

From **v**alue investing to modern **val**ue

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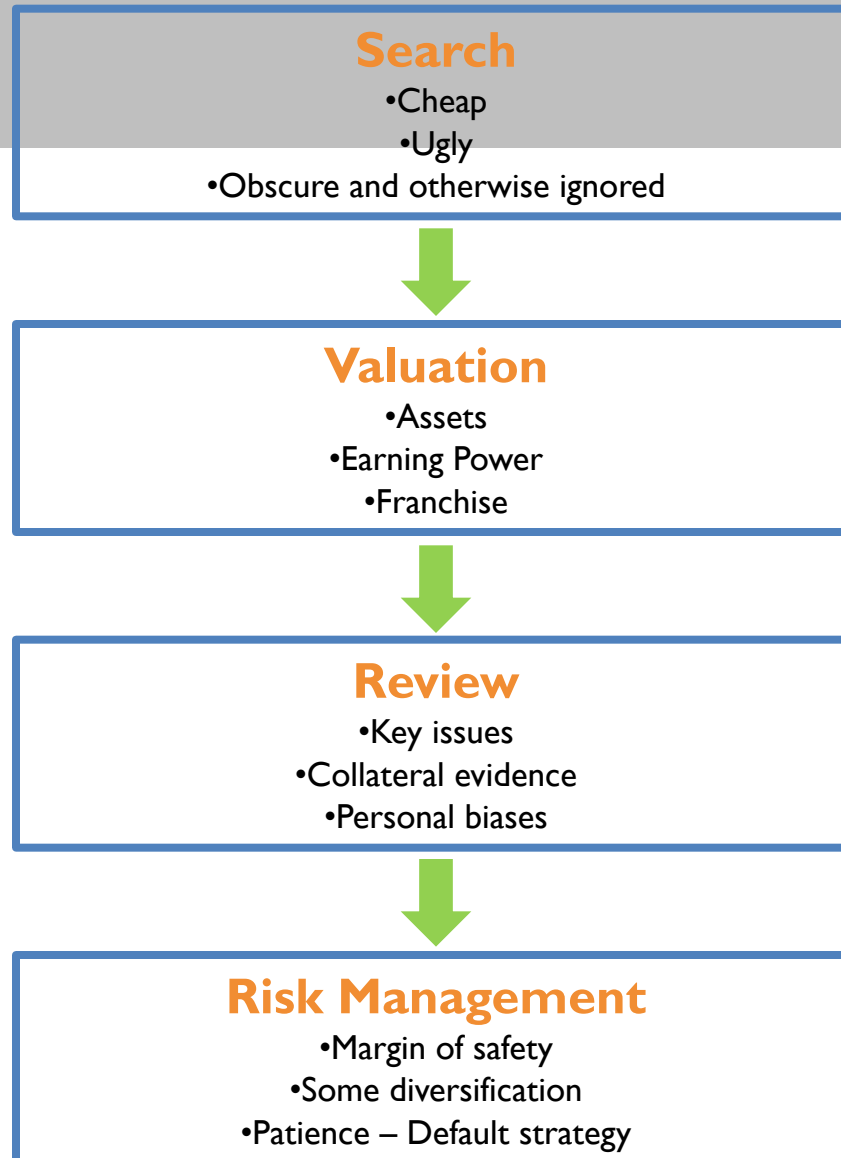
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Heilbrunn Center for Graham & Dodd Investment



VALUE INVESTING ... FOR PEOPLE IN A HURRY

The Value Investing Process



Value and growth

Growth creates value

Growth destroys value

Asset Values
AV



Earnings Power Values
EPV



Barriers to entry?

yes

Franchise Values
 $FV > 0$

no

Franchise Values
 $FV \leq 0$

Risk Management

Value and growth

Growth creates value

Growth destroys value

Asset Values
AV



Earnings Power Values
EPV



Barriers to entry?

yes

Franchise Values
 $FV > 0$

no

Franchise Values
 $FV \leq 0$

Risk Management



A bit about this today

An aerial, top-down view of several groups of people sitting at small, round white tables on a light-colored, textured floor. The people are engaged in various activities: some are looking at laptops, others are talking or looking at documents. The scene is brightly lit, casting soft shadows. A semi-transparent white rectangular box is overlaid in the center of the image, containing the text 'OF SHOCKS AND TRENDS ...' in a blue, sans-serif font.

OF SHOCKS AND TRENDS ...

On shocks: classification

Nature of risks

		Temporary	Permanent
Idiosyncratic	Management		
	Operational		
Industry	Input prices		
	Technology		
	Regulation		
	Import penetration		
Aggregate	Recession		
	Depression		
	Inflation/deflation		
	Political		

On shocks: classification

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	Political		

What are the effects of a drop in oil prices?

- Example: Energy and value traps

How to think about technology and value?

- Disruption and value creation
- Example: The payments industry and Adyen

What triggers regulation?

- Regulation and value creation
- Example: Should we regulate AMZN, FB, ...?

What are the effects of import penetration on local industries?

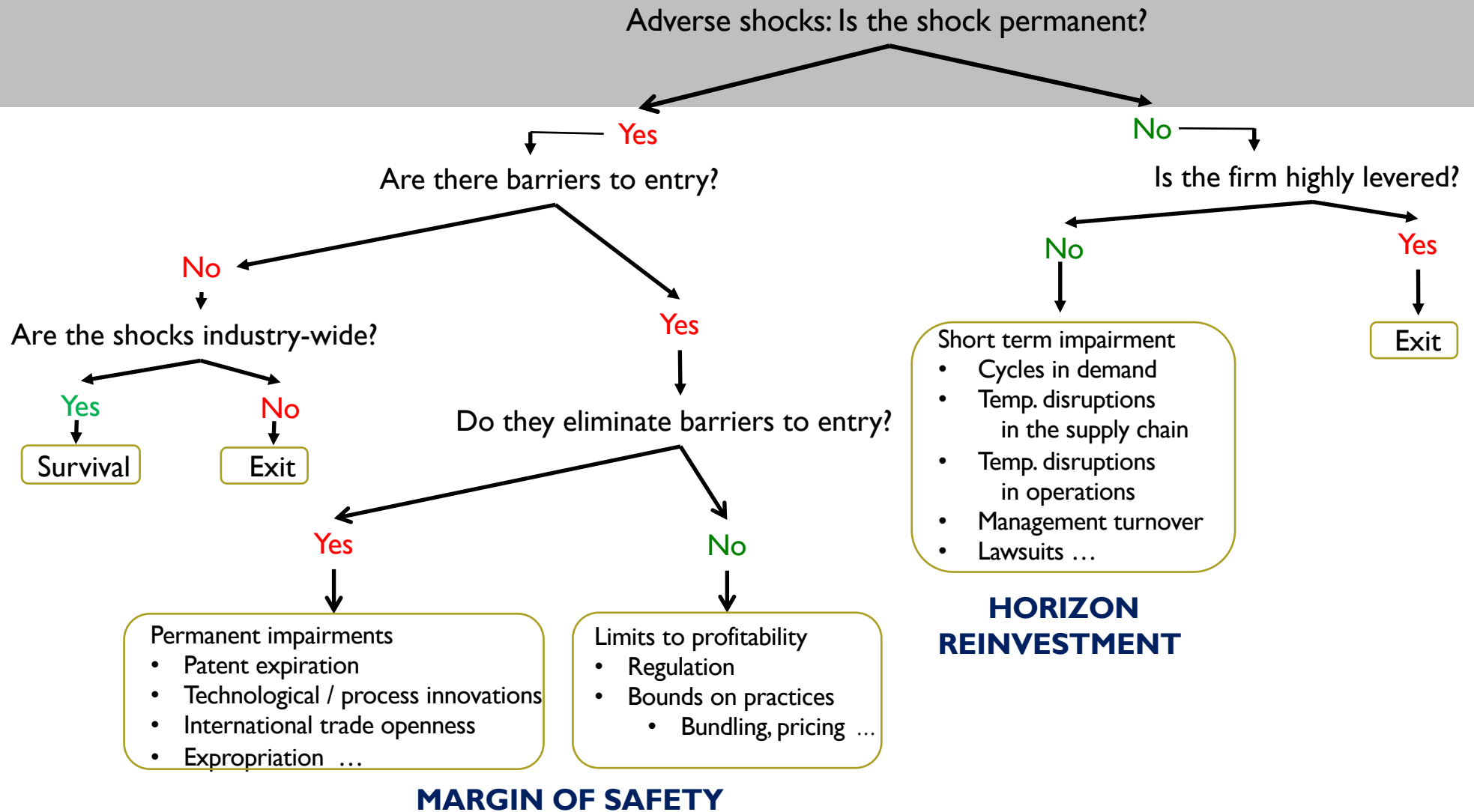
- Import substitution and value creation
- Example: The bankruptcy of FBI

On shocks: classification

Nature of risks

		Temporary	Permanent
Idiosyncratic	Management		
	Operational		
Industry	Input prices		
	Technology		
	Regulation		
	Import penetration		
Aggregate	Recession	✓	
	Depression		
	Inflation/deflation		
	Political		
	COVID-19		

On shocks: risk management



On shocks: What do disruptions (permanent shocks) do?

1. They **kill** a particular economic activity

Example: Technology – Horse carriage and the car

Example: Regulation – The jitney craze of 1914 – 1918

2. They **transform** how a particular economic activity either supplied or consumed

Example: e-retailing,

Example: The payments industry

3. They **unbundle** how particular economic activities are either supplied or consumed

Example: advertising and news

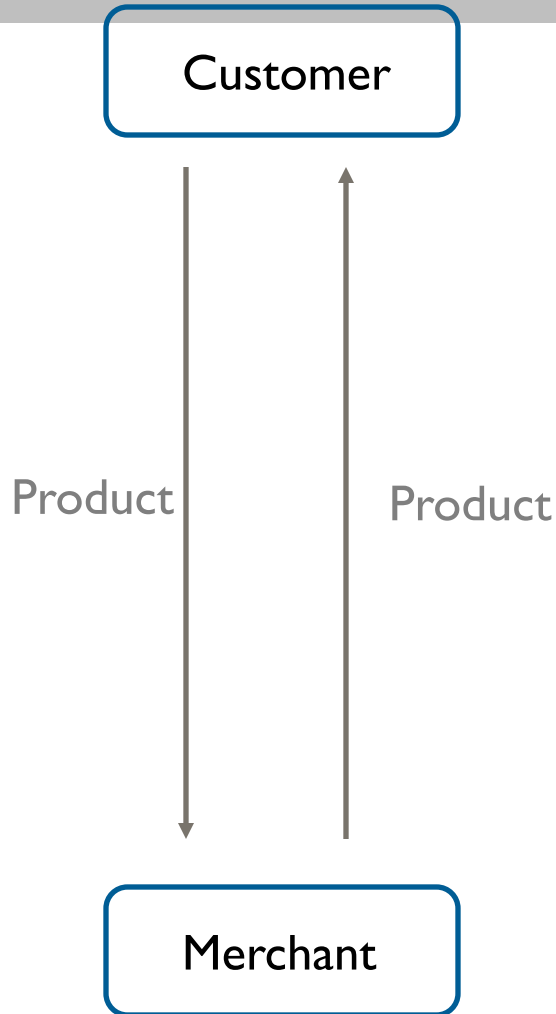
On trends: What do trends do?

- Trends refer to the widespread adoption of practices, behaviors and institutions that are already operational in another:
 - Country
 - Sector
 - Demographic groups
- It is the process of diffusion rather than of disruption
 - It is predictable and dominated by the trend rather than by the fluctuations around the trend
- It is irreversible, though it can be overtaken by another trend
- Companies benefit from that trend if, and only if, their business operations are protected by barriers to entry.

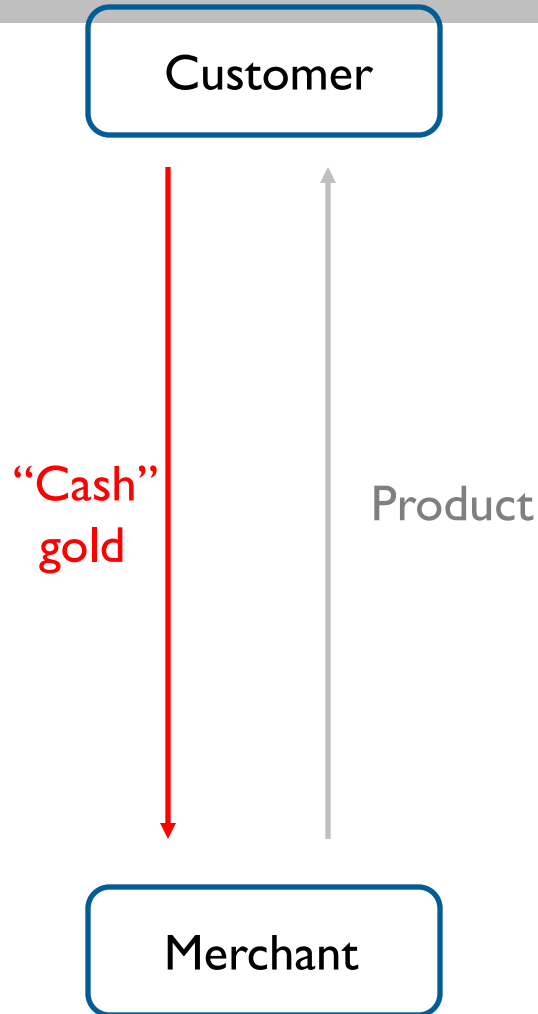
An aerial photograph showing several groups of people sitting at small, round white tables on a light-colored floor. They are working on laptops and papers. The scene is brightly lit, casting long shadows. A semi-transparent white rectangle is overlaid on the center of the image, containing the word 'SHOCKS' in blue capital letters.

