Value Investing Across the Capital Structure  
EMBA Block Week January 11-15, 2021

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Communications from the professor about the course will take place through Canvas.  
Students should make sure they regularly check for announcements and messaging notifications.

COURSE DESCRIPTION

This course combines the methods and teachings of security analysis with practical buy-side methodologies to identify and research value investments across the capital structure. Emphasis will be placed on the development and implementation of a disciplined and repeatable research and catalyst-driven evaluation process. 

This course will leverage your theoretical learning in security analysis plus require you to develop business acumen and industry expertise. A combination of fundamental analysis and assessment of intrinsic value will be balanced with thematic thinking and business judgment. The course should arm you with the tools necessary to identify attractive value investments through a variety of methodologies for several alternative fund strategies, including event-driven and capital structure arbitrage. When reviewing capital structures, potential catalysts, and other elements related to the cross-asset investment process, dislocations, security mispricing, and hedging considerations will surface creating opportunities for the long and short sides. M&A catalysts stemming from corporate actions will be identified and vetted for their quality, timing, likelihood of occurrence, and estimated impact on securities across the capital structure.

The class will be kept small to take advantage of the instructional method. Class sessions may be supplemented with visits from investment professionals from the long-only, hedge fund and private equity communities.

In addition to the allotted class time students should be prepared to commit an additional 4-5 hours per day for completing assignments and preparing for quizzes and classroom discussion. Students considering taking this course should be familiar with excel modelling and be comfortable they are able to complete the appended WatchCo example before enrolling.

*The contents of this syllabus and course are subject to change.
COURSE MATERIALS
There are no assigned texts or readings for the course, required material will be provided on Canvas.

Suggested readings:
Cialdini, Robert B., *Influence*
Graham, B., *The Intelligent Investor*
Greenblatt, J., *You Can Be a Stock Market Genius*
Greenwald, B., et al., *Value Investing: From Graham to Buffett and Beyond*
Kahneman, Daniel, *Thinking, Fast and Slow*
Klarman, Seth, *Margin of Safety*
Mehta, R., *The Emotionally Intelligent Investor*
Natenberg, Sheldon: *Option Volatility and Pricing*
Rosenberg, Hilary, *The Vulture Investors*
Schilit, H., *Financial Shenanigans*
Schiller, R., *Irrational Exuberance*

CONNECTION TO THE CORE
Students will be expected to have mastered these concepts and be able to apply them in the course:

- **Strategy Formulation:** Competitive Analysis
- **Global Economic Environment I:** 1. Causes of business cycle 2. Role of financial markets in the economy
- **Financial Accounting:** 1. The accounting model 2. Revenue and expense recognition and 3. Resources and obligations-measurement and disclosure

Prerequisites: B6300 Corporate Finance, B8306 Capital Markets & Investments, and B8368 Security Analysis

CLASSROOM NORMS AND EXPECTATIONS
Students are expected to adhere to CBS Core Culture in this class by being Present, Prepared, and Participating.

- Be on time for every session.
- Submit assignments on time and expect cold calling of assigned questions.
- Prepare for lectures by reviewing any material provided in advance
- Treat guest speakers as your guests- they are taking time out of their schedules
COURSE ROADMAP/SCHEDULE

I. Value Investing and Fundamental Analysis- (Theoretical underpinnings, readings, and case studies)

II. Understanding Optionality Across the Capital Structure with emphasis on M&A and Capital Markets-related catalysts

III. Cross Capital Structure Investing (selected themes and subject to change):

   A. **Equity Investments:**

      Event-driven: M&A (Whole Co M&A, activist involvement), capital return (levered recapitalization, share repurchases)

      Misunderstood Situations: Off-balance sheet and contingent liabilities, adjusted Enterprise Value; Over-levered; Taint and Uncertainty masking underlying fundamental value of the core business (i.e. litigation overhang, risk of regulatory action, accounting concerns)

   B. **Credit Investments:**

      Performing Credit with Collateral/Enterprise Value Coverage

      Impact of Liquidity Enhancements: Assets sales (core and non-core) and Capital Infusions

      Corporate Actions including M&A and Liability Management: Debt Exchanges and Refinancings- Yield-to-Call, Yield-to-Put, and Yield-to-Event

   C. **Hybrid Securities and Options:**

      Convertible Debt and Derivatives- evaluating equity optionality and protection offered through the bond floor

      Preferred stock- liquidation preference, relative value when compared to common stock

      Equity Options
METHOD OF EVALUATION

<table>
<thead>
<tr>
<th>Method</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Group Investment Thesis/Final Project (Group, Type A)</td>
<td>35%</td>
</tr>
<tr>
<td>Assignments/Tests (Individual, Type C)</td>
<td>50%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>15%</td>
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</tbody>
</table>

1. Group Investment Thesis and Final Project (in lieu of a final exam, Type A): 35%
   - Format and content will be discussed in more detail in class.

