

Value Investing Seminar #4

Introduction to Valuation

November 30th, 2023

Judson Lindley

President

Matthew Gaines

Vice President of Portfolio Management



CULVERHOUSE
INVESTMENT MANAGEMENT GROUP

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Introductions

Introductions

Judson Lindley, President



J.P.Morgan



Year: Senior

Hometown: Maryville, Tennessee

Major: Finance

Semesters in CIMG: 7

Full-Time: Equity Research Analyst – *J.P. Morgan Chase*

Internship Experience:

2023 – Summer Equity Research Analyst – *J.P. Morgan Chase*

2022 – Summer Equity Research Analyst – *Barclays*

Introductions

Matthew Gaines, VP of Portfolio Management



Year: Senior

Hometown: Milton, GA

Majors: Accounting, Economics

Semesters in CIMG: 7

Full Time: Academy Associate – Point72 Asset Management

Internship Experience:

2023 – Academy Summer Analyst – *Point72 Asset Management*

2022 – Research Intern – *Saguaro Capital Management*

Value Investing Seminars

Schedule of VIS

Date	Topic
Nov. 1 st	Intro to Value Investing- <i>Overview, Value Investing Opportunities, Strategy, Sources of Value Ideas</i>
Nov. 8 th	Intro to Investment Research
Nov. 16 th	Accounting- <i>Financial statements, cash vs. accrual, profit, margins, growth</i>
Nov. 30 th	Intro to Valuation- <i>Relative & Intrinsic Valuation</i>

Overview

- Designed to provide a comprehensive overview on:
 - Value Investing strategy
 - Opportunities at UA
 - Research
 - Company & Industry analysis
 - Financial statement analysis
 - Practical valuation concepts