SHOCKS

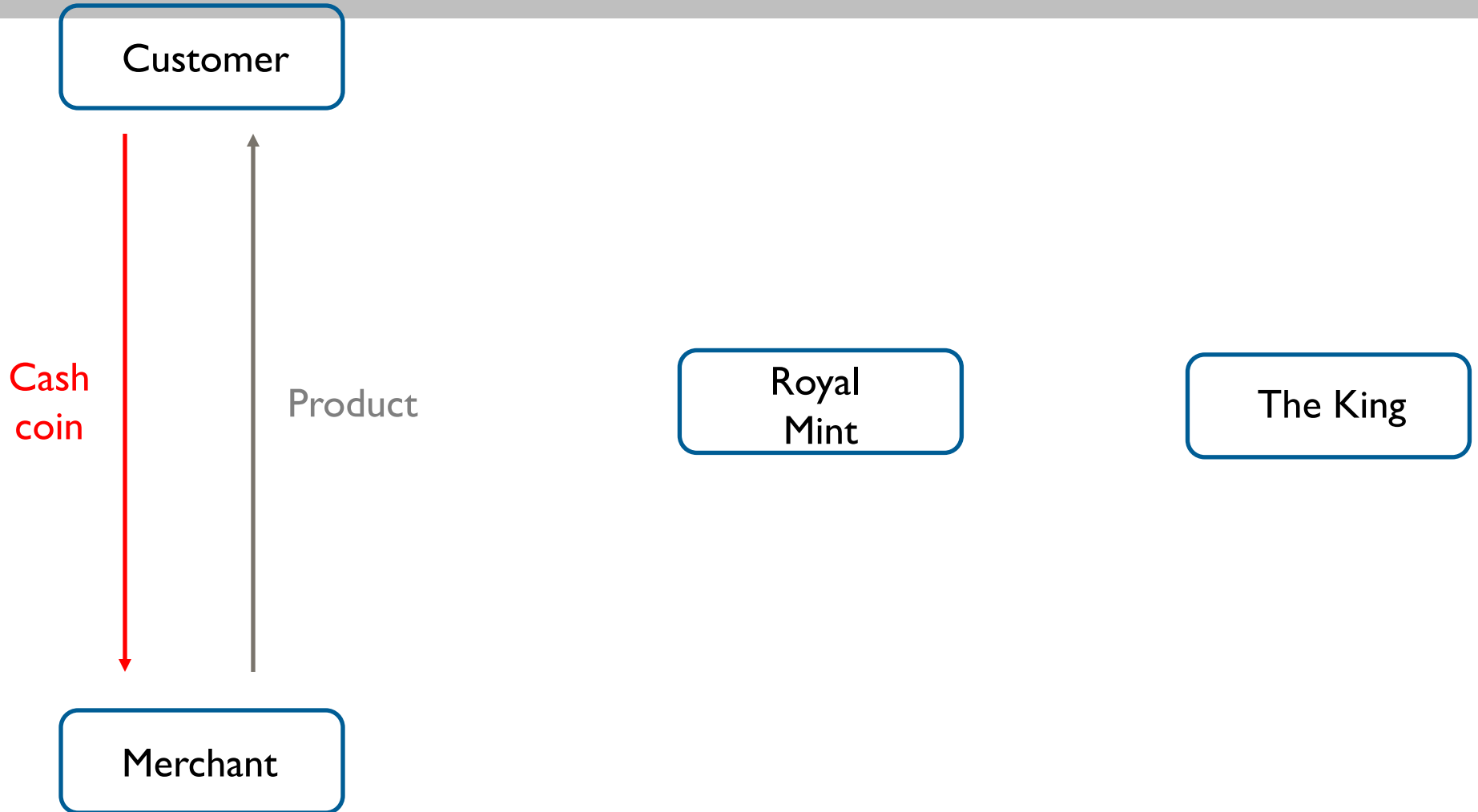
The evolution of the payments system



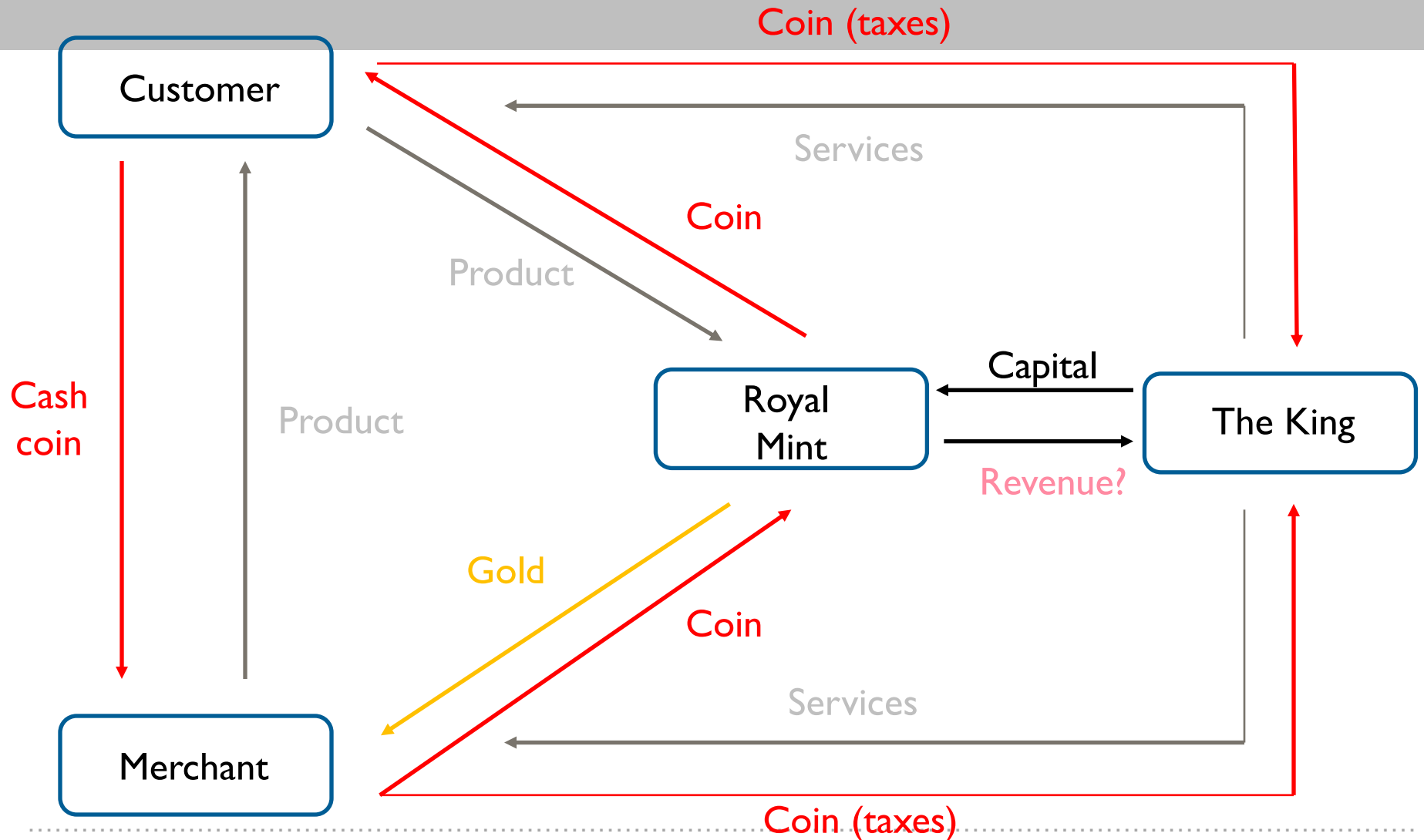
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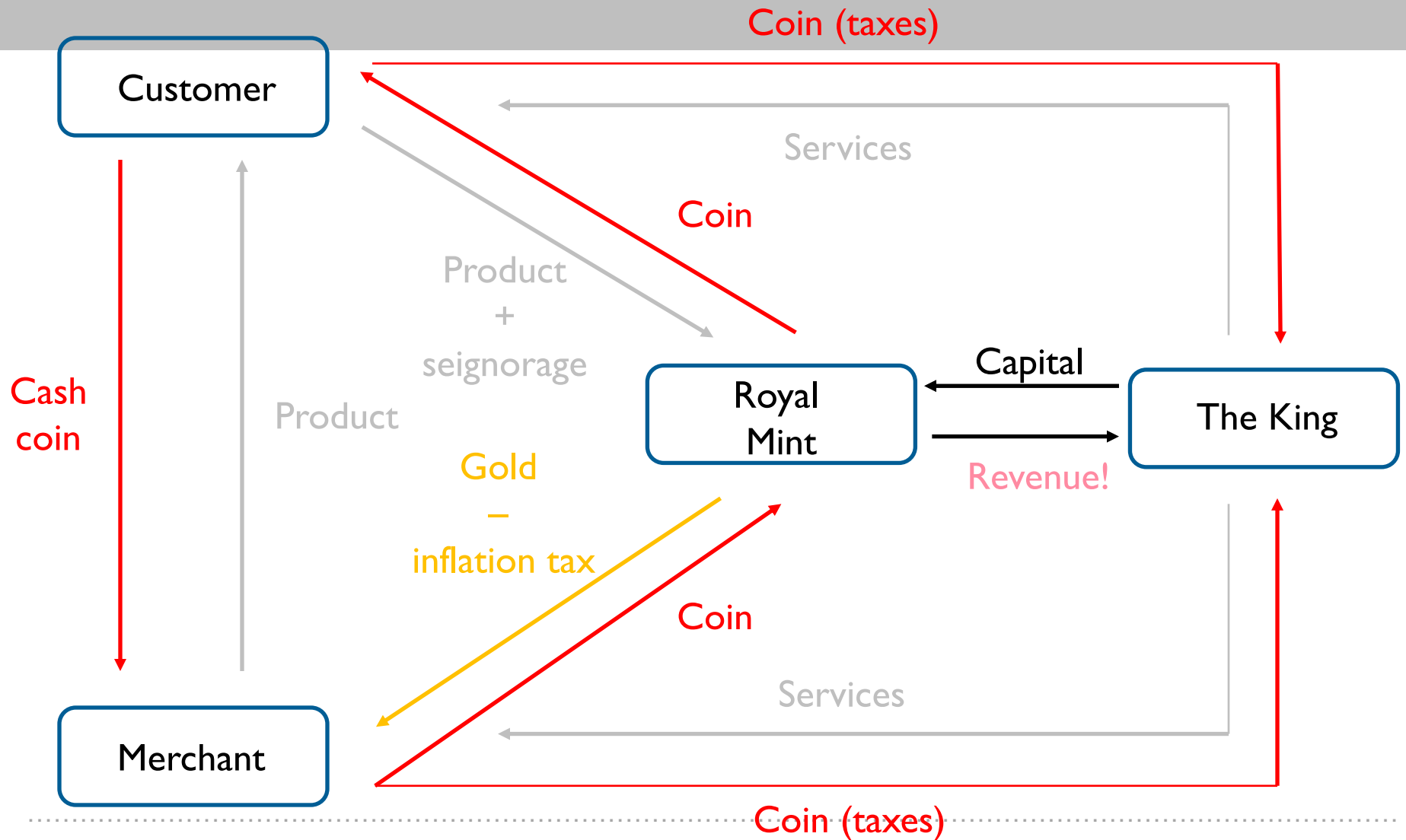
The evolution of the payments system



