CODORNIU[1]

1. INTRODUCTION

Codorniu, a Catalan family company, is the world's oldest and second-largest producer of bottle-fermented sparkling wine, known as cava, made by the traditional champagne method. The company was founded in Catalonia in 1551 and has always been located in Sant Sadurní d'Anoia since its establishment.

The Codorniu family's wine business goes back to the middle of the 16th century. Documents dating from this year are the first to refer to Jaume Codorniu's vineyards and his winemaking activities, stating that the family had several machinery and facilities related to the wine industry. In 1659 Anna Codorniu married Miquel Raventós. Anna was the last of Jaume Codorniu's descendants to use this surname. Their marriage brought together two important winegrowing families. Years later, in 1872, cava pioneer Josep Raventós produced the first bottles of Spanish sparkling wine using the "Traditional Method" and established a completely new industry in the Alt Penedès region.

The Codorniu cellars at Sant Sadurní d'Anoia were built on the orders of Manuel Raventós between the end of the 19th and the beginning of the 20th century (1895-1915). He chose the renowned Catalan architect Josep Puig i Cadafalch, to design the facility. The cellars are one of the most important examples of modernist architecture and a symbol of Codorniu's entrepreneurial spirit. At that time Codorniu was producing about 100,000 bottles of cava per year, and the size of the new structure seemed overly grandiose. The location of the winery, at some distance from the road and the railway line, was also unusual for the time. Manuel Raventós, however, was insistent that the family winery should be close to the vineyard as he was aware that such proximity would be the key of improving the quality of the wines. Nowadays, Codorniu continues to control the production process of all its cava from the vineyard crops to the finished

[1] Case written by Alex Buxó, Ha Hoang, Victoria Madi and Marta Solé. UPF Barcelona School of Management, 2016.

product. Although the company is mostly known for cava, around half of its production is also wine. The winery has the most modern installations and the very latest equipment. In 1976, the Codorniu cellars at Sant Sadurní d'Anoia were declared "a National Monument of Historical and Artistic Interest" by King Juan Carlos I, lauding them as a key example of Catalan modernism.

Codorniu is also the pioneer in the art of advertising. In 1898, Manuel Raventós, an early visionary in the world of advertising, organized a poster competition to promote Codorniu’s cava. Modernist artists of the caliber of Casas, Utrillo, Tubilla and Junyent all took part. Codorniu launched its first television advertisement in 1959, coinciding with the first broadcasts by Televisión Española.

Codorniu has four most renowned products. The first is Anna de Codorniu, launched in 1984, the most emblematic cava and the first cava to include the Chardonnay variety. Anna is a tribute to the last descendant to carry the Codorniu surname. Second is Pinot Noir, introduced in 2002, the first rosé cava made from 100% red Pinot grapes - a revolution in the world of cava. Another famous name is Reina Mª Cristina Blanc de Noirs - the first white cava made with the Pinot Noir red variety - created in 2010 and has been praised as an outstanding cava for those who enjoy complex wines. The most recent product, Cuveé 1872 de Codorniu, taking its inspiration from art nouveau and the traditional method, is a throwback to the long-standing history of cava industry.

2. OVERVIEW OF THE INDUSTRY AND COMPETITORS

2.1. ABOUT THE CAVA INDUSTRY:[2]

The Spanish sparkling wine Cava has become the go-to drink for celebrations across Spain and around the world. Winemakers in the northeastern Mediterranean region of Catalonia began making cava over 200 years ago after the invention of corks allowed for the bubbles to be safely contained within the bottle.

Spain’s cava industry exploded in the late 1800s after the root-destroying plague phylloxera destroyed much of France’s Champagne-making capabilities. Today, Spain produces nearly a quarter billion bottles of the festive bubbly per year.

[2] Source: Select Us Wine

Cava is frequently compared to other sparkling wines such as Champagne and prosecco. And although it is the lesser-known product, its popularity is rising. According to Akthan Habbaba, head of agri-food at ICEX Spain Trade and Investment, which is part of Spain's Ministry of Economy and Competitiveness, when Spain first started exporting cava in the 1960s, its growers were only producing about 1 million bottles per year. In 2014, Spain exported 154 million bottles of cava. That's a greater number of exports than France saw in Champagne in the same year, which was about 149 million bottles, according to The Comité Champagne, a trade group in France that represents the wine's producers.

Although the foreign market (with main areas are UK, US, Belgium) is strong and has continually been growing, consumption in the domestic market, on the other hand, continues to fall due to the economic crisis as well as boycotting. The Spanish market increased in sales in 2015 for the first time after a two-year decline, according to the Cava Regulatory Board, a council that works to supervise the production and quality of cava as well as providing statistics on exports and sales.

Cava sales are being driven by an excellent performance on export markets while the domestic market is still in decline due to the economic crisis and boycotting. We have to look back over three decades, to 1980, to find sales of Cava in Spain below those of 2012. The industry sold 243 million bottles in 2012, representing an increase of 3.6 million units over the previous year. The evolution of the cava industry is shown in the figure below:

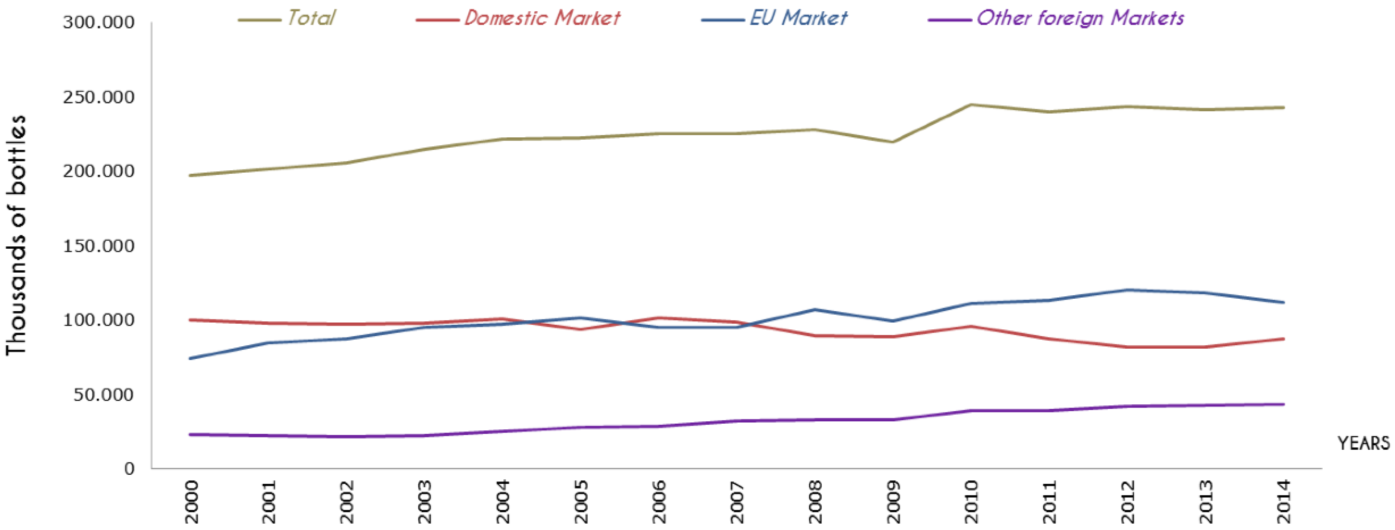

Figure 1. Cava's industry evolution from 2000 to 2014 (Source: Cava Regulatory Board)

However, the Spanish market remains the top market for Cava, with sales double those of Germany, the main stronghold for exports. The export market grew by 6.02% in 2013 to 161 million bottles, an increase of 9 million bottles compared to 2011. The president of the Cava Consejo Regulador (Regulatory Board), Gustau García Guillamet, points out that last year's export figures were another historic sales record, and that Cava is still the most exported Spanish DOP.