Value Investing Opportunities at UA

Culverhouse Investment Management Group Overview

The University of Alabama's Premier Student Managed Investment Fund



CULVERHOUSE
INVESTMENT MANAGEMENT GROUP

64 Members

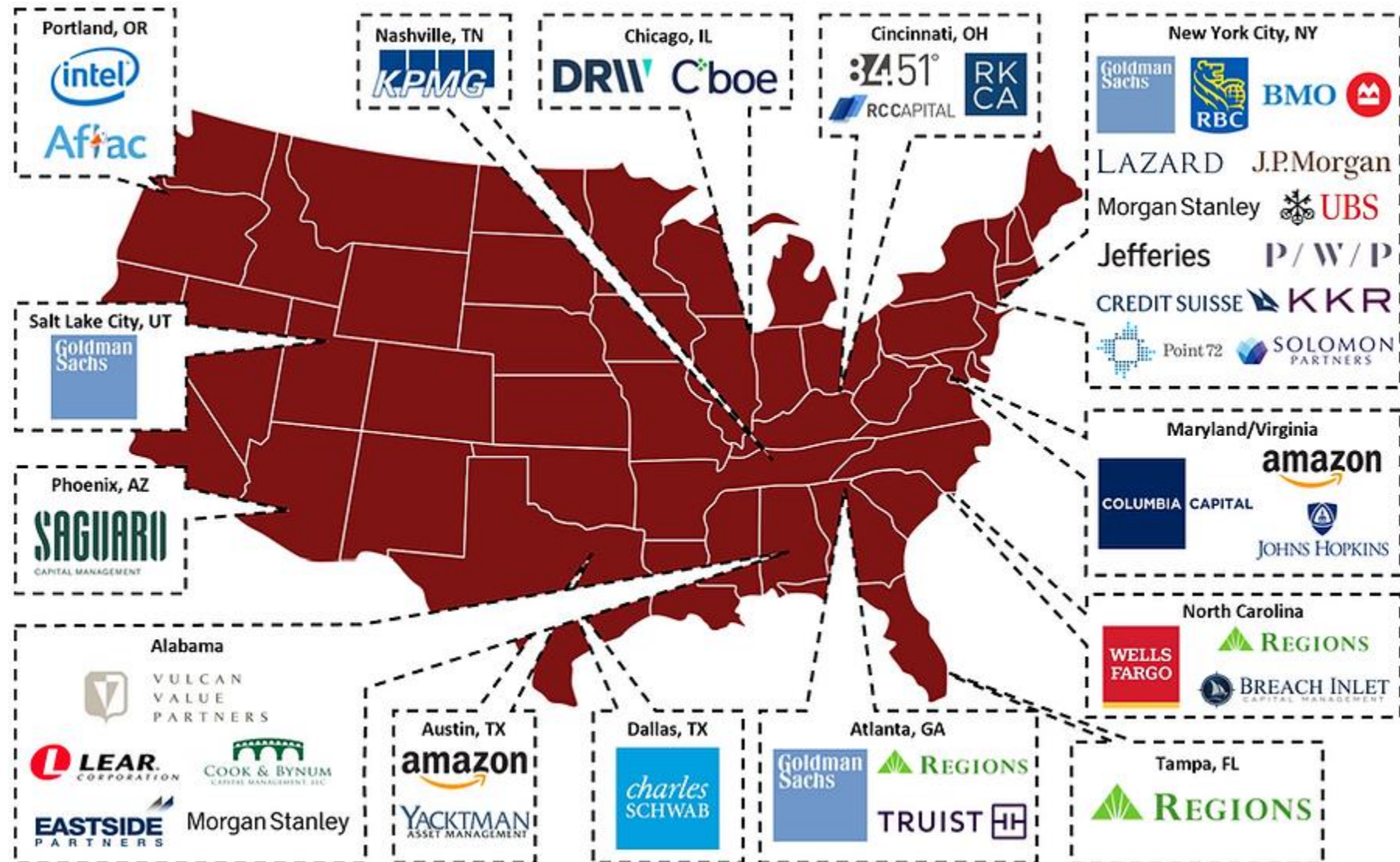
**8 Sector-Focused
Committees**

**236 Fall 2023
Applicants**

**10 Fall 2023 CIMG
New Members**

- **Student-run investment fund managed by students at The University of Alabama**
 - ▶ Initial capital of \$315,000 was donated by Culverhouse alumni in 2009
- **Uses a value-based, equity-only investing philosophy to actively manage a \$1,800,000 portfolio**
 - ▶ Concentrated portfolio with twenty names across a variety of industries
 - ▶ New members undergo an 8-week intensive course that enables them to be an effective equity research analyst
- **Members have access to the Vulcan Value Partners Research Library and Trading Room**
 - ▶ A collaboration room in Bidgood Hall was created in 2016 after a donation from C.T. and Kelly Fitzpatrick
 - ▶ An additional donation from the Fitzpatricks in 2020 added \$500,000 to the portfolio and created the Fitzpatrick Center for Value Investing
- **Students receive guidance and mentorship from professional investors**
 - ▶ Twice a year, an Advisory Board comprised of 14 investors visits Tuscaloosa to hear updates from the group and provides feedback on pitches
 - ▶ John Heins and Mark Meulenberg, the Director and Associate Director of the Fitzpatrick Center for Value Investing, serve as advisors for the Culverhouse Investment Management Group

2022-2023 Internship and Full-Time Placement



Culverhouse Investment Management Group Structure

The University of Alabama's Premier Student Managed Investment Fund

The group prepares students for careers in a variety of competitive fields both in and out of the finance industry by giving them the experience of managing a professional fund.

Research Process and Committee Breakdown

Aerospace,
Defense, and
Transportation

Consumer
Discretionary

Consumer
Staples

Financials

Healthcare

Industrials
and Energy

Technology

Telecom,
Media, and
Entertainment

Committee Research Process

A committee agrees on an investment idea they wish to pursue

They then develop an investment thesis and model for the idea

Weekly General CIMG Meeting

Committee members present their recommendation to the group at a general meeting and answer questions about their idea

Continual Research Process

Committees are responsible for monitoring and updating their positions quarterly and to determine if new news would change an investment thesis

Portfolio Holdings

amazon

Charter
COMMUNICATIONS

CHENIERE

Constellation
Brands

Disney

DOLLAR TREE

FEMSA

fiserv.

F1

HANES
Brands Inc

JANUS
INTERNATIONAL GROUP

MAXAR

MaxCyte

NAVIENT

NIKE

tapestry

TJ-maxx

United
Healthcare

VERTEX

John Heins – Director Fitzpatrick Center for Value Investing



Education:

B.S., University of Pennsylvania, M.B.A., Stanford University

Current Roles:

President & Editor-in-Chief, Value Investor Media, Inc.