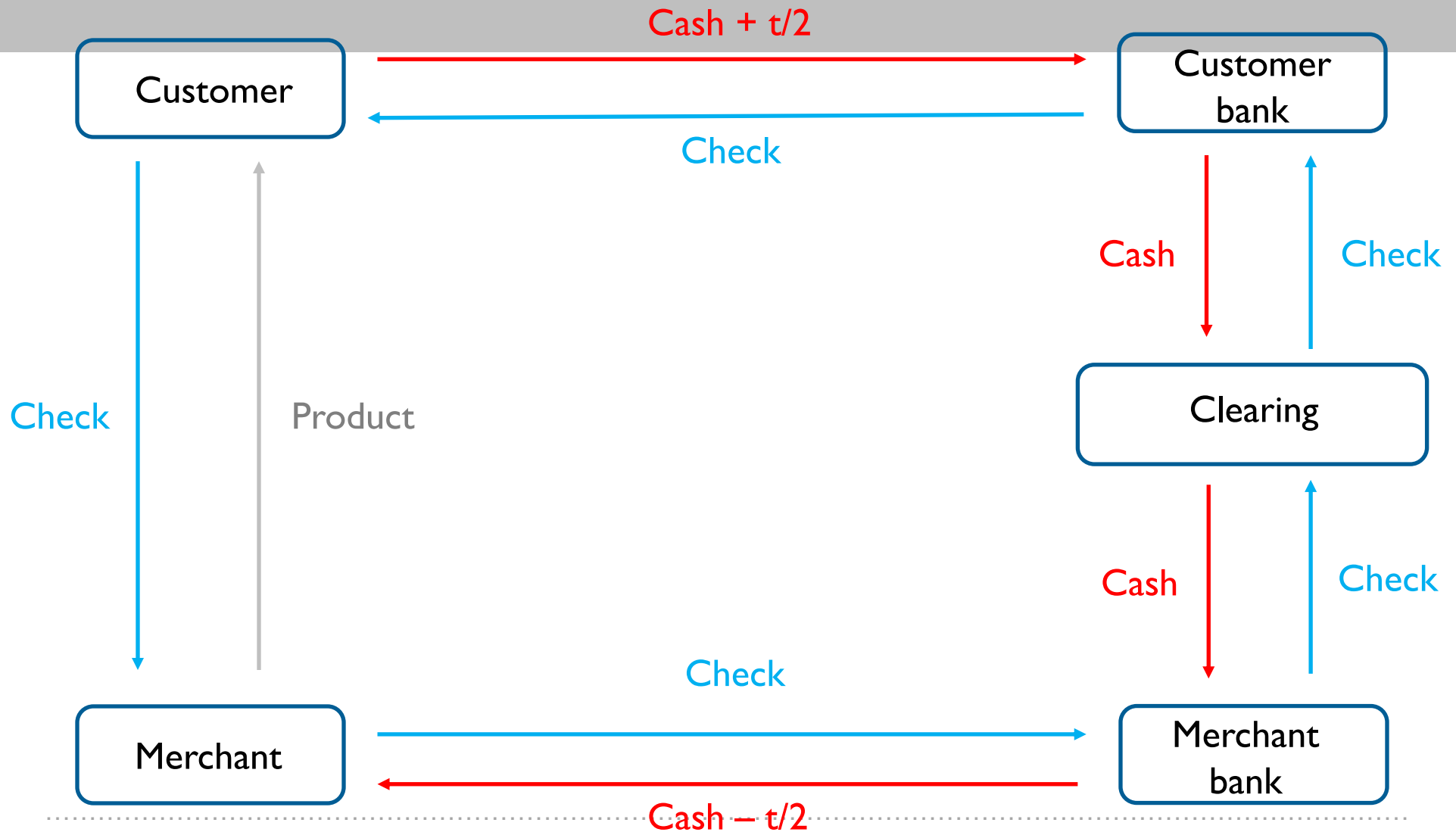
The evolution of the payments system



The evolution of the payments system

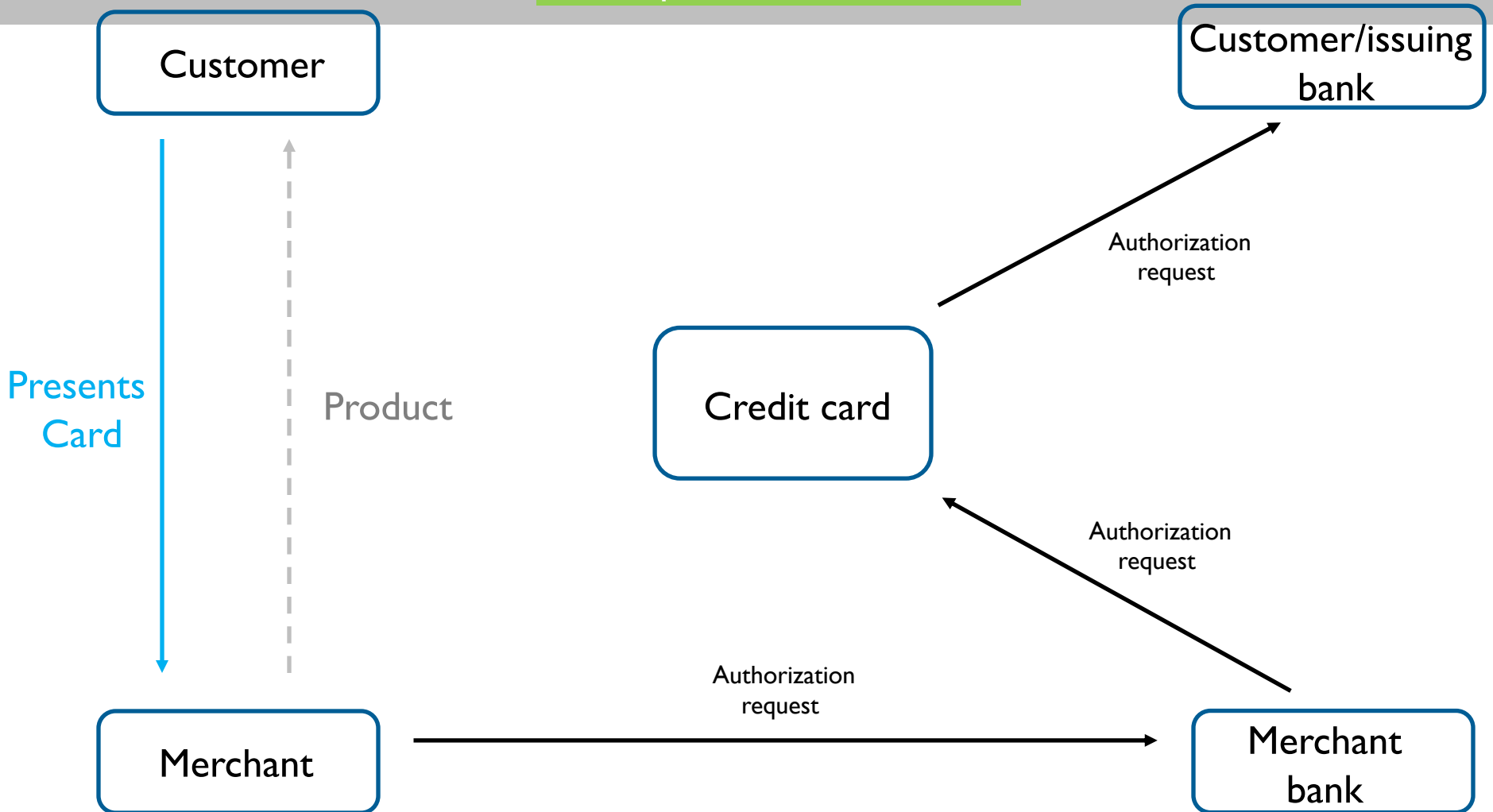


The evolution of the payments system



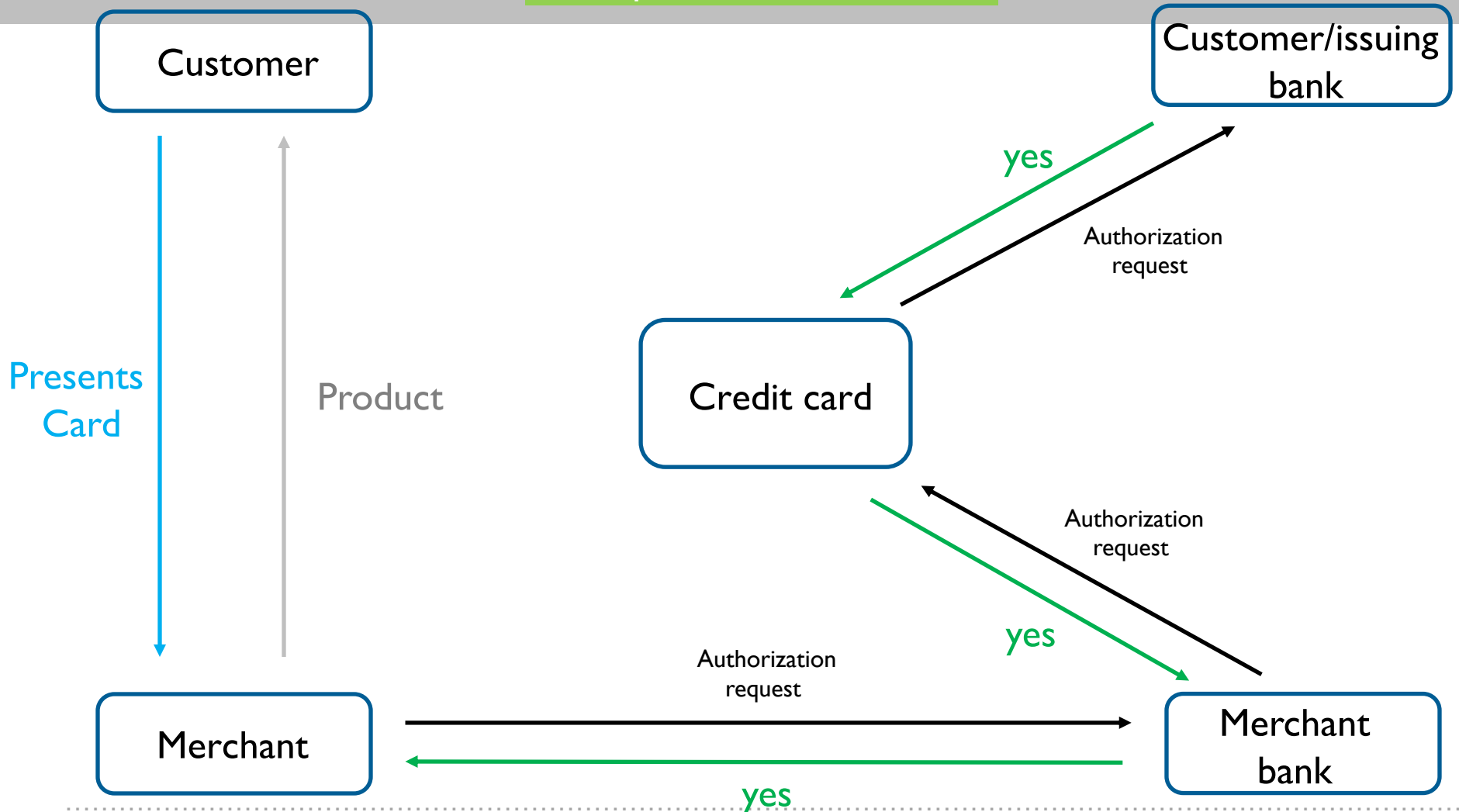
The evolution of the payments system

Credit card: An open system
Step I: Authorization



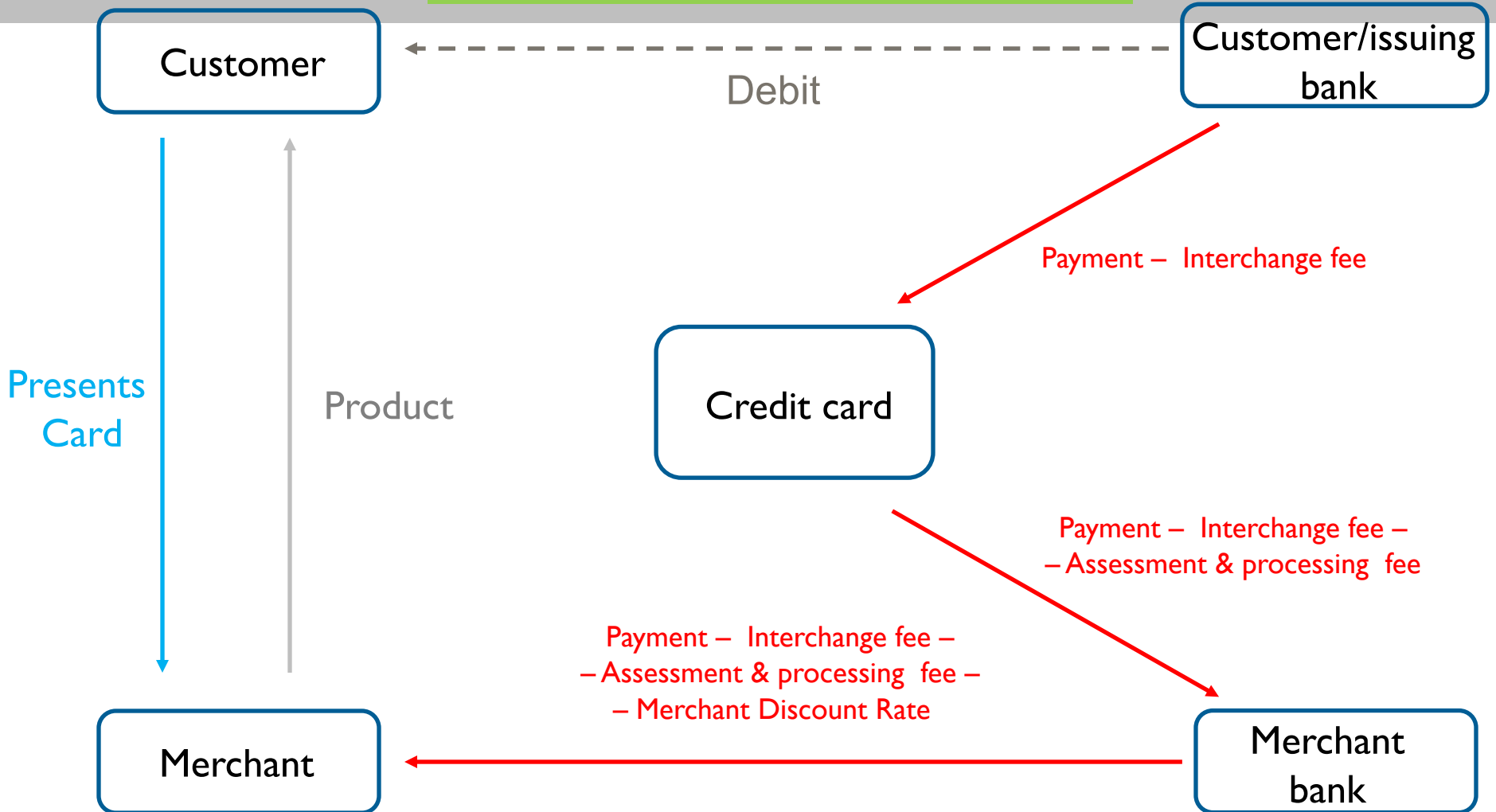
The evolution of the payments system

Credit card: An open system
Step 2: Authentication



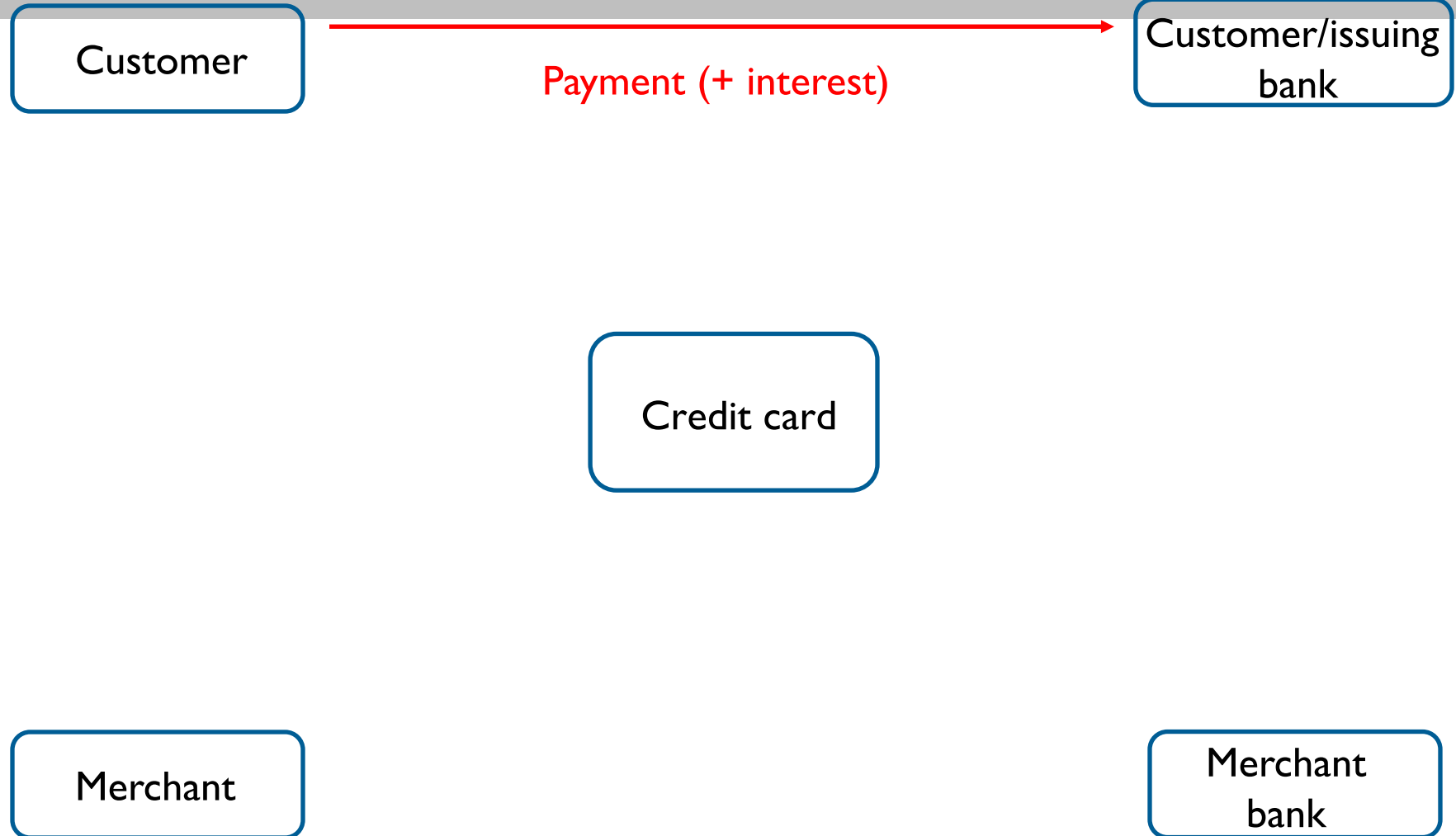
The evolution of the payments system

Credit card: An open system
Step 3.a: Clearing & settlement: 24 – 48 hrs



The evolution of the payments system

Credit card: An open system
Step 3.b: Clearing & settlement: end of the month



The evolution of the payments system

Credit card: An open system
Where is the risk?

Customer

Credit risk

Customer/issuing
bank

Credit card

Merchant

Fraud, CNP risk

Merchant
bank

The evolution of the payments system

Credit card: An open system
Industrial Organization – I

Customer

Customer/issuing
bank

Citi

Chase

Bank of America ...

Mastercard
Visa

Credit card

Citi Merchant Serv.
Chase Paymentech
BofA Merchant Serv.
Wells Fargo Merchant Serv.

