

# Dichotomy in Value Investing

Ivey Value Investing Conference

Ratul Kapur | April 19, 2023





# **dichotomy** [day-kot-uh-mee]

Division into two parts, kinds, etc.; subdivision into halves or parts.

Source: Thesaurus.com

# The Great Divide



# Continuum Intricacies



- Low headline multiples
- Tangible BV relevance
- Discount on current earnings or reversion to mean from cyclical / mis-management
- Growth - challenged or temporarily impaired
- Net cash, low leverage preferred but sometimes excess leverage creates opportunities

- Willing to pay up
- Intangibles could create optionality
- Margin stability; optionality of structural improvement
- Sustainable growth important for operational leverage compounding
- Debt is important part of efficient / sustainable capital structure



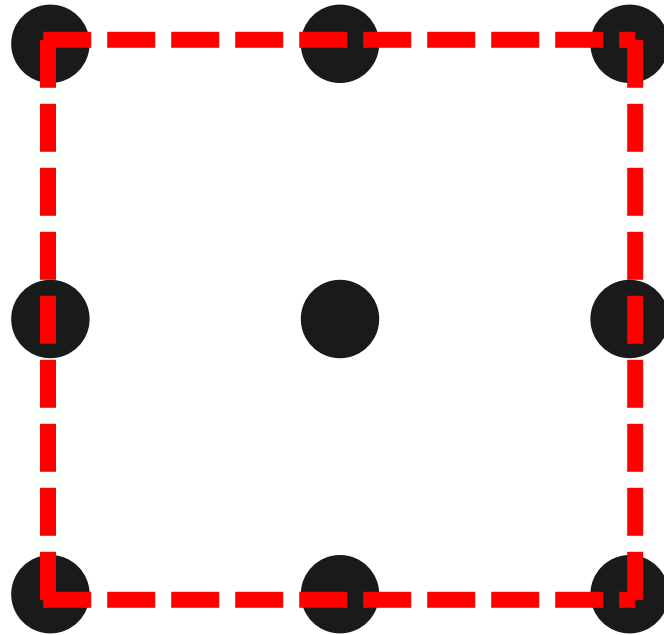
**Why do we have  
this continuum?**



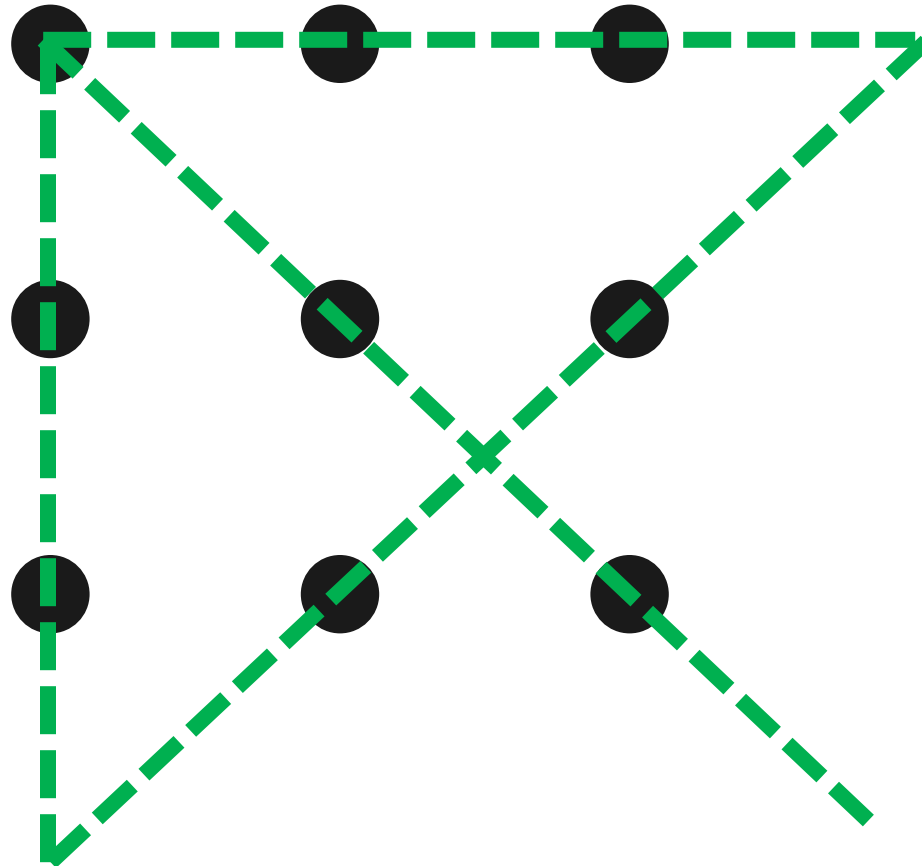
# Continuum keeps extending....

