THE CORPORATE FINANCE OF MULTINATIONAL FIRMS

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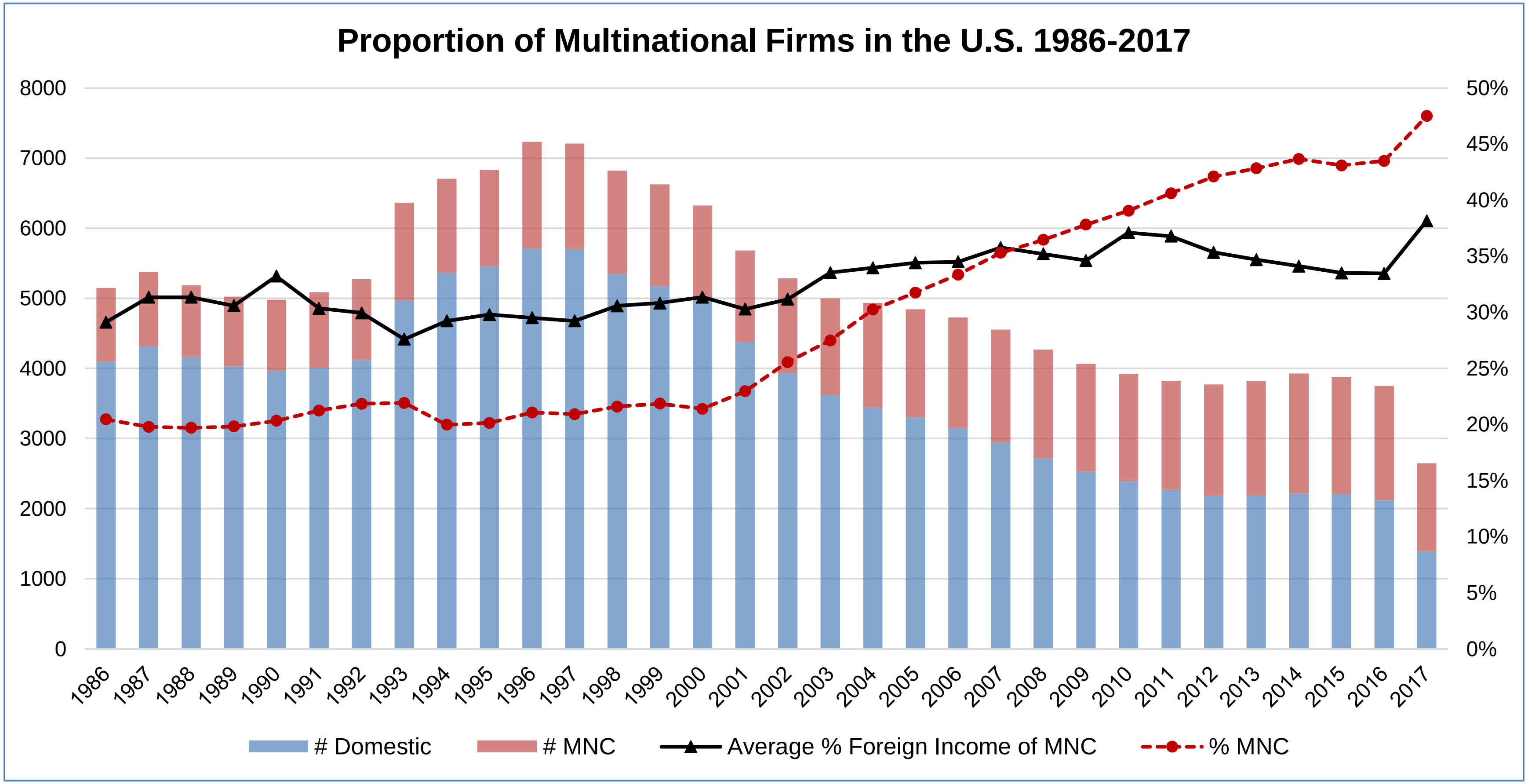
Multinational Firms

- How are multinationals' financing decisions different from single-country firms? We survey the main issues involved with multinationals' corporate finance and document some empirical statistics