Merchant
bank

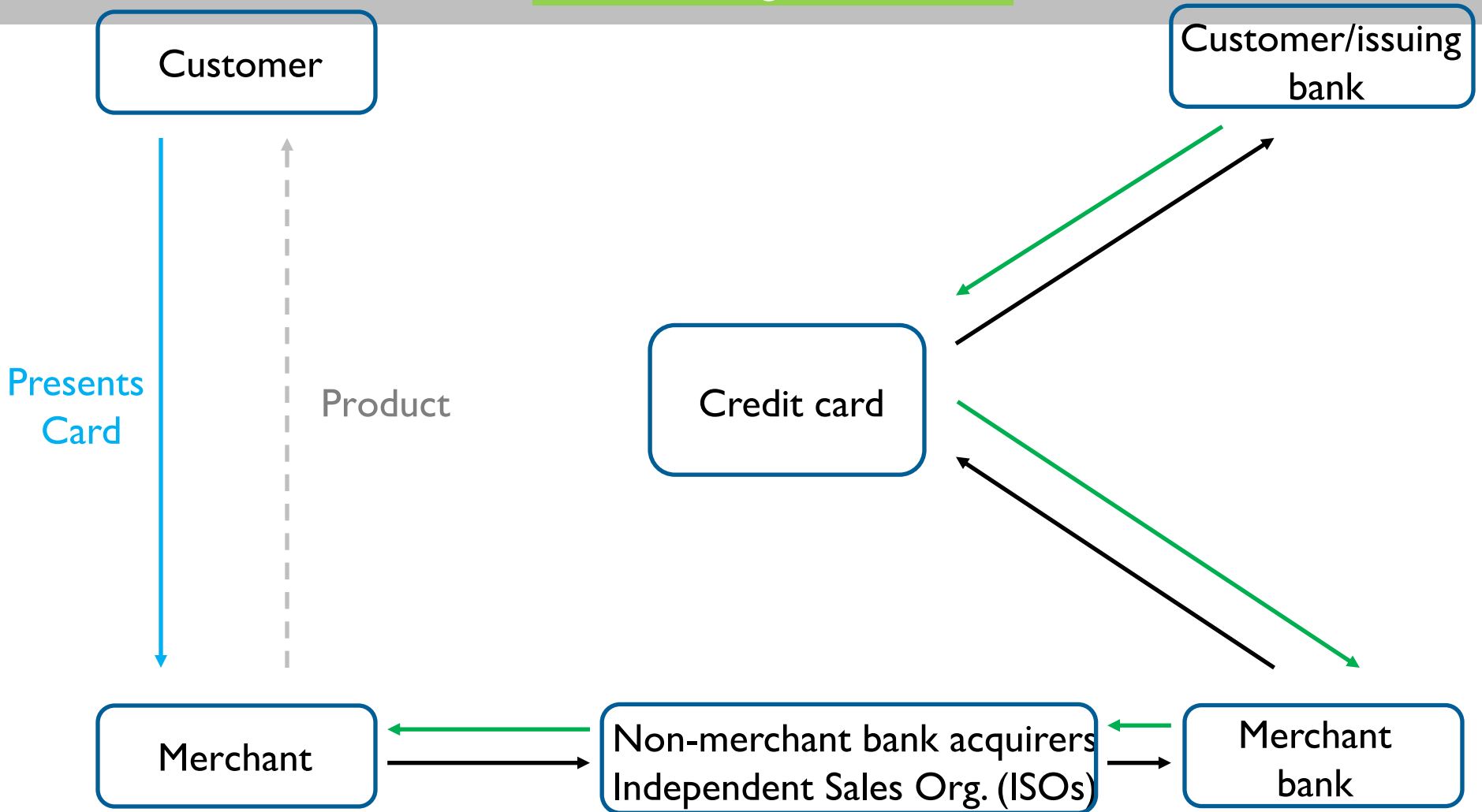
Merchant

Presents
Card

Product

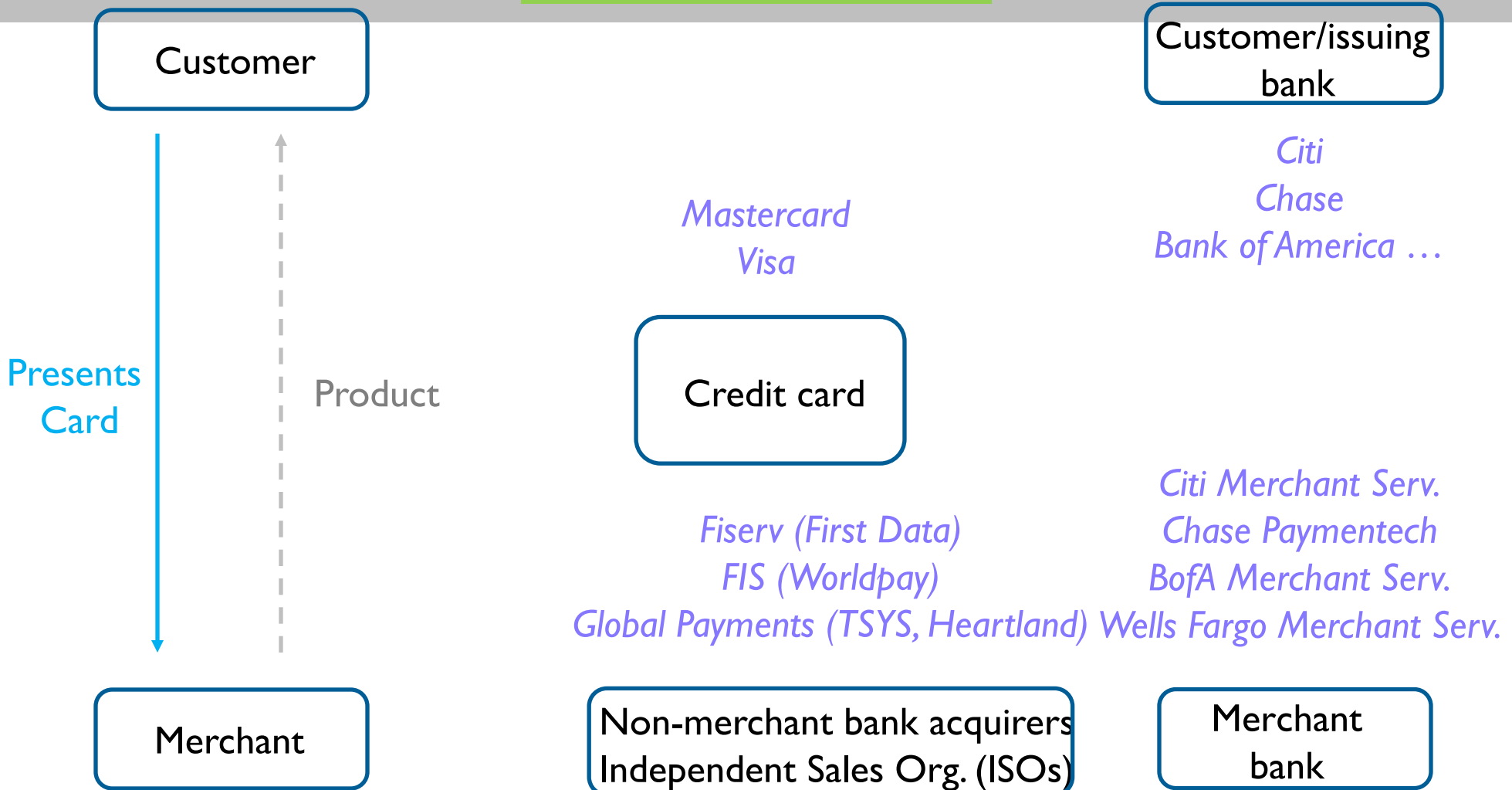
The evolution of the payments system

Credit card: An open system
Industrial Organization – 2



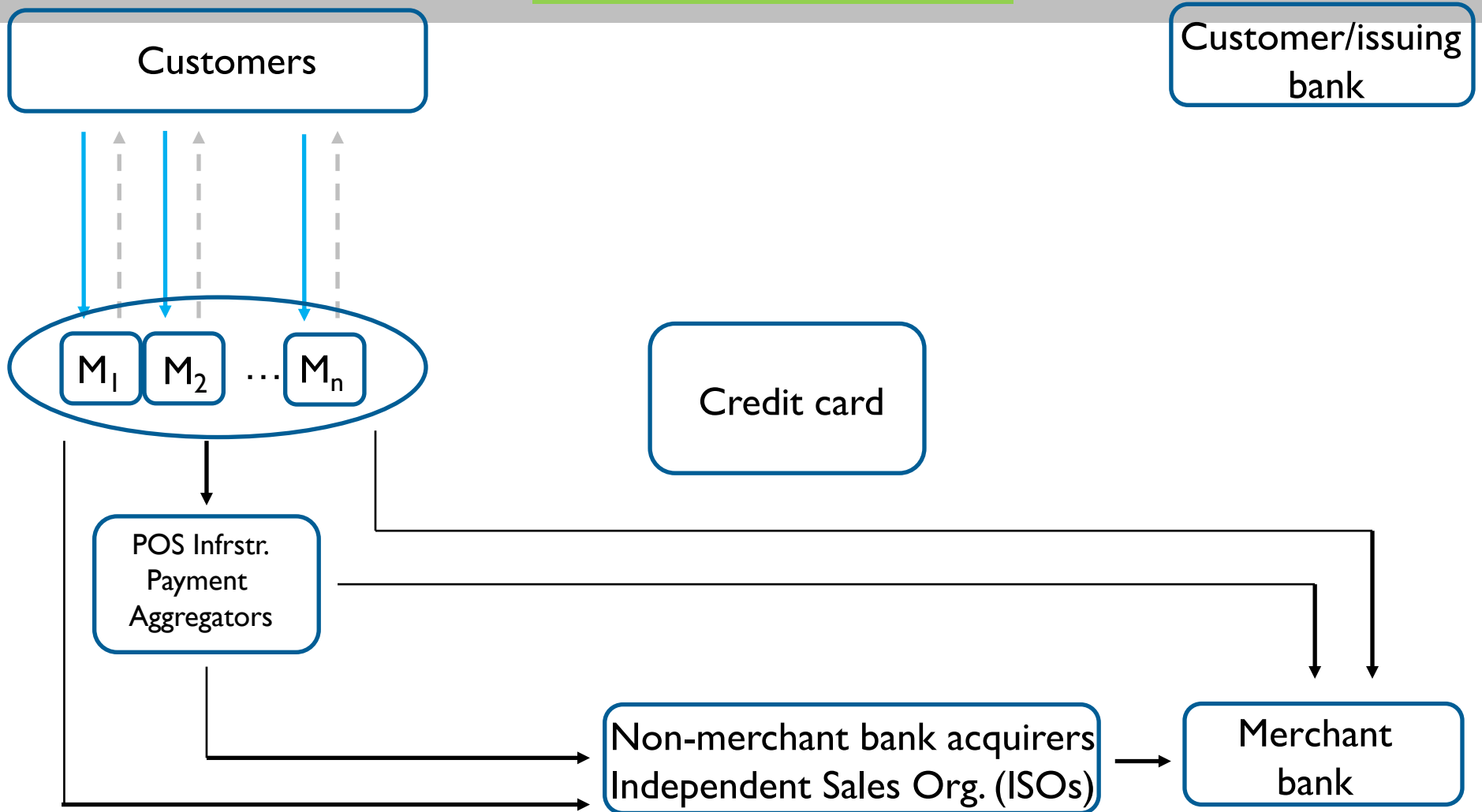
The evolution of the payments system

Credit card: An open system
Industrial Organization – 3



The evolution of the payments system

Credit card: An open system
Industrial Organization – 4



The evolution of the payments system

Credit card: An open system
Industrial Organization – 5

Customers

Customer/issuing
bank

Citi

Chase

Bank of America ...

Mastercard
Visa

Credit card

Citi Merchant Serv.

Chase Paymentech

BofA Merchant Serv.

Wells Fargo Merchant Serv.

Fiserv (First Data)

FIS (Worldpay)

Global Payments (TSYS, Heartland)

Non-merchant bank acquirers
Independent Sales Org. (ISOs)