The producers Institut del Cava (Cava Institute) has released a study showing that two-thirds of the total production is now being exported (in 1990 the share was reversed, only one third exported). 40% of companies in the industry export their Cava, although just 19 companies account for 90% of the exports. The domestic market declined by 6.28%, with sales of 81 million in 2012. The President of the Consejo Regulador attributes the fall in sales in Spain to the economic recession rather than to the effects of a boycott, which does of course exist but which should be put into perspective.

Meanwhile sales of non-Catalan Cavas grew 46% last year. According to Guillamet Garcia,"without blowing our own trumpet and bearing in mind the economic situation, we could claim that the fact that Cava has achieved an overall growth of 1.53% in 2012 is an excellent result."

However, the low prices of Cava (few people understand how a bottle of Cava can retail at 1.49 euros) and the rise of retailer brands, continue to worry many in the industry and it is difficult to predict what the future holds for this quality sparkling wine produced in a specified region (it is produced in 159 municipalities from seven autonomous Spanish regions). The diaspora of bodegas which have abandoned Cava, such as Raventós i Blanc, Mas Comtal, Loxarel or Colet, and those which may do so in the near future, such as Can Ràfols dels Caus, is also causing uncertainty.

2.2. ABOUT THE WINE INDUSTRY:[3]

The wine market has been growing substantially during the last decade. Although the domestic consumption has been dropping it can be seen that exportation has increased. As it can be noted on Figure 2 generally there has been a growing trend from 2000:

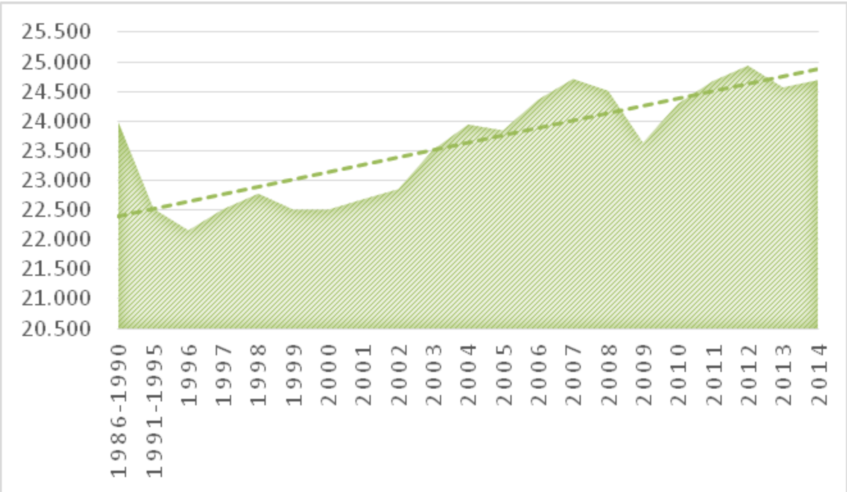

Figure 2. Wine's consumption in thousand liters evolution from 1986-2014 (Source: OEMV & Wine Institute)

Spain has a leading position regarding the extension of vineyard plantation, nevertheless due to the low yield it is not the main producer (35,2 Mill hL). Italy has the leading position in production with 47,7 Mill. hL followed by France with 45,6 Mill. hL. Italy is the country which exports the most followed by Spain. France is also the country which consumes more. French wine consumption accounts for a 12,6% of the total worldwide consumption, followed by United States (11,5%) and Italy (10,4%). Both effects can be seen in Figures 3 and 4, respectively:

[3] Source: Observatorio Español del Mercado del Vino

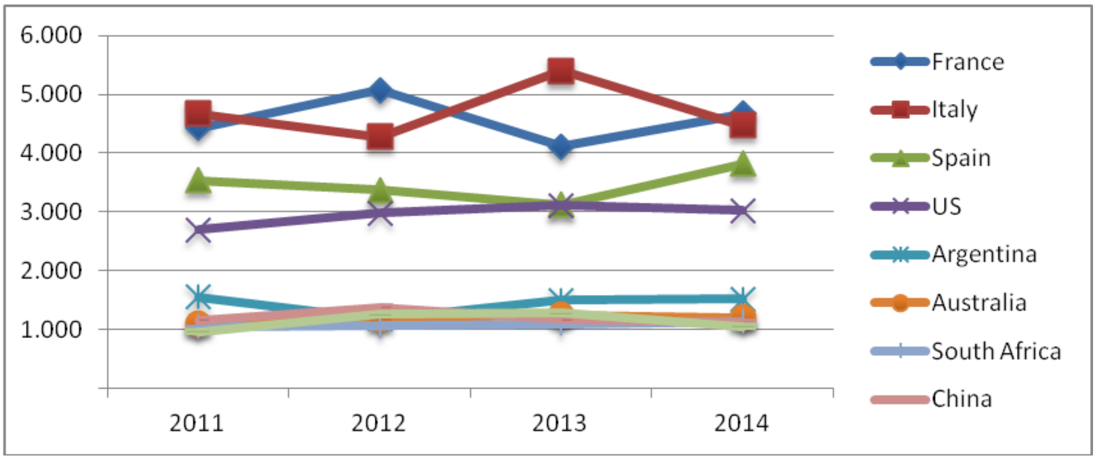

Figure 3. World wine production by country 2011-2014 in thousands liters (Source: Wine Institute)

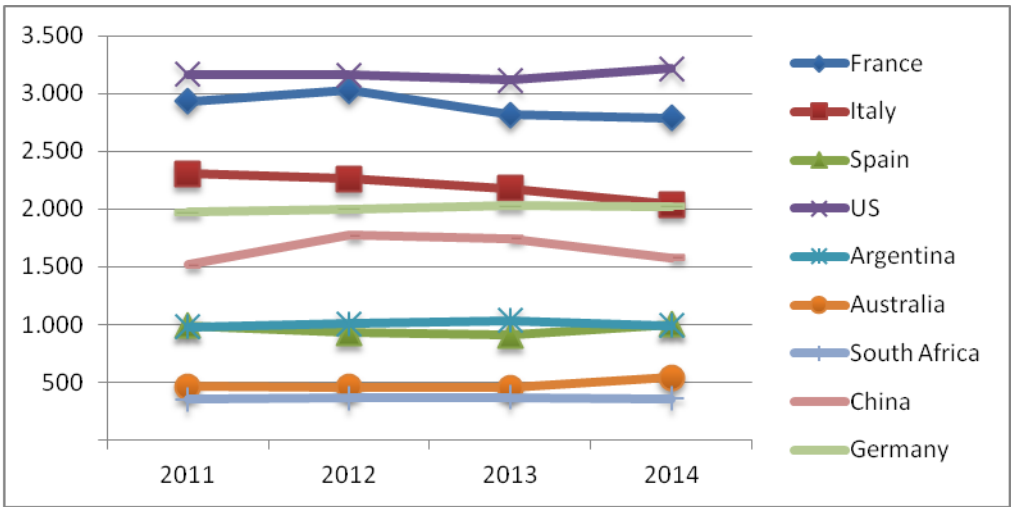

Figure 4. World wine production by country 2011-2014 in thousands liters (Source: Wine Institute)

In regard of the wine producers in Spain, there are a total of 1554 companies which can be differentiated in three business models: the first, the large producers of a lower quality wine, the second, great wine cellars of higher quality wine like Codorniu, and lastly exclusive author wines.