Previous Roles:

President & CEO, Gruner + Jahr USA Publishing

Senior Vice President, Personal Finance, AOL

Reporter, Forbes Magazine



C.T. and Kelley Fitzpatrick
Center for Value Investing

Mark Meulenberg – Associate Director Fitzpatrick Center for Value Investing



C.T. and Kelley Fitzpatrick
Center for Value Investing

Education:

B.S., Cornell University, Chartered Financial Analyst

Current Roles:

Chief Investment Officer & Managing Partner of Masonry Capital
Management

Previous Roles:

Chief Investment Officer, VNB Wealth Management

Brown Brothers Harriman & Co., Portfolio Manager

U.S. Trust Company, Portfolio Manager

Sanford Bernstein & Co. Inc., Associate Portfolio Manager

Value Investing Opportunities at UA

Value Investing Minor

The Value Investing minor provides students with a strong foundation for examining the critical aspects of investing decisions, including generating good ideas, conducting fundamental business and industry research, analyzing financial statements, and credibly estimating what businesses and companies are worth. The focus is on practical applications. Students will be prepared for a broad range of business careers, including investment management, investment banking, private equity, management consulting, corporate business development, corporate finance and entrepreneurship. The Value Investing minor is restricted to Finance majors only.

Value Investing Minor		Hours
FI 317	Introduction to Value Investing	3
FI 422	Value Investing: Principles and Practices	3
FI 423	Advanced Value Investing	3
AND...	Two Approved Electives	6
Total Hours		15

Introduction to Valuation

Three Major Forms of Valuation

Intrinsic

1. Discounted Cash Flow

- Most accurate in theory
- Highly assumption dependent
- Works best for mature, stable companies
- Less useful for high growth companies
- More inputs does not always equate to greater accurate
- Sometimes simpler is better
- Not relevant in all industries (commercial banking, insurance, REITs)

