Corporate Finance 15.402
Assignment 5: MCI Communications (1983)

Prepare a memo addressing the following questions:

1. What is the likely level of MCI's external financing needs over the next several years? How much might you expect them to vary? Why?

2. Discuss MCI's past financial strategy, paying attention to the types of securities issued. Why did MCI finance itself in this manner?

3. Based on your analysis of the outlook for MCI (given the competitive and regulatory nature of the industry) recommend a capital structure policy, and defend your decision against plausible alternatives.

4. Assume that Mr. English (MCI's CFO) has the following financing alternatives available to him in April 1983. Which – if any – of these alternatives would you suggest he take? Why?

    a. $500 million of 12-½%, 20-year subordinated debentures.
    b. $400 million of common stock.
    c. $1 billion of 7-1/2%, 10-year convertible subordinated debentures with a conversion price of $55 per share (i.e., each $1000 face value bond would be converted into 18.18 common shares). The company can call the bonds any time after three years.

    In a broad outline, what financing steps would you suggest he follows over the next several years?

<u>Additional Case Facts:</u> The allocation of long distance market share after 1983

The FCC has dictated a series of "elections", city by city, starting in 1984 and concluding in 1987. In each election, every customer will be sent a ballot and asked to return it with a selection of a long-distance carrier. Despite heavy advertising by long-distance companies, only 15%-30% of customers are expected to return their ballots. The nonvoting market share will be allocated in the proportions determined by those voting. MCI's future will be determined by its success in this electoral process.