Commercial Lending in the Wine Industry    HTMT 360/FINC 360
Spring 2017

Professors: Dr. Mike Cohen and Dr. Jocelyn D. Evans

Class Days: Tuesdays/Thursdays    1:40-2:55pm
e-mail: evansj@cofc.edu and cohenmm@cofc.edu
Prerequisite: FINC 303

Description

This course is structured around the theme of the integration of intangible assets within the wine industry and financial analysis. You will examine how banking institutions lending to organizations within the wine industry offer an array of customized financial products, which have different risks and cash flow patterns from non-financial corporations in industries such as manufacturing. The different financial products include receivables and inventory financing, equipment financing and leasing, barrel purchases, working capital lines of credit, commercial real estate loans, winery construction loans, business acquisition, and business re-capitalizations.

The first part will convene on Tuesdays. The value assessment of wine from a multi-point perspective will be taught by Professor Cohen on Tuesdays. The course is relevant to both hospitality and tourism and finance because bank analysts need to be able to estimate value across the supply chain with respect to wine production and sales. Wine makers have a vested interest in qualitative factors that affect cash flow such as location of vineyards, orientation of vineyards, soil type, irrigation potential with water rights, and winery machine operations. Valuation is also determined by tangible and non-tangible materialistic issues such as grape price fluctuation, market demand, brand recognition and pricing. This section of the course will deal with these concepts and put them into a usable format so that financial instruments can be utilized to document value for the purposes of credit or sale.

The second part of the course will be taught by Dr. Evans on Thursdays. Thus, this course is also focused on the real finance part of the business. Vineyard development with regard to land acquisition for luxury wine producers is an important business sector in California and other parts of the United States. In addition, new winery SBA construction loans and other commercial real estate loans are essential financing that require knowledge of industry-specific financial statements and ratios. Lines of credit are also needed in order for vineyard management to carry receivables.

The focus of the subject matter is risk management. Topics to be covered include industry trends and competition, performance analysis, mergers and acquisitions, credit analysis, liquidity planning, and cash management. To gain knowledge about both the wine and banking industries. As the wine industry matures and grows, most wineries primarily depend on banks and farm credit. New banks to the wine business are pursuing opportunities for the first time. Consolidation in the industry among wineries such as Mondavi, Golden State Vintners, Chalone
and others is having a significant impact on existing financiers in addition to encouraging new banks to lend to the wine business.

The objective of this course is to provide the student with the conceptual framework necessary to analyze and comprehend the current problems confronting winery managers. Each class session will be structured to include lecture, discussion, and problem/case analysis. Reading assignments and cases will be assigned.

**Objective, Goals and Outcomes**

By the end of the course, the students should be able to:

1. Understand the concepts of value in land as it pertains to winery location
2. Identify the differences in soil types that lead to grape selection for cultivation and maximizing income/acre
3. Identify factors such as irrigation and water rights and access points that add to or subtract from land value
4. Assess market forces that change price structure for grapes and wine
5. Identify the factors that add to or subtract from the brand value and what marketing concepts will influence brand value
6. To educate the undergraduate student into assessment of wineries and vineyards as it pertains to standards of banking finance. The wine industry carries different variables used in algorithms to create value that can be allocated for collateral when applying for credit lines or long term capital acquisition. Through the academic section of the course the student will be exposed to the infrastructure of the wine industry and then synthesize financial models to facilitate decision making.
7. To estimate and analyze financial ratios in order to make loan decisions
8. To compute and assess cash flow statements to determine the repayment schedule of loans using Excel modeling

Students will utilize academic principles of analysis, collaborative learning and synthesis to create a financial document worthy of review by a bank for the purposes of obtain/expanding a winery.

**Method**
Class will consist of lectures on a weekly basis dealing with the relevant issues concerning establishing value in the wine industry. Materials will be gathered from financial institutions that participate in this area of commerce and be combined with articles from academic journals on the subject. Through contacts in Napa Valley, information will be gathered from wineries and experts in the area to focus on what are the current market concepts used to derive value. Each lecture builds on the previous subject matter and culminates with a case review study followed by the final exam.