2.3. ABOUT COMPETITORS AND CORDONIU'S SALES RANKINGS:[4]

The production, sales and marketing of Cava is dominated by two companies, Freixenet and Codorniu, which between them control more than 75% of production. While Freixenet traditionally dominated the export markets with its brands, Freixenet, Castellblanch, Segura Viudas, Canals & Nubiola and Conde de Caralt, Codorniu's strength traditionally lay in the domestic market. Although it exported about one third of its production, Codorniu was finally surpassed by Freixenet even on the domestic market a couple of years ago.

Freixenet, owned by the Ferrer family, produced an estimated 13.8m cases of Cava last year. With a market share of 56%, it is the biggest player in the Cava game. In fact, with sales of €520m ($761m), Freixenet is one of the five largest sparkling wine producers in the world, of which Spanish sales of still and non-Cava sparkling accounted for €365m. The group also owns Yvon Mau in Bordeaux, and Henri Abelé in Champagne, plus Gloria Ferrer, USA, Sala Vivé, Mexico, and Viento Sur, Argentina, as well as 60% of the Wingara Wine Group in Australia.

Nevertheless, Freixenet sales are stagnating, largely due to declining Cava shipments to Germany, acoording to Bernd Halbach, director of Freixenet's export department. The German branch of the company reorganized its distribution after Eckes, which for many years distributed the leading brands there, sold its wine and spirits department to Freixenet's major competitor, Rotka-ppchen-Mumm.

Codorniu, producing about 4.7m cases of Cava, including low-price brands like Rondel and Delapierre, is number two in the business. The Raventos family's company is also one of the big players in the Spanish still wine business. With Masía Bach, from Penedés, Raimat from Costers del Segre, Scala Dei from Priorato, Legaris from Ribera del Duero, Nuviana from Aragón, Abadía de Poblet from Tarragona and Bodegas Bilbainas from Rioja, the group has a presence in many of the most important Spanish quality wine regions. Septima in Argentina is, so far, their only investment outside Spain.

[4] Source: Meininger

Number three on the list is Carcía Carrións, which although behind, has ambitious growth plans, with its sparkling Jaume Serra already selling more than 5m bottles annually. Some medium size producers like Vallformosa, Marquès de Monistrol, Castillo de Perelada, Covides S.C. and Juvé y Camps bottle between 2m to 5m bottles per year each. The rest of the 271 registered Cava producers are small, family owned wineries.

Freixenet was the largest company by sales in 2008 with total revenue of 236.240.458 €. Cordoniu came close right behind with 215.398.673 €. However, from Freixenet's most updated financial statements, it can be seen as a company with liquidity problems, with high amount of debt, stable sales and small profit. In other words, Cordoniu stands a high chance of winning this race in the long run against its major competitor if it can continue developing their products, improve their liquidity, increase their exports volume, expand their market, and sustain their stronghold in the Catalonian region.

3. CORPORATE STRUCTURE

UNIDECO S.A. is the parent company that holds Codorniu, S.A. and Raimat, S.A., mainly responsible for cava and wine production and distribution, respectively. However, the whole company is commonly known by Codorniu S.A. The latter, directly owns cellars producing cava and wine in Sant Sadurní (Anoia), Raimat, Sant Esteve, Cellers scala Dei, and it is also responsible for their distribution in most parts of Europe.

Holding from Codorniu S.A, the company owns other affiliates operating in different countries and responsible for diverse issues. Codorniu Napa INC, owns a cellar in California which basically produces wine. Codorniu UK LTD, Codorniu Deutschland GmbH, Codorniu Japan LTD and Codorniu Asia PTE LTD are intermediaries in their countries. Codorniu Argentina, S.A. owns a wine cellar in Argentina and A.V. Brands INC is responsible for distribution in the U.S. for Napa, Argentina and others. Bodegas Bilbaínas, listed in the stock market, is a cellar in la Rioja, producing wine, basically.

The results of the subsidiaries are shown in the financial statements as minority interests (for global integration) and interests from affiliates under equity method (for equity method affiliates) depending on the grade of participation.

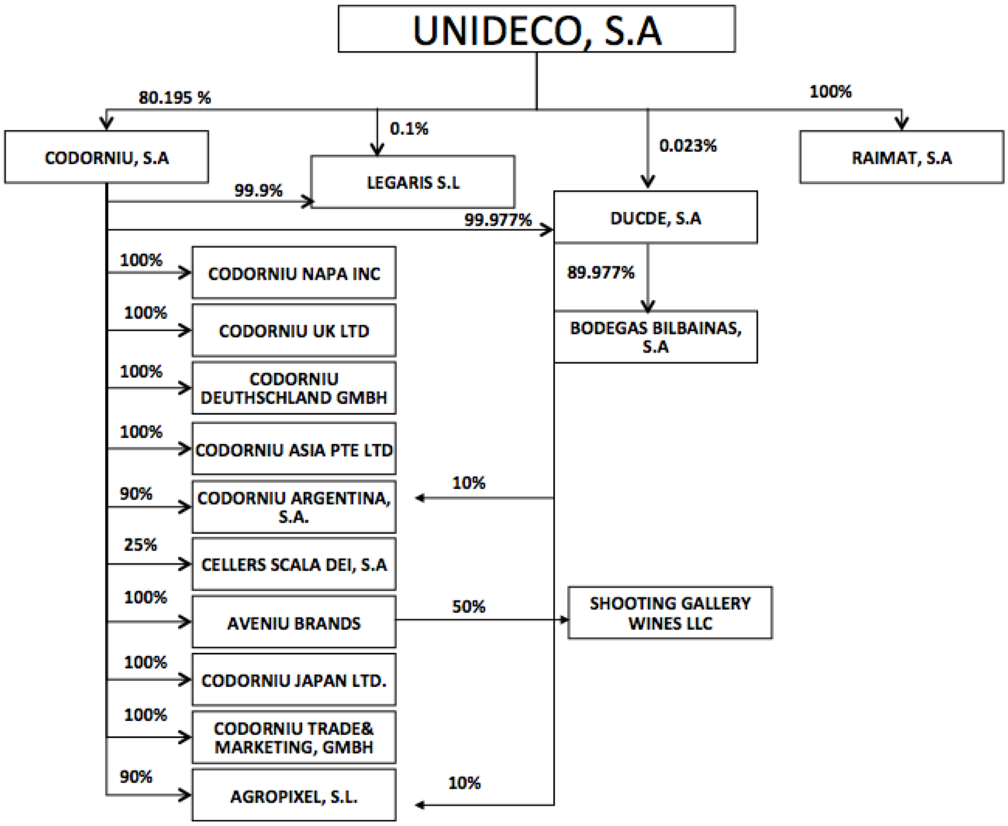

Figure 5. Group UNIDECO S.A and subsidiaries

4. FINANCIAL STATEMENTS

Consolidated Balance Sheet, Income Statements and Cash Flows of the parent company are shown in the Figures 11, 12 and 13, respectively, for years 2012, 2013 and 2014. The financial year for UNIDECO S.A. starts the 1st of August of each year and finishes the 30th of July of the following year.

4.1.STOCKS

Inventories represented a 34,6% of the total assets in 2014. The kind of products that this company produces and distributes makes the analysis of inventories one of the most relevant in the Balance Sheet: wine and cava are maturation products, so their production depends basically on time. Depending on the kind on grape (Chardonnay, Macabeu, Parellada, for cava; Garnatxa, Merlot, for wine), the barrel type (steel tanks for cava and French/Spanish/American oak wood for wine) and the desired product

(Reserva, Crianza, and others) the time of maturation may vary significantly, from 9 months to 5 or 6 years.