Keep creating more silos and imaginary boundaries ?

# Thinking outside the box exercise

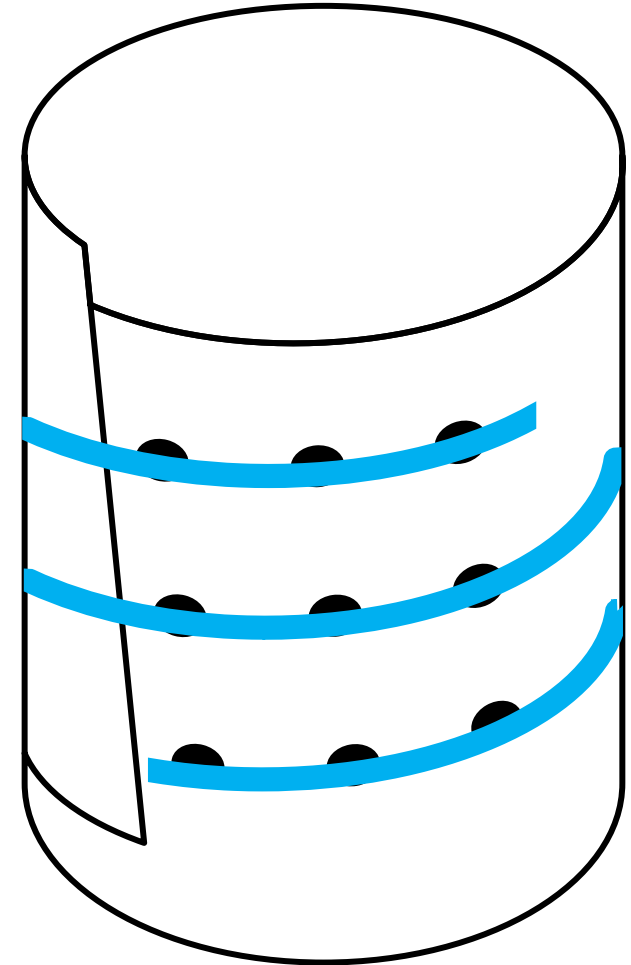
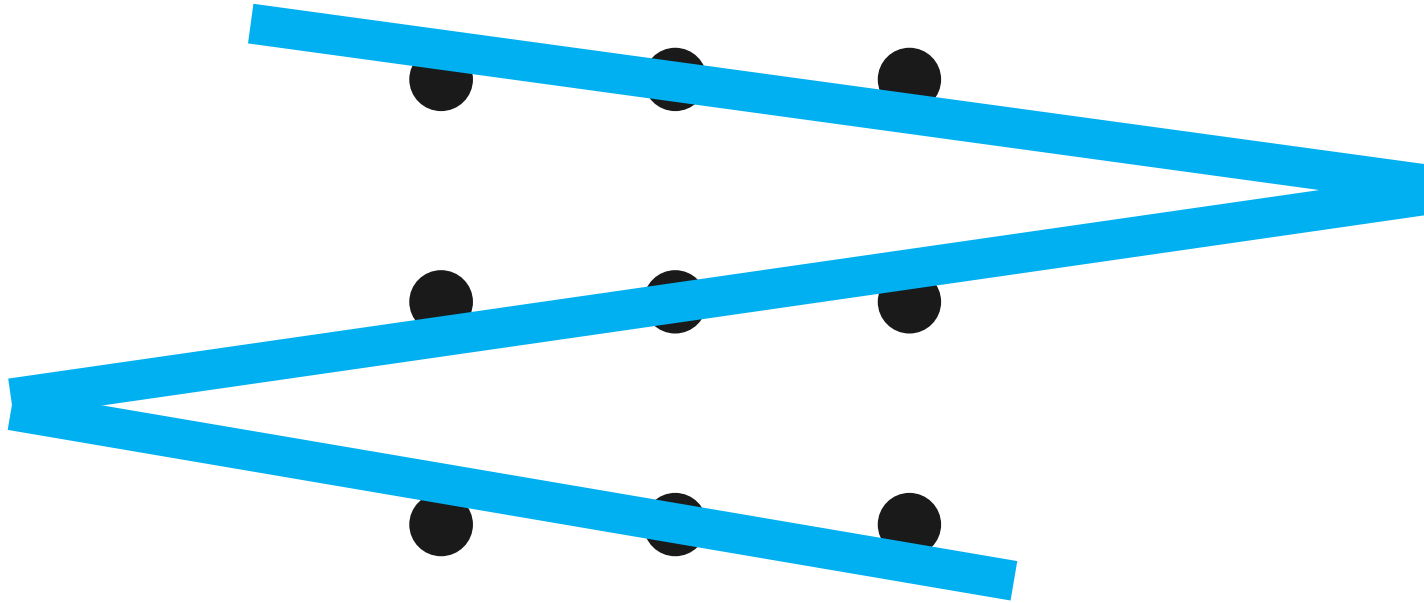


