Value Investing with Legends – Term B

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COURSE DESCRIPTION & OBJECTIVES

Value investing focuses on the economic analysis and the valuation of the business operations of the firm with the aim of obtaining an estimate of its fundamental value. It calls to invest in the firm if the fundamental value is sufficiently above the market value so that there is a margin of safety to protect the investor against unforeseen contingencies. The approach is integrated, that is, the economic analysis of the business operations of the firm and the valuation of those business operations inform and support each other. In this way, the value investor obtains a coherent view on the firm.

In this course we hear from the great value investors of the day how are they applying the principles of value investing in a world of technological disruption, regulatory change, international competition, and low interest rates. It is your opportunity to ask questions from the asset managers who are creating enormous value for their clients and the companies in which they invest and really observe how value investing is practiced today.

The course requires preparation. Speakers typically send material to read or they want us to read a 10K. I expect everyone to be well prepared and your grade will be partially based on your engagement and participation in the class. It is almost impossible to get a top grade in this class if your engagement is a passive one, no matter how good your final case is. You should you research on each of the speakers in anticipation of their visits. Search news and articles on them, go to SEC Edgar to download their 13Fs, and listen to interviews with them (many of them have come to the value investing with legends podcast, so that’s a good place to start).

CONTACT INFORMATION

Professor: Tano Santos
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Teaching assistants

Value Investing with Legends Term B – TBD
You should contact the teaching assistants with any questions throughout the course. All email communications with the TA or me should have “Value Investing with Legends – MBA – Spring – 2022” in the subject line.

Office Hours and communication with me: I will respond to emails within 24 hours (make sure the subject line is as above, otherwise we risk losing your email in the endless river that is my Inbox):

- Refer all communication regarding the availability of zoom recordings to Julia Kimyagarov, at Heilbrunn; her email address is jk3396@gsb.columbia.edu. Note: Most of the speakers request that the session NOT be recorded so please do not count on the recording being available if you miss the session.
- I will be available for office hours via zoom (see below).
- I will be communicating with the class via Announcements (you can find all of them in the course page).
- There will be no homework in this class. As already mentioned, you are required though to prepare the guests visits thoroughly and be ready to engage and asks questions. I will cold-call on you to ask questions to the speakers so please be ready with your questions and comments. Material will be posted in the class website for each of the speakers and you are required to read it.

Office hours

- I will hold office hours Wednesday morning from 9:00am to 11:00am. If you want to meet with me, you have to send me an outlook appointment with a zoom invite. The meetings will be for fifteen minutes, the reason being that there is a large number of students and I want to make myself available to the largest number of you as possible. If you want to see me outside that time, please contact Julia per as above. The teaching assistants will also hold office hours.

RECOMMENDED COURSE MATERIAL

Main material

There is no specific material for this class, but I will make available material relevant for each speaker in the class website.

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

Pre-requisite: Term B: Value investing – Term A

The learning in this course will utilize, build on and extend concepts covered in the following core courses:
| Corporate Finance   | 1. Cost of Capital                      |
|                    | 2. Valuation                            |
|                    | 3. Financing Options                    |
|                    | 4. Time value of money                  |
|                    | 5. Opportunity cost (of capital)       |
|                    | 6. The Capital Asset Pricing Model (CAPM) |
|                    | 7. Firm Valuation Model                 |
| Financial Accounting | 1. The “accounting equation”            |
|                    | 2. Revenue and expense recognition      |
|                    | 3. Resources and obligations – measurement and disclosure |
| Global Economic Environment | 1. Risk Management                      |
|                    | 2. What is Gross Domestic Product and how is it measured? |
|                    | 3. What causes inflation?               |
|                    | 4. What causes changes in exchange rates? |
|                    | 5. What are the causes of business cycles? |
|                    | 6. What are the effects of monetary policy? |
|                    | 7. What are the effects of fiscal policy? |
|                    | 8. What is the role of financial markets in the economy? |
| Managerial Economics | 1. Barriers to entry                    |
|                    | 2. Moats                                |
|                    | 3. Maximization and thinking on the margin |
|                    | 4. Analyzing complex decision-making under uncertainty |
|                    | 5. Decision-based cost analysis         |
|                    | 6. Pricing with market power            |
|                    | 7. Market segmentation and other advanced pricing strategies |
|                    | 8. Understanding market competition and equilibrium thinking (in the short-run) |
|                    | 9. Market equilibrium thinking (in the long-run) and barriers to entry |
|                    | 10. Strategic interaction among firms and Nash equilibrium |
| Strategy Formulation | 1. Trade-offs, value-added, efficiencies |
|                    | 2. Creation of value vs. value capture  |
|                    | 3. Competing firms                      |
|                    | 4. Competition and Complementors        |
|                    | 5. Strategic interaction analysis       |
|                    | 6. Diversification and scope            |
|                    | 7. Ethics & IBS                         |
|                    | 8. Behavioral and evidence-based strategy|
|                    | 9. Management                           |
METHOD OF EVALUATION

