# PERSPECTIVES ON VALUE INVESTING
# HISTORY AND PROCESS

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## MY ADVENTURE INTO VALUE INVESTING BEGINS

- Stockbroker looking for an anchor
- Family office in UK – Berkshire Hathaway – Sequoia Fund – Tweedy Browne , read the Warren Buffett Way by Robert Hagstrom
- EBITA in relation to Enterprise value
- Small Brokerage Operation – Bank Sal. Oppenheim Jr & Cie Zuerich
- Tom Shrager, partner at Tweedy Browne said, find cheap stocks, should I find the ones he was looking for, he would give me an order, nobody ever told me that, and read the Intelligent investor by Ben Graham
- First filter : Low P/E, little debt, stable and growing businesses
- Fascinated, by the approach, low downside, big upside, systematic way of investing

## HISTORY

- Benjamin Graham ( May 8, 1894 – September 21, 1976)
- Economist, Investor and Professor at Columbia University
- Idea: Buy securities at a 40- 50 % discount to Intrinsic  Value
- Intrinsic Value : What a knowledgeable investor would pay at an arms length transaction for a particular business
- Diversify portfolios (50-100 stocks)
- Graham-Newman Corporation over 20 % p.a. over 30 years
- Transforming a possibility into a probability
- Risk is not volatility but the risk of Permanent Capital Loss

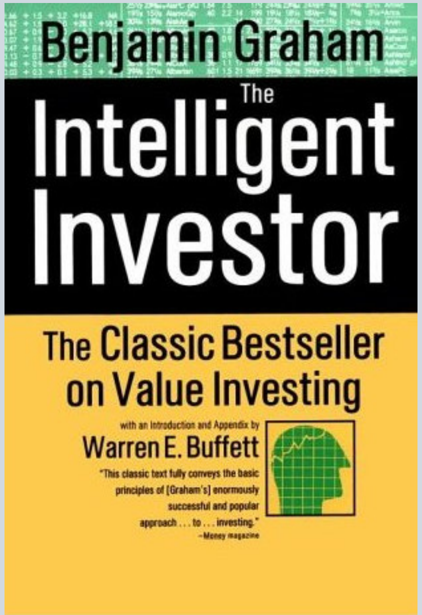
## A STOCK IS AN INTEREST IN A BUSINESS

Stock is not a piece of paper, but represents an ownership position in a real business that has an intrinsic value. Emphasize that this value is a range, not a precise figure (Buffett talks about being in the business of determining whether somebody is fat, not trying to guess their exact weight). Focus on those companies where you can make a reasonable judgment of that value and ignore the rest.

# LITERATURE

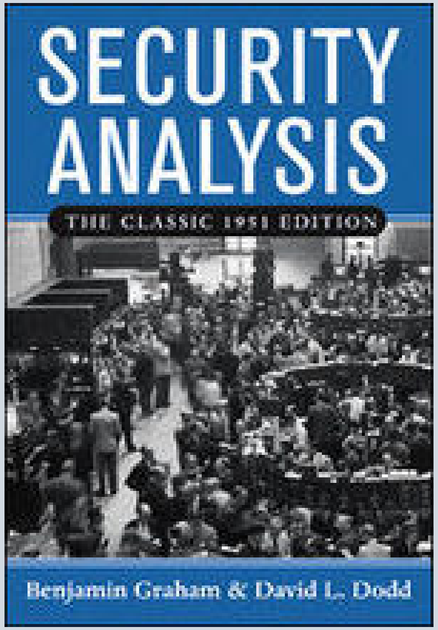
THE INTELLIGENT INVESTOR,
1949 BY BENJAMIN GRAHAM

“INVESTMENT IS MOST INTELLIGENT WHEN IT IS MOST BUSINESSLIKE”