**Assessment**

Students will be assessed through class attendance and participation, examinations, case study review and oral presentation skills. Assignments will be given for reading review including case studies, so that students will be given more than one academic route to demonstrate effectiveness in the skills necessary to identify wine value. Class participation will be a key consideration as this will provide the instructor with feedback on the depth of knowledge gained during the course.

Note: late submissions of assignments, are NOT ACCEPTED.

**Exams**

The course will conclude with a final exam that will be submitted for review. This exam will be a financial statement and analysis to be evaluated and graded by Drs. Cohen and Evans. During the final exam time slot, the students will make an oral presentation of their financial document to both Drs. Cohen and Evans.

Case review will be of a current winery in the California market that has financial instruments available that students will evaluate and critique for the purposes of establishing financial vehicles to be utilized in bank financial decisions.

**Evaluation and Grading System**

20% Class participation

20% Case review

20% Oral presentation of final exam

40% Final examination: written documents prepared with projected financial statements and analysis of winery for bank lending purposes. There will be 2 parts to this, both graded at 20%. The first is qualitative: assessing the value of a winery/location/materials, and the second is quantitative: creating financial spreadsheets and valuation analysis.
The following grading system is observed

<table>
<thead>
<tr>
<th>Grade</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>93-100</td>
</tr>
<tr>
<td>A-</td>
<td>90-92</td>
</tr>
<tr>
<td>B+</td>
<td>87-89</td>
</tr>
<tr>
<td>B</td>
<td>83-86</td>
</tr>
<tr>
<td>B-</td>
<td>80-82</td>
</tr>
<tr>
<td>C+</td>
<td>77-79</td>
</tr>
<tr>
<td>C</td>
<td>73-76</td>
</tr>
<tr>
<td>C-</td>
<td>70-72</td>
</tr>
<tr>
<td>D</td>
<td>65-69</td>
</tr>
<tr>
<td>F</td>
<td>&lt;65</td>
</tr>
</tbody>
</table>

**Attendance/Participation**

It is expected that students will attend all ten lectures for the course. Typical assignments include background readings and selected problems or a case. Regular participation is an integral part of this class. Each student is expected to contribute by answering questions and presenting data analysis in class. During each session students will be selected to respond to questions. It is expected that each student comes to class prepared to participate in class discussion and present his or her analysis.

With regard to attendance, excused absence by physician certification will be accepted without penalty, otherwise:

1. If one class is missed, the highest grade obtainable will be a B+
2. If two classes are missed the highest grade obtainable will be a B-
3. If more than two classes are missed, the student will be given a grade of F and no credit will be given for the course.

**School of Business**

The course will support the School of Business learning goals:

- Effective Communications: Students will write professional documents that are technically correct and concise utilizing relevant HTM and Finance discipline specific knowledge.
• Ethical Awareness: Students will recognize and be able to appraise ethical dilemmas involved in HTM and Finance decisions.

• Global Awareness: Students will recognize and examine the global implications of HTM and Finance industry decisions.

• Problem Solving Ability: Students will demonstrate critical thinking skills in identifying and evaluating problems and opportunities in the HTM and Finance environment.

**Academic Integrity:**

The College of Charleston’s Honor C of C is in effect in this course. Any student caught cheating will receive a failing grade in the course and additional action may be taken. Cheating includes copying someone else’s work in exams, quizzes, and assignments. It includes using notes and other aides during exams when not authorized to do so, collaborating with others for take-home exams, using someone else’s idea’s without referencing them, or turning in an assignment for this class that was submitted, in whole or in part, for another class. Cheating also includes the allowing of one’s work to be copied by another and doing work for another student. If you are unclear about what constitutes cheating, please see the Instructor.