Relative

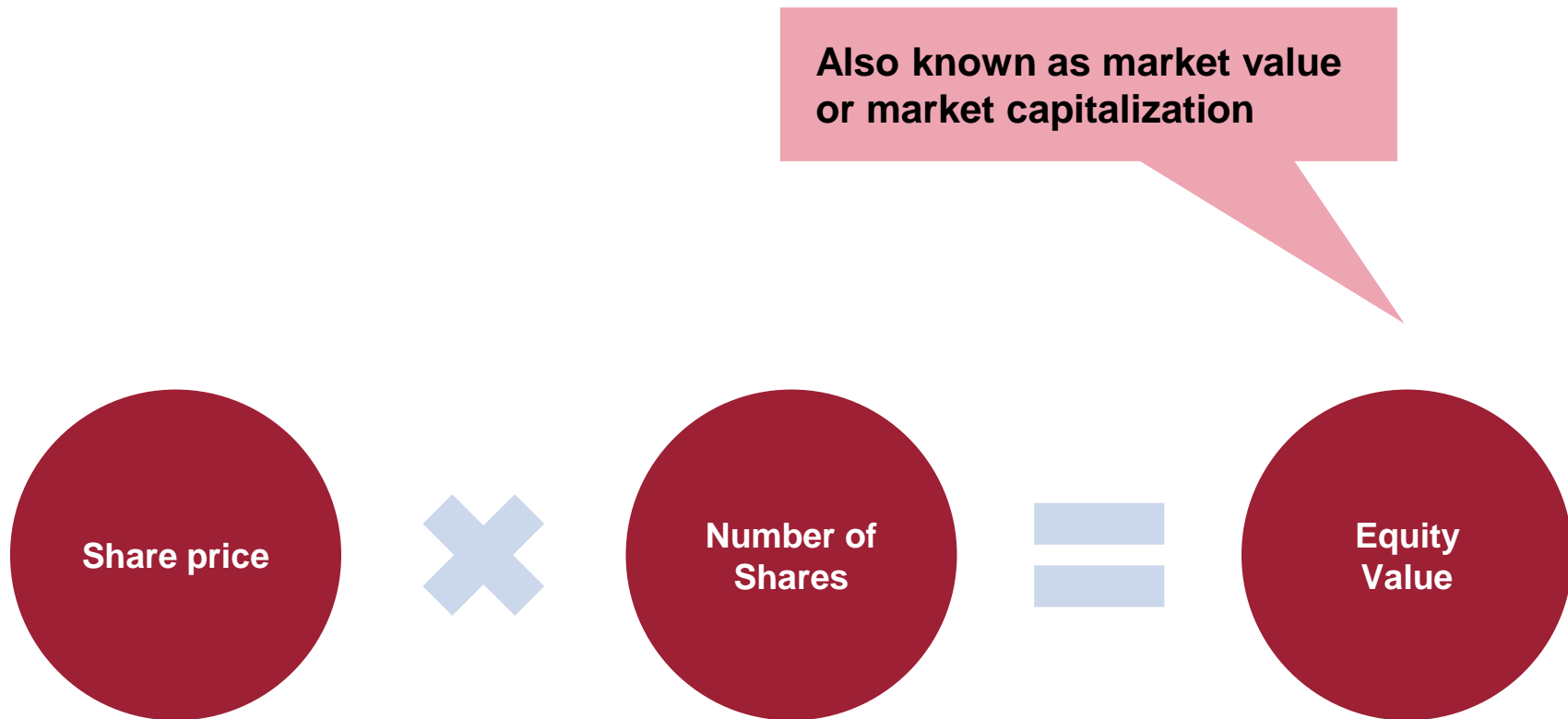
2. Public Comparables

- Logical and practical to compare what similar companies are selling for
- Multiples used and valuation ranges vary by industry
- Best when ample public market data is available
- No company is exactly alike, discrepancy in choosing the comps universe

3. Precedent Transactions

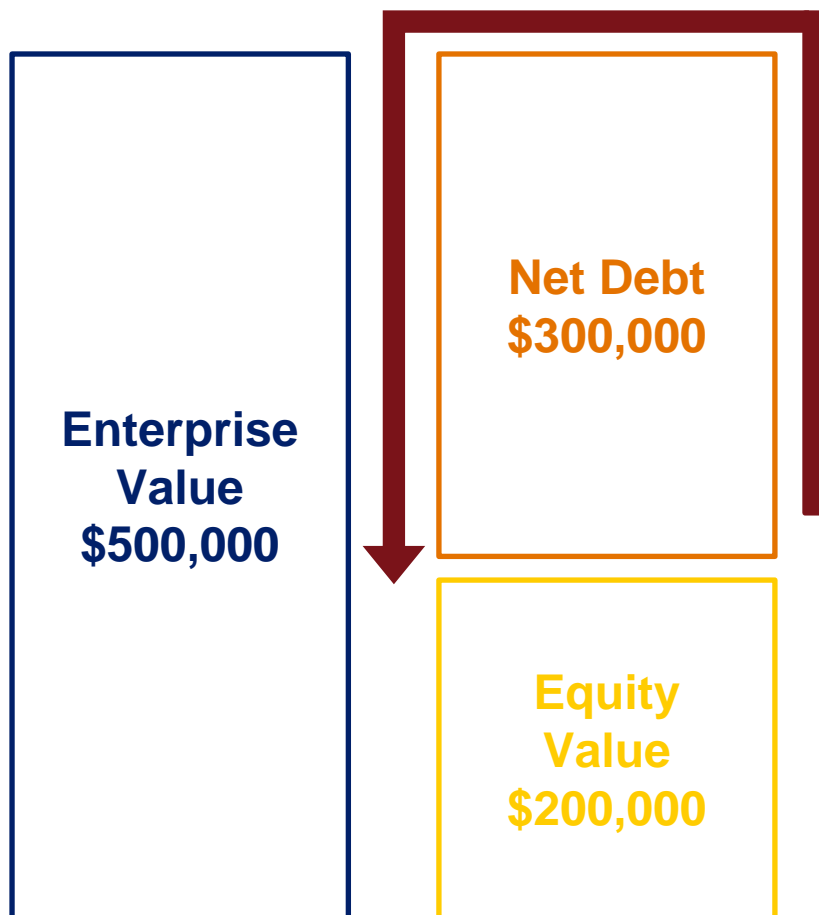
- Time is a key consideration
- The more recent, the more relevant the transaction is for comparison
- Usually highest valuation because buyer pays a premium to acquire 100% of an entire company
- Price or multiples of smaller transactions are not always disclosed

