

Students put Publicis to the value test

Team from the University of Chicago takes home the top prize at the International Stock Picking Competition with bearish view

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Publicis Groupe was put under the microscope during the final round of the Ben Graham Centre's International Stock Picking Competition. Three teams of students dissected the advertising company and weighed its suitability as a value investment.

Before getting to the results, a little background is in order. The contest was organized by George Athanassakos, who runs the value investing program at the Ivey Business School, which is part of the University of Western Ontario. The event is designed to promote value investing to MBA students and to the world more generally.

This year's competition started with 20 teams (each composed of two or three students) from across the globe, including one team from India. In the first round, each team picked a company to analyze from a short list of firms.

For instance, the eventual winners studied Rocky Mountain Dealerships, which is a deep value stock the late Benjamin Graham might have loved. The Calgary-based company sells construction and agricultural equipment in Alberta, Saskatchewan and Manitoba.

Its stock went for \$5.70 a share when the students examined it in January after it had fallen from a 52-week high of \$9.50 a share. (It has rebounded since then to about \$6.50.) They were keen on the small company and recommended buying it because they figured it was worth about \$9 a share.

The reports from the first round were judged by a panel of experts, and only three teams were invited to Toronto for the second and final round of the competition. The finalists hailed from the University of Chicago, University of Waterloo and Western and they vied for \$17,500 in cash prizes, thanks to the sponsorship of Burgundy Asset Management and Empire Life Investments.

The finalists were given a week to research Paris-based Publicis Groupe, an advertising and marketing firm with a global reach, and submit their findings. They presented their results in person to a panel of distinguished value investors, including Ken Broekaert (Burgundy Asset Management), Wayne Peters (Peters MacGregor), Robert Robotti (Robotti & Co. Advisors), Kim Shannon (Sionna Investment Managers) and Jeff Stacey (Stacey Muirhead Capital Management).

Publicis Groupe proved to be a difficult stock to analyze, owing to the relative importance of the less tangible and more creative aspects of its business. Complications also arose from the firm's history of making significant acquisitions and the growing challenges presented by the Internet.

Tension emerged between those who thought the company's margins were likely to improve and those who believed its digital push, and recent restructuring efforts, would probably disappoint.

Two teams came to the conclusion that Publicis Groupe wasn't a good value when it traded near €62 (\$88.40) a share in early April. (These days it goes for about €65 and can be purchased in the United States, "over the counter," as an ADR under the symbol PUBGY.) The first team pegged the company's intrinsic value at €61.50 and the second said it was worth €56.92. But the third team was more bullish and recommended buying the stock. They figured it had an intrinsic value of €77.

I was impressed by the performance of all of the finalists. The quality of the presentations and research was remarkable given the short period of time they had to work with.

The finalists all walked away with some of the prize money. The team from Western took third place and netted a bounty of \$2,500. The team from the University of Waterloo nabbed \$5,000 for second place.

I was particularly pleased to see the team from the University of Chicago take top prize. They went the extra mile by interviewing several insiders, and other industry participants, as part of their research. Congratulations go to Nicholas Anderson, Bradley Powell and Russell Waldman, who earned the first place award of \$10,000. As it happens, they took a pass on Publicis Groupe.

Norman Rothery is the value investor for Strategy Lab. Globe Unlimited subscribers can read more in the series at tgam.ca/strategy-lab.

Rocky Mountain Dealerships (RME) Friday close: \$6.54, up 9¢ Publicis Groupe (PUB-Paris) Friday close: €64.91 (\$92.41), no change