**Students Needing Access Parity**

We provide services and accommodations for students with disabilities (physical, psychological, learning or attentional) that have been documented by a qualified MD or psychologist. Documentation must meet criteria published in the SNAP brochure and on our website http://disabilityservices.cofc.edu. Accommodations are decided on a case-by-case basis and are determined by the type and severity of the disability and the essential elements of the course the student is taking. Accommodations are designed to provide access to education and to circumvent or reduce the effect of the disability as much as possible, not to give advantage or guarantee success.

**Class Text**

No text is required for this class. Materials presented are the property of Drs. Cohen and Evan and the College of Charleston School of Business
<table>
<thead>
<tr>
<th>Date</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/12</td>
<td>Introduction to commercial loan analysis</td>
</tr>
<tr>
<td>1/17</td>
<td>Cohen-Introduction to the Wine Industry</td>
</tr>
<tr>
<td>1/19</td>
<td>Understanding how strategic analysis affects cash flows in the wine industry (the characteristics of the industry sector)</td>
</tr>
<tr>
<td>1/24</td>
<td>Cohen</td>
</tr>
<tr>
<td>1/26</td>
<td>Analyzing the industry and competitive landscapes-externalities</td>
</tr>
<tr>
<td>1/31</td>
<td>Cohen</td>
</tr>
<tr>
<td>2/2</td>
<td>Economic Forecasting and Firm/Industry Performance</td>
</tr>
<tr>
<td>2/7</td>
<td>Cohen</td>
</tr>
<tr>
<td>2/9</td>
<td>Financial Statements, Ratios, and Historical Analysis</td>
</tr>
<tr>
<td></td>
<td><strong>Strategic Competitive Analysis Paper Due</strong></td>
</tr>
<tr>
<td>2/14</td>
<td>Cohen</td>
</tr>
<tr>
<td>2/16</td>
<td>Profitability and Risk-Trends and Comparable Analysis</td>
</tr>
<tr>
<td>2/21</td>
<td>Cohen</td>
</tr>
<tr>
<td>2/23</td>
<td>“Continued)</td>
</tr>
<tr>
<td>2/28</td>
<td>Cohen</td>
</tr>
<tr>
<td>3/2</td>
<td>Industry Regulation</td>
</tr>
<tr>
<td></td>
<td><strong>Corporate Governance and Industry Regulation Structure paper due</strong></td>
</tr>
<tr>
<td>3/14</td>
<td>Cohen</td>
</tr>
<tr>
<td>3/16</td>
<td>Cash Budget taking into account cyclicality and seasonality</td>
</tr>
<tr>
<td>3/21</td>
<td>Cohen</td>
</tr>
<tr>
<td>3/23</td>
<td>Estimating pessimistic and optimistic proforma statements</td>
</tr>
<tr>
<td>3/28</td>
<td>Cohen</td>
</tr>
<tr>
<td>3/30</td>
<td>Cash Budgets</td>
</tr>
<tr>
<td>4/4</td>
<td>ARES conference-work on paper</td>
</tr>
</tbody>
</table>
ATTENDANCE POLICY:

A large class participation component to your grade is necessary because this is a case-oriented course. Cases do more than teach particular subject matter. They are also excellent vehicles for teaching problem solving and logical thinking. Further, case discussion develops the oral communication skills of the class. Experience indicates that a student will not develop all of these skills unless that student actively participates in class. Since the development of these skills is a major course objective, class participation is given significant weighting.

Class participation is not synonymous with attendance. It means that you are well prepared to discuss the assigned case and readings, and do so effectively. Quality is important. Asking questions in class can be a valuable learning vehicle and such questions are encouraged for that reason, but questions do not earn class participation points. Points are earned by presenting quantitative and qualitative analyses of the case situation that have the effect of moving the class towards valuable insights about the case. For example, it is not enough to simply present the values of particular ratios. You must also furnish the understanding gained from analysis of the ratios. The only way to earn points is through your verbal contributions in class. A student who attempts to avoid a poor class participation grade by not participating will simply ensure a failing grade. If you are uncomfortable with such a large portion of your grade being determined by class participation, drop the course!

