STUDY SESSION 8

Corporate Finance

Financing and Control Issues

This study session presents two major organizational topics of corporate finance. First, corporate governance covers the system of principles and policies used to manage conflicts of interest among various groups of stakeholders of a corporation. Second, mergers and acquisitions and corporate restructurings, which redistribute ownership and control, are analyzed.

READING ASSIGNMENTS

Reading 24	Corporate Performance, Governance, and Business Ethics by Charles W.L. Hill and Gareth R. Jones
Reading 25	Corporate Governance by Rebecca Todd McEnally, PhD, CFA, and Kenneth Kim, PhD
Reading 26	Mergers and Acquisitions by Rosita P. Chang, PhD, CFA, and Keith M. Moore, CFA

LEARNING OUTCOMES

READING 24. CORPORATE PERFORMANCE, GOVERNANCE, AND BUSINESS ETHICS

The candidate should be able to:

a compare interests of key stakeholder groups and explain the purpose of a stakeholder impact analysis;

b discuss problems that can arise in principal–agent relationships and mechanisms that may mitigate such problems;

c discuss roots of unethical behavior and how managers might ensure that ethical issues are considered in business decision making;

d compare the Friedman doctrine, Utilitarianism, Kantian Ethics, and Rights and Justice Theories as approaches to ethical decision making.

READING 25. CORPORATE GOVERNANCE

The candidate should be able to:

a describe objectives and core attributes of an effective corporate governance system and evaluate whether a company's corporate governance has those attributes;

b compare major business forms and describe the conflicts of interest associated with each;

c explain conflicts that arise in agency relationships, including manager–shareholder conflicts and director–shareholder conflicts;

d describe responsibilities of the board of directors and explain qualifications and core competencies that an investment analyst should look for in the board of directors;

e explain effective corporate governance practice as it relates to the board of directors and evaluate strengths and weaknesses of a company's corporate governance practice;

f describe elements of a company's statement of corporate governance policies that investment analysts should assess;

g describe environmental, social, and governance risk exposures;

h explain the valuation implications of corporate governance.

READING 26. 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.