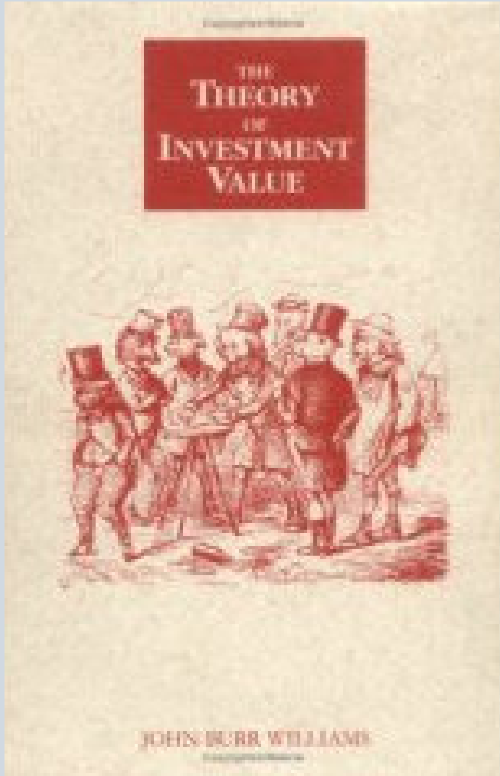

SECURITY ANALYSIS,
1934 BY GRAHAM & DODD

THE INTERPRETATION OF FINANCIAL STATEMENTS, 1937  B. GRAHAM

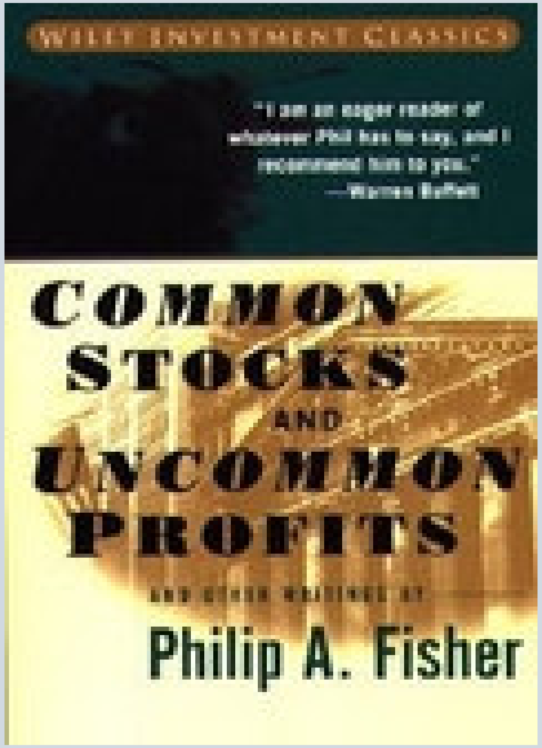


## JOHN BURR WILLIAMS (1900 -1989)

- Stocks are determined by the "intrinsic value"
- "The theory of Investment Value" written in 1938
- Theory of Discounted Cash Flow (DCF) based valuation and in particular, Dividend based valuation



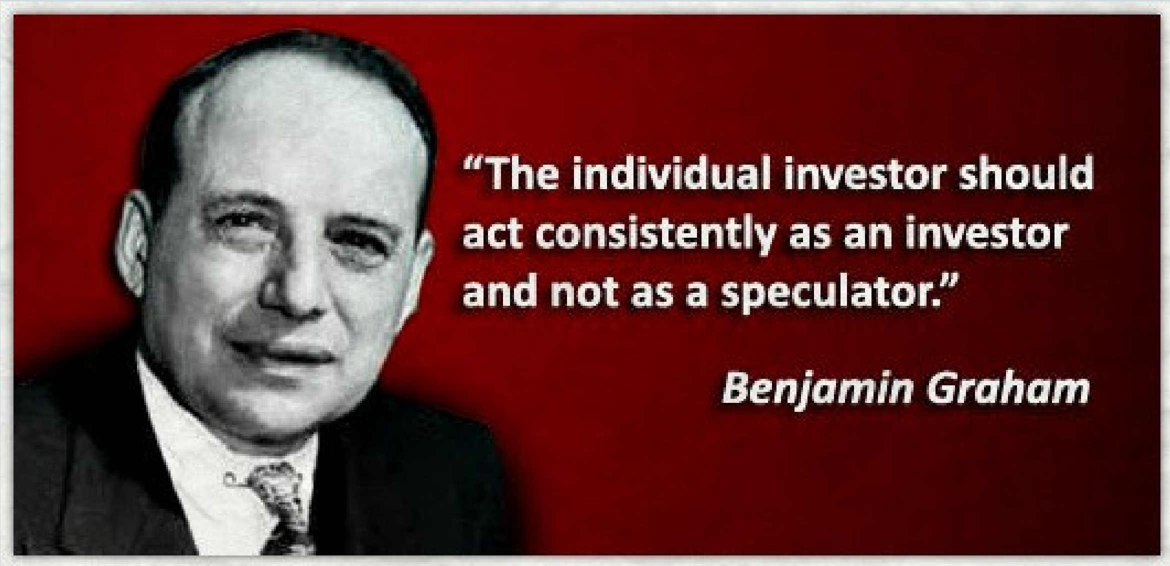
## PHILIP ARTHUR FISHER (1907 – 2004)




Author of Common Stocks and uncommon profits, 1958

Fisher suggested using 15 questions to evaluate a company - these questions should be asked to suppliers, competitors, and consumers, he inspired Warren Buffet into qualitative aspects of companies.

# QUOTE


"The individual investor should act consistently as an investor and not as a speculator."
Benjamin Graham

## MARGIN OF SAFETY

Look for big gaps between price in the market and intrinsic value. This renders accurate assessment of the future unnecessary and also minimizes losses when you are wrong, a key to long term out performance. Everyone is wrong in this business a certain percentage of the time.

# MR. MARKET

Due to his bipolar mood swings, stocks shift from undervalued to overvalued. Be patient and wait (like duck hunting; if there are no ducks, no need to shoot). Mr. Market is there to serve you, not instruct you. Be greedy when others are fearful.