This is the reason why the stock has been differentiated on different entries:

a) Raw materials: Gathered grapes ready to start the production process.
b) Viticulture in progress: Product still in the vineyard.
c) Product still in maturation: This represents most of the stock (almost 75%). It corresponds to the entire product in process of maturation in barrels (or bottles in the case of cava). To get the final product is just a matter of time, and all the stock in this entry might be finished either in 1 month or in 5 years or more.
d) Finished product: It is all the bottled wine or cava ready to be sold.
e) Waste and recyclable materials: product that might be reused, which is almost negligible.
f) Advances to suppliers: correspond to sums paid before the fulfilment of an obligation and account for a minor part of the stocks.

Given this timing trouble, still in maturation products are hard to allocate, as there are products which need maturation time over 1 year, and accordingly they exceed the one-year rule of current and non-current asset allocation. However, the consolidated accounts of Codorniu S.A. show the entire stock in current assets as a solution, but being always conscious of the reasons and possible misunderstandings. In this sense, some financial analysis might be altered if this is not taken into account.

4.2. INTANGIBLE ASSETS

Intangible Assets include software applications and administrative concessions, licenses and trademarks, and its difference and reduction every year is due to exchange rates and amortization.

4.3. TANGIBLE ASSETS

Tangible assets include all the material fixed assets, especially land, buildings, plants and machinery that the company owns for viticulture and production of wine and cava. The value of 117m€ in 2012 remained the same in 2013, but decreased to 105m€ in 2014 due to the sale of land in Napa, worth 5,6m€. Moreover, other reductions are due to amortizations, depreciations and difference on exchange rates of assets from affiliates in U.K., Argentina, U.S., and Japan. As well, the investment corresponds to improvements in the bottling line, packaging and other modernization processes in the cellars of San Sadurní and Bodegas Bilbainas.

4.4.GOODWILL

Goodwill is the intangible asset that the company records when it acquires another company and the purchase price is greater than the Equity (or total assets – total liabilities). It is an intangible asset, and its value is analyzed and registered in the Balance Sheet every year, depending on the exchange rate, depreciation and other variables. Moreover, part of this difference might be assigned to the existent intangible assets, so the final value of goodwill is the difference between the purchase value and the Equity minus the assigned value to existent intangible assets. Moreover, since 2004, companies are no longer required to amortize the recorded amount of goodwill, but it is instead, subject to a goodwill impairment test at least once per year.

4.5.SHAREHOLDER'S EQUITY

The entire Equity is made of shareholder's equity (capital, profit and company reserves), minority interests and exchange rate adjustments. Capital is represented by 1.368.000 shares at 6,01€/share. This value has not suffered any variation in the last years. The shares are owned by many shareholders, and any of them owns more than a 10% of them, what might difficult the decision making in the company for some issues.

The entire equity has decreased in value from 201 m€ to 194m€ between 2012 and 2014, and its percentage respect total assets has also decreased from 56, 1% to 53,8%.

Euros (€)					
CAPITAL STRUCTURE	**30/06/14**	Change in %	**30/06/13**	Change in %	**30/06/12**
Equity	194.743.492	-1,40%	197.515.426	-2,20%	201.953.030
Total Assets	361.947.357	-2,33%	370.567.158	+2,93%	360.003.210
Equity/Total Assets	**53,80%**		**53,30%**		**56,10%**

Figure 6. Equity and Assets changes during financial years 2012-2014

The value of exchange rate adjustments is high and has increased considerably in the last year of the period of analysis. In 2014, its value is little less than 20 m€ and represents a 5,5% of total assets. The greatest difference is due to a substantial variance of the exchange rate in Argentina.

Exchange rate Adjustments	Euros (€)	
Company	**30/06/2014**	**30/06/2013**
Codorniu Napa, INC.	-3.503.143	-2.337.174
Codorniu UK, Ltd.	-357.942	-441.428
Codorniu Argentina, S.A.	-15.746.070	-12.023.362
AV Brand, INC.	-120.051	575.718
Codorniu Japan, Co. Ltd.	-33.826	-21.034
Total	**-19.761.032**	**-14.247.280**

Figure 7. Equity adjustments due to Exchange rates

Finally, minority interests represent the part of the equity that belongs to affiliates of which the holding company own part of their shares and have been consolidated by global integration in the Balance Sheet. The value is around 41 m€ and represents a 11,5% of the total assets.

4.6.SHORT AND LONG TERM LIABILITIES

In regard to debt issued by bank institutions, it can be noted that the amount of loans in absolute values has increased from 2012 to 2014 and that both long term and short term loans have decreased in percentage of total assets.

	Euros (€)					
	30/06/2014	% T.A.	30/06/2013	% T.A.	30/07/2012	% T.A.
Loans	**97.159.289**	**26,8%**	**95.613.413**	**25,8%**	**82.985.784**	**26,8%**
Short term	37.860.536	10%	38.720.712	10%	34.865.648	10,5%
Long term	59.298.753	16%	56.892.701	15%	48.120.136	16,4%

Figure 8. Loans from the bank, short term and long term 2012-2014

4.7. DIVIDENDS POLICY

In regard of the dividend policy, Codorniu S.A. has not pay out dividends in the last two years. The company of the group Bodegas Bilbaínas S.A., which is the one trading in the stock market, pays out dividends regularly each year. The dividends paid to minority shareholders in the Cash Flow statement are the ones relative to the Bodegas Bilbaínas S.A.

	Euros (€)		
	30/06/2014	30/06/2013	30/06/2012
Dividend Payments	-59.215,00	-53.071,00	-65.393,00
Dividends paid to minority shareholders	-59.215,00	-53.071,00	-61.745,00
Dividends paid to Unideco	-	-	-3.648,00

Figure 9. Dividend payments from 2012-2014

5. OPERATIONS IN NATIONAL AND FOREIGN MARKETS

Sales in the national market have been affected by the economic crisis. The consumption rate of wine has decreased along the 2013. The sales of sparkling wines according to the IRI[5] show a decrease in volume of -1,3%. On the other hand, sales of still wines are growing (+2,9% in volume). This growth is based on the innovation and consolidation of the traditional brands. Codorniu maintains the leadership position as Cava seller, being the market share of 31,5%. Additionally the group has increased the national market share in 1% in sales volume in comparison to the previous year.

Although the most significant market for Codorniu belongs to Europe, Codorniu is, since some years ago, putting effort in expanding to other markets through some of their affiliates (Codorniu Argentina S.A., with a large cellar in Mendoza; A.V. Brands INC. and Codorniu Japan LTD., distributors in U.S. and Japan, respectively). In this aspect, Codorniu S.A. is facing difficulties. Firstly, the product: wine, for example is known around the world, and its qualification is known due to its designation of origin (France,

[5] IRI is a market research company which provides clients with consumer, shopper, and retail market intelligence and analysis focused on the consumer packaged goods (CPG) industry

Spain, Italy, New Zealand, Argentina, California, etc). However, around half of Codorniu’s production is Cava, and it does not happen the same with it. Cava is mostly produced and sold in Catalonia, and if any similar product is known around the world, that is French Champagne. Introducing Cava in other countries, although it has better margins than wine, is hard and requires significant effort.

Secondly, exchange rate has an important role in the results of the income statements for products sold in other currencies. In some countries this has been a relevant issue. A good example is the results of sales in Argentina, in which from 2013 to 2014 although having increased sales by 16 m€, they decreased by 1,8m€ because of the exchange rate. Although not that strong, the same happened in the U.S. and other countries.

