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# Corporate Issuers (2)

**T**his 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 17** | Environmental, Social, and Governance (ESG) Considerations in Investment Analysis<br>by Deborah S. Kidd, CFA, Young Lee, CFA, and Johan Vanderlugt |
| **Reading 18** | Mergers and Acquisitions<br>by Rosita P. Chang, PhD, CFA, and Keith M. Moore, PhD, CFA |
| **Reading 19** | Capital Budgeting<br>by John D. Stowe, PhD, CFA, and Jacqués R. Gagne, FSA, CFA, CIPM |

# LEARNING OUTCOMES

## READING 17. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (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 18. 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 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**   compare the discounted cash flow, comparable company, and comparable transaction analyses for valuing a target company, including the advantages and disadvantages of each;

**h**   evaluate a takeover bid and its effects on the target shareholders versus the acquirer shareholders;

**i**   explain how price and payment method affect the distribution of risks and benefits in M&A transactions;

**j**   describe characteristics of M&A transactions that create value;

**k**   distinguish among equity carve-outs, spin-offs, split-offs, and liquidation;

**l**   explain common reasons for restructuring.

## READING 19. CAPITAL BUDGETING

The candidate should be able to:

**a**   calculate the yearly cash flows of expansion and replacement capital projects and evaluate how the choice of depreciation method affects those cash flows;

**b**   explain how inflation affects capital budgeting analysis;

**c**   evaluate capital projects and determine the optimal capital project in situations of 1) mutually exclusive projects with unequal lives, using either the least common multiple of lives approach or the equivalent annual annuity approach, and 2) capital rationing;

**d**   explain how sensitivity analysis, scenario analysis, and Monte Carlo simulation can be used to assess the standalone risk of a capital project;

**e**   describe types of real options relevant to a capital project;

**f**   describe common capital budgeting pitfalls.