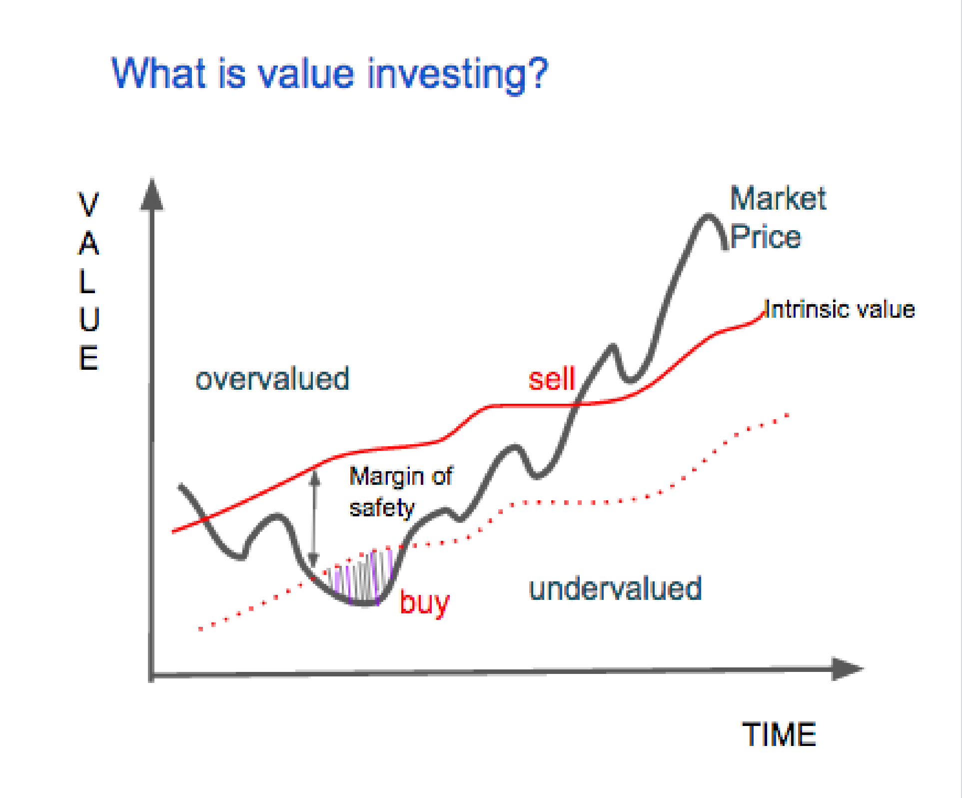
# WARREN BUFFETT | AUG. 30, 1930

» Studied at Columbia University, worked at the Graham Newman Corporation.

» In 1957 established the Buffett Partnerships and then bought control of Berkshire Hathaway.

» Prefers to buy good Businesses that have an «economic moat» ie. a strong market position and generate a lot of free cash flow. «owners earnings» and only buys businesses he understands.

# INTRINSIC VALUE



## INTRINSIC VALUE GROWTH

I = ( EBITA *K + (cash - debt ))/ no. shares outstanding

I = ( EBITDA * Y + (cash - debt ))/ no. shares outstanding

K = estimated multiple of EBITA

Y= estimated multiple of EBITDA

# HOW TO GROW VALUE PER SHARE

- Grow the top line (price/volume)
- Increase margins
- Generate free cash flow
- Intelligent capital allocation
    a) Share repurchase below intrinsic value
    b) Pay Dividends
    c) Intelligent M & A
    d) Reduce Net Debt

# THREE SLICES OF VALUE

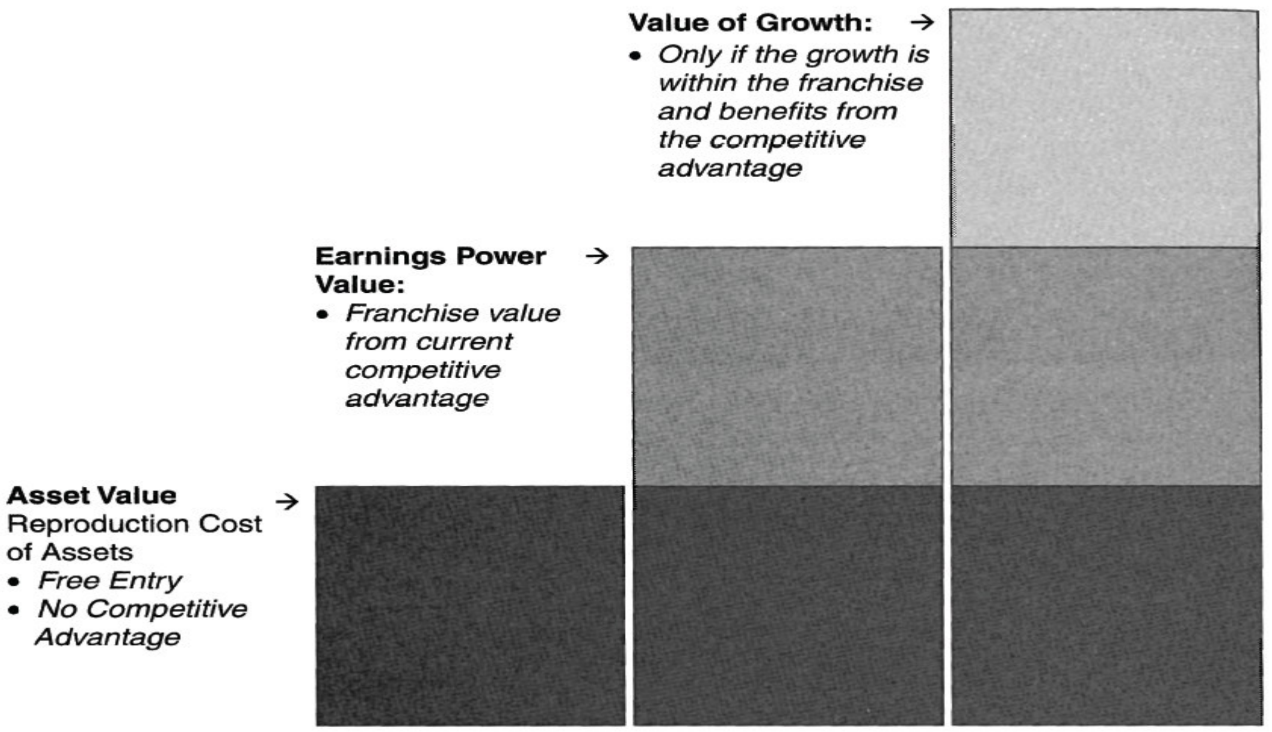
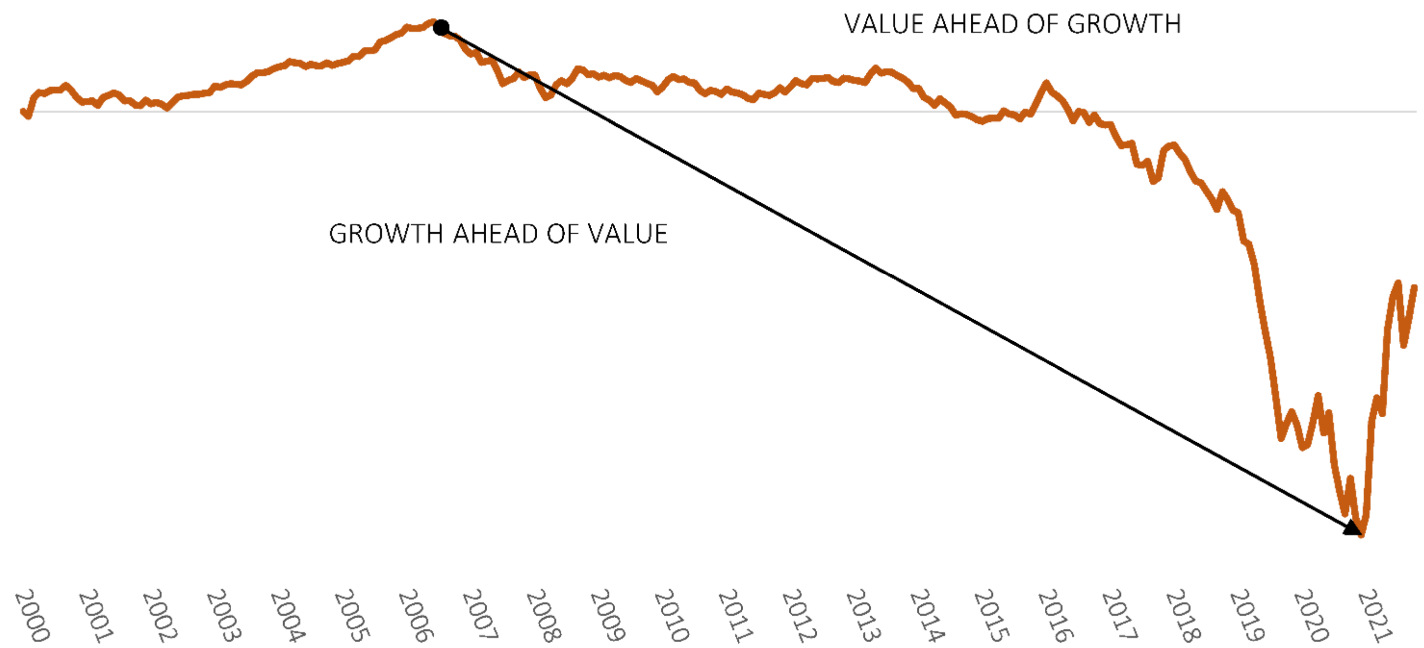



