

# Corporate Issuers

## LEARNING OUTCOMES

### **Corporate Structures and Ownership**

*The candidate should be able to:*

- compare business structures and describe key features of corporate issuers
- compare public and private companies
- compare the financial claims and motivations of lenders and owners

### **Introduction to Corporate Governance and Other ESG Considerations**

*The candidate should be able to:*

- describe a company's stakeholder groups and compare their interests
- describe the principal-agent relationship and conflicts that may arise between stakeholder groups
- describe corporate governance and mechanisms to manage stakeholder relationships and mitigate associated risks
- describe both the potential risks of poor corporate governance and stakeholder management and the benefits from effective corporate governance and stakeholder management
- describe environmental, social, and governance considerations in investment analysis
- describe environmental, social, and governance investment approaches

### **Business Models & Risks**

*The candidate should be able to:*

- Describe key features and types of business models.

- Describe expected relations between a company's external environment, business model, and financing needs.
- Explain and classify types of business and financial risks for a company.

### **Capital Investments**

#### ***The candidate should be able to:***

- describe types of capital investments made by companies
- describe the capital allocation process and basic principles of capital allocation
- demonstrate the use of net present value (NPV) and internal rate of return (IRR) in allocating capital and describe the advantages and disadvantages of each method
- describe common capital allocation pitfalls
- describe expected relations among a company's investments, company value, and share price
- describe types of real options relevant to capital investment

### **Working Capital & Liquidity**

#### ***The candidate should be able to:***

- compare methods to finance working capital
- explain expected relations between working capital, liquidity, and short-term funding needs (NEW)
- describe sources of primary and secondary liquidity and factors affecting a company's liquidity position
- compare a company's liquidity position with that of peers
- evaluate short-term funding choices available to a company

### **Cost of Capital-Foundational Topics**

#### ***The candidate should be able to:***

- calculate and interpret the weighted average cost of capital (WACC) of a company
- describe how taxes affect the cost of capital from different capital sources
- calculate and interpret the cost of debt capital using the yield-to-maturity approach and the debt-rating approach
- calculate and interpret the cost of noncallable, nonconvertible preferred stock
- calculate and interpret the cost of equity capital using the capital asset pricing model approach and the bond yield plus risk premium approach
- explain and demonstrate beta estimation for public companies, thinly traded public companies, and nonpublic companies
- explain and demonstrate the correct treatment of flotation costs

### **Capital Structure**

#### ***The candidate should be able to:***

- explain factors affecting capital structure
- describe how a company's capital structure may change over its life cycle
- explain the Modigliani–Miller propositions regarding capital structure
- describe the use of target capital structure in estimating WACC, and calculate and interpret target capital structure weights
- describe competing stakeholder interests in capital structure decisions

**Measures of Leverage**

*The candidate should be able to:*

- define and explain leverage, business risk, sales risk, operating risk, and financial risk and classify a risk
- calculate and interpret the degree of operating leverage, the degree of financial leverage, and the degree of total leverage
- analyze the effect of financial leverage on a company's net income and return on equity
- calculate the breakeven quantity of sales and determine the company's net income at various sales levels
- calculate and interpret the operating breakeven quantity of sales