### BIDDING SYLLABUS

**Managing for Value**
Spring 2019

**Professor Paul Johnson**
(o) 617 245-1667
(m) 917 882-7753
Office hours: by appointment

### Course Description:

Columbia Business School is the academic home of Benjamin Graham and the birthplace of value investing. Graham taught Security Analysis at Columbia from 1927 to 1956. Graham and David Dodd published their seminal work, *Security Analysis*, in 1934 and Graham published *The Intelligent Investor* in 1949. Roger Murray took over the class upon Graham’s retirement and taught until he retired in 1978. Murray was a contributing author of the 5th Edition of *Security Analysis*. After a 17-year gap, *Value Investing* returned in the Fall of 1993 under Professor Bruce Greenwald’s guidance and has been offered ever since. Notable graduates of the Value Investing program include Warren Buffett, Mario Gabelli, Glenn Greenberg, Leon Cooperman, Art Samberg, Chuck Royce, William von Mueffling, and Todd Combs.

**Managing for Value** is designed to use the fundamentals of the Graham and Dodd approach to value investing to provide insights into the governance and management of the corporate enterprise. The course will leverage academic research in finance and many of the elements of the CBS value investing curriculum, as well as the professor’s practical investing experience, to define the role of the Board of Directors, direct the strategic goals of the CEO, assess M&A decisions, evaluate the company’s HR policies, and determine the enterprise’s long-term viability. The course will use lectures, readings, in-class discussions, real-life case studies, and homework assignments to study these topics.

**NOTE:** The goal of the course is to offer lessons from CBS’s value investing program to a wider student audience and not just the ones who want to pursue a career in active investment management. I believe the course would have wide-spread appeal among the EMBA students, particularly as they approach the end of their formal business school education.

### Class Structure will consist of:

- Lectures and in-class discussions
- Real-world cases
- Financial modeling
- Group presentations
Additional Information

There are no specific prerequisites to the course, other than curiosity, although most of the students will have taken the Introduction to Value Investing class in the Fall semester, and all the students will have taken the core first-year accounting and finance courses. The goal of the new class is to leverage the insights taught in the Value Investing course to delve deeper into the drivers of long-term shareholder value, such as customer acquisition, differentiated pricing, profitable- versus unprofitable-growth, and the impact management has on long-term shareholder value creation.

The class will discuss/analyze six live cases during the course: (1) Chipotle (valuation and unit economics), (2) Uber (illusion of scale), (3) The Boston Beer Company (saturated growth), (4) Barnes & Noble (management and incentives), (5) Bitcoin and cryptocurrency (managing uncertainty and risk in bubbles), and (6) comparing Google and Facebook to Amazon and Netflix (profitable growth versus unprofitable growth as well as issues of data protection and customer privacy).

In terms of reading, the bulk of the readings will be articles I have collected over the years (roughly 100 relevant articles) as well as case specific readings, in addition to sections from the following books:

- *Most Important Thing* - Marks (MIT)
- *Wisdom of Finance* - Desai (WoF)
- *Pitch the Perfect Investment* - Sonkin and Johnson (PtPI)
- *Competition Demystified* - Greenwald (CD)
- *The Intelligent Investor* - Graham (II)
- *Value Investing* - Greenwald (VI)

Course Requirements:

The bulk of the work in the course will be performed in groups, although there will be several important individual assignments during the term.

Every student will work in a group to analyze the six cases discussed in the course, with the submission due at the beginning of class.

Each group will be assigned a public company that they will analyze using the tools developed in the course to assess the company’s long-term prospects (value). Each group will present their analysis to the class at the end of the term. The presentation will be limited to 15 mins, including Q&A from fellow students and the professor. Additional guidelines for the final case will be discussed in class.

Students are also expected to participate in daily classroom discussions and activities.
**Grades:**

Individual grades will be based on how well the student’s group performs on the final presentation (65% of grade), individual assignments (25%) and classroom participation (10%).

Final presentations will be graded on the strength of the analysis and use of the tools presented in class, as well as how persuasive is the presentation.

