

2025 Level II Topic Outlines

Corporate Issuers

LEARNING OUTCOMES

Analysis of Dividends and Share Repurchases

The candidate should be able to:

- describe the expected effect of regular cash dividends, extra dividends, liquidating dividends, stock dividends, stock splits, and reverse stock splits on shareholders' wealth and a company's financial ratios
- compare theories of dividend policy and explain implications of each for share value given a description of a corporate dividend action
- describe types of information (signals) that dividend initiations, increases, decreases, and omissions may convey
- explain how agency costs may affect a company's payout policy
- explain factors that affect dividend policy in practice
- calculate and interpret the effective tax rate on a given currency unit of corporate earnings under double taxation, dividend imputation, and split-rate tax systems
- compare stable dividend with constant dividend payout ratio, and calculate the dividend under each policy
- describe broad trends in corporate payout policies
- compare share repurchase methods
- calculate and compare the effect of a share repurchase on earnings per share when 1) the repurchase is financed with the company's surplus cash and 2) the company uses debt to finance the repurchase
- calculate the effect of a share repurchase on book value per share
- explain the choice between paying cash dividends and repurchasing shares
- calculate and interpret dividend coverage ratios based on 1) net income and 2) free cash flow

- identify characteristics of companies that may not be able to sustain their cash dividend

Environmental, Social, and Governance (ESG) Considerations in Investment Analysis

The candidate should be able to:

- describe global variations in ownership structures and the possible effects of these variations on corporate governance policies and practices
- evaluate the effectiveness of a company's corporate governance policies and practices
- describe how ESG-related risk exposures and investment opportunities may be identified and evaluated
- evaluate ESG risk exposures and investment opportunities related to a company

Cost of Capital: Advanced Topics

The candidate should be able to:

- explain top-down and bottom-up factors that impact the cost of capital
- compare methods used to estimate the cost of debt.
- explain historical and forward-looking approaches to estimating an equity risk premium
- compare methods used to estimate the required return on equity
- estimate the cost of debt or required return on equity for a public company and a private company
- evaluate a company's capital structure and cost of capital relative to peers

Corporate Restructuring

The candidate should be able to:

- explain types of corporate restructurings and issuers' motivations for pursuing them
- explain the initial evaluation of a corporate restructuring
- demonstrate valuation methods for, and interpret valuations of, companies involved in corporate restructurings
- demonstrate how corporate restructurings affect an issuer's EPS, net debt to EBITDA ratio, and weighted average cost of capital
- evaluate corporate investment actions, including equity investments, joint ventures, and acquisitions
- evaluate corporate divestment actions, including sales and spin offs
- evaluate cost and balance sheet restructurings