Important NOTE: Term A Value Investing and Term B Value Investing with Legends are two separate classes and each has its own grade and final. I attach the grading criteria for each so that there is no confusion!

Term A: Value Investing

The Value Investing class features both class assignments and a final case. The cases are done in groups. The final is individual. More specifically, grading is based on

A. (40%) Four group cases due in class. Please submit your projects in canvas before class on the day that the case is due. It is a group project so only submit one project per group. There are only three grades for the homework (check minus, check, and check plus). The four cases are

1. Dollar General – due February 3rd
   o For this case compute DG’s asset value and the earnings power value
   o 2 pages, double sided
2. Nike – due February 17th
   o Complete case:
     ▪ Assessment of Nike’s competitive position
     ▪ Asset Value
     ▪ Earnings Power value
     ▪ Growth calculation
   o Four pages, double sided
3. Nestle – due February 22nd
   o EPV and growth calculation
   o 2 pages, double sided
4. Facebook – due March 1st
   o Complete case
   o 4 pages, double sided

B. (60%) Final individual case
   • Term A Students only: A valuation exercise project to be assigned the last day of the Value Investing class, March 3rd. The project is due on Thursday March 10th at 5:00 pm. It is an individual case.

Term B: Value Investing with Legends

• The projects can either be individual or by group (max 4 students)
  o If you want your project to be considered for the 5X5X5 student portfolio, the project has to be individual and on a firm of your choosing
  o Group projects will not be eligible for the 5X5X5 student portfolio
value investing with legends – schedule

TBD
COMPLETE CASE FORMAT

A. STRATEGIC ANALYSIS

- The firm
  - What does the company under study do?
  - What are the reporting segments?
  - Does the firm compete with the same firms across all reporting segments?
  - Is the firm reasonably managed?
  - Suppliers, customers?

- The industry
  - Who are the firm’s competitors? Complementors?
  - Do all the firms in the industry have similar reporting segments?
  - Is the industry changing?
  - Are there any barriers to entry in the industry in which it operates?
  - Were there any barriers to entry that are now getting undermined by technological disruption?

B. VALUATION

- Asset values
  - What are the critical assets the firm owns?
  - Are the missing intangibles important?
  - Are there any off-balance sheet liabilities that compromise the viability of the company?

- Earnings power values
  - Is the measure of current earnings a good measure of sustainable earnings?
  - Are there any relevant corrections that need to be made to current earnings to arrive at a reasonable measure of sustainable earnings?
  - Are there cyclical components to earnings?
  - What is the appropriate discount rate?

- Growth
  - Is the company reinvesting?
  - Are they reinvesting in segments with high return on invested capital?
  - Are they returning cash to investors at the expense of profitable growth?

C. RISK ASSESSMENT

- What are the main risks to which the business operations are exposed to?
- Is there enough of a margin of safety against those risks?

D. REVIEW

- Why is the market undervaluing this opportunity?