart for Greece.

Source: J. Madura, International Financial Management

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Case: Yahoo

23. **Valuation of an MNC** Yahoo! has expanded its business by establishing portals in numerous countries, including Argentina, Australia, China, Germany, Ireland, Japan, and the United Kingdom. It has cash outflows associated with the creation and administration of each portal. It also generates cash inflows from selling advertising space on its website. Each portal results in cash flows in a different currency. Thus, the valuation of Yahoo! is based on its expected future net cash flows in Argentine pesos after converting them into U.S. dollars, its expected net cash flows in Australian dollars after converting them into U.S. dollars, and so on. Explain how and why the valuation of Yahoo! would change if most investors suddenly expected that the dollar would weaken against most currencies over time.

Source: J. Madura, International Financial Management

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Key take-aways

- Different forms of international involvement have different impact on the valuation/risks
- Understanding agency problems/costs

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