

STUDY SESSION

8

Corporate Finance (2)

This study session presents two major organizational topics of corporate finance. The first topic presented is environmental, social, and governance (ESG) considerations in investment analysis. The process for identifying ESG-related risks and opportunities relevant to security analysis are described. ESG considerations provide analysts with a broader perspective of the risks and investment opportunities of a company's securities. Next, mergers, acquisitions, and corporate restructurings—which create changes in ownership and control—are examined to determine whether 1) value is created from the transaction and 2) acquisition price is justified by the transaction's benefits.

READING ASSIGNMENTS

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| Reading 22 | Corporate Governance and Other ESG Considerations in Investment Analysis
by Deborah S. Kidd, CFA, Young Lee, CFA, and Johan Vanderlugt |
| Reading 23 | Mergers and Acquisitions
by Rosita P. Chang, PhD, CFA, and Keith M. Moore, CFA |

LEARNING OUTCOMES

READING 22. CORPORATE GOVERNANCE AND OTHER ESG CONSIDERATIONS IN INVESTMENT ANALYSIS

The candidate should be able to:

- a describe global variations in ownership structures and the possible effects of these variations on corporate governance policies and practices;

- b** evaluate the effectiveness of a company's corporate governance policies and practices;
- c** describe how ESG-related risk exposures and investment opportunities may be identified and evaluated;
- d** evaluate ESG risk exposures and investment opportunities related to a company.

READING 23. MERGERS AND ACQUISITIONS

The candidate should be able to:

- a** classify merger and acquisition (M&A) activities based on forms of integration and relatedness of business activities;
- b** explain common motivations behind M&A activity;
- c** explain bootstrapping of earnings per share (EPS) and calculate a company's post-merger EPS;
- d** explain, based on industry life cycles, the relation between merger motivations and types of mergers;
- e** contrast merger transaction characteristics by form of acquisition, method of payment, and attitude of target management;
- f** distinguish among pre-offer and post-offer takeover defense mechanisms;
- g** calculate and interpret the Herfindahl–Hirschman Index and evaluate the likelihood of an antitrust challenge for a given business combination;
- h** compare the discounted cash flow, comparable company, and comparable transaction analyses for valuing a target company, including the advantages and disadvantages of each;
- i** calculate free cash flows for a target company and estimate the company's intrinsic value based on discounted cash flow analysis;
- j** estimate the value of a target company using comparable company and comparable transaction analyses;
- k** evaluate a takeover bid and calculate the estimated post-acquisition value of an acquirer and the gains accrued to the target shareholders versus the acquirer shareholders;
- l** explain how price and payment method affect the distribution of risks and benefits in M&A transactions;
- m** describe characteristics of M&A transactions that create value;
- n** distinguish among equity carve-outs, spin-offs, split-offs, and liquidation;
- o** explain common reasons for restructuring.