Mci case study

[Business](#)

Antitrust settlement between AT&T and US. Department of Justice. AT&T will need to break up before 1984. Economics of scale and scope are Important; basic call service and value added services. Increase in access charge after the AT&T antitrust settlement 1 .

What are the business problems facing MIMIC? After the settlement of antitrust case of AT&T, the differential in access charges will be phased out through charging MIMIC 80% more and this In turn increased Mi's operation expense.

MIMIC could lose its cost advantage to the competitors and lead to decreasing sales and profits. AT might also reduce its price to prevent its erosion in market share. AT communications was the main competitor. MIMIC need dial 20 digits ATT dial 11 digits. 2.

How do these business problems translate into financing problems? More 1 OFF Tuning Is required Ana need large amount AT capital, out already null EOT ratio; As we can see the graph, we saw a sharp rise in both external financing and internal financing, with external financing even a bit higher than internal financing. 3.

To what extent can traditional financing strategies work for NCR It is getting more expensive or MIMIC to acquire further funding through issuing debts and MIMIC will become more risky if take on further debts; If MIMIC simply issue equity, public might read this move as the stock has been overpriced and now the firm is trying to push down the price. Thus, the share price of the firm might go down. 4.

Based on projected financial statements in the case – income statements, balance sheets, and projected capital expenditures calculate Mi’s projected needs for external financing during the years 1984 through 1988 inclusive, for each year.

Analyses the consequences of alternative financing policies of MIMIC during these years – as sequences, such as first debt, then equity, then debt again as needed –on the projected financial condition of MIMIC in the (fiscal) year 1990, in terms of measures such as debt to equity ratios and interest coverage ratios. 5. Suppose that for its initial financing “ trance” of $1 Billion by the end of 1984, MIMIC decides to choose NOW between a Straight Debt issue of 20 year maturity with an interest rate of 12. 5%, with no sinking funds (early repayments), versus a Convertible

Debt issue of the same size, of notional maturity 20 years with an interest/Coupon rate of 7. 75%, and a conversion price of $ 55 per share.

Assume further that IF the conversion option is not exercised within the following 5 years then it would expire (unlike in the case), and this would continue as (cheap) debt. Which of these two debt issues should MIMIC choose in March 1983, to maximize shareholder value? Assume that annual standard deviation of returns on Mi’s equity value are either 20% or 30% and that the interest rate on (safe) MIMIC debt equals 12. 5%.