Equity Value

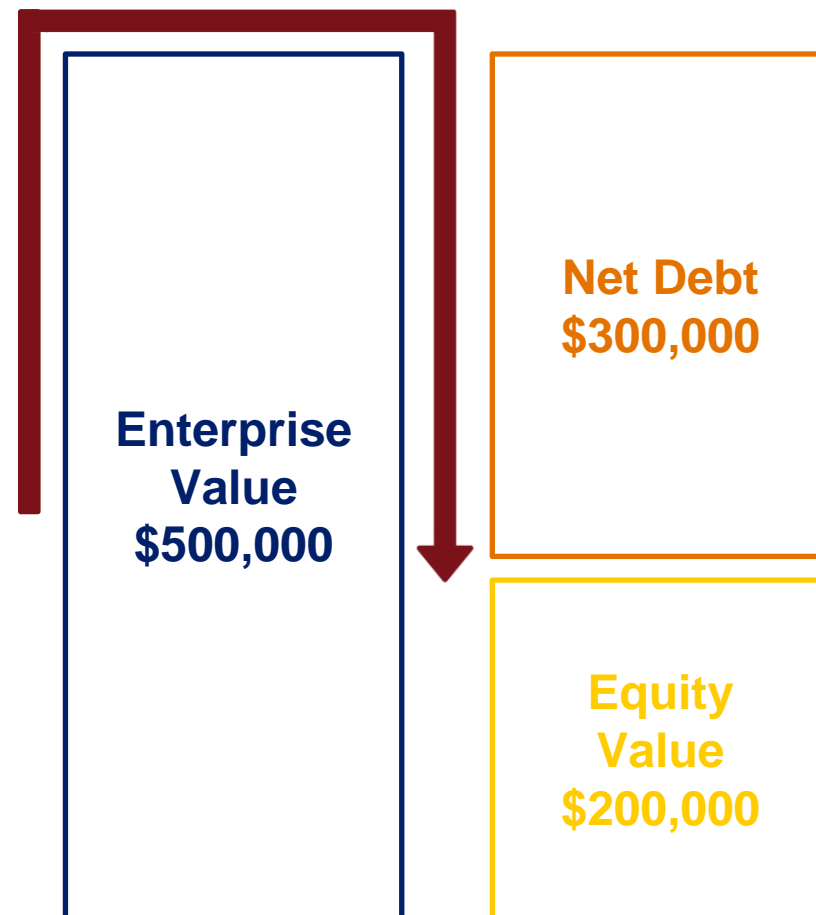


The Bridge

Equity Value → EV



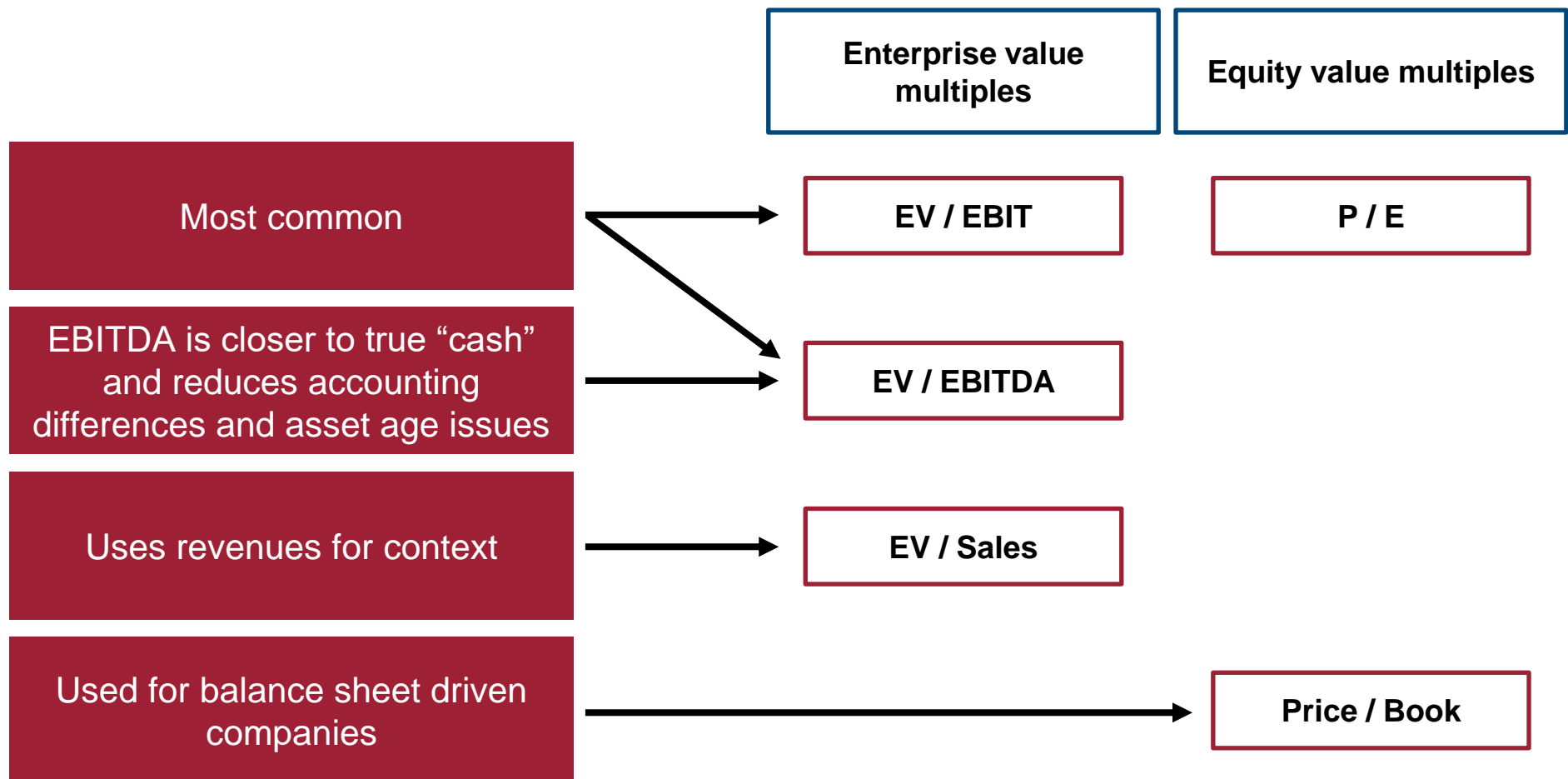
EV → Equity Value



The Bridge

Enterprise Value	Equity Value
Operating assets less operating liabilities	Total assets less total liabilities
Operating focus	Ownership focus
Unaffected by financing decisions	Affected by financing decisions
Driven by: <ul style="list-style-type: none">• Company performance• Industry dynamics• General economic factors	Driven by: <ul style="list-style-type: none">• Company performance• Industry dynamics• General economic factors AND• Financing decisions

EV vs. Equity Value Multiples



Multiples

Value consistent
with value driver

Value	
EV	1,000.0
Cash	100.0
Debt	(300.0)
Equity	800.0
No. shares	100.0
Price	8.0

Value Driver

EBIT	100.0
Interest income	1.0
Interest expense	(15.0)
Tax expense	(26.0)
Net income	60.0
No. shares	100.0
EPS	0.60

How much investors
pay in relationship to
a value driver

EV/EBIT =

P/E =

Multiples

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10x

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How much investors
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a value driver

EV/EBIT =

10x

P/E =

13.3x

Choosing the Public Comps Universe

Industry Classification

- *Same or similar industry*
- *Other industries with same characteristics*

Financial Criteria

- *Similar amounts of:*
 - *Market cap.*
 - *Revenue*
 - *EBIT, EBITDA*

Geography

- *Located in the same region*
- *Otherwise be wary of differing competitive dynamics, laws, business practices*

What is present value?

The value of any business is the sum of the present value of all future free cash flows.

$$PV = \frac{FV}{(1 + \text{Discount Rate})^{\# \text{ of Annual Periods}}}$$

The problem is, how can we know all the business' future free cash flows?

How do you value a business?

Examples



- You own a bond that pays a \$100 coupon once yearly for 10 years
- You require a 5% rate of return
- What is the fair value of the bond?

How do you value a business?

Examples



- You own a beach condo in Miami, FL.
- You expect to rent this condo for an average of \$8,000/week for 15 weeks this year.
- You expect to raise your prices 4.5% every year and continue renting the condo indefinitely.
- You expect your cumulative expenses, excluding interest payments, for the condo to be \$45,000 this year and grow at 2% every year indefinitely.
- You require a 9% rate of return
- You borrowed \$250,000 to buy the condo. What would be the fair value for you to sell the condo?