Academic honesty:

It is your responsibility to read the University Policy on Academic Honesty. This document establishes clear standards for academic honesty and it will be enforced in this course. My policy is completely consistent with that document. Here is my position. A university can successfully function only when its integrity is maintained. One important element of integrity is
personal honesty. Cheating, a form of personal dishonesty, is unfair to students who do not cheat because their performance may appear relatively inferior, and it is unfair to students who do cheat because it short circuits the learning process. In short, cheating is a cancer that invades and subverts the legitimate academic process. It cannot be tolerated at any level. Consequently, my position is simple. All work must be your own. Any student found using case notes prepared by others (including students from prior classes), copying during quizzes or exams, signing someone else’s name to the attendance list, or attempting in any way to promote the work of others as his or her own will receive an F for the course. Note that a person providing assistance is equally as guilty of cheating as the recipient of the assistance. In addition, I will make every effort to see that the guilty party receives the most severe University disciplinary action appropriate. There will be no exceptions or second chances. Period.

Cross Disciplinary Application

Components of the capstone course that the authors of this article used in their work together are discussed in the appendix. The components of the course plan can be adjusted so that other disciplines can be used or modified to fit other needs.

Course Description

This course provides a comprehensive synthesis of the financial theories and concepts learned in previous finance courses. The application of discounted cash flow (DCF) and marketable comparable valuation models will be used as a platform for integrating various theoretical aspects of business plan development, financial forecasting, working capital management, sources of financing, capital budgeting, security valuation, value based management, strategic marketing, and business ethics. This course should have wide application from small to large company environments. Special attention will also be given to valuation issues affecting smaller companies and publicly traded corporations that are affected by global competition.

Specific Course Objectives, Competencies and Measurable Outcomes:

1. To be able to effectively use the following tools of financial analysis to perform valuations for a start-up business plan that each student will create: cash flow statements, financial ratios, common-size statements, cost-volume-profit analysis, sustainable growth analysis, case budgets, and proforma financial statements.
2. To describe the accounting and recordkeeping options available to your business.
3. To explain how to forecast sales and capital expenditures using triangulation.
4. To create proforma financial statements for five years and analyze the projected performance.
5. To describe how to use cost-volume-profit analysis to answer questions about your business.
6. To complete an application for an SBA loan or grant.
7. To develop critical thinking skills.
8. To develop oral communication and writing skills.
9. To understand the ethical implications of transparently presenting your assumptions and valuation models.
10. To analyze a firm’s financial statement using both GAAP and the International Financial Standards.

An overall objective of this course is to enable the student to integrate marketing, management, and ethical paradigms into their valuation methodologies. This approach will enable the student to understand the opportunities, challenges, and problems confronting individuals who pursue careers in financial management. Thus, the class will magnify student’s understanding of basic and advance financial concepts within a comprehensive theoretical setting. Specifically, the focus will be on the following objectives:

1. Create a formal business plan for a publicly traded corporation and relate the firm’s value based management and marketing strategies to the assumptions underlying the valuation analysis. The strategic analysis component requires the student to know the business and its related industry.
2. Evaluate the historical and projected financial condition, i.e., performance of the company, through the use of student-created cash flow statements, financial ratio analysis, common-size and trend financial statements, cost-volume-profit analysis, and sustainable growth analysis.
3. Create proforma financial statements for five years and analyze the projected financial performance for each year.
4. Explain and demonstrate how to forecast sales and capital expenditures using triangulation and other methods.
5. Describe how to use cost-volume-profit analysis to answer help assess operating risk.
6. Draw on discussions of valuation concepts and models from academic research papers to establish different structured frameworks.
7. Create several valuation models for a publicly traded company that is either financially distressed or growing rapidly. Discuss how strategic management innovations and the firm’s operating strategy affect cash flows and risk.
8. Perform a risk assessment for a small closely held firm, firms in different industries, and regulated firms.
9. Develop critical thinking skills.
10. Develop oral communication and writing skills.
11. Understand that a firm must provide good customer service in order to create long term economic financial success.
12. A firm must recruit, develop and sustain a diverse workforce in order to maintain a high level of customer service which will lead to higher revenue and cash flow.
Task Objectives