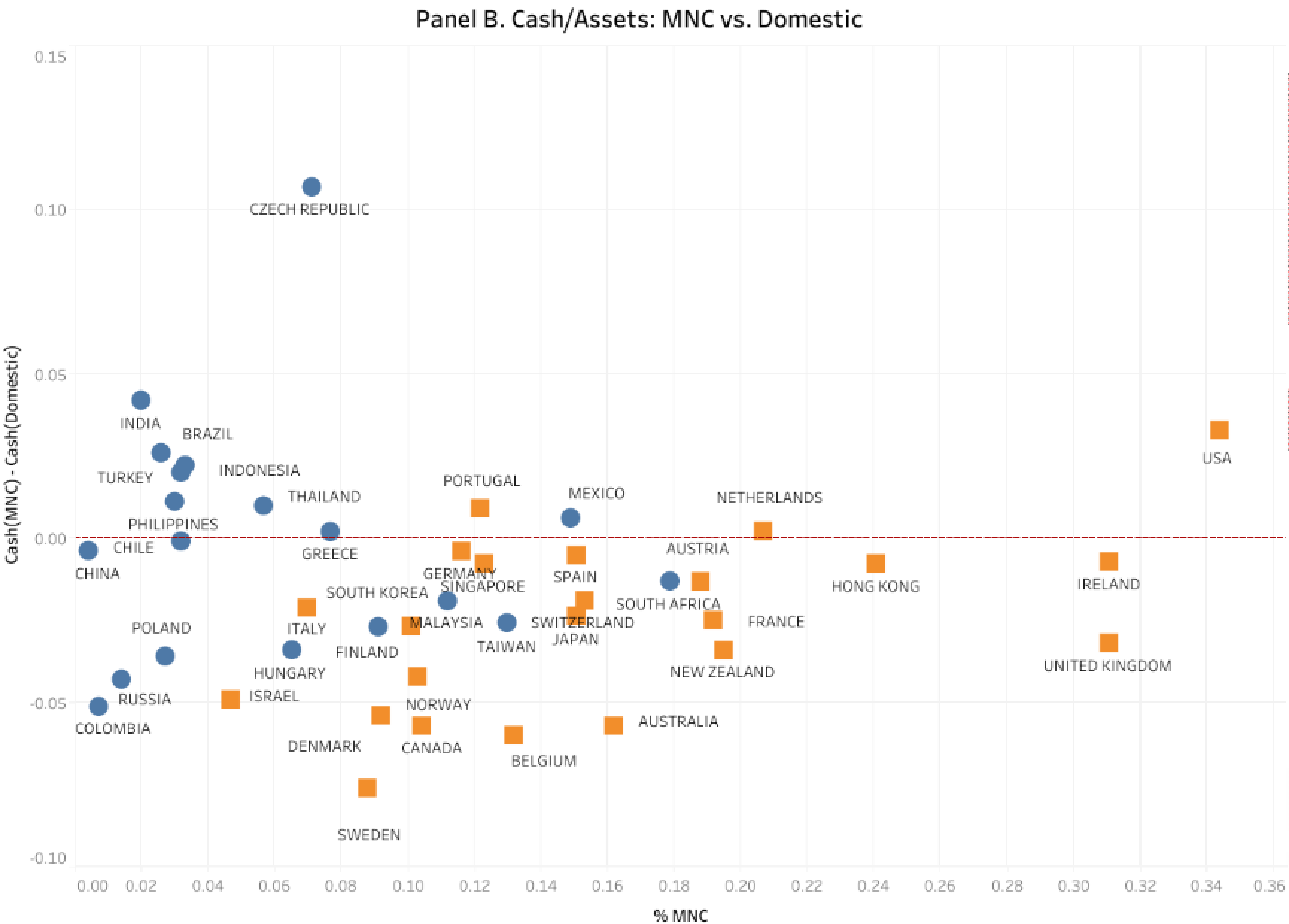
Characteristics of Multinational Firms

- Multinationals are larger, more profitable with lower credit risk

→ Different access to capital and cash holding incentives

	Multinational (A)	Domestic (B)	Diff in Mean (A-B)
Total Assets (USD Bil)	6.266	3.880	2.386***
Market Capitalization (USD Bil)	4.902	1.332	3.570***
Sales Growth	0.108	0.132	-0.024***
Cash Flow/Total Assets	0.115	0.074	0.041***
Std (Cash Flow/Total Assets)	0.070	0.076	-0.006***
Rated	0.315	0.180	0.135***
Investment Grade	0.152	0.080	0.071***
Speculative Grade	0.135	0.082	0.053***
Cash/Total Assets	0.189	0.158	0.031***
Total Debt/Total Assets	0.212	0.244	-0.033***
Zero Debt	0.147	0.128	0.019***
# Firm-year Obs	47337	115768	
# Unique Firm	5367	14736	