# Thinking outside the box exercise





# Thinking outside the box exercise



# Are we boxing ourselves into these imaginary boundaries ?

## Deep Value

- Low headline multiples
- Tangible BV relevance
- Discount on current earnings or reversion to mean from cyclical/mis-management
- Growth - challenged or temporarily impaired
- Net cash, low leverage preferred but sometimes excess leverage creates opportunities

## Quality Value

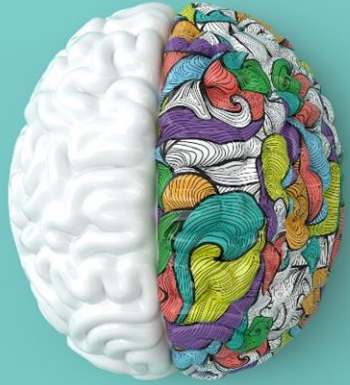
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# Can investment excellence thrive through cycles with

- Imaginary boundaries
- Formulas
- Regimented culture

**Not if investing is more art than science.**





# Differentiated judgement is the key edge

**Business prospects, Management**

Deep research

Art / judgement

**Time horizon**

Long vs short

Art / judgement

**Behavior**

Contrarian

Art / judgement

**Valuation**

Models

Math, Accounting / art / judgement



Don't see it anywhere else



**DEEP VALUE DOCTOR**

# In its simplest form returns dependent on:

1. Price paid to access an investment
2. Cash Flows expected and capital allocation decisions made along the way
3. Terminal Multiple / valuation

# Let's try to box this portfolio

Deep Value?

Quality Value?

Growth?

Company	P/E	Industry
Apple	26x	Tech Hardware
BoA	9x	Bank
Chevron	10x	Energy / Commodity
Coca-Cola	23x	Staple
Amex	14x	Credit Card / Financial
Kraft Heinz	14x	Staples
Occidental	10x	Energy / Commodity
Moody's	32x	Bond Ratings / Financial
Activision	21x	Video Game developer
HP Inc	8x	PC, Printers, etc
Davita	13x	Health care services
Verisign	28x	Software
Citigroup	8x	Bank
Kroger	11x	Grocer
Visa	25x	Software / Payments
Liberty Sirius	10x	Radio / Media
General Motors	6x	Automobile
Paramount Global	23x	Media
Mastercard	28x	Software / Payments
Aon	21x	Financials services
Charter Comm.	10x	Cable operator
BNY	9x	Financials services
McKesson	13x	Distribution & Logistics

# Hope

- We can look beyond this Dichotomy / divide
- Not sure of the purpose
- Don't believe it to be helpful
- Important consideration for current and next generation of investors



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