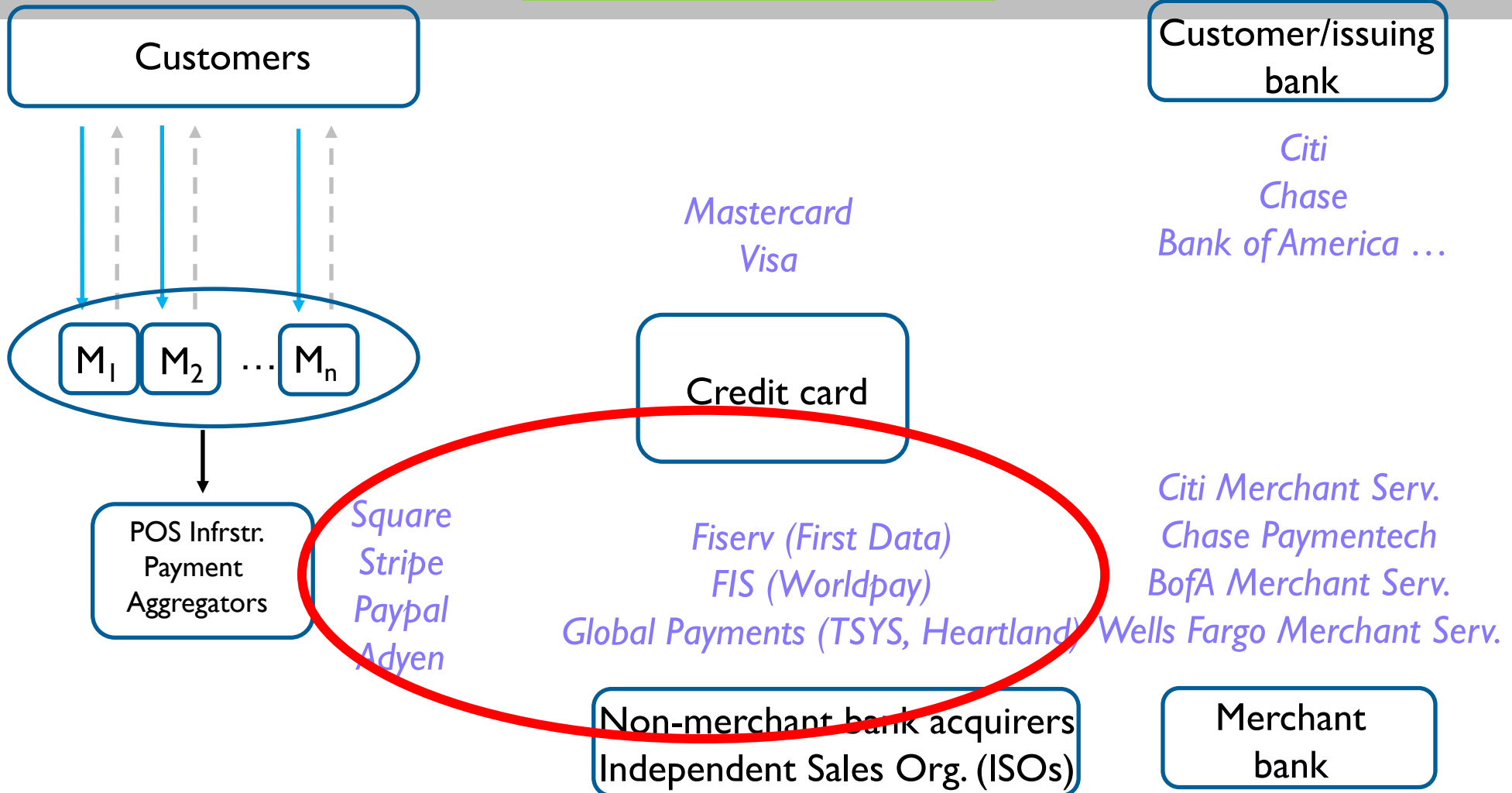
Merchant
bank

POS Infrstr.
Payment
Aggregators

Square
Stripe
Paypal
Adyen

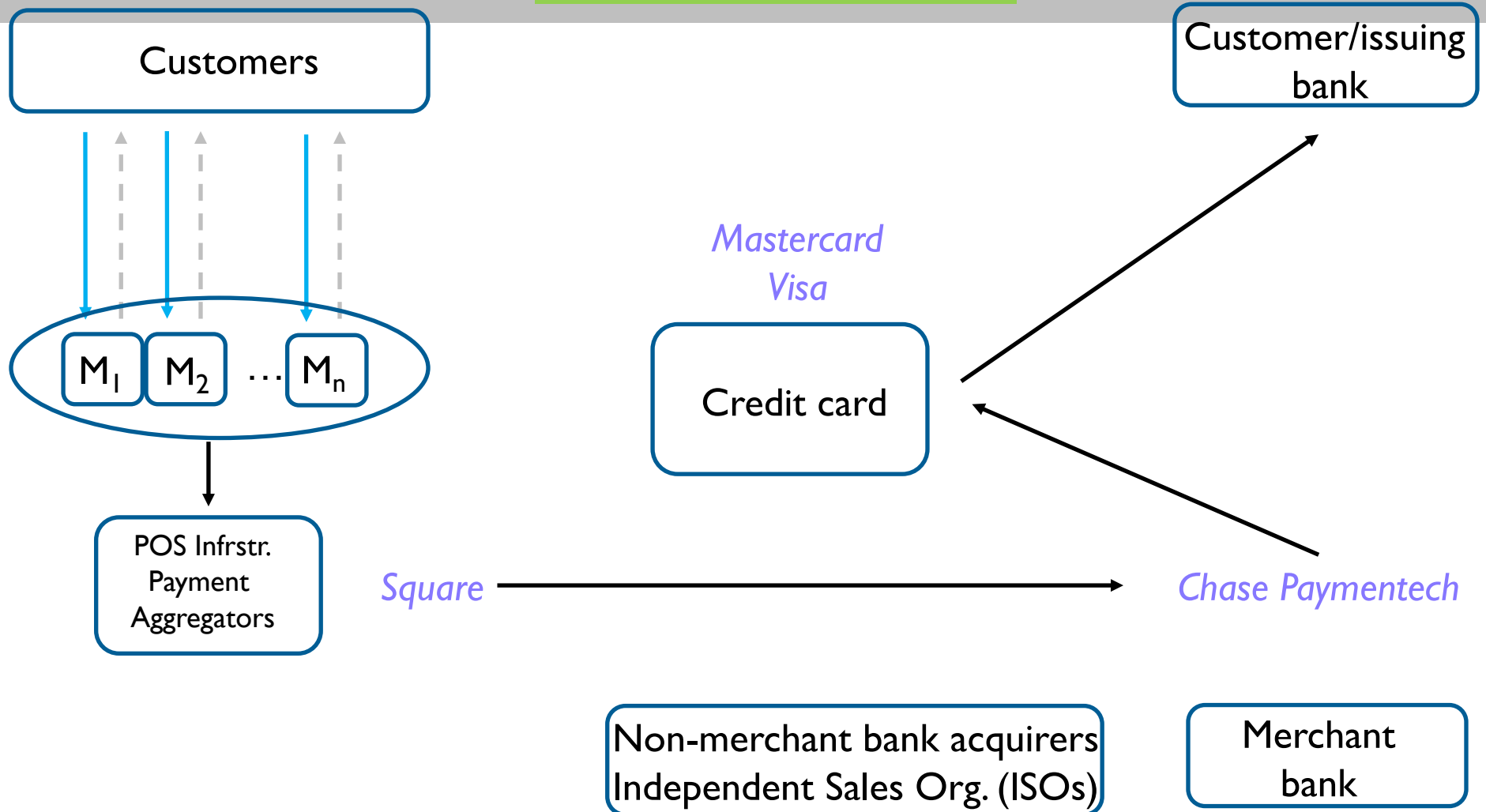
The evolution of the payments system

Credit card: An open system
Industrial Organization – 5

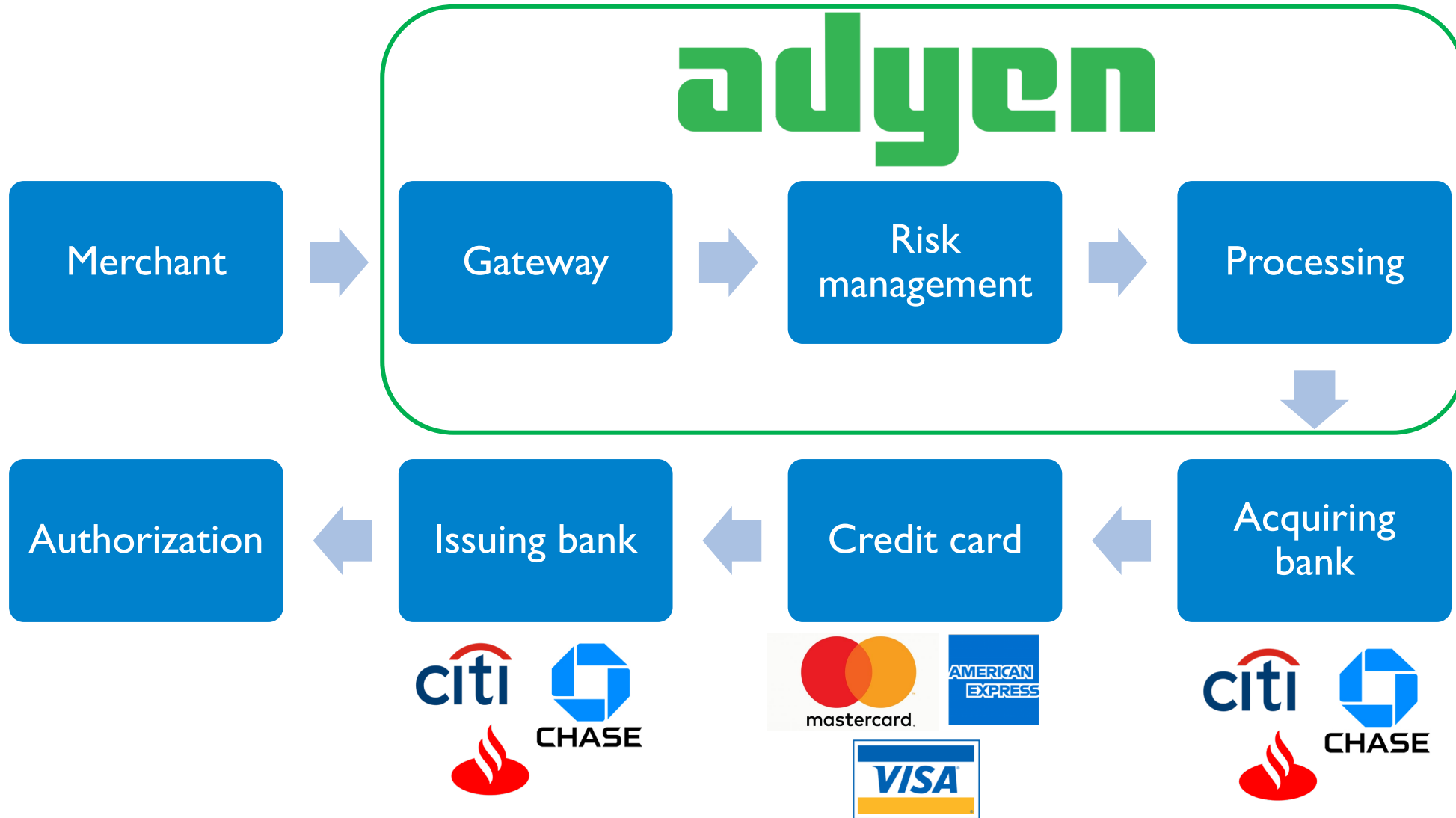


The evolution of the payments system

Credit card: An open system
Industrial Organization – 6



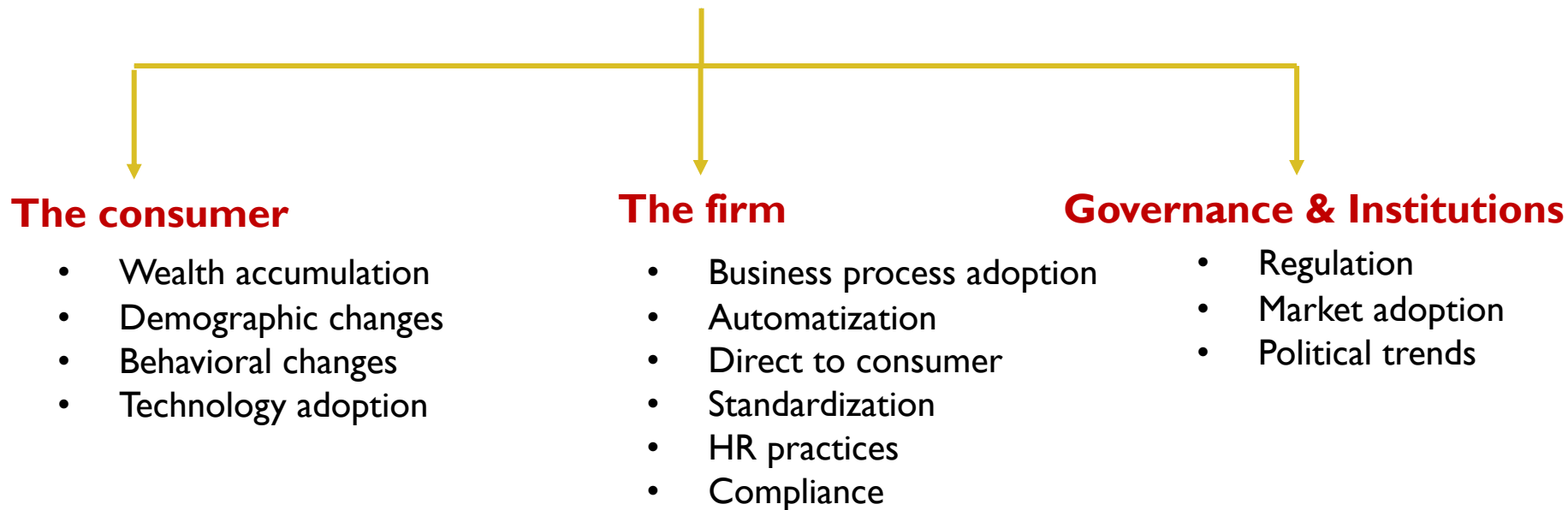
Where is Adyen in the payment process



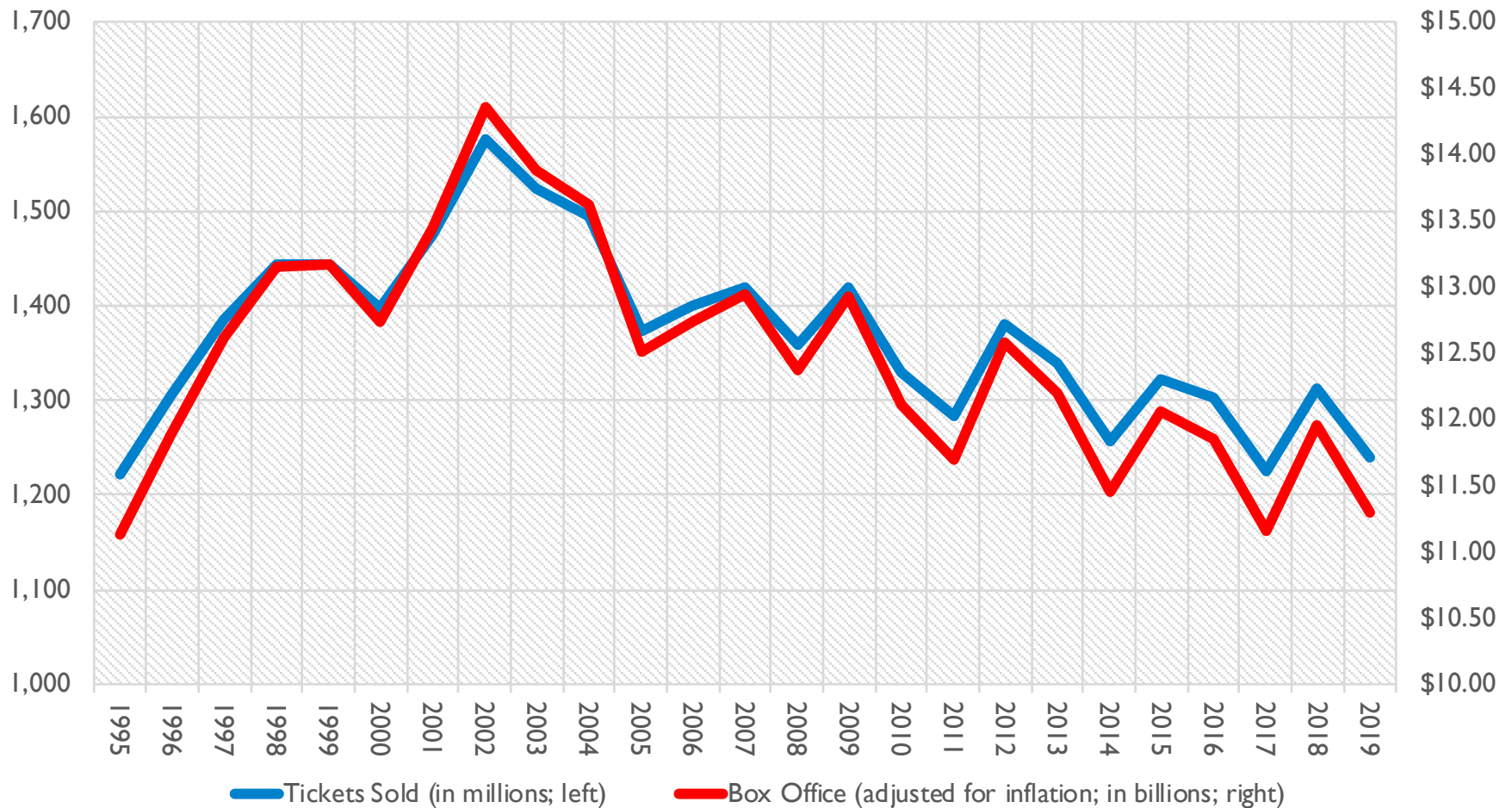
An aerial, top-down view of several groups of people sitting at small, round white tables on a light-colored, textured floor. They are working on laptops, some looking at screens, others at papers. The scene is brightly lit, casting soft shadows. A large, semi-transparent white rectangle is overlaid on the center of the image, containing the word 'TRENDS' in blue capital letters.

TRENDS

Trends



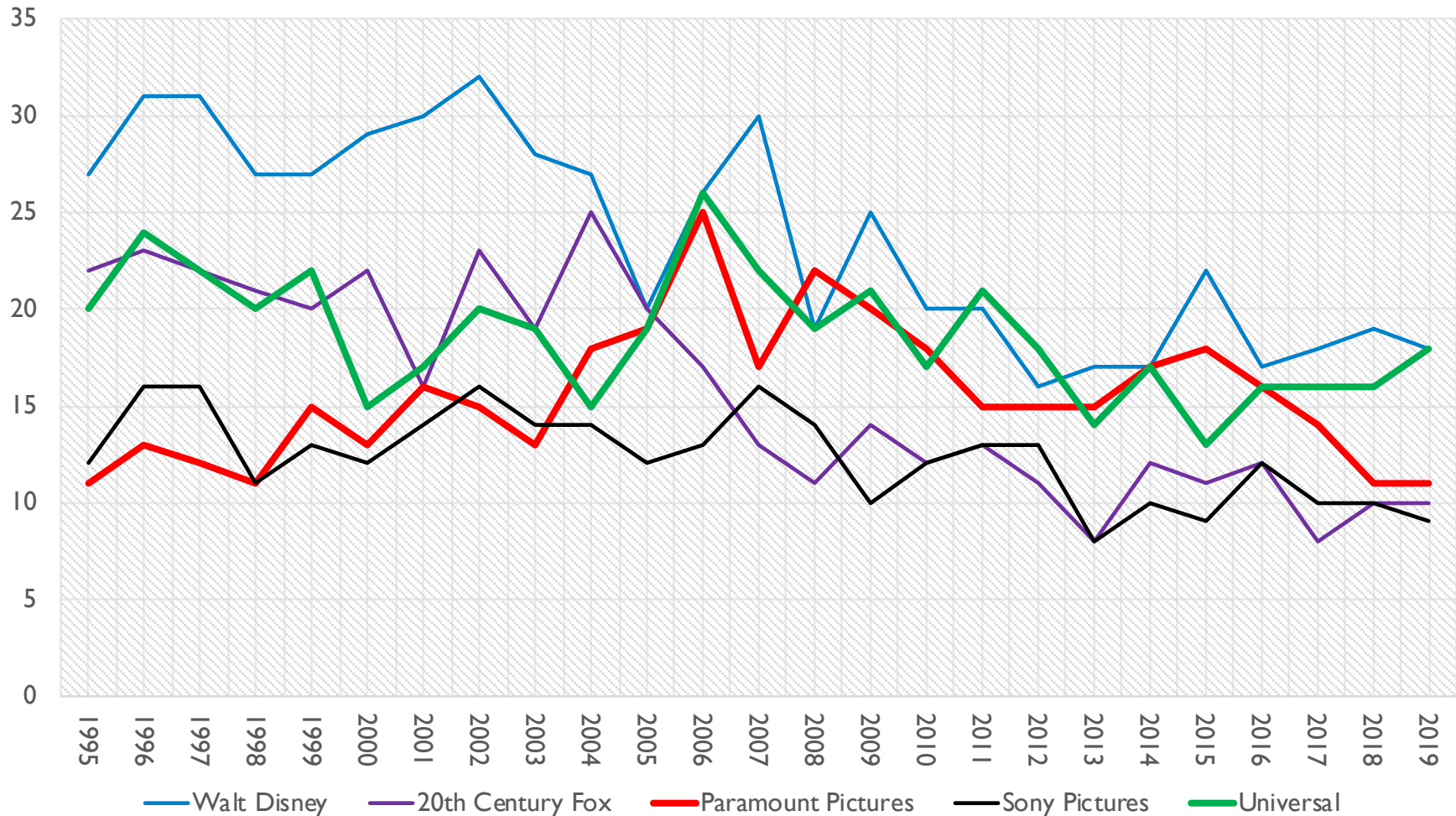
Trends: The death of the movie theater



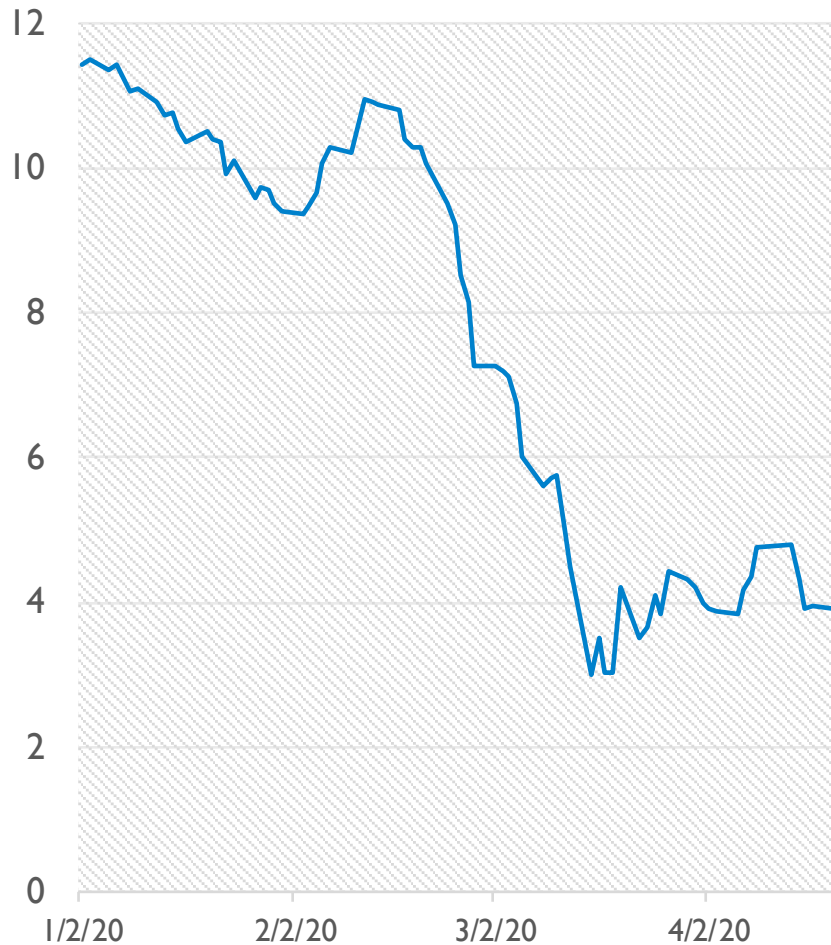
US: Tickets sold (in millions) and Box office receipts (in billions). 1995 – 2019