Key Terminology & Documents

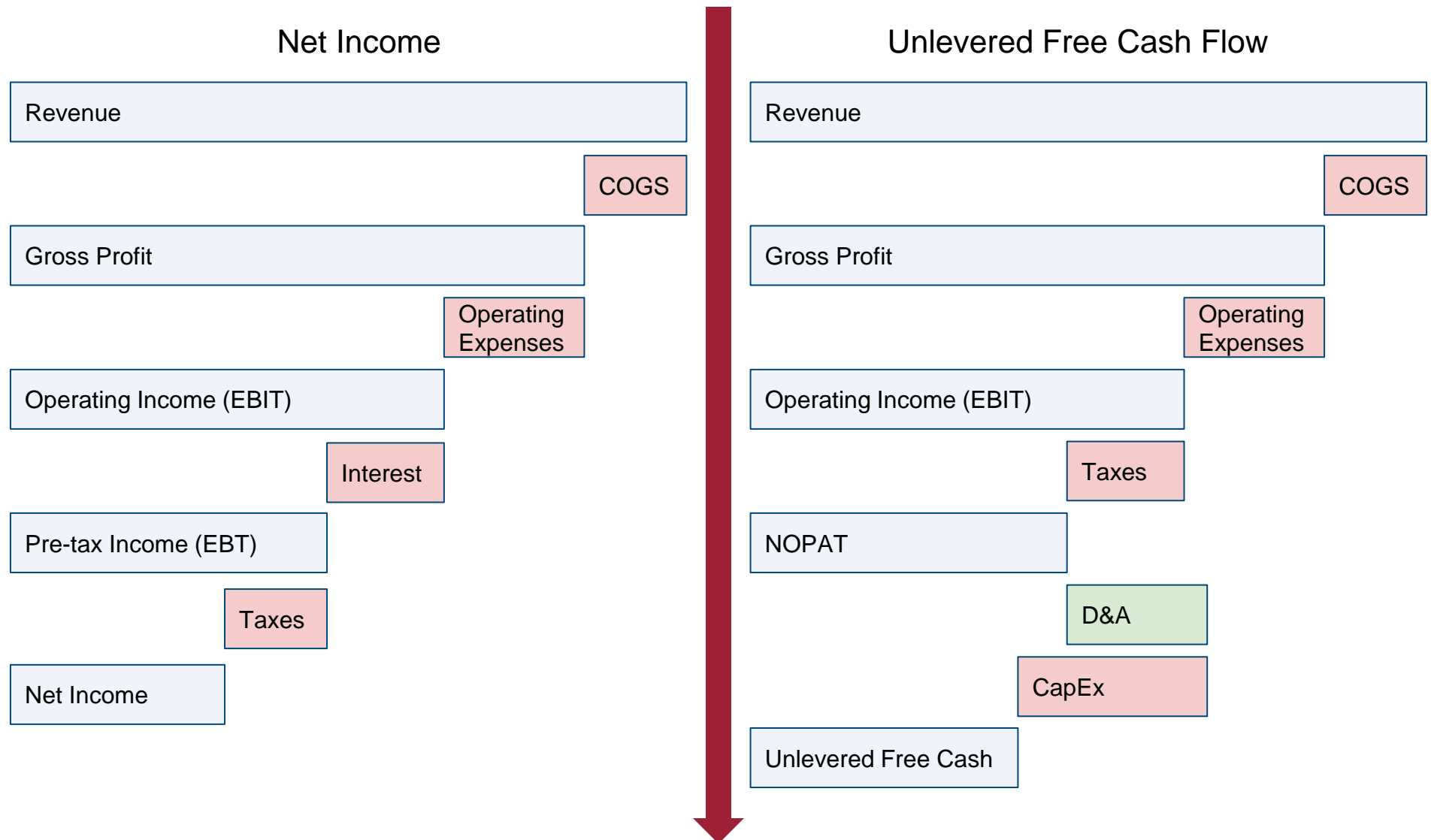
Key Terminology

- **COGS** - Cost of Goods Sold
- **Gross Profit** - Revenue Less COGS
- **SG&A** - Selling, General & Administrative Costs
- **R&D** - Research and Development
- **OpEx** - Operating Expenses (Sum of expenses)
- **EBIT** - Earnings Before Interest and Taxes (same thing as Operating Income)
- **NOPAT** - Net Operating Profit After Tax
- **CapEx** - Capital Expenditures

Note: Some companies label things differently.

