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**

**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.