

International Financial Management- LCBB6002

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Introduction

This assignment will discuss the use of International Financial Management theories in different multinational corporations. In this assignment, Tesco Plc will be the Multinational Corporation that will be used for the analysis. The dividend distribution policy of the company will be analyzed. Then the Efficient Market Hypothesis theory will be analyzed for the operations of Tesco Plc. Lastly, the project appraisal methods of Tesco Plc will be evaluated in this report.

International Financial Management (IFM) is conducted by the managers of MNCs. Various forms of international investment and financing decisions engage in the IFM. The rationale for using the IFM is the maximization of the firm's value. IFM is relevant for non-Multinational Corporations as well to recognize the international competitors and what is the impact of factors like foreign interest rates, exchange rates, inflation, etc. on these competitors. Often the pricing policies and operational strategies are affected because of this (Madura, 2020).

Dividend distribution policy

Short overview of Tesco Plc:

Tesco Plc is a UK-based Multinational Corporation from the retail industry that operates in around 12 countries of the world. The company was set up by Jack Cohen in 1919 and it is headquartered in Hertfordshire in England, UK (Tesco, 2023). Tesco has multiple international businesses so the use of IFM theories has been essential for the company. The managers of Tesco plc prepare investment strategies and utilization of resources with the help of the theories of IFM. This will also benefit the company by setting pricing strategies accordingly. Also, the maximization of the market value of Tesco can be done.

Tesco's dividend distribution policy:

The dividend distribution policy of a company entails the process by which the shareholders of the business will be paid. The policy also entails the structure of payouts and the frequency of paying out the dividends. The dividend payout policy is also related to the financial and investment decisions of the internal and external stakeholders of a business. There are various dividend payout policies proposed by various financial economists. The dividend is based on the calculated dividend-payout ratio of the company (Allen and Michaely, 2003).

Tesco Plc has set its dividend distribution policy with a view to attracting more investors and increasing the market value of the business. Another objective is to engage more investors in the decision-making of the company. A dividend is the portion of the profit of a business paid to its shareholders. According to the free cash flow the dividend payout ratio of the company in August 2023 has been 28.9% while as per the adjusted earnings, this ratio is 50% (DividendStocks, 2023). The company is said to pay its dividends twice a year. The frequency of paying dividends is measured by the dividend distribution policy of the company. The company pays the price of each share by looking at the number of shares that the investors have held at the record date. Tesco offers its shareholders the chance to receive dividends in cash or in the form of more shares in Tesco. As per the company's statement, the record date of Tesco Plc was 12 May 2023 (Tesco PLC, 2023). In the financial year 2020-21, the management of Tesco plc decided to maintain a flat dividend. This was done to project the value of the shareholders on the operations of the business and enjoy better cash flows in the future. The dividend payout ratio of 50% is expected to be maintained in the next 5 years as well.

Figure 1: Dividend per share vs payout ratio

	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Dividend per share (in pence)	9,15	7,59	7,79	8,23	8,46	8,79	8,94
Payout ratio		50%	50%	50%	50%	50%	50%

Fig. 1: Dividend payout policy of Tesco plc

(Source: Moura, 2021)

Efficient Market Hypothesis theory

Definition of EMH theory:-

The aspect of the EMH is all about the process of the flow of information about the stock market of a company. In other terms, in the effective market condition, there are fewer chances for profitable trading activities. As a result of that, according to their theory, a constant higher return

in the stock market is not possible. Under the theory of the EMH, the details of the stock and share markets are distributed evenly within the market (Ehiedu and Obi, 2022). As a result, the investors cannot gain an upper hand over the market. This theory was founded by Eugene Fama in the year of 1960. According to the original theory, the condition of the market can be divided into three segments, which are based on the flow of information in the market. In easier words, the theory of the EMH can be segmented into three different forms. Such as weak, semi-strong, and strong.

In a weak situation, the market is only provided with the past conditions and performance of the organizations. As a result of that the assumption of future performance cannot be possible (Team, 2023). In a semi-strong form, the market is provided with both public market and public non-market information. At strong conditions, the market is characterized by both private and public information, which are related to the price of stocks.

EMH condition in Tesco Plc:-

The concept of the EMH is also applied to Tesco Plc company. In simpler terms, the concept of the EMH can also be analyzed in Tesco. From their financial reports, it can be observed that the company has a less significant change in dividend payouts in the short run (Hargreaves Lansdown, 2023). From that, it can be said that the company factored all its private and public data into its stock price. Because of that the investors cannot gain the upper hand in the price change in the stocks and shares of the company. This aspect also prevents gaining an unethical advantage over the price change of the company in the stock market, which is applicable for both outside and inside members of the company. From this discussion, it can be said that the EMH condition of the company is on the strong side. Because of that Tesco Plc can get different kinds of advantages in their stock market. Such as decreasing the chances of constant abnormal or above-average profitability for their investors. It is done by the company by providing all the stock information in the market, which creates equality for the investors of a company. As a result, Tesco Plc can get different types of advantages in their market. Some of the key advantages that can be obtained by the company are provided below.

The first advantage of the strong EMH condition in a company is that sensitive information about the stocks is preserved by different kinds of laws and regulations. As a result of that, there

are fewer chances of leaking sensitive information in the market. It also provides security over market crashes (Borad, 2023).

Project Appraisal methods

Different methods of project Appraisal:

In general, there are 5 different methods that an MNC can use to appraise a new project. These 5 methods include- Economic analysis, financial analysis, Market analysis, Management competence, and technical feasibility. Under economic analysis, the company evaluates the expected sales, costs, and profits of a project. The demand for new project items, location, government policies, etc. is assessed under economic analysis. Under financial analysis, the financial necessities, working capital management, expected returns and cash inflows of the project, break-even analysis, etc. of a project are performed. Market analysis provides an overall view of the type of market and its characteristics, probable demand, and supply of new items through census surveys or sample surveys (Your Article Library, 2014).

Tesco Plc's project appraisal methods:

Tesco plc uses all these three project appraisal methods. Before investing in a new project, the company evaluates its financial aspects by applying methods like the Net Present Value, Internal rate of Return, Payback period, accounting rate of return, etc. Using these methods, the expected return from the project after its lifetime, the time of paying back the initial investment, cost of capital of the project, etc. are evaluated. The NPV and IRR methods are more often used by Tesco. Apart from the financial analysis, the company also analyzes the market associated with the implementation of the new project. The external factors and their impact on the market behavior and potential market risks for the new project are analyzed by Tesco before investing in the new project (Catalão, 2022). The requirement of raw materials, labor, and technology for the new project is assessed under the economic analysis. The demand for new items in the market is analyzed to anticipate sales of the new project and the supply of the items of the new project is also appraised before deciding whether to invest in that project or not. These project appraisal methods will help the management of Tesco plc to make relevant investment and financing decisions and set the appropriate sales and operation strategy and it is expected to influence the

dividend distribution policy of the company as well. Moreover, the pricing strategy of the company will also be set based on the projects that Tesco plc is looking to invest in.

Conclusion

This assignment concludes that the different aspects of the company are discussed in various parts. In the first part, the dividend distribution policies of the company are discussed. This also includes the discussion of an overview of the dependence policy of the company. In the next segment, the discussion about the EMH condition of the company was completed. In the last segment, the discussion about the project appraisal method, which is used in the company is discussed.

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