1. Business Plan - Marketing and Management
2. Historical Analysis - ratio, operating cycle and sustainable growth analysis
3. Proforma Analysis - percentage of sales approach, estimating future free cash flow
4. Sensitivity Analysis - Business Ethics
5. Discounted Cash Flow Valuation - beta, weighted average cost of capital, cost of equity, estimated growth rate
6. Market Comparable Valuation
7. Summary and Conclusion
8. Executive Summary

Examples of question that should be addressed in the business plan are presented in Table 4.

Table 4. Interdisciplinary Approach to Valuation - Sample Questions

1. How will the firm’s strengths, weaknesses, opportunities, and threats (SWOT) affect your estimates of future cash flows over the next five years? (strategic management)
2. Does the firm have a talented pool of professionals with diverse backgrounds, regions and skills? Given the recent emphasis on outsourcing and improved global competitiveness, is diversity management an important part of your firm’s goals? (organization behavior and international business)
3. How does the firm product pricing strategy affect gross profit margin? (marketing)
4. How does the product elasticity affect the firm’s revenue and unit sales? (marketing and economics) Can a firm produce higher financial results by increasing marketing efforts and relying on a strong sales culture? (marketing and organizational behavior)
5. How does the firm’s reputation regarding customer service affect customer loyalty and thus revenue and earnings stability? Does customer service matter? Is customer service correlated with lower inventory turnover? (marketing)
6. How did monetary and fiscal policy affect your estimates of required rate of return for both bonds and stocks? (economics)
7. How does the firm’s merger, globalization, or franchise strategy affect your estimate of growth estimates for cash flow and revenue with respect to new product markets? (strategic management and marketing)
8. How have technological innovations reduced the firm’s costs? (decision science)
9. Does the firm’s mission statement reflect its business units and organizational structure? (strategic management) Has the firm been involved in law suits, community complaints, or class action suits that may have ethical considerations? (ethics)

AACSBA Assessment Criteria
Porter and McKibben (1988) argue that a disconnect exists between business school education and the practices that are used in corporate America. This same concern is given in a report by the AACSB according to Olian, Caldwell, Griffen, Liverpool, and Thomas (2002). They state that “business education is inadequate for preparing future business leaders … (p 20).AACSB argues that “The most effective learning takes place when students are involved in their educational experiences. Passive learning is ineffective and of short duration. Faculty members should develop techniques and styles that engage students and make students responsible for meeting learning goals. Many pedagogical approaches are suitable for challenging students in this way-problem based learning (Scherpereel and Bowers, 2006), projects, simulations, etc. (p 57).” This criteria is a response to the AACSB’s call for innovation. The goals of College of Charleston’s multidisciplinary valuation course are provided below.

Goal 1: Ethical and Diversity Awareness

Objective: Students will recognize and be able to appraise ethical dilemmas involved in business decisions and competently engage in discourse aimed at resolution of these dilemmas utilizing relevant discipline specific knowledge. Students will have to apply the business ethics concepts from strategic management (co-requisite) to the assumptions underlying their valuation models.

Implementation: Students will have to analyze the ethical decisions of corporate executives at industry, company, and analyst (student) level. For example, students would have to determine whether Arthur Anderson’s corporate governance decisions with respect to Enron Co. were appropriate.

Demonstration of Achievement: Each student will display an understanding of the ethical considerations of valuation analysis in a written report in the initial section of the critique of the company’s business plan.