Sales in Argentina	2014	2013
Euro	9.746.351,00	11.589.566,00
Currency exchange rate	0,108	0,157
ARS	90.243.990,74	73.818.891,72

Sales in U.S.	2014	2013
Euro	46.371.110,00	50.263.887,00
Currency Exchange Rate	0,737	0,773
USD	62.918.738,13	65.024.433,38

Figure 10. Effect of currency exchange rates in sales in foreign markets

CONSOLIDATED INCOME STATEMENT (UNIDECO)

CONSOLIDATED BALANCE SHEET (UNIDECO)								
ASSETS	**30/06/14**	**%**	**30/06/13**	**%**	**30/07/12**	**%**	**Average of Medium and Large Companies**	**Average of Medium and Large Companies with PROFITS**
NON CURRENT ASSETS	**149.356.320**	**41,3%**	**156.972.693**	**42,4%**	**153.207.304**	**42,6%**	**11.048.790,33**	**8.202.466,00**
Goodwill	11.146.641	3,1%	11.568.039	3,1%	12.145.914	3,4%		
Intangible assets	5.901.817	1,6%	6.880.091	1,9%	7.852.352	2,2%		
a) Administrative concessions, licenses and trademarks	4.619.615	1,3%	5.346.257	1,4%	6.709.096	1,9%		
b) Software applications	1.282.202	0,4%	1.533.834	0,4%	1.143.256	0,3%		
Tangible assets	105.888.778	29,3%	117.563.228	31,7%	117.249.046	32,6%		
a) Land and buildings	64.249.783	17,8%	70.619.191	19,1%	69.936.728	19,4%		
b) Plant, machinery and barrels	11.896.052	3,3%	12.702.490	3,4%	11.293.038	3,1%		
c) Other facilities, tools and furniture	15.079.869	4,2%	16.302.995	4,4%	15.980.984	4,4%		
d) Equipment and construction in progress	8.351.881	2,3%	6.820.221	1,8%	8.826.279	2,5%		
e) Other equipment	6.311.193	1,7%	11.118.331	3,0%	11.212.017	3,1%		
Investments accounted under the equity method	2.669.521	0,7%	1.057.845	0,3%	200,832	0,1%		
Other financial long term investments	231,368	0,1%	381,187	0,1%	786,198	0,2%		
Non-current financial assets	933,444	0,3%	4.479.615	1,2%	2.633.266	0,7%		
Deferred TAX	22.584.751	6,2%	15.042.688	4,1%	12.339.696	3,4%		
CURRENT ASSETS	**212.591.037**	**58,7%**	**213.594.251**	**57,6%**	**206.795.906**	**57,4%**	**7.384.390,67**	**5.686.816,33**
Stocks	125.076.242	34,6%	121.072.939	32,7%	119.020.927	33,1%	2.345.378,33	1.978.284,67
a) Raw materials	4.173.887	1,2%	4.025.081	1,1%	4.255.582	1,2%		
b) Viticulture in progress	3.043.405	0,8%	2.161.914	0,6%	2.112.980	0,6%		
c) Product still in maturation	91.546.023	25,3%	90.103.498	24,3%	87.391.346	24,3%		
d) Finished product	24.710.369	6,8%	23.489.642	6,3%	25.175.635	7,0%		
e) Waste and recyclable materials	51,244	0,0%	26,025	0,0%	15,384	0,0%		
f) Advances to suppliers	1.551.314	0,4%	1.266.779	0,3%	70	0,0%		
Traders and other receivables	57.759.422	16,0%	59.940.723	16,2%	60.248.941	16,7%	2.176.464,67	1.860.651,67
Other current assets	7.399.403	2,0%	23.484.820	6,3%	17.830.654	5,0%		
Cash and cash equivalents	22.355.970	6,2%	9.095.769	2,5%	9.695.384	2,7%	2.862.547,67	1.847.880,00
TOTAL ASSETS	**361.947.357**	**100,0%**	**370.566.944**	**100,0%**	**360.003.210**	**100,0%**	**18.433.181,00**	**13.889.282,33**
EQUITY + LIABILITIES	**30/06/14**	**%**	**30/06/13**	**%**	**30/07/12**	**%**		
EQUITY	**194.743.492**	**53,8%**	**197.515.426**	**53,3%**	**201.953.030**	**56,1%**	**18.433.181,00**	**13.889.282,33**
Shareholders' equity	**172.729.155**	**47,7%**	**169.623.637**	**45,8%**	**169.052.907**	**47,0%**	**9.187.856,00**	**8.190.160,33**
Capital	8.221.680	2,3%	8.221.680	2,2%	8.221.680	2,3%		
Reserves from parent company	23.210.468	6,4%	23.207.574	6,3%	23.378.685	6,5%		
Reserves from consolidation	137.746.265	38,1%	137.778.171	37,2%	135.112.991	37,5%		
Net income attributable to the parent company	3.550.742	1,0%	416,212	0,1%	2.339.551	0,6%		
Adjustments for exchange rate	**-19.761.032**	**-5,5%**	**-14.247.280**	**-3,8%**	**-11.128.806**	**-3,1%**		
Exchange rate differences	-19.761.032	-5,5%	-14.247.280	-3,8%	-11.128.806	-3,1%		
Equity attributable to the parent company	**152.968.123**	**42,3%**	**155.376.357**	**41,9%**	**157.924.101**	**43,9%**		
Minority interests	**41.775.369**	**11,5%**	**42.139.069**	**11,4%**	**44.028.929**	**12,2%**		
NON CURRENT LIABILITIES	**68.938.990**	**19,0%**	**66.554.897**	**18,0%**	**57.747.945**	**16,0%**	**3.800.400,67**	**1.943.967,33**
Government grants	2.242.106	0,6%	2.358.272	0,6%	2.192.663	0,6%		
Non-current provisions	465,558	0,1%	468,464	0,1%	443,656	0,1%		
Non-current financial liabilities	59.298.753	16,4%	56.892.701	15,4%	48.120.136	13,4%	966.194,67	822.691,67
Debt to credit institutions	56.823.754	15,7%	54.320.475	14,7%	47.691.745	13,2%		
Finance lease liabilities	2.474.999	0,7%	2.572.226	0,7%	428,391	0,1%		
Other financial liabilities	5.394.540	1,5%	5.228.909	1,4%	5.140.664	1,4%	2.834.206,00	1.121.275,67
Other non-current liabilities	1.538.033	0,4%	1.606.551	0,4%	1.850.826	0,5%		
CURRENT LIABILITIES	**98.264.875**	**27,1%**	**106.496.835**	**28,7%**	**100.302.235**	**27,9%**	**5.444.924,33**	**3.755.154,67**
Current financial liabilities	56.164.263	15,5%	59.876.114	16,2%	53.438.764	14,8%	862.692,67	742.492,67
Debt to credit institutions	37.018.814	10,2%	37.797.984	10,2%	34.486.467	9,6%		
Bonds and other marketable securities		0,0%		0,0%	1.496.141	0,4%		
Finance lease liabilities	841,722	0,2%	922,728	0,2%	379,181	0,1%		
Other financial liabilities	18.303.727	5,1%	21.155.402	5,7%	17.076.975	4,7%		
Other current liabilities	249,263	0,1%	248,777	0,1%	324,349	0,1%	3.260.876,33	1.905.232,67
Trade creditors and other payables	41.851.349	11,6%	46.371.944	12,5%	46.530.690	12,9%	1.321.355,33	1.107.429,33
Short term accrual accounts		0,0%		0,0%	8,432	0,0%		
TOTAL EQUITY + LIABILITIES	**361.947.357**	**100,0%**	**370.567.158**	**100,0%**	**360.003.210**	**100,0%**	**18.433.181,00**	**13.889.282,33**

