

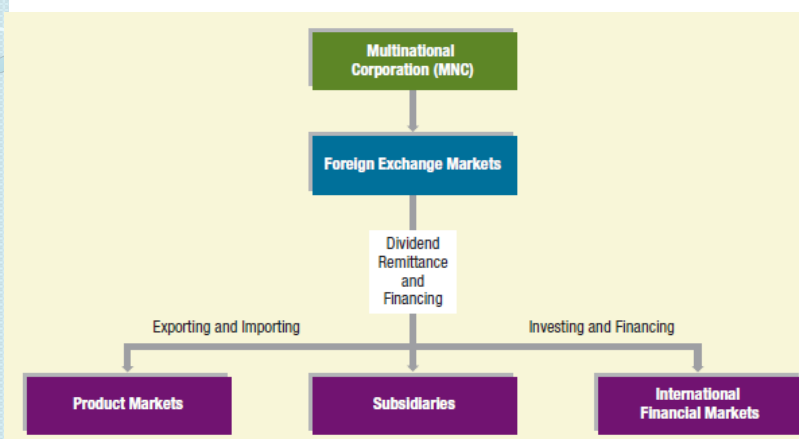
INTERNATIONAL CORPORATE FINANCE

International Financial Environment
and agency costs

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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?

- Comparative 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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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.

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Case: Yahoo

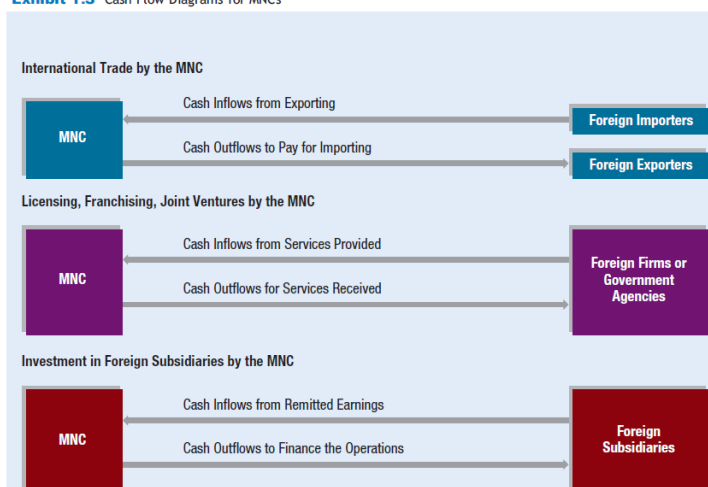
23. Valuation of an MNC Yahoo! has expanded its business by establishing portals in numerous countries, including Argentina, Australia, China, Germany, Ireland, Japan, and the United Kingdom. It has cash outflows associated with the creation and administration of each portal. It also generates cash inflows 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.

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Type of involvement vs cash-flows

Exhibit 1.3 Cash Flow Diagrams for MNCs



Source: J. Madura, International Financial Management

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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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Agency problem

Case Study: Asseco SEE

- IT Company
 - Very successful in Poland, especially in IT services for financial and public sector
 - Limited expansion into Western Europe
 - Decision to go to Balcans
- Why Balcans?
 - Similarity to Polish case from before
 - Underdeveloped banking sector
 - Ongoing regulatory approach
- Key challenge
 - How to build trust of customers?
 - How to acquired relationships?

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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

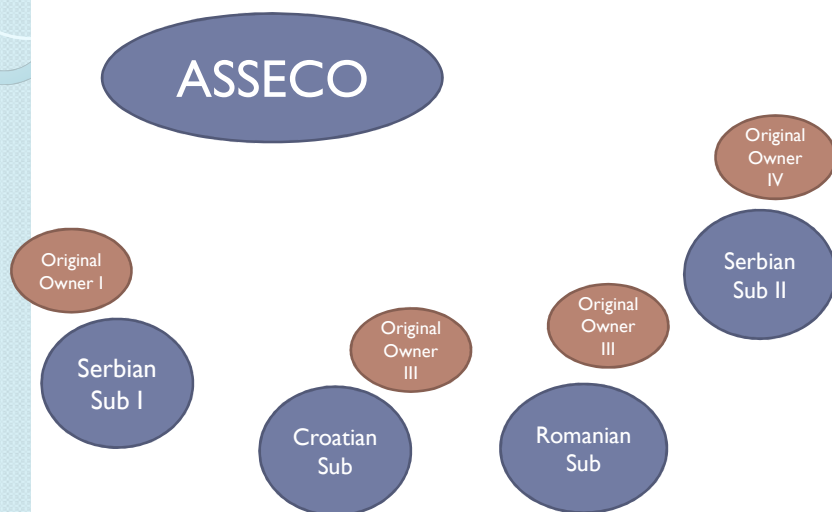
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Case Study: Asseco SEE (2)