How do you value a business?

Net Income versus UFCF



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Contact Information



Judson Lindley

President

jlindley1@crimson.ua.edu



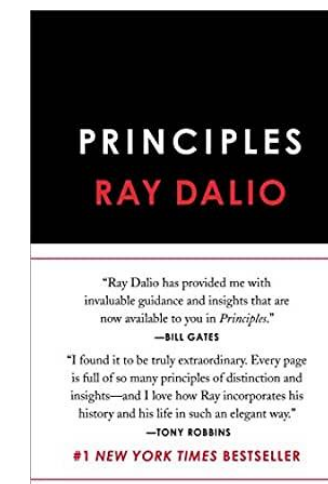
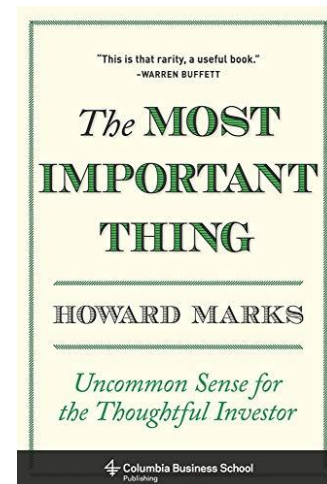
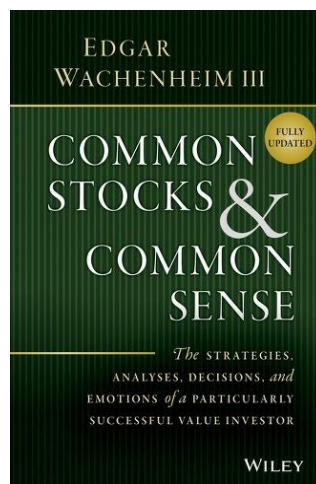
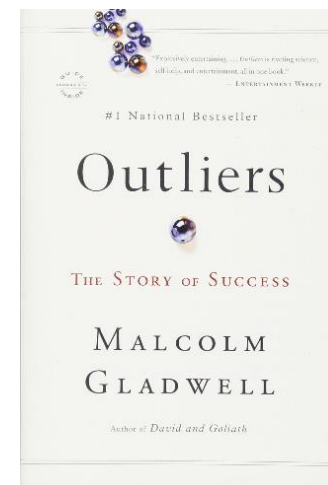
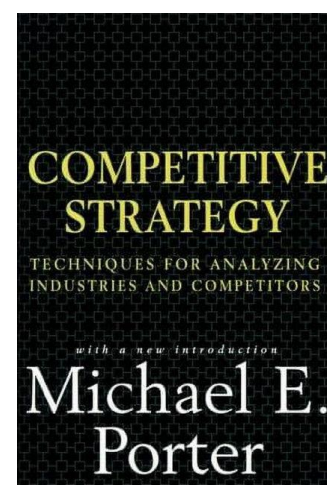
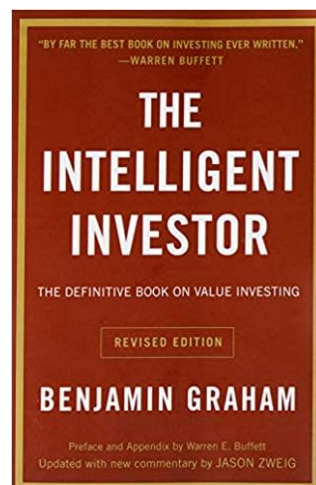
Matthew Gaines

VP of Portfolio Management

mjgaines2@crimson.ua.edu

Areas for Further Research / Book Recs

- [Warren Buffett Archive](#)
- [Howard Marks Letters](#)
- [Vulcan Value Partners Letters](#)
- [Horizon Kinetics letters](#)
- [Nomad Letters](#)
- [Wall Street Journal](#)
- [Investopedia](#)
- [Stratechery](#)



Thanks for Coming!