Figure 11. Consolidated balance sheets from years 2012 to 2014

	30/06/14	% O.I.	30/06/13	% O.I	30/07/12	% O.I
Turnover	212.384.820	97,4%	218.974.228	96,6%	229.150.185	97,3%
Other operating Income	5.733.868	2,6%	7.788.266	3,4%	6.393.041	2,7%
Total Operating Income	218.118.688	100,0%	226.762.494	100,0%	235.543.226	100,0%
Cost of product sold	-77.647.984	-36,5%	-81.723.202	-36,0%	-80.988.553	-34,4%
Personnel expenses	-41.553.610	-19,1%	-42.423.627	-18,7%	-42.884.206	-18,2%
Other expenses	-86.761.889	-39,8%	-86.074.591	-38,0%	-94.814.791	-40,3%
Total Operating Expenses	-205.963.483	-94,4%	-210.221.420	-92,7%	-218.687.550	-92,8%
GROSS MARGIN	12.155.205	5,6%	16.541.074	7,3%	16.855.676	7,2%
Depreciation	-10.271.047	-4,7%	-9.990.655	-4,4%	-10.168.310	-4,3%
EBIT	1.884.158	0,9%	6.550.419	2,9%	6.687.366	2,8%
Impairment of fixed assets and income from disposal of fixed assets	1.767.147	0,8%	-825.372	-0,4%	816.196	0,3%
Subsidies received (received state subsidies)	181.317	0,1%	163.503	0,1%	176.053	0,1%
Other results	610.751	0,3%	75.023	0,0%	104.963	0,0%
EBIT (after other income)	4.443.373	2,0%	5.963.573	2,6%	7.784.578	3,3%
Financial income	320.258	0,1%	579.067	0,3%	314.574	0,1%
Financial expenses	-4.821.553	-2,2%	-4.889.154	-2,2%	-4.557.567	-1,9%
Exchange differences (net)	-706.448	-0,3%	-789.304	-0,3%	1.134.967	0,5%
Depreciation and gains of financial disposals	60.622	0,0%	-32.658	0,0%	-75.358	0,0%
EBT	-5.147.121	-2,4%	-5.132.049	-2,3%	-3.183.384	-1,4%
Results of investments accounting from equity method	1.813.536	0,8%	327.791	0,1%	6.222	0,0%
EBT (after equity method income)	1.109.788	0,5%	1.159.315	0,5%	4.607.416	2,0%
Income tax	3.596.585	1,6%	-450.266	-0,2%	-1.560.971	-0,7%
Net profit before minority interests	4.706.373	2,2%	709.149	0,3%	3.046.445	1,3%
Profit attributable to minority interests	-1.155.631	-0,5%	-292.837	-0,1%	-706.894	-0,3%
Net profit attributed to the parent company	3.550.742	1,6%	416.312	0,2%	2.339.551	1,0%

Figure 12. Consolidated balance sheets from years 2012 to 2014

CONSOLIDATED CASH FLOW STATEMENT (UNIDECO)			
	30/06/2014	30/06/2013	30/06/2012
Cash Flow from Operations	-6.049.645,00	6.065.855,00	25.586.099,00
Earnings Before Taxes	1.109.788,00	1.159.315,00	4.607.416,00
Operation Adjustments	7.672.660,00	11.479.842,00	7.280.363,00
Changes in Current Assets	-9.860.088,00	-4.496.638,00	13.697.842,00
Other operating Cash Flows	-4.972.005,00	-2.076.664,00	478,00
Cash Flow from Investments	5.221.820,00	-10.546.349,00	-6.380.746,00
Investments	-8.548.788,00	-10.652.534,00	-12.134.691,00
Disvestment Receipts	13.770.608,00	106.185,00	5.753.945,00
Cash Flow from Financing	14.088.026,00	3.880.879,00	-14.560.998,00
Other financing cash flows	14.147.241,00	3.933.950,00	-14.495.605,00
Dividend Payments	-59.215,00	-53.071,00	-65.393,00
Dividends paid to minority shareholders	-59.215,00	-53.071,00	-61.745,00
Dividends paid to Unideco			-3.648,00
Net increase / (decrease) in cash and cash equivalents	13.260.201,00	-599.615,00	4.644.355,00
Cash and equivalents at the beginning of the period	9.095.769,00	9.695.384,00	5.051.029,00
Cash and equivalents at the end of the period	22.355.970,00	9.095.769,00	9.695.384,00

Figure 13. Consolidated cash flow statements from 2012 to 2014

RATIO		2012	2013	2014	Average of Medium and Large Companies	Average of Medium and Large Companies with PROFITS
EQUITY	Equity	56,1%	53,3%	53,8%	50%	59%
	Equity without minority interest	43,9%	41,9%	42,3%		
LIQUIDITY	Liquidity (CA/CL)	2,06	2,01	2,16	1,36	1,52
	Quick Ratio ((CA-Stocks)/CL)	0,88	0,87	0,89	0,93	0,99
	Acid Test (Cash/CL)	0,10	0,09	0,23	0,52	0,49
	Real working Capital (CA-CL)	106.493.671	107.097.416	114.326.162		
	Working Capital needed (OCA-OCL)	120.677.314,75	118.811.157,75	127.593.831,75		
	Difference	(14.183.643,75)	(11.713.741,75)	(13.267.669,75)		
	Financial leverage ((Assets/Equity)*(EBT/EBIT))	1,05	0,47	0,35		
DEBT	Gearing (Debt/Assets)	43,9%	46,7%	46,2%	50%	41%
	Quality of debt (CL/TL)	63%	62%	59%	59%	66%
	Cost of debt (Financial Expenses/ Loans)	5,5%	5,1%	5%	28%	24%
	Return Capacity (Cash Flow/ Loans)	17%	11%	14%	66%	75%
	Years to return loans (1/Return Capacity)	6	9	7	1,54	1,33
Asset Management	Asset turnover (Sales/Assets)	65%	61%	60%	62%	69%
	CA Turnover (Sales/Current Assets)	114%	106%	103%	154%	168%
	NCA Turnover (Sales/ Non Current Assets)	154%	144%	146%	103%	117%
	Inventory Days (Stocks/ Daily costs)	199	210	222	142,24	144,87
TERMS	Customer Receivables (Clients/ Daily Sales)	96	100	96	70,02	71,13
	Supplier payables day (Suppliers/Daily Purchases)	74	77	74	80,15	81,07
	Gross Margin	16.855.676	16.541.074	16.855.676		
RETURN	Sales	235.543.226	226.762.494	218.118.688		
	Net profit	2.339.551	416,312	3.550.742		
	Financial expenses/Sales	2,23%	2,27%	2,23%		
	Operating Expenses	93,00%	93,00%	94,00%		
	ROI (EBIT/Assets)	2,16%	1,61%	1,23%	5%	7%
	ROE (Net profits/ Equity)	1,48%	0,268%	2,32%	7%	8%
	Dividends (Dividends/ Net profit)	2,80%	12,75%	1,67%		
	Dividends (Dividends/ Equity)	0,032%	0,027%	0,030%		

Figure 14. Ratios from 2012 to 2014 (Source: UNIDECO accounts and SABI DataBase)

QUESTIONS

1) Analyze the balance sheet and specifically:
   a) Financing structure terms
   b) Operating cycle and cash cycle (day receivables, day payables and inventory days)
   c) Working capital

2) Analyze the profit and loss accounts and specifically:
   a) Sales impact of exchange rates in the net profit.
   b) Expenses. What would you do to reduce them?
   c) Return and main drivers of profitability. Self-financing and dividend policy.

3) Construct a cause and effect diagram

4) Assess company’s opinion as a shareholder and as a banker

5) Think about measures and recommendations and demonstrate what would be their effect

CODORNIU

Teaching Note

Summary

Codorniu is a Catalan company that produces wine and cava. The present Case Study analyses the company’s financial statements. Codorniu belongs to the parent company UNIDECO S.A. which owns partially and totally other affiliates.