2. Individual Assignments and Quizzes (Type C): 50%
   - Assignments associated with investment case studies and tangential concepts
   - Quizzes will cover topics and concepts covered in addition to evaluation of investment situations with a special situation catalyst using an enterprise value perspective

3. Class Participation: 15%
   - Attendance is mandatory and the cumulative attendance record will be taken into consideration when determining grades.
   - Socratic method- interaction is encouraged and expected. Dialogue and debate will enhance the learning environment and students should feel free to challenge and share alternate views.

ASSIGNMENTS

All of your assignment submissions are subject to the [CBS Honor Code](#). Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assignment description types have been standardized and specified below.

<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Grade</th>
<th>Preparation of submission</th>
<th>Discussion of Submission*</th>
<th>Discussion of Concepts**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Group Work</td>
<td>Same grade for all group members</td>
<td>By the group</td>
<td>Permitted to discuss (within group)</td>
<td>Permitted</td>
</tr>
<tr>
<td>B</td>
<td>Individual w/ Discussions of Concepts and Submission</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Permitted to discuss; sharing solutions or submission files is not allowed</td>
<td>Permitted</td>
</tr>
<tr>
<td>B'</td>
<td>Individual w/ Discussions of Concepts Only</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Permitted</td>
</tr>
<tr>
<td>C</td>
<td>Individual</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Not permitted***</td>
</tr>
</tbody>
</table>

* The designated group can be either an assigned study group or a self-selected one.
ATTENDANCE POLICY
Students are required to attend each class. Students should reach out to the Office of Student Affairs (OSA) by using Core Absence Form on this course’s Canvas page regarding excused absences (for religious observances; personal, medical, and family emergencies; military service; court appearances such as jury duty). Unexcused absences will affect your course grade.

NOTE: The following is applicable for Core Courses:
- Students that miss more than **33%** of their classes (unexcused absences) will at most receive a **P for the course grade**
- Students that miss more than **50%** of their classes (unexcused absences) will receive a **F for the course grade**

NOTE: The following is applicable for Core Courses and for any electives with OSA-administered exams:
- Students that miss the exam for an **excused** reason but are unable to take the exam within the stated make-up period will receive a **zero for the final exam grade**
- Students that miss the exam without notifying OSA (**unexcused**), will receive an **F for the course grade**

INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS
At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University’s Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University’s Office of Disability Services online at [www.health.columbia.edu/docs/services/ods/index.html](http://www.health.columbia.edu/docs/services/ods/index.html) or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see [http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students](http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students).
REPRESENTATIVE CASE STUDY AND MODELLING EXERCISE

Homework assignments and related exercises are meant to serve as an opportunity to incorporate lessons learned, review accounting and corporate finance concepts as well as practice integrating the financial statements in an excel model.

Models are used to incorporate assumptions, analyze their impacts to valuation further refining the range of possible outcomes ultimately leading to buy/sell recommendations.

WatchCo Inc.

The Company designs, manufactures, and repairs watches. It operates exclusively in the US. The watch repair business is a cyclical one and can be expected to perform poorly in a recession/stagnating economy. During the last recession, the company saw sales decline 25% from its peak sales and operating margins dip below 10%. The company is forecasting a recession in 2013 with a rebound to 2012 levels in 2014, partially driven by a strategic shift by the management and board who've decided to broaden the existing luxury line into the marketing and sale of new moderately-priced watches. Management forecasts that the company will grow the top line 20% in 2015 and then should moderate to grow at the industry growth rate of 5%. However, management has a mediocre track record of managing operating expenses especially during times of economic uncertainty, and the additional advertising, sales, and marketing costs associated with the new product launches have hampered near-term margins. As such, Wall Street estimates are all over the map. Most assume that by 2016, WatchCo Inc. should reach 15% operating margins.

The company depreciates its PP&E over 10 years and expects to spend about 5.0% of sales each year on capital expenditures. Minimum cash is $5mm. The company also would like to pay down its term loan after it pays its revolver down, rather than build cash. Wall Street estimates for working capital as well as historical financials can be found in the excel file.

Assignment
Complete an integrated financial projections model using the assumptions given above and in the excel file. Calculate the appropriate weighted average cost of capital (wacc). Calculate a per share value by (1) using a discounted cash flow analysis and (2) using a multiple approach for terminal value. Explain your choice of multiple.

Formatting has deliberately been removed from the projected years in order to encourage you to practice formatting as well (e.g. blue cells for inputs/assumptions, uniformity, detail where confidence is greatest, etc).