*Figure 3.1* Three Slices of Value

Source: Value Investing: From Graham to Buffett and Beyond by Bruce C.N. Greenwald, Columbia University NY

## CUMULATIVE WEALTH DIFFERENTIAL

MSCI WORLD VALUE MINUS MSCI WORLD GROWTH INDEX (through 30 Sep 2022)




Graph reflects the relative wealth accumulated over time of the MSCI World Value Index versus the MSCI World Growth Index. When the line is above the grey zero line, an investment in the MSCI World Value Index has produced a cumulative excess return over the MSCI World Growth Index. When the line is below the zero line, the Value Index investment is worth less than the Growth Index investment. A positively trending line indicates a period of greater wealth accumulation for a Value strategy, and a declining line indicates a period of inferior wealth accumulation relative to a Growth strategy.

## PROCESS | SCREENING WITH DATABASES

- Hemington Scott , Detroyat, Nikkei , Bloomberg etc….
- Low P/E
- Low P/B
- Low EV/ EBITA
- Low EV/EBITDA
- High Dividend Yield
- Insider buying
- Stocks that have fallen strongly
- Share buy backs
- Small Market Capitalization

## PROCESS | QUALITATIVE ASPECTS

- Annual report, studying starting from the notes
- Industry research & Trade Journals
- Independent research i.e.: Mehta Partners for Pharmaceutical companies
- Sell side research from Investment Banks: i.e. UBS, Goldman Sachs , Morgan Stanley etc…
- Talking to clients, competitors and suppliers, IR of competitors
- Management interviews CEO, CFO, company visits
- Do we understand the business ? The dynamics of the industry , the business model, what are the threats

## PROCESS | APPROVAL BY INVESTMENT COMMITTEE

» Analysts / portfolio managers spend most of their time understanding the businesses they invest and trying to figure out what they are worth at in a private market transaction

» Systematic, unemotional process of adding undervalued securities and reducing securities that trade close to "intrinsic value"

» Examples: Heineken Holding & AutoZone

## HEINEKEN HOLDING


Heineken
BREWED IN HOLLAND


TRADE MARK
Heineken®


Heineken


Heineken


RugbyPredict.co.za
Heineken®
Cup
Plus 6 Nations

# HEINEKEN HOLDING

- Heineken, which bears the founders name is available in almost every country
- Sells 200 international premium, regional , local beers as well as cider including Amstel , Primus, Birra Moretti, Sagres , Cruzcampo,  Tiger and others (ie in Switzerland Calanda for instance)
- Over 65 breweries in over 70 countries
- Global coverage through a combination of wholy owned subsidiaries, licence agreeements , affiliates, strategic partnerships and alliances
- More than 70 % of the volume is done in Emerging markets
- Worth about 100 Euro at 11 x EV/EBITDA ( sep .  2022)
- Growth of Intrinsic Value about 7 % p.a.

## Stock Information

| Market Price | Market Price Date | Shares Outstanding | Market Capitalization | Exchange Rate | Market Capital. (US) |
|---|---|---|---|---|---|
| 28.00 | 01/29/2001 | 391.980 | 10,975.440 | 1.08963 | $10,072.630 |

***Comments:***

Balance sheet data are based on the interim figures.