The present study analyses the consolidated balance sheet, profit and loss and cash flow statements by computing a range of ratios and comparing them to average values of the industry. Lastly, some measures and recommendations for the future of the company are exposed.

PROPOSED ANSWERS TO THE QUESTIONS

1) **Analyse the balance sheet and specifically:**

Codorniu has a balanced level of Equity, around 40 to 50%. Nevertheless, from 2012 till 2014 the equity started decreasing as Codorniu increased in debt.

When it comes to liquidity, the current ratio is within the range and higher than the industry. The liquidity ratio adjusted is computed by excluding inventories which are not ready to be sold (viticulture in process, product still in maturation…). It can be seen that the liquidity of the company is highly affected by the allocation of the stocks. Accordingly an exhaustive analysis of the stocks should be conducted as the maturation process of wines ranges from 9 months to 3 years and it is difficult to predict which percentage of the inventories could be easily transformed to cash. As for the quick ratio and the acid test they are a bit low compared to the ideal level. In terms of quick ratio, Codorniu is doing well compared to the industry ratio but for the acid test it is a bit behind the industry. So, in general these two ratios are considered as weaknesses but we cannot not take into consideration that from 2011 to 2013 the ratios are improving.

In regard of the leverage of the company the gearing ratio is quite good. It is inside the ideal range and the industry average. The quality of debt’s ratio should be lower but Codorniu is doing fine because from 2012 to 2014 current liabilities are decreasing and the ratio got closer to the range of the industry. Nevertheless, they are in a critical situation due to the fact that they have around 60% of short term debt and it will take the company on average 7 years to return their debts when in the industry the short term debts are that high but it only takes 1.5 years to return the debt. In this situation, the company has a negative leverage and the amount of debt that they have is not profitable anymore.

After that, we evaluated the asset management of Codorniu. The total asset management is quite good compared to the industry but the ratio is slightly decreasing over time which can become a problem on the long run. After that, we went deeper in the study to see if the problem is from the current or non-current assets. We concluded that Codorniu is doing better than the industry in terms of non-current assets than of current assets. Again, these ratios are affected by the allocation of current assets.

In regard of the terms, customers take around 100 days to pay while in the industry they should pay lastly in 70 days. As for the credit period for this industry it is quite normal to pay around 70-80 days to the suppliers but Codorniu pays his suppliers before they receive money from their customers.

a) Financing structure terms

Codorniu’s capital structure is good and keeps a financing of half equity and half debt. In relation with quality of debt, the company has improved, changing short term debt into long term. However, it is still very high, and they should keep reducing it. Moreover, the company needs 7 years to return their debts, while in the industry it only takes an average of 1,5 years.

b) Operating cycle and cash cycle (day receivables, day payables and inventory days)

Customer receivables is every year lower than suppliers payables, which means that they have to pay before getting paid, which in general, is better for the company when ratios are viceversa. The difference of 20 days is not very high (95-75), and because of not having liquidity problems, the company should not get concerned about this. However, getting paid before paying is always better, so as far as they can the company could re-negotiate with customers to get paid before.

On the other hand, inventory days are very high, again because of the problem with current assets sold in the long term. If the ratio is calculated with the finished product, it becomes 5 times lower. A good approximation would be considering that products sold in the short term are those that are finished plus at least 1/5 part of the not finished, given the average time of maturation. In that case, inventory days would be around 50 days, instead of 200, which means selling quite fast and low stocking ratio.

c) Working capital

To compute the surplus or deficit of the company is necessary to calculate the real Working Capital (WC real) and the Working Capital needed (WC needed). WC real is the difference between the Current Assets and the Current Liabilities. WC needed is the Working Capital needed for operations, and it includes all the automatic entries needed for operations, such as receivables, stock, minimum cash (for Operating Current Assets) and debtors and non-financial liabilities (for Operating Current Liabilities). The difference between them shows the surplus or deficit of the company.

Then, computing it, the company shows a deficit of 31m€ in 2014 and similar in 2013. However, before taking conclusions, it is important to understand how this kind of company works and why liquidity and working capital computations are special. As said before, part of the inventories are products not finished yet, meaning that most of it is not going to be sold in less than one year because there are products are still in maturation. Said so, it might have sense to compute the operating working capital not taking long term product into account. In that way, the working capital needed in the short term would be way smaller and the company would show a surplus in working capital. A correct estimation of working capital is between those two different ways of computing it, what makes it hard to assess.

Working Capital	2014	2013
WCreal	114.326.162	107.097.416
WCneeded	145.897.559	139.966.560
Net WC	-31.571.397	-32.869.144
WC needed (short term)	45.531.686	42.383.263
NET WC (short term)	68.794.476	64.714.153

Figure 15. Working Capital Analysis

2) Analyze the profit and loss accounts and specifically:

Some weaknesses were captured in the profit and loss account. Gross margin decreased in percentage from 2013 to 2014 and it is very low compared to industry. Sales are decreasing but as we saw earlier that this decrease is explained but the exchange rate from countries with different currencies. The operating expenses have been constant for the last 3 years and consist of 94% of the sales. Net profit fluctuated a lot from 2012 to 2014 due to the accumulated deferred taxes in the income statement. Overall compared to the industry, the net profit is low and considered as a weakness. As mentioned before, debt is high and they are paying interests for debt corresponding more that 2% of sales, what is higher than recommended.

After evaluating the Profit and Loss account, Return on Investment and Return on Equity have to be analysed. ROI is low compared to the industry, decreased over time and the cost of debt exceeds it, what means that their debt is not profitable. As for the ROE it is increasing but still very low. The payout of dividends is not positive for the shareholders but the company re-invest most of the net profits as reserves.

Finally growth of Codorniu has been analysed: in the last year sales decreased and assets are not growing but debt is decreasing. Net profit in the last year increased substantially in comparison with last year but it is mainly increased by deferred taxes.

a) Sales impact of exchange rates in the net profit.

The amount of total sales in 2014 is 218 m€ in 2014 and has decreased from 235 m€ in 2012.However, decreasing sales not only depend on the amount of product sold. The exchange rate has an important role in the results of the income statements for products sold in other currencies. A good example is the results of sales in Argentina, in which from 2013 to 2014 the sales results decrease 1,8 m€ in euros while in ARS increased by 16,4 m€.

Finding a solution for this is hard, given that the company does not control the market. They could try to increase the price, but they have the risk of decreasing in sales. If they had a good margin, they could keep ARS until the exchange rate improves, but it is also risky.

b) Expenses. What would you do to reduce them?

High costs consist of 94% of sales in 2014, what results in a low gross margin. Costs are divided into procurement, personal expenses and other expenses. The first two are direct costs and hard to avoid. However the third is the highest and increasing in the last period. If the company want to increase the margin they should analyse how to reduce costs from there, which are probably marketing expenses or similar.

c) Return and main drivers of profitability. Self-financing and dividend policy.

Return on Investment is very low, and also decreased over time. Moreover, cost of debt is higher, meaning that they are not taking profit of their debt and that they have a negative financial leverage. Financial leverage, then, is also very low, only higher than 1 in 2012, and less than 0,47 in 2013 and 2014, what directly affects Return on Equity. The latter, has also been very low in all periods. It should be expected to be around 8-12%, so investors would probably not be attracted to this ratio.

From the shareholder’s point of view, they would expect to receive more dividends, given that the only regular payment come from the listed company, Bodegas Bilbaínas, and that represents little part of the net profit. Dividends/Net profit, then is very low, and also is Dividends/Equity, so shareholders are little paid, but at least, net profit is kept in reserves of the parent company’s equity.