Source: The Numbers

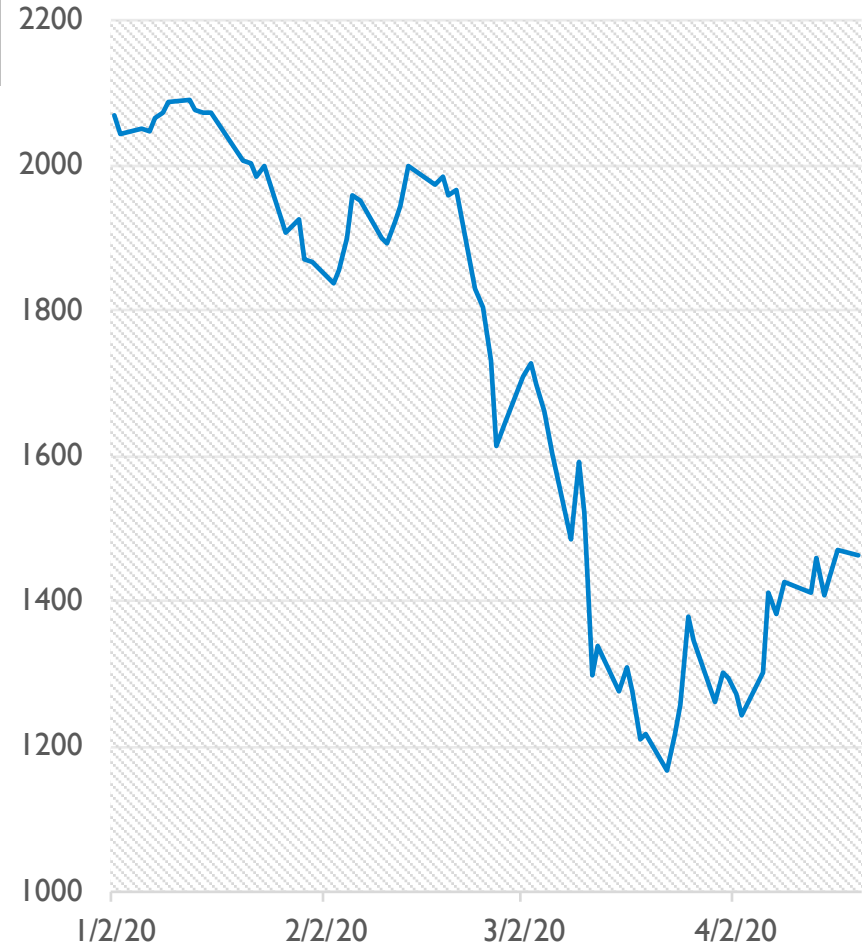
Trends: The death of the movie theater



Travel agencies: Stock Prices: This year

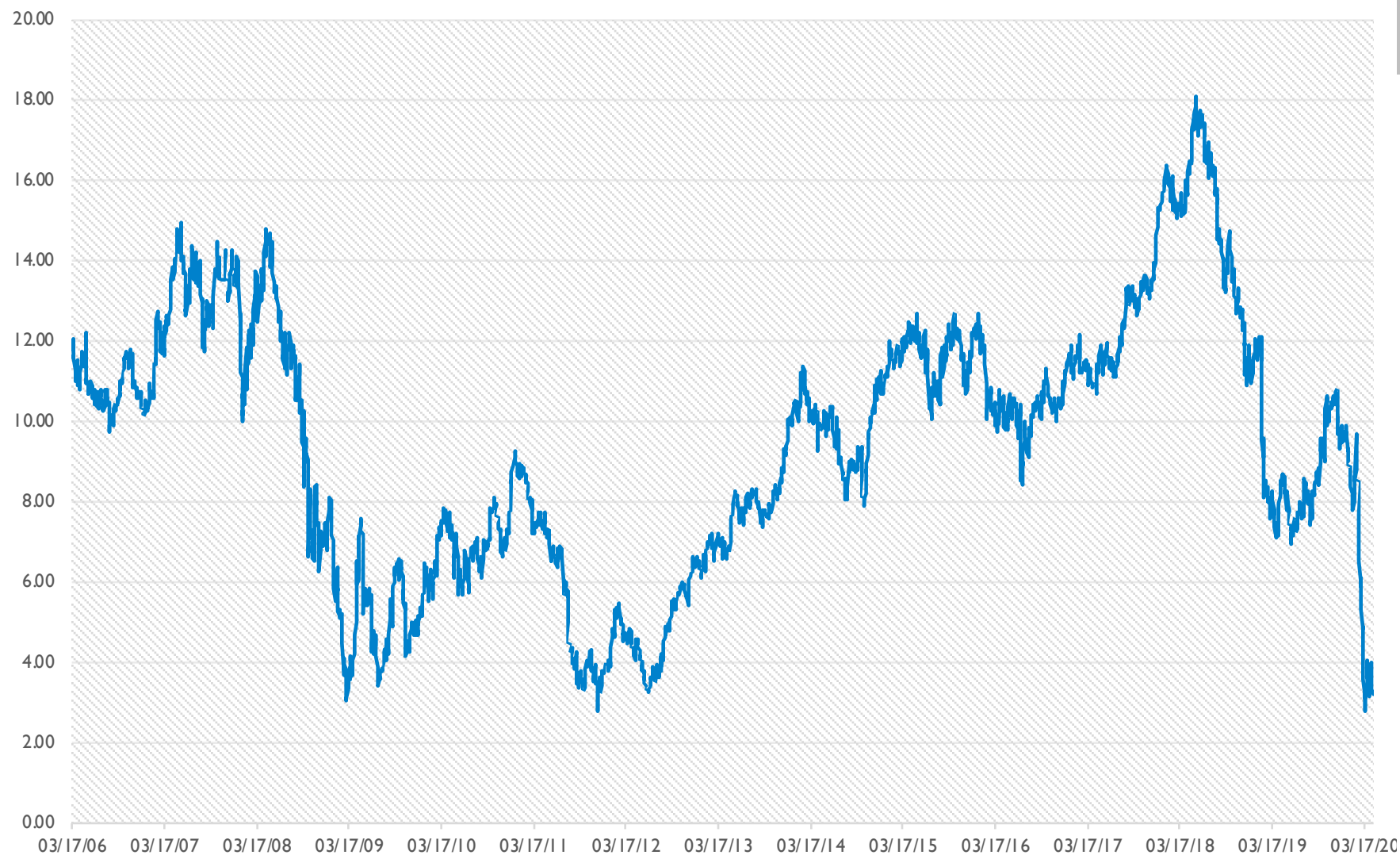


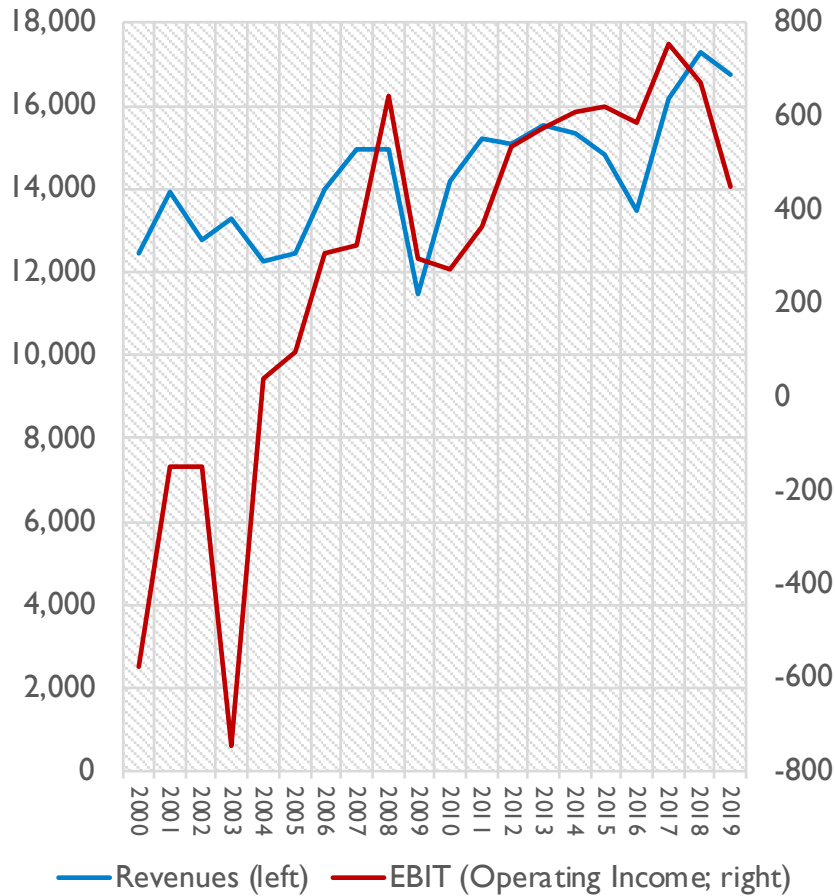
TUI AG: Stock price (€)



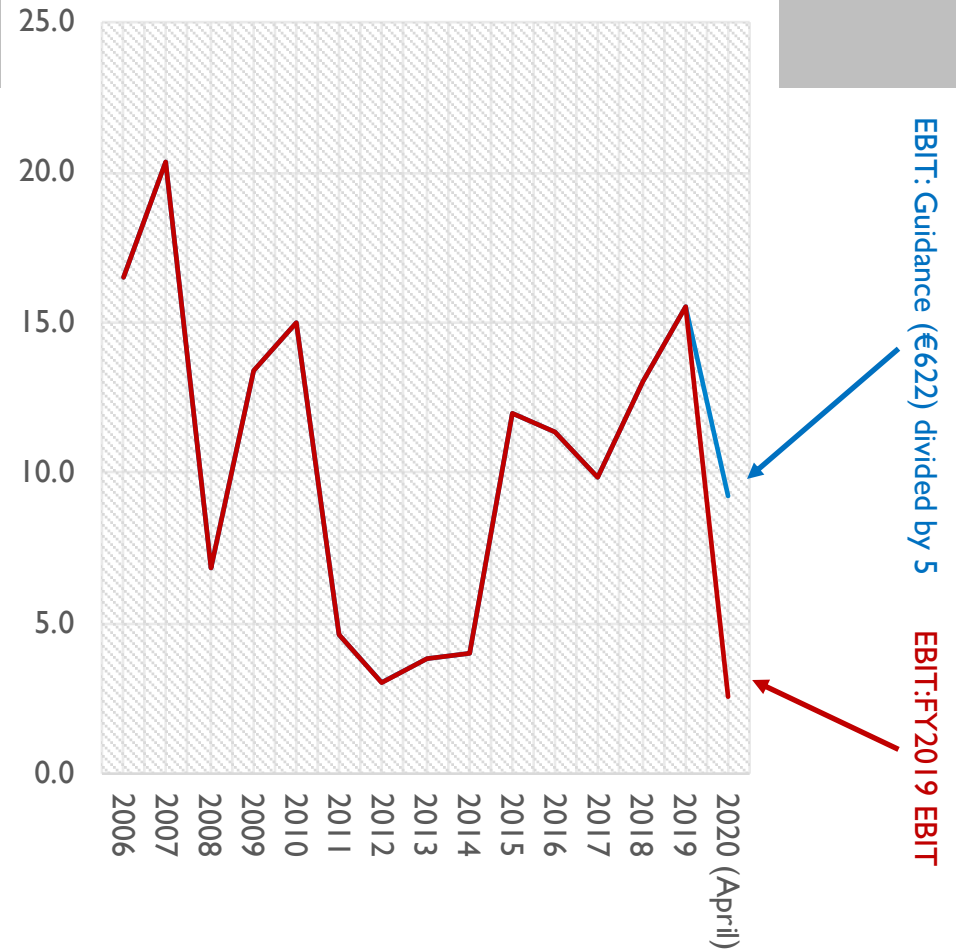
Bookings: Stock price (\$)