Class participation will be graded on an individual basis. Students are encouraged to challenge, disagree and pose alternative views. Points will be given for quality over quantity.
OUTLINE

Day 1 - Setting the stage for the course

What is value investing?
Fundamental (value) investing
History of value investing and the course (where did these ideas come from?)
Course description and deliverables
Challenges of forecasting
Wisdom of Finance -- finance taught through everyday stories
Mindset

Readings:

MIT - Introduction
II - Everything up to and including Chapter 1, plus the commentary on the chapter -- *investing versus speculating*
II - Postscript plus commentary; Appendix 1 -- The *Superinvestors of Graham-and-Doddsville*
PtPI - Introduction

Additional articles posted on Canvas

Student Assignment:

Short essay: “What is fundamental value?”

Day 2 - How markets set financial value

Capital market theory
Wisdom of Crowds (WoC) and the power of diversity
Expectations theory

Readings:

MIT - Chapters 1-4 – *market efficiency / second-level thinking*
II - Chapter 8, plus the commentary – *Mr Market*
**PtPI** - Chapter 5 – *How to Think About Market Efficiency*; Chapter 6 – *How to Think About Wisdom of Crowds*; and, Chapter 7 – *How to Think Behavioral Finance*

Additional articles posted on Canvas

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**Day 3 - Fundamental drivers of economic value**

Valuation
Unit economics

Case: Chipotle (valuation and per store unit economics)

Readings:

**PtPI** - Chapter 1 – *How to Value an Asset*, Chapter 2 – *How to Value a Business*

Additional articles posted on Canvas

Student Assignment:

“What is CMG’s fundamental value?” -- based on the company’s financial performance

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**Day 4 - Importance of barriers to long-term economic value**

Competitive advantage, capital allocation, and return on invested capital (ROIC)

Case: Uber (illusionary scale)

Readings:

**PtPI** - Chapter 3 – *How to Evaluate Competitive Advantage and Value Growth*

Additional articles posted on Canvas
Student Assignment:

- Short essay: “Does Uber have a sustainable competitive advantage?”

**Day 5 - Growth: The Holy Grail**

Challenges of generating and managing growth

Case: The Boston Beer Company (managing saturated growth)

Readings:

- Articles posted on Canvas

Student Assignment:

- Short essay: “Can SAM grow units/revenues in the future?” - support answer with numerical analysis

**Day 6 - The importance of managing the enterprise**

- Governance - management, Board of Directors, and HR practices
- Stakeholder rights and shareholder activism

Case: Barnes & Noble (management incentives and shareholder activism)

Readings:

- Articles posted on Canvas

Student Assignment:

- Evaluate BKS’s historical compensation structure and assess if it supports long-term shareholder value creation
Day 7 - Life would be easy without uncertainty

Risk and uncertainty
Decision making under uncertainty – lessons from 40 years of behavioral finance

Case: Bitcoin and cryptocurrencies (managing bubbles and future promises)

Readings:

MIT - Chapters 5-7 – risk
II - Chapter 20, plus the commentary – margin of safety
PtPI - Chapter 9 – How to Assess Risk

Additional articles posted on Canvas

Student Assignment:

Short essay: “What is risk?”

Day 8 - Redefining competitive advantage

Advanced competitive advantage (brands, platform companies, and innovation)
Modeling valuation and growth with CAP charts

Case: FB and Google versus Netflix and Amazon (profitable versus profit-less growth)

Readings:

Articles posted on Canvas

Student Assignment:

Pick one of the companies to be analyzed in class and respond to the following prompt: “What is the most important challenge facing the company's long-term growth?”
Day 9 - Processes are critical to consistent success

Investment process and checklists
Scenario analysis, pre-mortems and unknown unknowns

Readings:

Articles posted on Canvas

Day 10

“Office Hours”
Review cases with each group

Student Assignment:

Prepare analysis for final case and preliminary presentation materials

Day 11 - Applying the tools to the rest of your life

Overcoming human biases in managing your life - real-life case study
How to live a value-oriented life

Readings:

Articles posted on Canvas

Day 12:

Student presentations