

**NEW YORK UNIVERSITY
LEONARD N. STERN SCHOOL OF BUSINESS**

FINC-GB.3176
Course Offering

Value Investing: Special Situations and Activism
Spring 2016

Taught by

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Course Schedule

First half of Spring 2016 semester
February 9, 16, 23, March 1, 8, 22
Tuesday evenings 6:00-9:00PM

Course Description

Value investing in “Special Situations” is at the core of many of today’s successful hedge fund strategies. Special Situations are underfollowed, misunderstood or new securities arising from material corporate events such as spinoffs, merger activity, or bankruptcy reorganizations. “Activism” is a dynamic and noteworthy subset of the strategy where the investor utilizes shareholder rights and public opinion to make his own catalyst.

Special Situation investing is often called “Value+Catalyst” investing. It involves the marriage of classical Buffett-esque value investing principles with corporate event analysis. This multi-faceted discipline requires consideration of financing alternatives, legal and regulatory frameworks, probability weighting and capital markets savvy in addition to basic value-based securities analysis. The goal is to identify chronic market inefficiencies to find good entry points to good investments that offer multiple ways to win.

Students will be introduced to the Value+Catalyst investing discipline in its context among the various investment disciplines. Research skills and topics specific to the investment style will be discussed using real-world examples. Students will research and write investment briefs – one individually and one as a group culminating in a class presentation - on current investment situations chosen from an active list. Guest lecturers, handouts and a reading list will be utilized.

Course Prerequisites

This course is intended as a senior-level survey of live situations and leading practitioners. Basic level corporate finance, accounting and securities analysis is prerequisite. Specifically, students should have completed FINC-GB.2302 Corporate Finance.

Required Reading

Information packs will be posted or emailed in advance of each class. Please read them before class and be prepared to discuss.

Suggested Reading

The class will compile a “Value Investor’s Database” of books, articles, websites, and other materials for our common use during the term and for life-long success thereafter. All class members will contribute. Examples:

Books: Klarman, Seth, *Margin of Safety*
Greenblatt, Joel, *You Can Be a Stock Market Genius*
Graham, Benjamin, *The Intelligent Investor*
Mallaby, Sebastian, *More Money Than God*

Articles: Buffett, Warren, “The SuperInvestors of Graham-and-Doddsville”

Websites: Market Folly, <http://www.marketfolly.com>

Whale Wisdom, www.whalewisdom.com

Ackman, William, *Everything You Need to Know about Finance and Investing in under an Hour*,
<https://www.youtube.com/watch?v=WEDlj9jBTC8>

Dalio, Ray, *How the Economic Machine Works*,
<https://www.youtube.com/watch?v=PHe0bXAIuk0>

Grading

50% Individual written research briefs, due Class 4
30% Group research brief and class presentation, due Class 5 or 6
20% Class participation

Course Syllabus

Class 1 **Value Investing Basics**

Course-related matters

Overview of course syllabus and requirements
Structure of individual research brief
Current idea list, submissions and compilation
Introduce Value Investor Database project

Value investing topics

Investing vs. speculating
Determinants of investing success
Wall Street and its flaws
Institutional Investors and their flaws

The case for value investing

Efficient Market Hypothesis
The Super-Investors of Graham-and-Doddsville
Comparisons with other successful strategies

The philosophy and practice of value investing

Defining investment goals
Importance of “Margin of Safety”
The art of valuation
Absolute vs. relative value
Discounted cash flow analysis
Other valuation methods

The importance of catalysts

Spinoffs, orphan stocks
Balance sheet recapitalizations
Bankruptcy reorganizations
Changes of corporate form
Stocks with “hair”
Shareholder activism

Myself as guest speaker

My career
Lessons in entrepreneurship
Evolution of investing style
Topical investment idea
Q&A

Class 2 Fundamental Analysis and Event Analysis for Value+Catalyst Investing

Value+Catalyst investors must do original research on undiscovered and/or fluid situations. As such, special research skills are needed on both the fundamental analysis and event analysis sides.

Specific topics in fundamental analysis

Constructing *pro forma* Enterprise Value
Valuing excess cash and real estate
Crediting synergies and NOLs
Fresh start accounting
Accounting for recaps, refinancing and buybacks
Pensions, unconsolidated investments, off balance sheet liabilities and working capital deficits
Constructing a new comp set
Absolute versus relative valuation

Specific topics in Event Analysis

Expected Value Analysis – probabilities and scenarios
Legal framework of securities, antitrust and bankruptcy laws
Corporate governance, boardroom dynamics
Capital markets intelligence and financing alternatives
Optimal capital structure
Time value of money considerations
Non-traditional sources for research, guesswork

Course-related

Finalize selection of topics for individual research briefs.
Review structure of individual research brief
Update investor resources database

Class 3 Special-Situation Investing – Spinoffs, Orphans, Mergers and Reorgs

Reading review

Discuss topics from Greenblatt, Joel, *You Can Be a Stock Market Genius*

Spinoffs and orphan stocks

Identify the particular merits and pitfalls of investing in spinoffs and other stock market orphans including indiscriminate selling pressure,

management incentives, low-ball projections. Review some current examples.

Mergers and acquisitions

Identify the merits and pitfalls of investing in transformative corporate, reorganizations and other balance sheet recapitalizations. Review basic financial modeling for stock buybacks, debt refinancings and mergers. Discuss common analytical misjudgments. Utilize several case studies from the equity and distressed markets.

Changes in corporate form

Discuss MLP and REIT conversions using recent examples. Explain the craze and controversy in tax-inversion motivated acquisition strategies.

Distressed investing and bankruptcies

Explore examples of bankruptcies and companies beset by discrete issues. Discuss techniques of information gathering and analysis. Utilize Expected Value Analysis.

Guest speaker

Hedge fund manager TBD. One hour allocated. Review background, strategy, current investment example, Q&A

Class 4 The Rise of Shareholder Activism

History; context

The junk-financed LBO boom of the 1980s begat *corporate raiding*. Discuss how it set the stage for today's corporate activism. Differences between beneficial and detrimental activism

Activist investor toolkit

Discuss the tools of the activist investor from public opinion to corporate governance rights to proxy fights.

War stories from JANA Partners

Drawing on the 14-year history of JANA Partners, review episodes in shareholder activism as part of an event-driven strategy. Review the 'V-Cubed' criteria (Value, Votes, and Variety of ways to win) for successful activist engagements. Contrast with the pitfalls that lead to unsuccessful activism.

Survey of classic and current examples

Discuss some of today's leading activists, contrasts in their styles and notable successes and failures.

Guest speaker

Activist investor TBD. One hour allocated. Review background, strategy, current investment example, Q&A

Class 5 Portfolio Management; Current Investment Situations; Begin Student Presentations

The art and science of portfolio management

Diversification

Position sizing

Risk management

Hedging tools

Stress testing

Transparency

Tax, legal and accounting considerations

Current investment situations

Continue discussion of current activist and other situations.

Begin student presentations

Student groups will begin oral presentations of investment ideas before peers, instructor and invited judges. Estimated time - 10 minutes overview, 5 minutes Q&A.

Class 6 Student Presentations - continued

Continue student presentations

Student groups will continue oral presentations of investment ideas before peers, instructor and invited judges. Estimated time - 10 minutes overview, 5 minutes Q&A.

End-of-class debrief

Open discussion of careers in investing, lessons learned and most important takeaways.