- Solution: acquisition
- Identified approx 4-6 target companies in different Balcan countries
- Each company has unique competencies, there is cross-selling potential
- Key problems
 - Not all Asseco shareholders may support expansion
 - How to keep previous owners actively involved
 - How to encourage cooperation

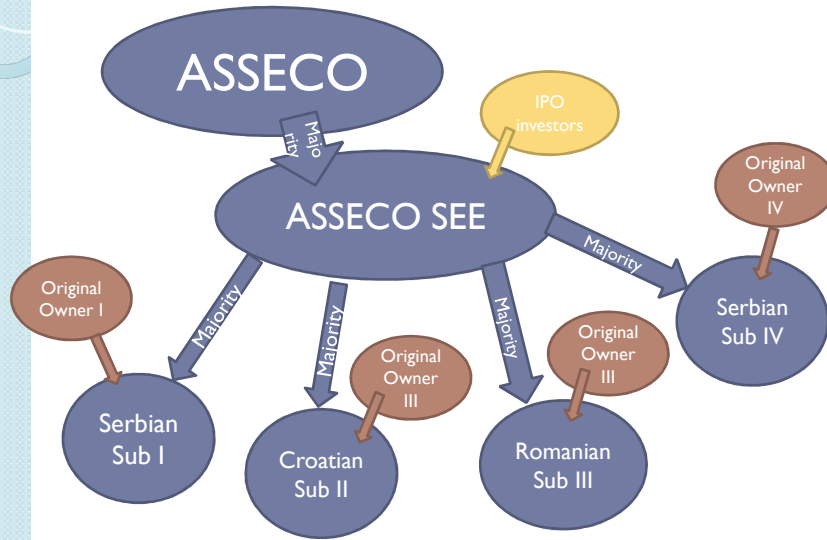
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Case Study: Asseco SEE (4)



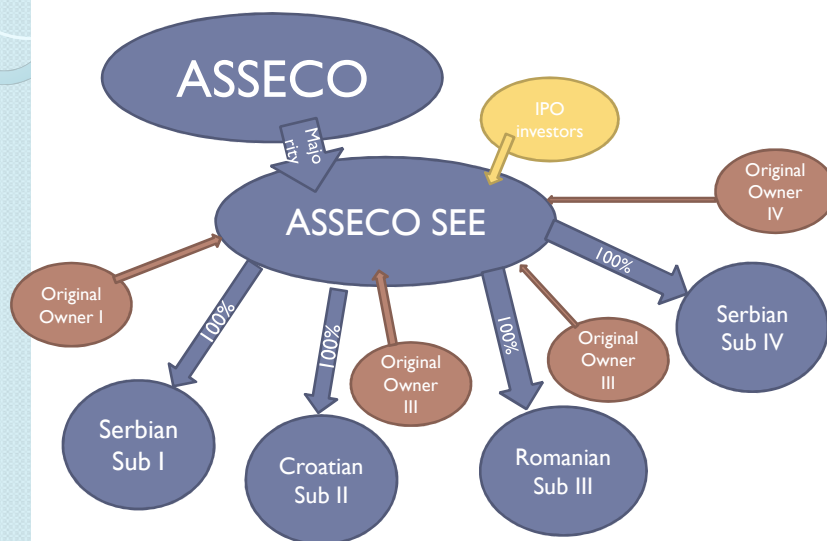
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Case Study: Asseco SEE (3)



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Case Study: after conversion



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Key take-aways

- Understand that different forms of international involvement have different impact on the valuation/risks
- Understanding agency problems/costs
- Identify foreign exchange risk

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