Commercial Lending in the Wine Industry  HTMT 360-06/FINC 360-06
Spring 2017

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

Class Days: Tuesdays/Thursdays  1:40-2:55   Robert Scott Small 249
Credit hours:  3
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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. The purpose of the course is 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 assesses 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 in sections during the semester for review. This exam will be a financial document and a qualitative analysis to be evaluated and graded by Drs. Cohen and Evans. The final exam date will be utilized for oral presentations of the final exam and review of the final written document.

A case review of a current winery in the California market with financial instruments available, will be submitted mid-course so that students will gain practical experience in evaluating and critiquing financial vehicles to be utilized in bank financial decisions.

Class participation and attendance is required as it provides feedback to the instructors that course materials and concepts are understood and the student is able to engage in an intellectual conversation on the subject matter.
Evaluation and Grading System

10% Class participation

30% Case review

40% This will consist of 3 assignments that will come due during the semester. Each submission will deal with critical aspects taught in class. Each submission is worth 10% of the final grade. Each submission will have the option of student corrections BEFORE THE FINAL EXAM. The final exam will be the remaining 10% of the course, as well as review of the other submissions in their final format.

The following grading system is observed

A     93-100
A-    90-92
B+    87-89
B     83-86
B-    80-82
C+    77-79
C     73-76
C-    70-72
D     65-69
F     <65

Attendance/Participation

It is expected that students will attend all thirteen 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, only a physician certification will be accepted for absences 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. Students will demonstrate their ability, via both written and spoken word, to effectively present, critique, and defend ideas in a cogent, persuasive manner.
- **Ethical Awareness**: Students will recognize and be able to appraise ethical dilemmas involved in HTM and Finance decisions.
- **Global and Civic Responsibility**: Students identify and define social, ethical, environmental and economic challenges at local, national and international levels. Students integrate knowledge and skills in addressing these issues.
- **Problem Solving Ability**: Students will demonstrate critical thinking skills in identifying and evaluating problems and opportunities in the HTM and Finance environment. Students demonstrate the ability to integrate knowledge from multiple disciplines incorporating learning from both classroom and non-classroom settings in the completion of complex and comprehensive tasks.
- **Quantitative Fluency**: Students demonstrate competency in logical reasoning and data analysis skills.
- **Intellectual Innovation and Creativity**: Students demonstrate their resourcefulness and originality in addressing extemporaneous problems.

**Academic Integrity and Honor Code**:  

Lying, cheating, attempted cheating, and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The
intervention, submitted by form and signed both by the instructor and the student, will be forwarded to the Dean of Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Students. A student found responsible by the Honor Board for academic dishonesty will receive a XF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the X to be expunged. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.

Students should be aware that unauthorized collaboration--working together without permission--is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information via a cell phone or computer), copying from others’ exams, fabricating data, and giving unauthorized assistance.

Research conducted and/or papers written for other classes cannot be used in whole or in part for any assignment in this class without obtaining prior permission from the instructor.

Students can find the complete Honor Code and all related processes in the Student Handbook at http://studentaffairs.cofc.edu/honor-system/studenthandbook/index.php

**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

**Commercial Lending in the Wine Industry** by Michael Cohen, DO FAAOS
available in the bookstore as a spiral bound book

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**Class Schedule Spring 2017**

**Thursday Jan 12**

The importance of banking for the wine industry, intro to commercial loan analysis

**Tuesday Jan 17**

Understanding and evaluating wine 1 (1-51)

**Thursday Jan 19**

Understanding how strategic analysis affects cash flows in the wine industry (characteristics of the wine industry sector)

**Tuesday Jan 24**

Understanding and evaluating wine 2 (52-94)

**Thursday January 26**

Analyzing industry & competitive landscape-externalities

**Tuesday Jan 31**

Wine labels, regulations, setup of the wine industry, taxation (94-140)

**February 2**

Economic forecasting and firm/industry performance

**Tuesday Feb 7**

Federal regulation, importation, State of affairs for wine, world supply and consumption (141-185)

**February 9**

Financial statements, ratios, and historical analysis

*Strategic competitive analysis paper due- Part I of the final*
Tuesday Feb 14
Consumption: demographics and demand, efficiency and distribution, real estate, financial performance (142-223)

Thursday Feb 16
Profitability and risk-trends and comparable analysis I

Tuesday Feb 21
Identifying wine regions, vineyard site selection, vineyard valuation, economics of climate (224-269)

Thursday Feb 23
Profitability and risk-trends and comparable analysis II

Tuesday Feb 28
Grape price structure, roots of success, economic geography, water rights (270-310)
Historical Financial Analysis due

March 2
Industry Regulation
Corporate Governance and Industry regulation structure paper due – Part II of final

March 3-12
Spring break California symposium, Napa CA

Tuesday March 14
No class: case study analysis

Thursday March 16
Cash budget taking into account cyclicality and seasonality

Tuesday March 21
Materials and equipment, winery operations, investment and operating costs (311-362)

Case review due: 30% of final grade
Thursday March 23
Estimating pessimistic and optimistic proforma statements

Tuesday March 28
Analyzing winery operations and cash flow, winery valuations (363-411)

Thursday March 30
Cash budgets

Tuesday April 4
Current market for wineries, winery financial landscape, selling the winery, branding and marketing, wine industry financials and trends (412-454)

Thursday April 6
ARES conference work on paper

Tuesday April 11
Wine industry profit/debt risk, debt trends, turnover, rules of thumb, mergers and acquisitions (456-490)

Thursday April 13
Loan structure and design
Historical Financial Analysis paper due – Final Part III

Tuesday April 18
Economic trending (491-524)

Thursday April 20
Time value of money and stock price valuation-DCF, market ratios

Tuesday May 2
Final exam: oral and written presentations