B8373-002 Applied Value Investing

PROFESSOR KEITH LUH
Professor Office Location: Uris 316B
E-mail: kwl21@columbia.edu
Office Hours: Monday, 7:30-8:30 pm and by appointment

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 attractive value investments. Emphasis will be placed on the development and implementation of a disciplined and repeatable research process. Investments across the capital structure will be covered during the semester.

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 to identify attractive value investments through a variety of methodologies for several alternative fund strategies. When reviewing capital structures, potential catalysts, and other elements related to the cross-asset investment process, dislocations and security mispricing will surface creating opportunities for the long and short sides, and capital structure arbitrage. Catalysts stemming from corporate actions or balance sheet and operational restructuring initiatives will be identified and vetted for their quality, estimated impact, timing, and likelihood of occurrence.

Throughout the semester, students will prepare full investment memoranda on assigned securities. After the first name, which will be assigned to the entire class, subsequent names will be assigned to small groups of students. Certain students may be asked to develop the long thesis while others develop the short thesis. Ultimately each student will select one of their ideas to further develop (long or short) for a final presentation to the class and outside fund managers. The class will be kept small to take advantage of the instructional method. Class discussions will be complemented by guest discussions from highly regarded investment professionals from the long-only, hedge fund and private equity communities.

Note: In addition to the allotted class time students should be prepared to commit an additional 10-15 hours per week for completing assigned readings, homework assignments, and preparing for classroom discussion.

There will be assigned readings that must be completed prior to the first class.

*The contents of this syllabus and course are subject to change.
REQUIRED COURSE MATERIALS
Graham and Doddsville Spring 2011 newsletter: Michael Price Interview
http://www4.gsb.columbia.edu/filemgr?file_id=738505
Plus other selections

Other recommended readings:
Berkshire Hathaway Inc. Shareholder Letters
Cialdini, Robert B., *Influence*
Einhorn, David, *Fooling Some of the People All of the Time*
Fisher, Philip A., *Common Stocks and Uncommon Profits*
Graham, Benjamin, *The Intelligent Investor*
Graham, Benjamin and David Dodd, *Security Analysis*
Kahneman, Daniel, *Thinking, Fast and Slow*
Klarman, Seth, *Margin of Safety*
Lefevre, Edwin, *Reminiscences of a Stock Operator*
Rosenberg, Hilary, *The Vulture Investors*
Schilit, Howard, *Financial Shenanigans*
Schiller, Robert, *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
- **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, including those provided by guest speakers.
- Treat guest speakers as your guests - they are taking time out of their schedules and in some cases coming far distances to be with us.
COURSE ROADMAP/SCHEDULE

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

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

   A. Equity Investments:

      Event-driven: M&A (including hostile offers), 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)

      ~ Guest Speaker ~

   B. Credit Investments:

      Performing Credit with Collateral/Enterprise Value Coverage

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

      ~ Guest Speaker ~

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

      Operational and Balance Sheet Restructurings

III. Idea Generation and Investment Pipeline Development

      ~ Guest Speaker ~

IV: Cross Capital Structure Investing (cont’d)

   C. Hybrid Securities:

      Convertible Debt and Derivatives- evaluating equity optionality and protection offered through the bond floor, introduce use of options

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

V. Additional Guest Speaker(s)
METHOD OF EVALUATION

<table>
<thead>
<tr>
<th>Stock Recommendation Project (individual, Type C)</th>
<th>50%</th>
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</thead>
<tbody>
<tr>
<td>Assignments/ Tests (Type A and C)</td>
<td>30%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
</tbody>
</table>

1. Stock Recommendation Project and Presentation (individual, Type C): 50%
   - Final Project (Type C): Will emulate investment analysis conducted on a company necessary for arriving at an investment conclusion or recommendation. The format will also serve as an opportunity to incorporate course topics and materials, including the readings and any relevant perspectives offered by guest visitors, on a cumulative basis.
   - Report submission: Length of report should be 10-12 pages, excluding exhibits, plus integrated financial statement model.
   - Format/ content will be discussed in more detail in class, including the potential opportunity to present the investment recommendation to buyside practitioners and peers.

2. Assignments/ Tests (Type A and C): 30%
   - Any assignments associated with any security analysis/recommendation or investment case studies will be due in advance (Type A and C)

3. Class Participation: 20%
   - 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 exchange the learning environment and students should feel free to challenge and/or share alternative views.

*Extra credit assignments may be offered as an opportunity to improve one’s grade.

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>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>Group Work</td>
<td></td>
<td>Same grade for all group members</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></td>
<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>
</tr>
<tr>
<td>C</td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</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 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.