



Optimum Capital Structure

WHAT IS OPTIMAL CAPITAL STRUCTURE



**AN OPTIMAL CAPITAL STRUCTURE IS THE OBJECTIVELY BEST MIX OF
DEBT, PREFERRED STOCK, AND COMMON STOCK**



**THAT MAXIMIZES A COMPANY'S MARKET VALUE
WHILE MINIMIZING ITS COST OF CAPITAL.**



**THE LOWER THE COST OF CAPITAL,
THE GREATER THE PRESENT VALUE OF THE FIRMS FUTURE CASH FLOWS,
DISCOUNTED BY THE WACC.**

**THUS, THE CHIEF GOAL OF ANY CORPORATE FINANCE DEPARTMENT
SHOULD BE TO FIND THE OPTIMAL CAPITAL STRUCTURE THAT WILL RESULT
IN THE LOWEST WACC AND THE MAXIMUM VALUE OF THE COMPANY.**

