Bixton Company’s new chief financial officer is evaluating

Bixton’s capital structure. She is concerned that the firm might be underleveraged, even

though the firm has larger-than-average research and development and foreign tax credits

when compared to other firms in its industry. Her staff prepared the industry comparison

shown here.

a. Bixton’s objective is to achieve a credit standing that falls, in the words of the chief

financial officer, “comfortably within the ‘A’ range.” What target range would you recommend

for each of the three credit measures?

b. Before settling on these target ranges, what other factors should Bixton’s chief financial

officer consider?

c. Before deciding whether the target ranges are really appropriate for Bixton in its current

financial situation, what key issues specific to Bixton must the chief financial officer

resolve?

FUNDS FROM

RATING FIXED CHARGE OPERATIONS/ LONG-TERM DEBT/

CATEGORY COVERAGE TOTAL DEBT CAPITALIZATION

Aa 4.00–5.25*x* 60–80% 17–23%

A 3.00–4.30 45–65 22–32

Baa 1.95–3.40 35–55 30–41