### Share/Segment Valuation

| Net Current Asset/Share | Stated Book Val./Share | Adj. Book Val./Share | Price/Stated Book Value | Price/Adj. Book Value | Segment Value/Share | Price/ Seg. Value |
|---|---|---|---|---|---|---|
| | | | | | YR. 2001 | |
| | 7.90 | 6.75 | 3.544 | 4.148 | 46.90 | 0.597 |

***Comments:***

Adjusted Book is based on current cost convention, adjusted book is adjusted for that by eliminating EUR 435 million revaluation included in fixed assets, or 1.11 per share.
Segment Value is 11 times EBITDA for 2001 (11 * 4.18 = 0.88).The following deals have been done in the beer business in the last few years. Most deals were cash, the Kronenbourg deal (I think) contained a stock element and was complex.

| Acquired | Acquiror | EV/Sales | EV/EBITDA | EV/EBITA | EV/HL |
|---|---|---|---|---|---|
| Cruzcampo | Heineken | 2.0 | 14.0 | 17.2 | 149.67 |
| Pilsener Urquell | South African Brew. | 2.6 | 14.7 | 44.7 | 97.38 |
| Kronenbourg | Scottish & Newscastle | 2.5 | 15.7 | 19.2 | 238.59 |
| Whitbread Brewing | Interbrew | 0.4 | 7.1 | 21.4 | 74.47 |
| Bass | Interbrew | 1.3 | 9.7 | 14.5 | 136.36 |
| Centralcer | Scottish & Newcastle | 2.2 | 15.0 | 28.8 | 165.87 |
| Feldschloesschen | Carlsberg | 0.9 | 6.9 | 14.5 | 100.18 |

None of the acquired companies has the market positions, brand clout and volume/mix growth possibilities that Heineken has. The one that comes closest in this respect, is Kronenbourg, which represented something like 40% of the French market, although it has no export positions which limits its volume growth. The implied Valuation for Heineken Holding is EUR 140 per HL, Heineken the parent EUR 194 per HL and Budweiser EUR 358 per HL (I did not adjust for some other businesses Budweiser and Heineken have).

### Earnings Per Share

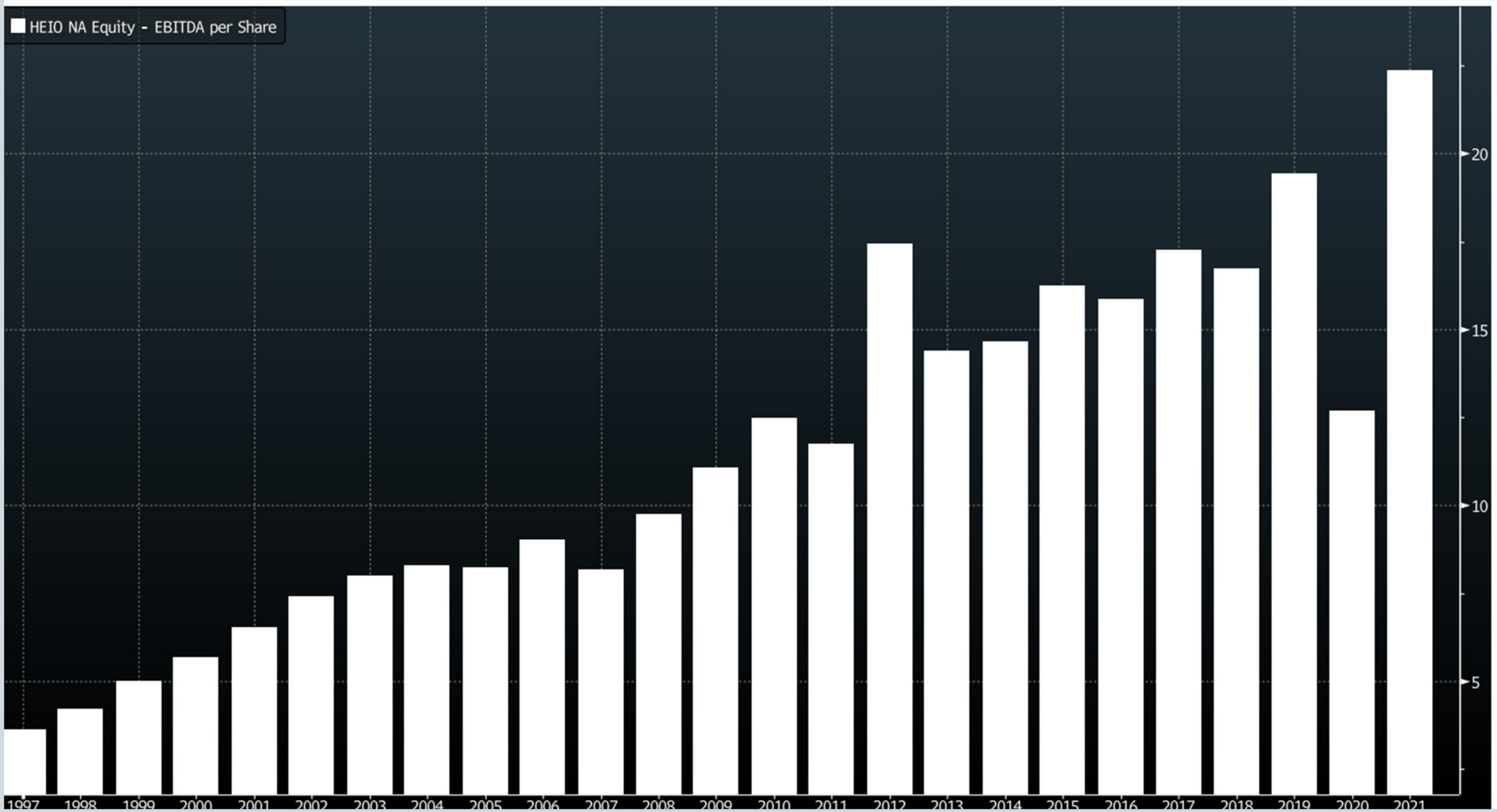
| EPS-4 | EPS-3 | EPS-2 | EPS-1 | Current | EPS+1 | EPS+2 |
|---|---|---|---|---|---|---|
| | | | | YR. 2001 | | |
| 0.86 | 0.99 | 1.26 | 1.43 | 1.97 | 2.20 | 2.46 |