TUI AG: Stock price (£): 03/17/2006 – 04/21/2020



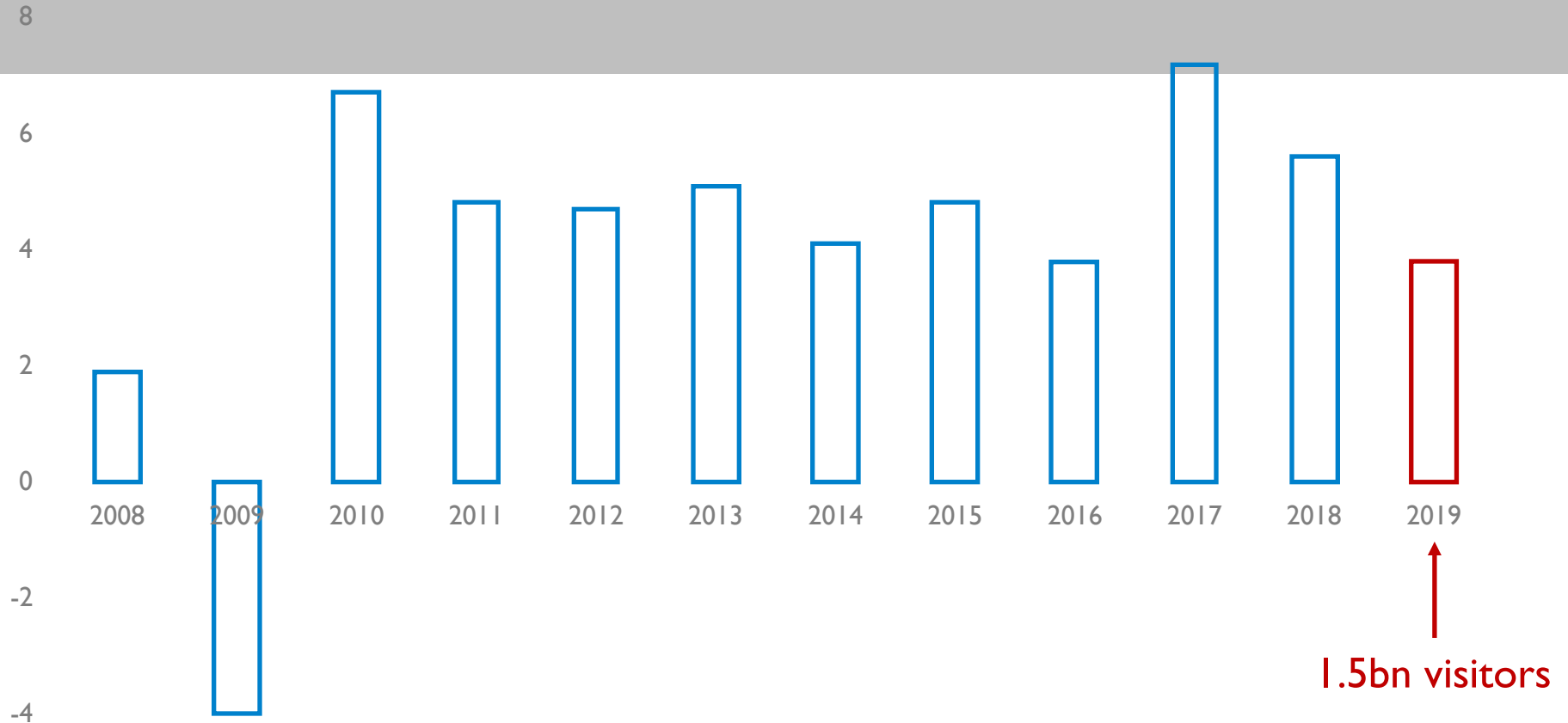


TUI AG
Revenues and operating income (mns. of £)
2000 – 2019



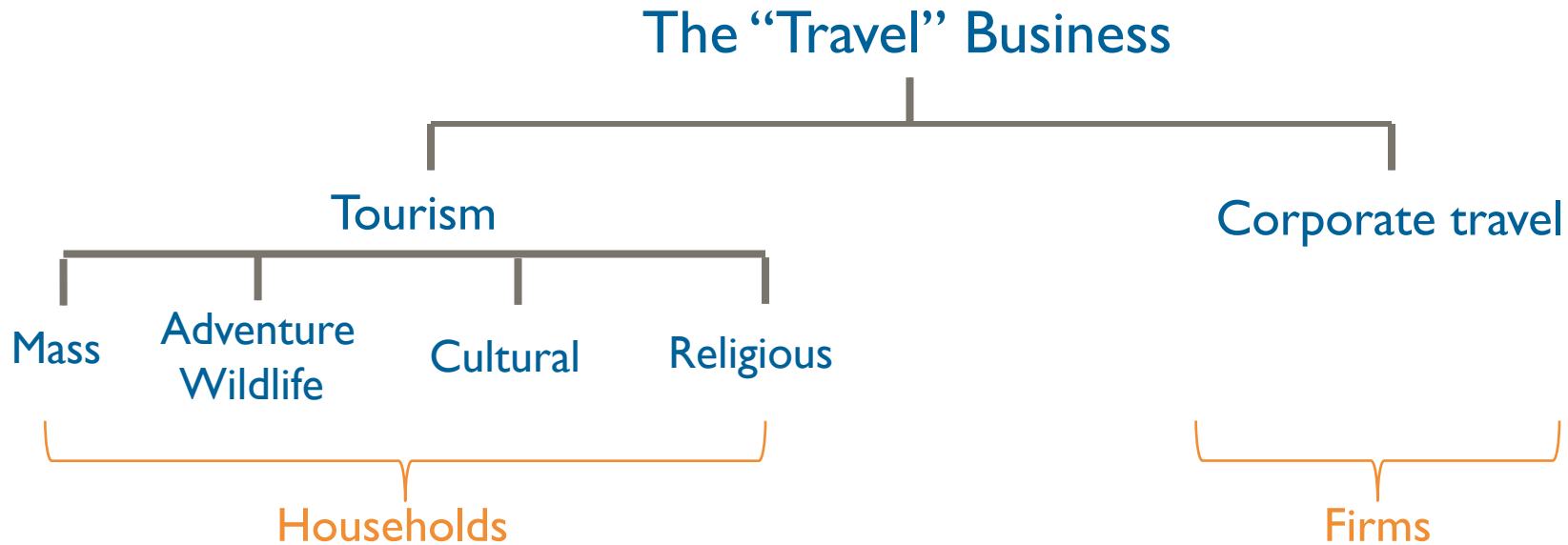
TUI EV/EBIT
2006 – 2019

Is it growing?



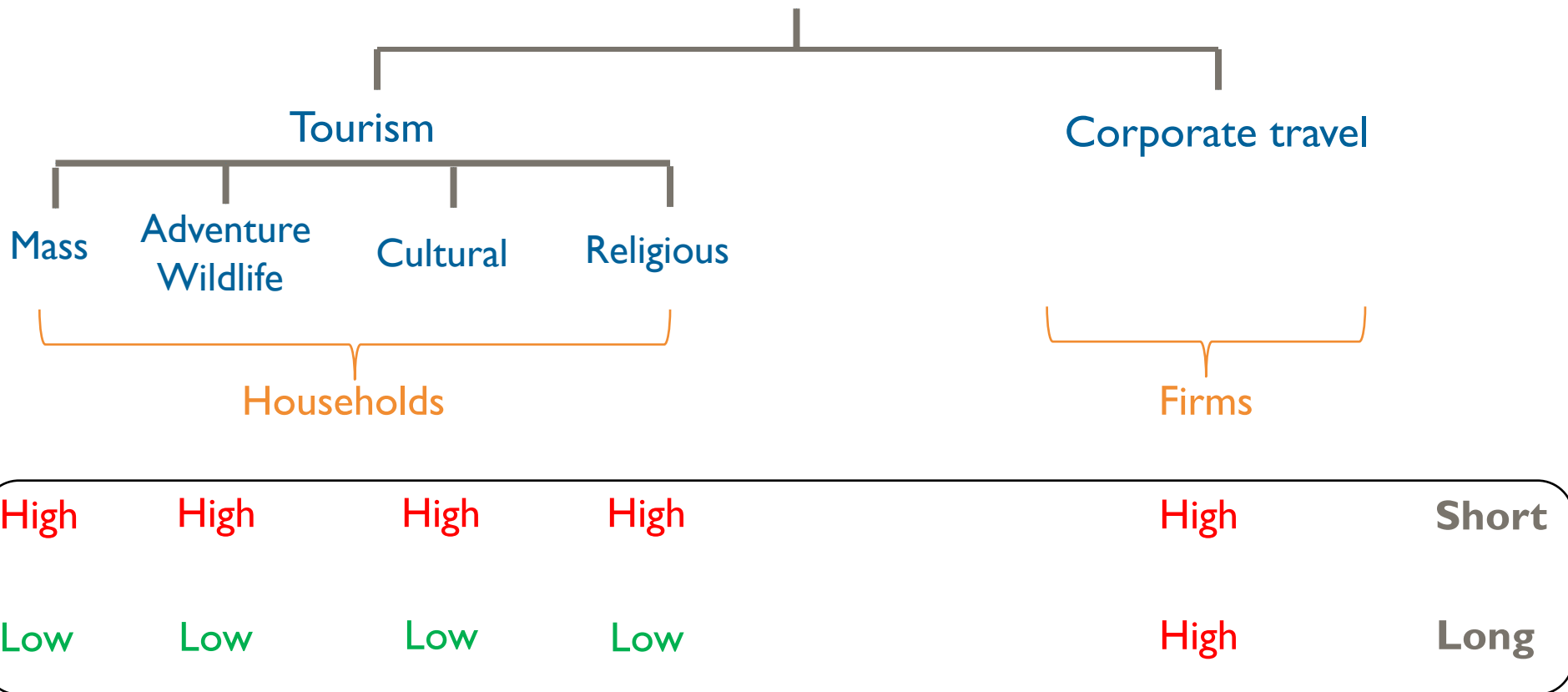
Rate of growth of international arrivals. Source: UNWTO

The “Travel” business: A bird’s eye view

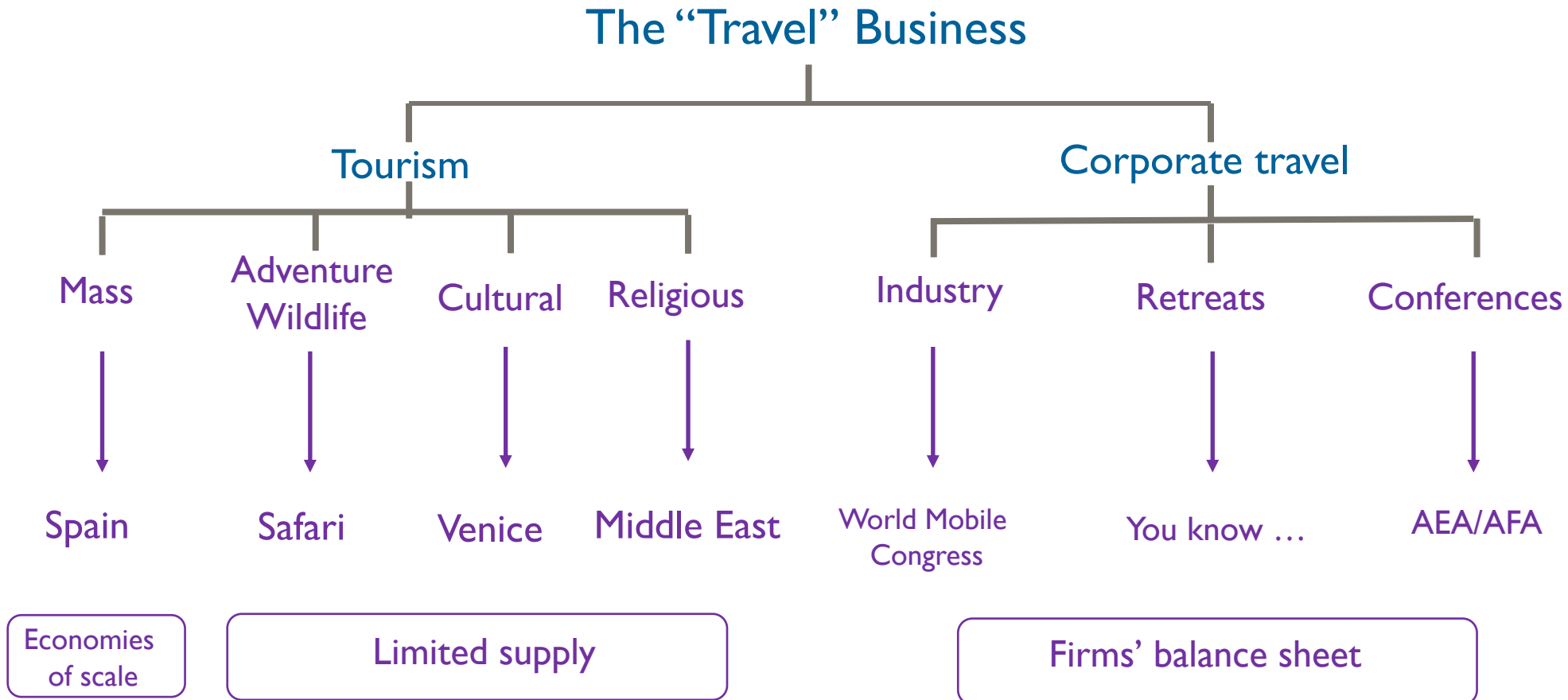


The “Travel” business: Exposure to Coronavirus

The “Travel” Business



The “Travel” business: Main economic determinant



Tourism: Is this a good country for tourism?



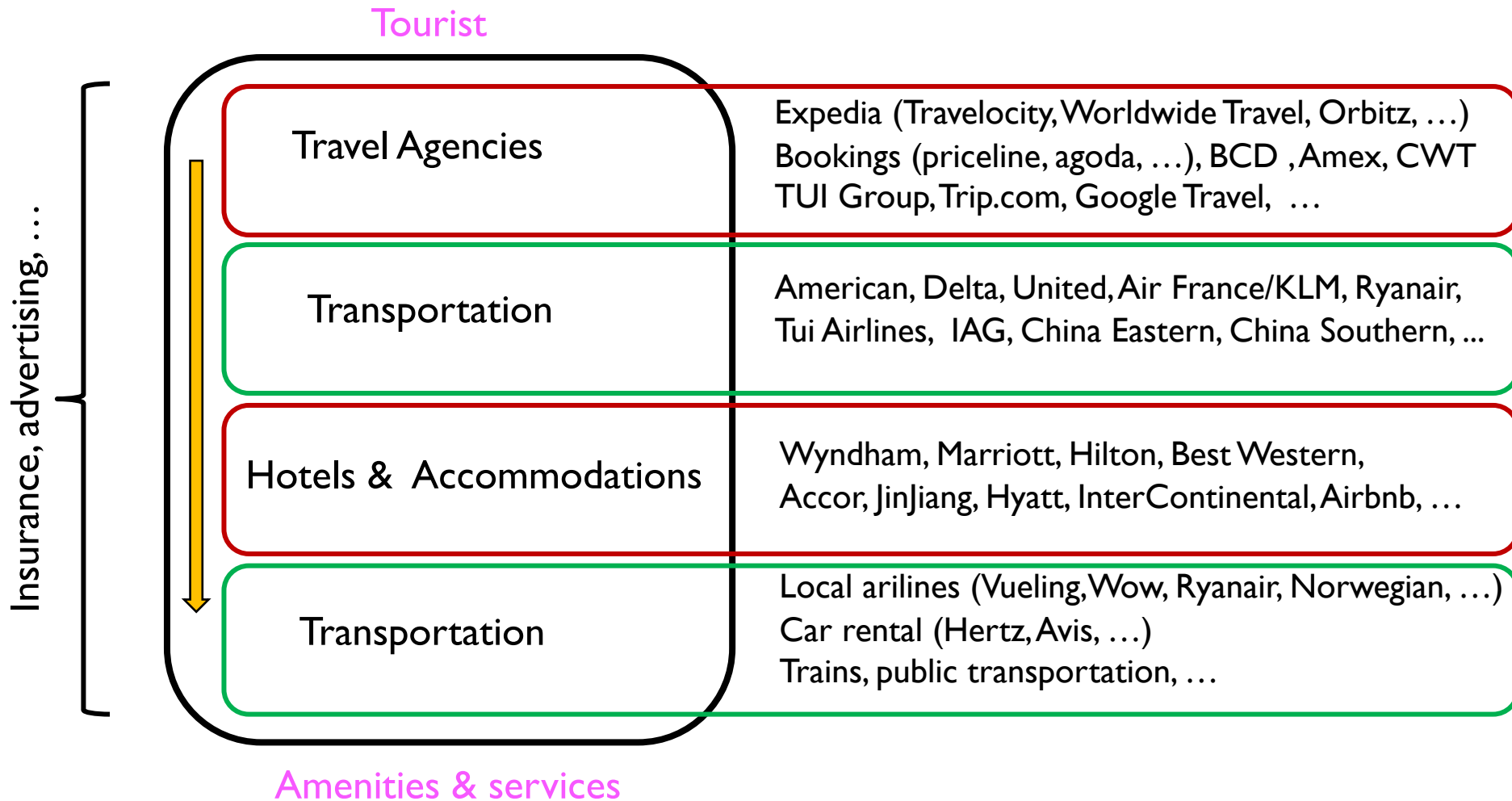
Tourism: Is this a good country for tourism?



