Applied Security Analysis

Professor: Naveen Bhatia and Rishi Renjen
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Rr2867@gsb.columbia.edu
Location: Uris 301
Time: Wednesday 5:45pm – 9:00pm
TAs: Jamie Schmidt / Victoria Gu

REQUIRED COURSE MATERIAL

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

Prerequisite: Capital Markets

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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</table>
| 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? |
### 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. Co-optition and Complementors
5. Strategic interaction analysis
6. Diversification and scope
7. Ethics & IBS
8. Behavioral and evidence-based strategy
9. Management

Students will be expected to have mastered these concepts and be able to apply them in the course.

### COURSE DESCRIPTION

This course builds on prior core and elective classes, including Security Analysis, with an emphasis on practical application. Students will work in teams to find appropriate investment idea, perform through primary research, and deliver a pitch to a “portfolio manager.”

The class culminates with The Pershing Square Value Investing and Philanthropy Challenge. This competition, begun in 2007, is offered to MBA students to signal the commitment of both Columbia Business School and Pershing Square to produce talented and knowledgeable graduates who are ready to take on leadership roles in both investing and philanthropy. Winning teams will receive a cash prize with the intent that a percentage of those winnings to be donated to a charity of their choice.

All student teams will pitch their ideas to investment professionals three times during the class. Feedback will be provided on the strength of the idea and the areas of further research required. The last segment of the class will include presentation skills, simulating the job of the analyst to convince a portfolio manager of the worthiness of an idea.

### ASSIGNMENTS

- **Teams:** Self-select three member groups with a max of one 2nd year student per team.
- **Participation:** Attendance is required on days of outside speakers including the Pershing Square Value Investing Challenge finals at the Jewish Center of NYC. Grade will get hit 1 level (H to an HP) for any unexcused absences.
• **Idea Selection**: First-come basis on Google doc to be distributed by TAs.

## COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Agenda</th>
<th>Notes</th>
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<tbody>
<tr>
<td>1</td>
<td>24-Jan</td>
<td>• Bill Ackman &lt;br&gt;• Class Overview / Idea Generation and Screening</td>
<td>Naveen Bhatia / Rishi Renjen</td>
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<td>2</td>
<td>31-Jan</td>
<td>• Pitch Construction &lt;br&gt;• Sample Pitch from PS Challenge 2015</td>
<td>Naveen Bhatia / Rishi Renjen</td>
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<td>3</td>
<td>7-Feb</td>
<td>• Valuation and Modeling &lt;br&gt;• Sample Pitch</td>
<td>Naveen Bhatia / Rishi Renjen (Uris 142)</td>
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<td>4</td>
<td>14-Feb</td>
<td>• Key Investment Highlights &amp; Risks &lt;br&gt;• Guest Speaker (Philanthropy)</td>
<td>Naveen Bhatia / Rishi Renjen</td>
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<td>5</td>
<td>21-Feb</td>
<td>• Activist Defense &lt;br&gt;• Sample Pitch</td>
<td>Naveen Bhatia / Rishi Renjen</td>
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<tr>
<td>6</td>
<td>28-Feb</td>
<td>• 5 Minute Pitches</td>
<td>Rooms TBD</td>
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<td>7</td>
<td>21-Mar</td>
<td>• Management Assessment &lt;br&gt;• Guest Speaker &lt;br&gt;• Sample Pitch</td>
<td>Naveen Bhatia / Rishi Renjen</td>
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<td>8</td>
<td>28-Mar</td>
<td>• Guest Speaker / Sample Pitch</td>
<td>Jim Grant</td>
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<td>9</td>
<td>4-Apr</td>
<td>• 10 Minute Pitches</td>
<td>Rooms TBD</td>
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<td>10</td>
<td>11-Apr</td>
<td>• Fund Presentations</td>
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<td>11</td>
<td>18-Apr</td>
<td>• Pershing Square Finals</td>
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<tr>
<td>12</td>
<td>25-Apr</td>
<td>• Class Reception</td>
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## METHOD OF EVALUATION

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation*</td>
<td>20%</td>
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<tr>
<td>Preparation and Content of Investment Pitch</td>
<td>40%</td>
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<tr>
<td>Quality of Presentation Skills</td>
<td>40%</td>
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</tbody>
</table>

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CLASSROOM NORMS AND EXPECTATIONS

Class Participation:
Preparation, Discussion, Organization

Guest Speakers:
This course will involve several buy-side guest lectures; class participation will be crucial to the success of the course.

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