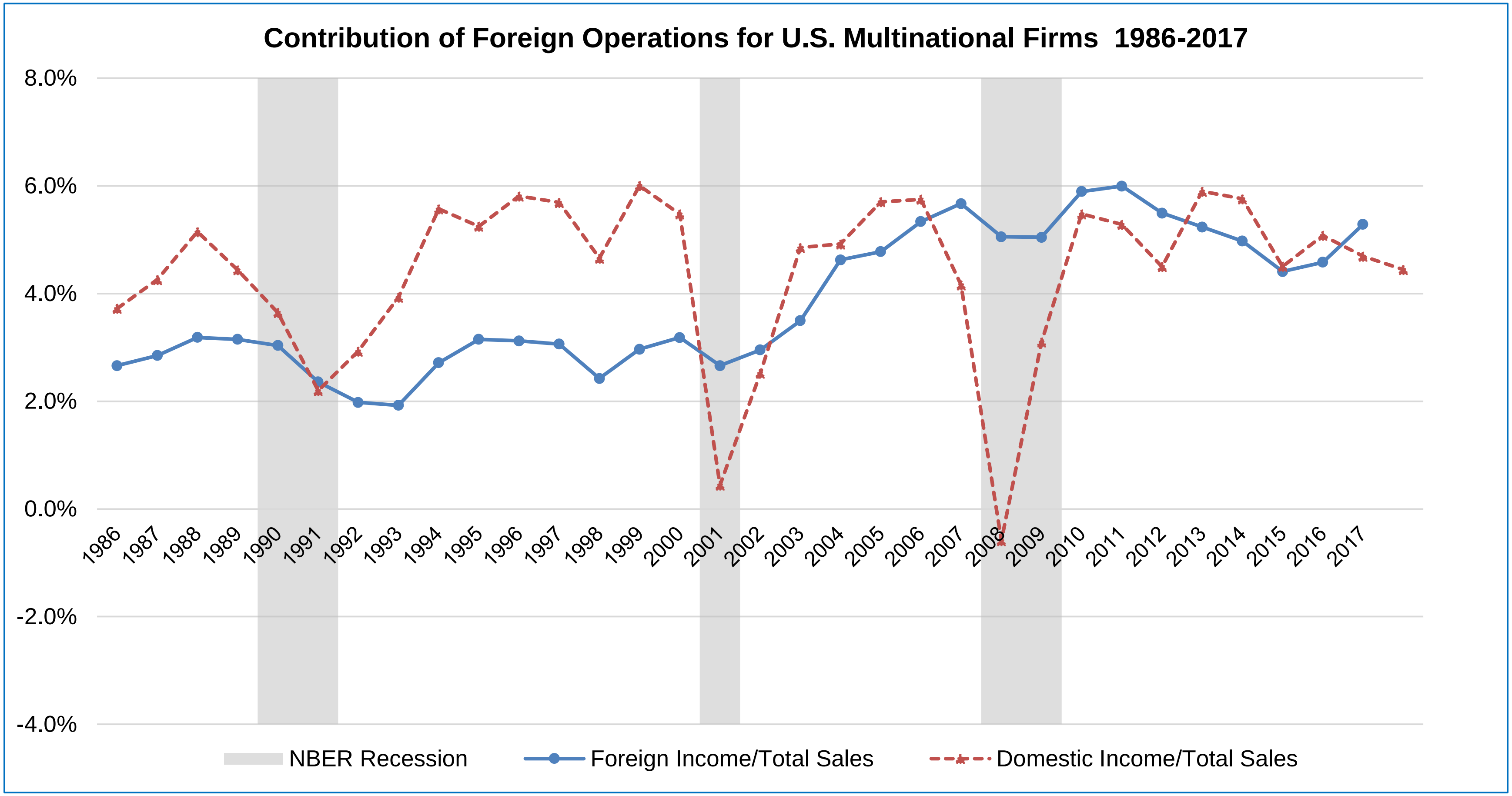
- Multinational = 1 if a firm reports non-zero foreign income over the previous 3 years
- Source: Compustat, 1986-2017, publicly-traded U.S. firms