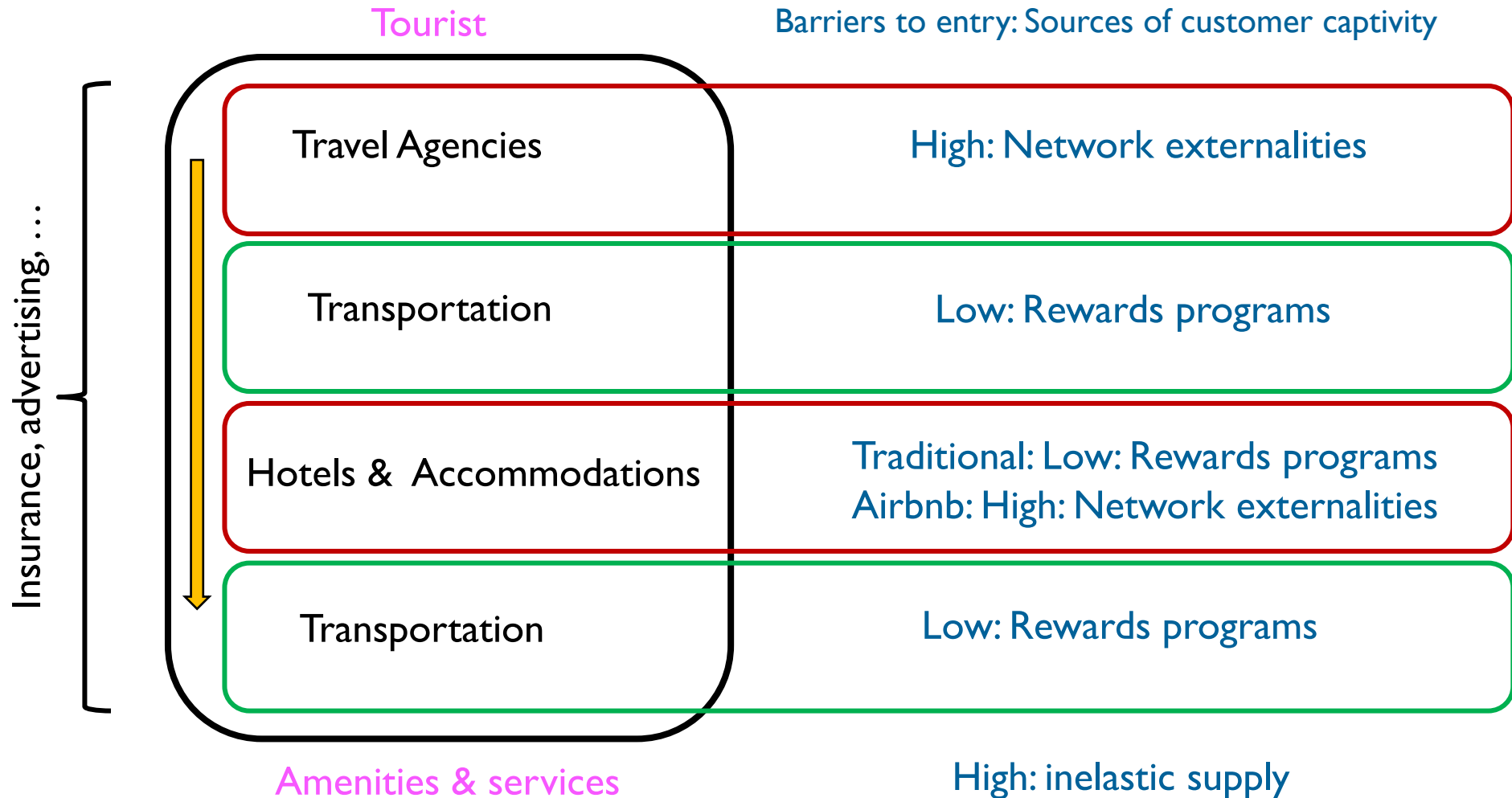
Tourism: Is this a good country for tourism?



Tourism: The value chain



Tourism: The value chain



- How do you book a hotel in Rome?

1. OTA

- Bookings, Expedia

2. Metasearch/aggregator

- Trivago, TripAdvisor

3. Alternative

- Airbnb

4. Direct booking

- Le Meridien Visconti

5. Search engine

- Google

- OTAs: Business models

- 1) Merchant model

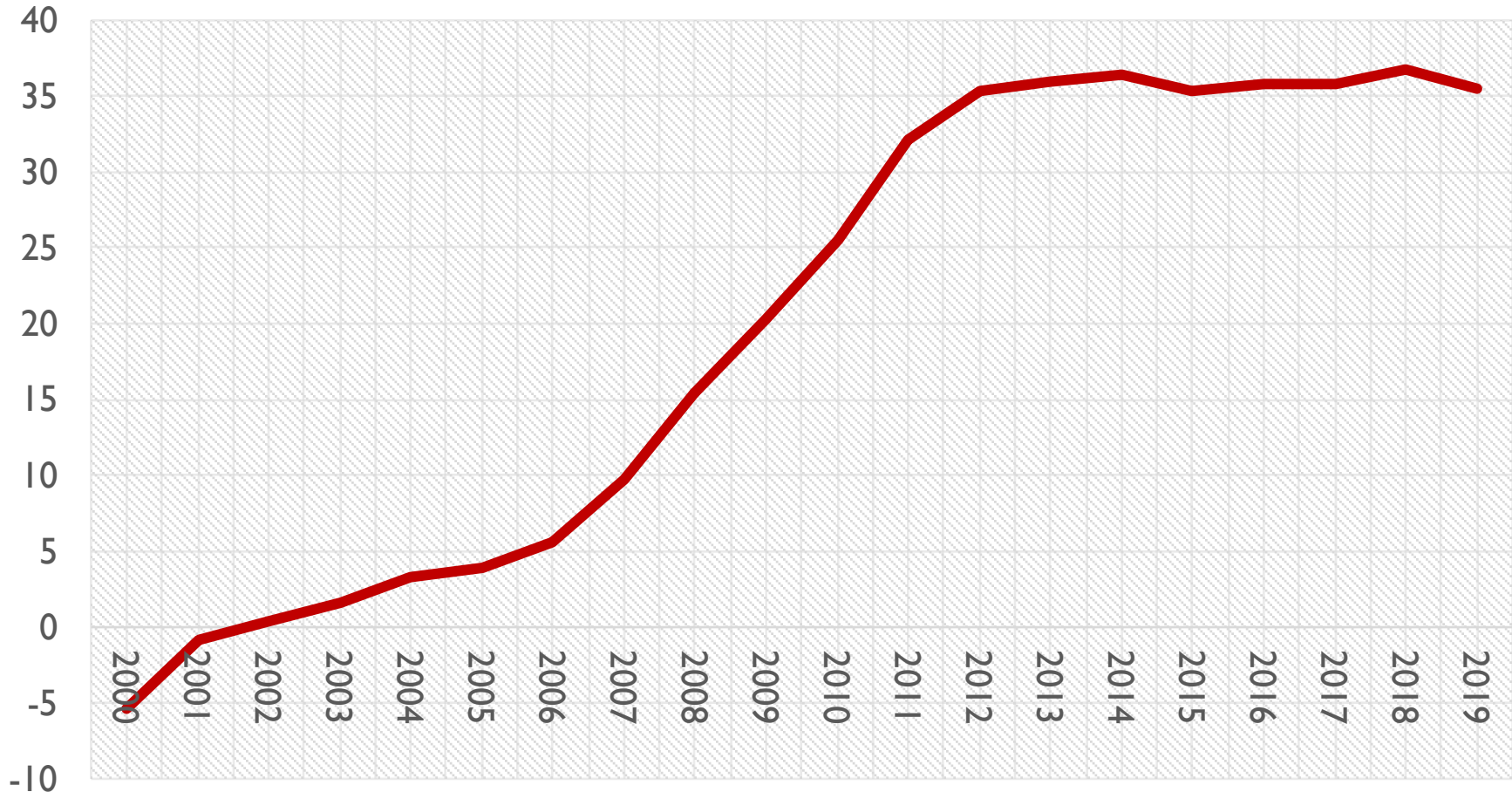
- OTA buys blocks of rooms at a discount and resells them for a profit
 - Customers pay the OTA in time of booking and the OTA pays the hotel at checkout.
 - 20-30% fee
 - Example: Expedia

- 2) Agency model

- Middleman and no payment upfront
 - 10-15% fee at checkout from hotel
 - Small versus large hotels (think Europe)
 - Example: Bookings

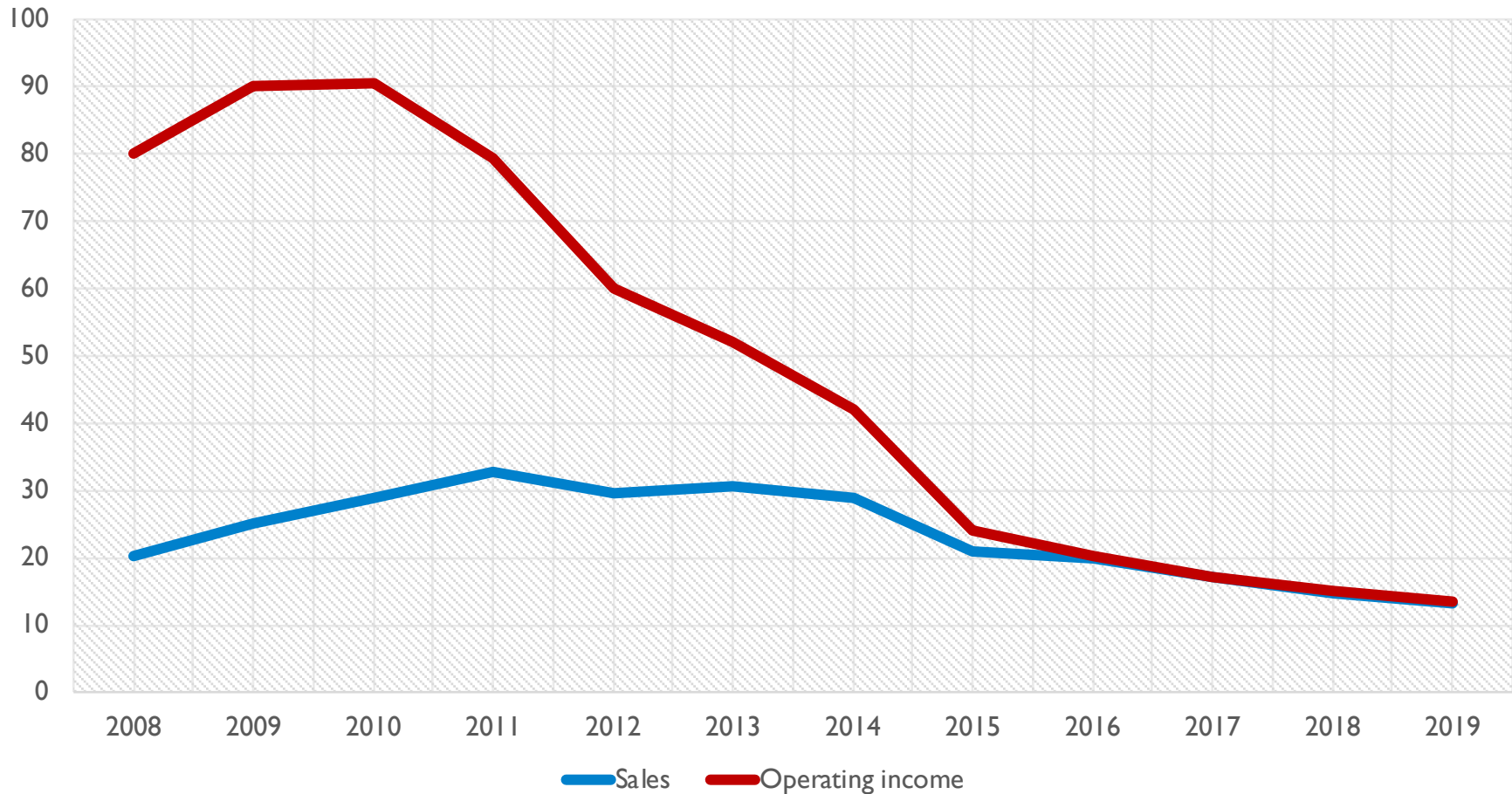
- OTAs match customers with hotels
 - The logic of platform economics
 - Example: Mastercard or Visa
- Problem
 - Most travelers start their trip by searching locations, amenities and hotels in ... Google.
 - Would Google steal the business away?
 - How much does the travel industry pay Google in marketing expenses? \$14bn
 - Value of travel industry payments to Google (annuity) at 10% with 5% growth: \$280bn
 - Cost of reproducing the network?
 - Operating margins of a network at work next

OTAs: Bookings: Operating margins



Bookings: Operating margins. 2000 – 2019
Source: Annual Reports

OTAs: Bookings: Revenue and operating income growth

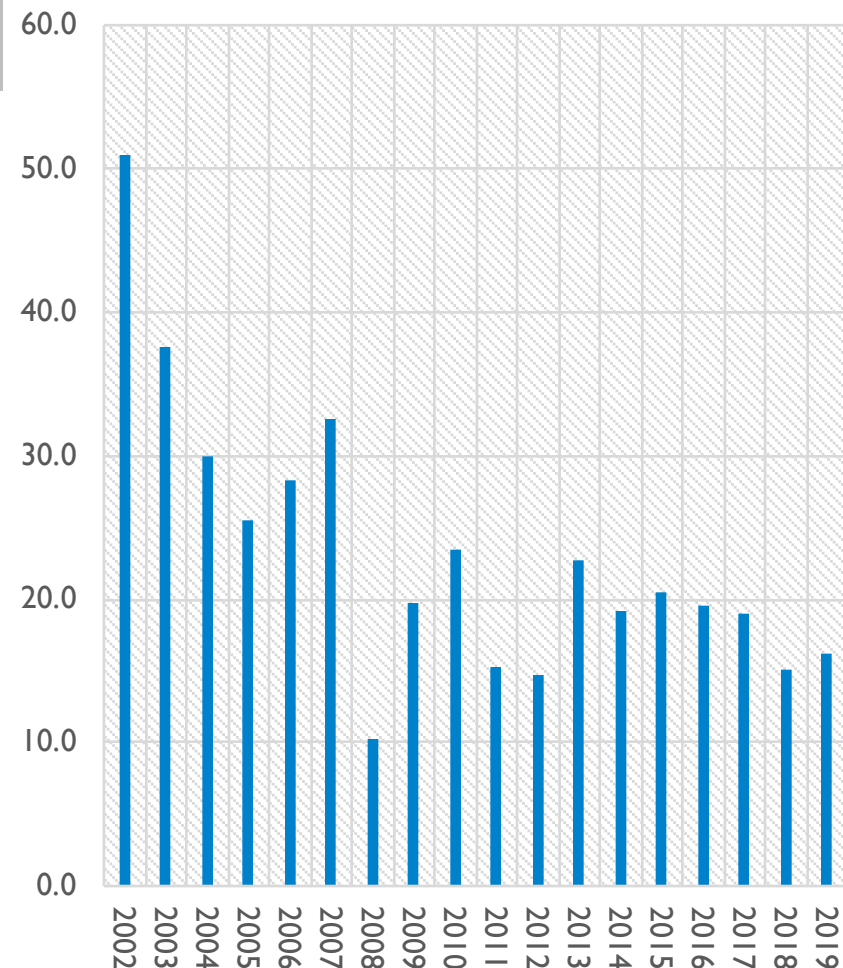


Bookings: Revenue and Op. Income growth (MA4) . 2008 – 2019

Source: Annual Reports

OTAs: Bookings: EPV

item	FY2019
Revenues	15,066.0
Operating Margin	35.5
Op. Income	5,345.0
Adjustments	
Performance marketing	4,419.0
Brand Marketing	548.0
Adj. Op. Income	5,893.0
Tax Rate (%)	22.8
NOPAT	4547.1
Discount rate (%)	10.0
EPV Op. Buss.	45,470.8
Cash	7,330.0
Debt	9,251.0
EPV Equity	43,549.8
Market cap (05-11-2020)	56,730.0
Market cap (03-23-2020)	47,303.2



Bookings: EV/ebit