Goal 2: Leadership and Global Awareness

Objective: Students will recognize and examine the global implications of business decisions while evaluating and integrating innovative applications of these implications utilizing relevant discipline specific knowledge. In order to adequately complete this component of the business plan, a student has to consider a firm’s existing and potential foreign production, product markets, factors that allow firms to lead the industry, and other pertinent issues.
Implementation: Each student will be able to identify a company’s existing and potential international and domestic competition in the comparables approach to valuation analysis. Each student will understand the cultural and international diversity issues for the geographic areas that the company operates within or for their work force. This part of the business plan will enable the student to develop an understanding of the relevant global economic, social, and political issues.

Demonstration of Achievement: The course syllabus will have an international component. Students must compute the value of a multinational firm’s stock and bonds as one of their assignments. An exam will test students’ knowledge of the theoretical issues.

Goal 3: Problem Solving Ability

Objective: Students will demonstrate critical thinking skills in identifying and evaluating problems and opportunities in the business environment and apply analytical techniques to formulate creative solutions utilizing relevant discipline specific knowledge.

Implementation: The valuation project requires the design of multiple spreadsheets to estimate firm value. The inputs for the spreadsheets depend upon the assumptions derived from the business plan (marketing and management strategic analysis) and the proforma financial statement.

Demonstration of Achievement: The student is expected to attain 70% or higher on the written and oral portions of the completed business plan and valuation analysis. Essay and advanced level quantitative problems will test the students’ knowledge of ratio analysis, cash flow projection, stock/bond valuation, cost of capital calculation, and other financial areas. Each student is required to pass the introductory accounting and economic courses as prerequisites for this course.

Goal 4: Effective Writing and Oral Communication: Practical Application

Objective: Students will be able to convey ideas through effective oral and written communication. The objective is to force the student to write a technical analysis that goes beyond the simplified valuation methodology presented in introduction to financial management text books (see Skinner, 1994).
Implementation: The student will complete a research valuation paper based upon a publicly traded corporation that is either rapidly growing or in financial distress. Individual and team assignments are a part of the class.

Demonstration of Achievement: They will write and present professional documents that are technically correct and concise as well as utilizing relevant discipline specific knowledge. Students will evaluate the performance of other students within the class. Each student will also receive a grade for the written and oral component.

Goal 5: Technological Sophistication

Objective: Students should be technologically proficient within the finance discipline.

Implementation: Students will be required to estimate the weighted average cost of capital using regression analysis over different time periods. They will use excel and other applications to design the spread sheets for the different valuation methodologies.

Demonstration of Achievement: The course outline will require the proficiency of certain technological skills in order to complete the assignment. Each student must complete the introductory decision science course as a prerequisite to the capstone valuation course. The data for the valuation assignment is collected from the internet. Beta must be calculated in Excel, SPSS, SAS, or some other statistics package.

Goal 6: High Level of Cognitive Learning: Improved Knowledge and Retention

Objective: Students should be able to understand and analyze complex business issues with quantitative and qualitative models. They will also be able to recommend solutions within a practical corporate setting in both oral and written formats.

Implementation: The student will be tested with embedded question on exams and valuation assignments.
Demonstration of Achievement: Students are expected to attain a 70% or higher on the comprehensive senior exit exam. ETS provides major field test for capstone courses. Students will also be required to complete the capstone course with a minimum grade of C.

Goal 7: Cross Disciplinary Knowledge and Application: Marketing, Management, and Finance

Objective: Students will develop an understanding of the theories, concepts, and skills relevant to finance, marketing, and management and how these subjects interrelate within a valuation project. Active learning should replace passive learning.

Implementation: Students will be able to apply financial theoretical knowledge such as sustainable growth’s link to marketing/management sales objectives within an interdisciplinary framework.

Demonstration of Achievement: Students will also be required to complete the capstone course with a minimum grade of C.

Goal 8: Interpersonal Skills

Objective: Each student will develop the ability to work in teams and have leadership, time management, conflict management and multitasking skills. The intent is to make sure that students can work within an organizational culture that values high expectations and requires respect for diverse talents and learning styles.