***Comments:***

EPS 2001 is based on 1.82 consensus estimate on IBES plus an adjustment for the fact that the company depreciates its asset based on current cost account. The depreciation term is 3276(book value of tangible fixed assets) /445 (depreciation) = 7.4 years, while there is 435 million in revaluation included in the book value of tangible assets. The excess depreciation due to current cost over the historic cost convention then would be 435/7.4, or 58.8 million ( 0.15 per share). As there is no tax effect (fiscal depreciation is a altogether different matter), this can be added to obtain 1.82 + 0.15 = 1.97 per share. The company tends to also overprovision, but this is harder to quantify and thus to correct for. They once told me they add a normalized EUR 55 million to provisions per year, but some of those are cash out and some are not I have not adjusted for this.
The consensus eps implies a 15% EPS rise over 2000, while in H1 eps was up 19.7%.
EPS 2002 is the IBES consensus (2.06) plus the same 15 cents. 2003 is 12% over 2002.
The historic years have been adjusted accordingly:

| | reported eps | curr/historic cost adjustment | adjusted eps |
|---|---|---|---|
| 1999 | 1.32 | 0.11 | 1.43 |
| 1998 | 1.14 | 0.12 | 1.26 |

## HEINEKEN HOLDING | EBITDA PER SHARE CHART

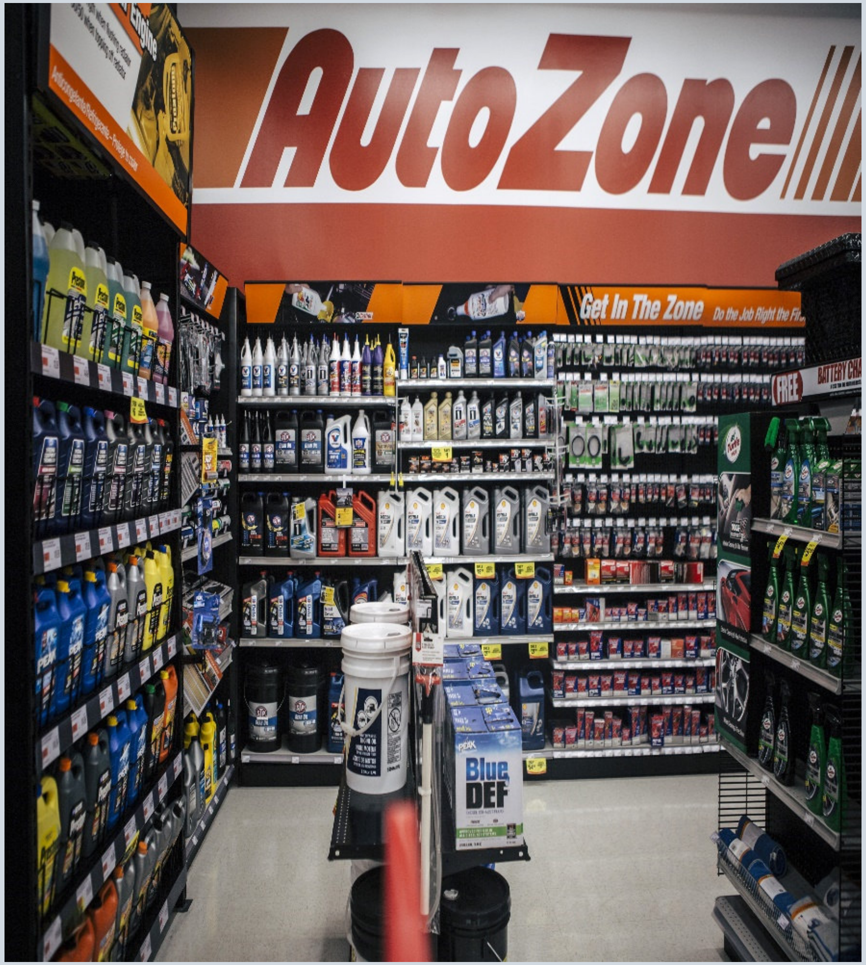


# AUTOZONE

AZO US $ 2128.00 +7.12 T2125.58/2134.73M 2x2
Um 15:51 Vol 7,073 E 2121.15N H 2144.73M T 2121.15N Wrt 15.07M
AZO US Equity
99) Vorgeschl. Charts
96) Aktion
97) Änd.
Linien-Chart
09/06/2002 - 09/06/2022
Letzter Preis
Lokalwähru
MOVs
Wichtige Ergn.
1D 3D 1M 6M YTD 1J 5Y Max.
Täglich
Tabelle
+ Schnell zuf.
Daten hinzufügen
Fadenkreuz
Anmerken
News
Zoom
Letzter Kurs 2128.00
Hoch am 08/19/22 2332.09
Durchschnitt 526.201
Tief am 01/27/03 58.61
2500
2128.00
2000
1500
1000
500
0
Volumen 7073
10M
5M
7073
'03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22