Panel B. Cash/Assets: MNC vs. Domestic
Cash(MNC) - Cash(Domestic)
0.15
0.10
0.05
0.00
-0.05
-0.10
CZECH REPUBLIC
INDIA
BRAZIL
TURKEY
INDONESIA
THAILAND
PHILIPPINES
CHILE
CHINA
GREECE
PORTUGAL
MEXICO
NETHERLANDS
USA
AUSTRIA
HONG KONG
IRELAND
GERMANY
SINGAPORE
SPAIN
SOUTH KOREA
SOUTH AFRICA
MALAYSIA
SWITZERLAND
FRANCE
JAPAN
TAIWAN
ITALY
POLAND
FINLAND
HUNGARY
NEW ZEALAND
UNITED KINGDOM
RUSSIA
ISRAEL
NORWAY
COLOMBIA
AUSTRALIA
DENMARK
CANADA
BELGIUM
SWEDEN
0.00 0.02 0.04 0.06 0.08 0.10 0.12 0.14 0.16 0.18 0.20 0.22 0.24 0.26 0.28 0.30 0.32 0.34 0.36
% MNC

% MNC

Access to Capital

- Internationally diversified cash flows lower credit risks of MNCs → Higher debt capacity
  - “More-money” effect of diversification (Lewellen 1971, Stein 2003)



Where do Multinationals Get Financing?
Debt Sources (Bank Loans)

OLS	(1)	(2)	(3)	(4)
Dep. Var. =	**Borrow from Foreign Lender = 1**		**% Foreign Lender in Syndicate**	
Multinational	0.050***		0.035***	
	(7.35)		(7.19)	
% Foreign Income		0.108***		0.092***
		(9.07)		(10.26)
Year FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Borrower Rating FE	Y	Y	Y	Y
Deal Purpose FE	Y	Y	Y	Y
Observations	34,135	33,717	34,135	33,717
Adj-R2	0.499	0.499	0.291	0.294

- Sample: Syndicated loans issued to U.S. public firms 1990-2018 from Dealscan
- Controls: loan size, maturity, secured, revolver, term loan, #lenders, firm size, firm profitability, firm tangibility
- Standard errors are clustered by firm.

Equity Financing

- International activities of multinationals can affect sources of equity financing.
  - Multinationals are more likely to cross-list (Doidge et al. 2009)
  - Foreign institutional investor ownership increases in foreign sales (Ferreira and Matos 2008)

	Multinational (A)	Domestic (B)	Diff. (A) - (B)
Foreign Ownership	4.27%	1.77%	2.50***
Ownership by Country			
United Kingdom	1.41%	0.62%	0.79***
Canada	0.86%	0.44%	0.42***
Germany	0.41%	0.26%	0.15***
Norway	0.35%	0.13%	0.22***
China	0.24%	0.13%	0.12***
Japan	0.20%	0.07%	0.13***
Netherlands	0.18%	0.07%	0.12***
France	0.16%	0.07%	0.10***
Sweden	0.12%	0.06%	0.06***
# Firm-year Obs	25852	49241	

Sample: U.S public firms 2000-2017 (Source: Factset)

Effect on Cost of Capital

- **Cost of Debt**
  - Firms can lower their cost of finance by choosing where to issue (Houston, Itzkowitz, Naranjo 2007)
  - Multinationals have lower corporate-bond spread (Reeb, Mansi, and Allee 2001) and lower bank-loan spread by 4.4 basis points (authors' estimation)

- **Cost of Equity**
  - Empirical evidence is mixed
  - Multinationals exhibit higher Q conditional on high intangible assets (Morck and Yeung 1991) and lower returns conditional on competition in foreign markets (Fatemi 1984)
  - Recent evidence on a multinational-return premium (Jang, Wang, Zhang 2018, Fillat and Garetto 2015)

Risk Profiles

- **Country risk**
  - Political risks can increase the volatility of operating returns (Desai, Foley, and Hines 2006)
  - Economic nationalism can deter international capital flows (Dinc and Erel 2013)

- **Foreign exchange risk**
  - Currency fluctuations can affect the value of a multinational firm’s foreign earnings (Adler and Dumas 1984, Dumas and Solnik 1995)
  - While hedging offsets the foreign currency exposure, the net currency risk positions can be value-relevant (Dewenter, Schrand, and Wang 2016)