Implementation: The student will be required to collaborate with a teacher selected group for at least one assignment.

Demonstration of Achievement: Each student and the teacher will grade an individual person on leadership, team work, time management, creativity, conflict management and multitasking. The evaluations will be based on written assignments, oral presentations, business plans, and out-of-class teacher contact and meetings. Students take on a significant self-management role in this class.
Final Valuation Project Assignment

I. Is the company maximizing shareholder wealth (market value of equity) and firm value (market value of total assets)? Analysis is over a five year historical time period (2011-2014)

Descriptive

A. Mission Statement-Stated Versus Actual Activities
B. Customer Base and Market Share
C. Legal Structure
D. Size and Business Segments
E. Industry-Strength and Weaknesses of Major Competitors (SIC Code)
F. Takeover/Bankrupt Activities
G. Company and CEO History
H. Firm’s Sensitivity to the Economy (Trade Magazines)
I. Economic Outlook
J. Current Events
K. IFRS or GAAP
L. Balanced Score Card
M. Ethical Issues and Concerns

Analytical Evaluation

A. Profitability for each year (Trend and Industry Analysis)
1. Roe=NI/TE
2. Roa=NI/TA
3. PM=NI/Sales
4. TAT=Sales/TA
5. EM=TA/TE
6. CGS/Sales; Operating Expenses/Sales; Interest Expense/Sales
   Taxes/Sales; Other/Sales

B. Liquidity for each year
1. Current Ratio=CA/CL
2. Quick Ratio=CA-Inv/CL  
3. Cash/TA  
4. AR Days  
5. AP Days  
6. Inv Days  
C. Default Risk for each year  
1. TL/TA  
2. STD/TL  
3. TIE=EBIT/Interest Expense  
4. Cash flow Ratios in a finance book  
D. Market Ratios  
1. Market to Book Value of Equity  
2. Market to Book Value of Assets  
3. P/E Ratios: Trailing and Forward  
4. EBIT/Debt + Market Value of Equity  
5. Stock Price  
6. EPS  
7. Reformulated Statements  
8. Ratios from Chapter 11  
9. All ratios in the handout  

E. Financing  
1. Required Rate of Return based on CAPM-Beta, 10 year treasury return, Market Portfolio Return  
2. Average Cost of Debt (coupon rates are the required rate of return on debt)  
3. Tax Rate  
4. WACC  
5. Leveraged and unleveraged Beta  

III. Building Blocks for Fundamental Valuation Analysis  
A. Proforma Analysis: Projections of Future Cash Flows  
1. NI + Depreciation  
2. NOPAT=EBIT (1-Tax Rate)  
3. Operating Capital  
4. Free Cash Flow from Assets; Free Cash Flow to Equity
5. Compute the Market Value of Assets using the Discounted Cash Flow, Dividend Growth Model and Comparable Approaches

6. Compute the Market Value of Equity Assets using the Discounted Cash Flow, Dividend Growth Model and Comparable Approaches

7. Use Section to analyze the ratios and market/book values for the proforma period

8. Calculate Indirect Cash Flow Statements for the Proforma and Historical Periods—Why is this approach used?

9. Calculate the unlevered Betas from the levered Betas for your firm and its peers

12. Recalculate levered Betas based upon your proforma balance sheets

13. Use OLS regression to model and estimate the Beta for your firm over different time periods

14. Recalculate the market value of equity with your new Betas

15. Compare your estimated market value equity under each approach to the latest stock price. Is your stock under or overvalued?

**Center for Student Learning:** I encourage you to utilize the Center for Student Learning’s (CSL) academic support services for assistance in study strategies and course content. They offer tutoring, Supplemental Instruction, study skills appointments, and workshops. Students of all abilities have become more successful using these programs throughout their academic career and the services are available to you at no additional cost. For more information regarding these services please visit the CSL website at [http://csl.cofc.edu](http://csl.cofc.edu) or call (843)953-5635.