# AUTOZONE

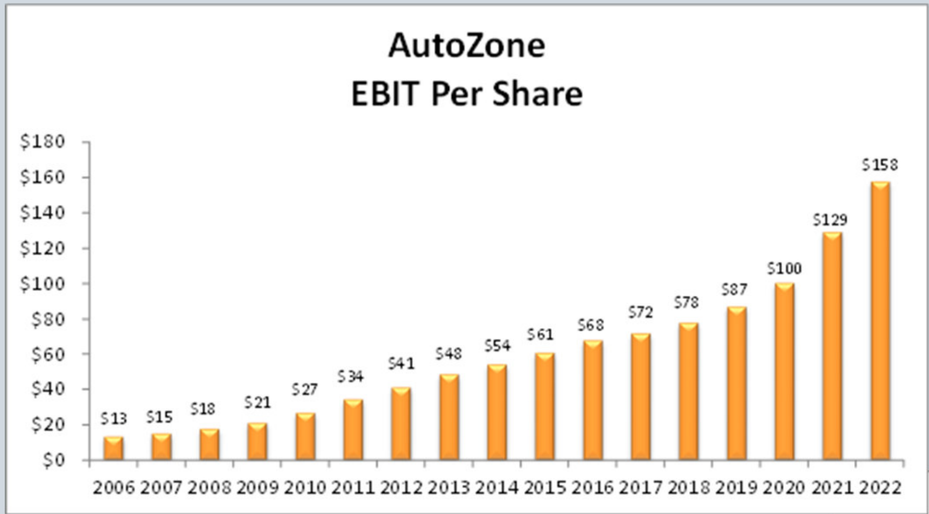

AutoZone
$21 99
BUY TWO
SAVE $2
$19 99
FREE
LOAN-A-TOOL SERVICE
BATTERY CHARGING

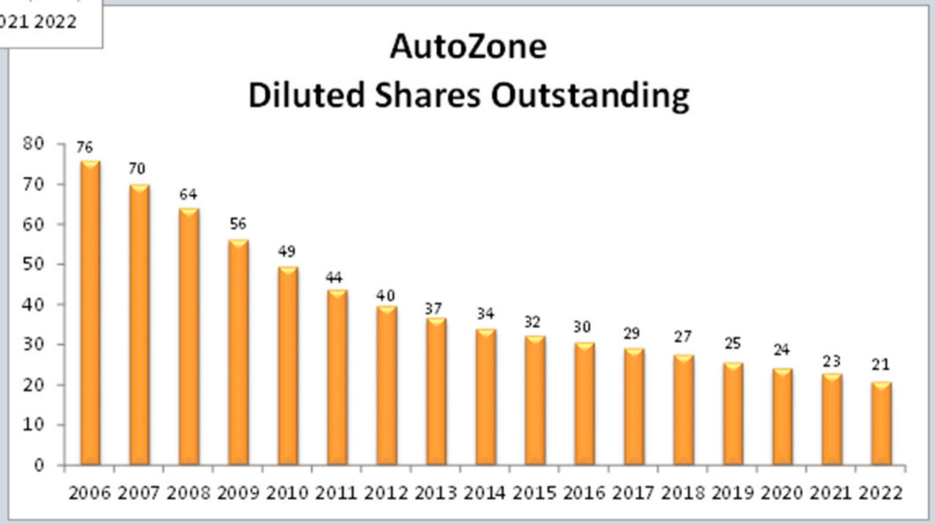

AutoZone
Get In The Zone
Blue DEF

# AUTOZONE

- Largest distributor of aftermarket auto parts in the US
- 6168 stores in US , 703 stores in Mexico, 72 in Brazil
- Revenue growth is dependent on sames store sales and new openings
- Revenue : 70 % DIY (do it yourself ) 30 % DIFM  (do it for me)
- After 5 years cars are not covered by warranty , repairs cost in general 34 % more at new car dealerships .
- Inventory availablilty and speed of delivery are key to success
- Deals done at average 14 x ebita , presently around 14 X ebita

# AUTOZONE


AutoZone
EBIT Per Share
$180
$160
$140
$120
$100
$80
$60
$40
$20
$0
$13 $15 $18 $21 $27 $34 $41 $48 $54 $61 $68 $72 $78 $87 $100 $129 $158
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022


AutoZone
Diluted Shares Outstanding
80
70
60
50
40
30
20
10
0
76 70 64 56 49 44 40 37 34 32 30 29 27 25 24 23 21
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

# AUTOZONE | VALUE COMPOUND

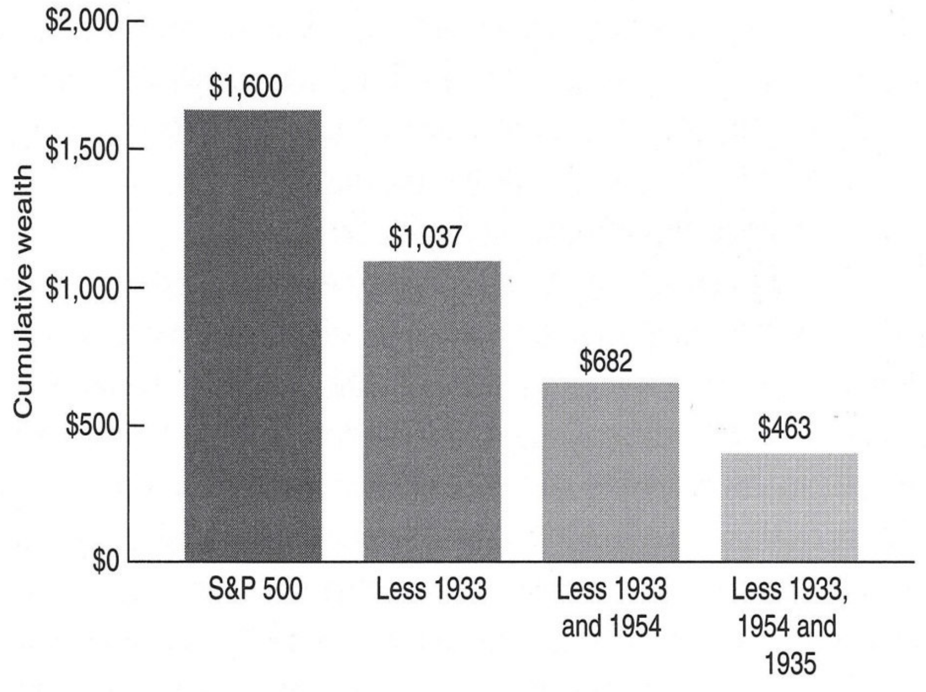
AutoZone

| | 2006 | 2022 | 16 -Year CAGR |
|---|---|---|---|
| Sales | $5’948 | $16’252 | 6.5% |
| EBIT | $1’010 | $3’271 | 7.6% |
| EBIT Margin | 17.0% | 20.1% | |
| Net Debt | $1’766 | $5’858 | 7.8% |
| Diluted Shares | 76 | 21 | -7.8% |
| | | | |
| EBIT Per Share | $13 | $158 | 16.7% |
| Net Debt Per Share | $23 | $283 | 16.9% |
| | | | |
| EBIT Per Share @ 13x | $173 | $2’051 | 16.7% |
| Net Debt Per Share | ($23) | ($283) | 16.9% |
| Value Per Share | $150 | $1’768 | 16.7% |

| Source of Value Compound | | Mix |
|---|---|---|
| Sales | 6.5% | 39% |
| Margin | 1.1% | 7% |
| Decline in Share Count | 9.1% | 54% |
| EV | 16.7% | 100% |
| Change in Net Debt | 0.0% | |
| Equity Value Compound | 16.7% | |

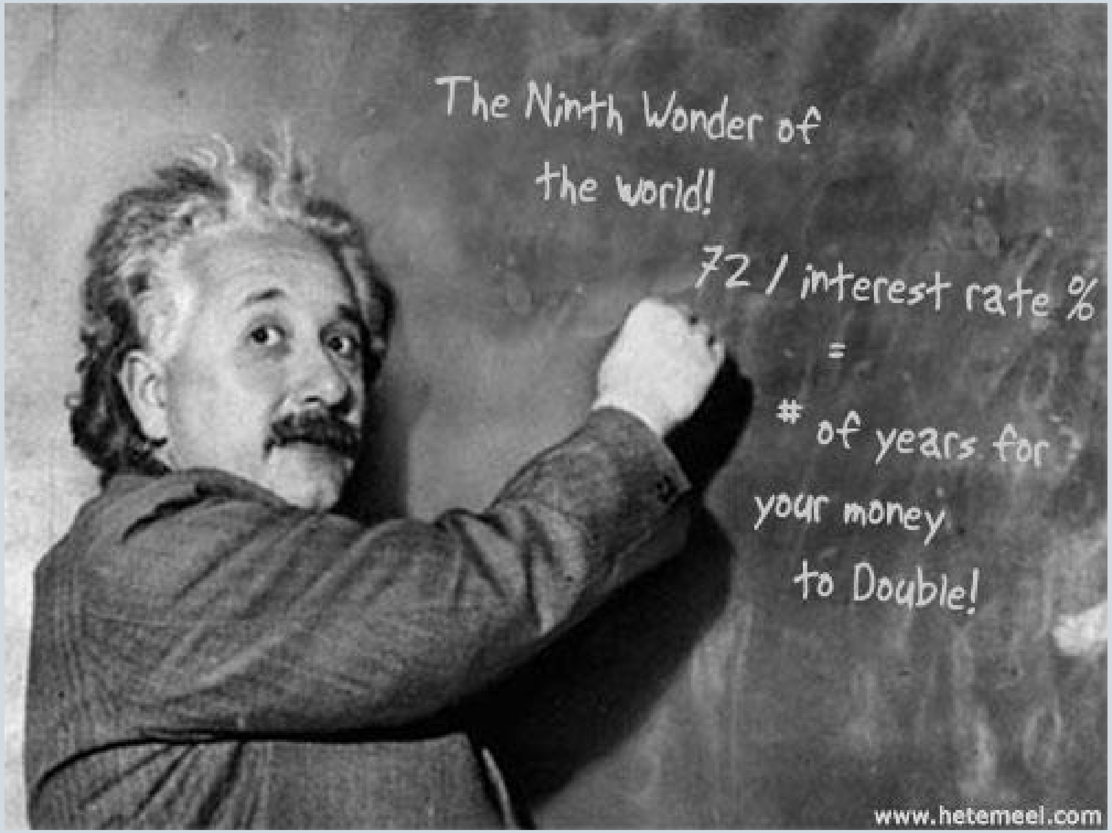
**FIGURE 2-2 Cumulative returns on one dollar invested, 1928–2000.**

*Courtesy of Cambridge Associates, Datastream International, and McGraw-Hill.*




Source: Winning The Losers Game, by **Charles D. Ellis,** 2002

## ALBERT EINSTEIN (1879 – 1955)




"The most powerful force in the universe is compound interest"

# THE HARE AND THE TORTOISE

## RECOMMENDED READING

- The Intelligent Investor by Benjamin Graham
- Security Analysis Benjamin Graham & David Dodd
- The Interpretation of Financial Statements by Benjamin Graham and Spencer B. Meredith
- Essays of Warren Buffett , Lawrence Cunningham
- The Snowball, Alice Schroeder
- The making of an American Capitalist, Roger Loewenstein
- The Warren Buffett Way by Robert Hagstroem
- One Up On Wall Street by Peter Lynch
- Value Investing: From Graham to Buffett and Beyond by Bruce Greenwald
- Contrarian Investment Strategies - The Next Generation by David Dreman
- The Little Book of Value Investing by Christopher Browne
- Stocks for the long run by Jeremy Siegel
- Future for Investors by Jeremy Siegel
- Buffettology by  Mary Buffett & David Clarke
- Value Investing: A Balanced Approach by Martin Whitman
- Super Investors of Graham and Doddsville by Warren Buffett 1984
- Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor , Seth Klarman

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