3) Construct a cause and effect diagram

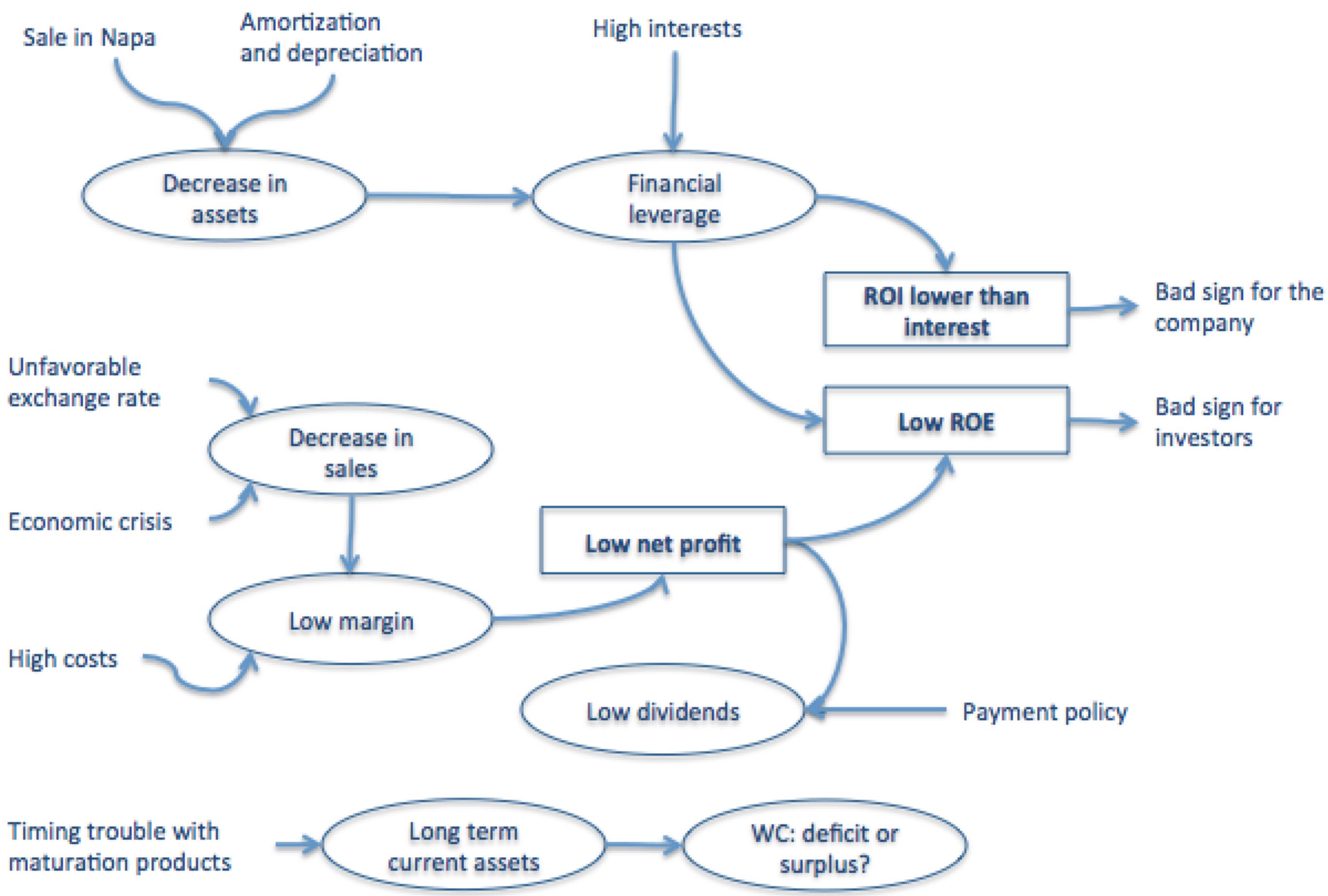

Figure 16. Cause and effect diagram

4) Assess company’s opinion as a shareholder and as a banker.

As a shareholder, some opinions could be given:

- The company has a good capital structure and they are, although low, generating revenues. However, they would expect a different dividend policy, since the payments every year are very low.
- The company is owned by many shareholders, what can generate some problems for decision-making.
- Although sales are large, margin is very low (among 5% to 7%) and little mistakes might provoke huge losses. A shareholder should put effort on reducing some costs. In terms of working capital, they have had good results, what might guarantee payments every year. However, it can be affected by the complex situation of stock management that can generate uncertainty in sales every year. It also involves having large current stock, what is more risky.
- Returns on Equity and on Investment are very low.
- Is crucial to analyse competitors. Other products, like champagne, are being sold at a more affordable price. Moreover, cava is mostly known in Catalunya, so penetrating new markets would involve getting to know a new product and more expenses, what gives cava little expectations. When it comes to wine, although is working good, huge competence is always risky.
- Stock exchange is strongly affecting company’s revenues, and might be a point to worry about as well.

As a banker, some other opinions can be added:

- The company has a balanced capital structure and generates cash flow to pay loans in around 6 years.
- They re-invest profits in the company instead of paying dividends, which is not bad, but revenues are very low compared to sales.
- As current liabilities are more than half of total loans, new negotiations are coming by. They would probably accept giving more loans, since they have kept paying and have valuable assets as guarantee.
- Huge amount of current stock means more risk and means large investment in working capital.

5) **Think about measures and recommendations and demonstrate what would be their effect.**

After the economic diagnosis and exploring measures, the company would be interested in the following recommendations:

- Improving WC capital management

Codorniu should consider improving the working capital management. In 2014, Codorniu's receivables are in 96 days while payables are in 74 days. Codorniu could take measures with their suppliers and clients in order to receive payments from clients earlier than paying the suppliers. As well the inventory days in 2014 are 222, by adjusting them to the industry average 142, the amount of stock would decrease.

By doing so, the company would pay in 74 days and receive payments in 70 days. Additionally the inventory days would diminish substantially so that the inventory turnover would improve. These means stocking less product and increase cash, so that liquidity ratio would be very high and ROE +0,3% points higher.

Stocks= 142/365·Operating Expenses = 80.128.259

Clients= 70/365·Sales=41.830.981

- Improve quality of debt, negotiating a change from short term to long term debt

In terms of debt structure about 60% of the debt is short term and the company has low returning capacity (6-7 years). Accordingly restructuring the debt seems to be beneficial for the outlook of Codorniu.

The effect of these measures would have the following effects on the balance sheet and profit and losses account:

BALANCE SHEET	Year 2014	Debt Restructuring	Improving WC management
Non Current Assets	149.356.320,00	149.356.320,00	149.356.320,00
Current Assets	212.591.037,00	212.591.037,00	174.730.501,00
Stocks	125.076.242,00	125.076.242,00	80.128.259,14
Finished Product	24.710.369,00	24.710.369,00	24.710.369,00
Still in maturation & Others	100.365.873,00	100.365.873,00	55.417.890,14
Clients	57.759.422,00	57.759.422,00	41.830.981,26

Cash	22.355.970,00	22.355.970,00	45.371.857,60
Other Current Assets	7.399.403,00	7.399.403,00	7.399.403,00
Total Assets	361.947.357,00	361.947.357,00	324.086.821,00

	Year 2014	Debt restructuring	Improving WC management
Equity	194.743.492,00	194.743.492,00	194.743.492,00
Non Current Liabilities	68.938.990,00	106.799.526,00	68.938.990,00
Current Liabilities	98.264.875,00	60.404.339,00	41.851.349,00
Suppliers	41.851.349,00	41.851.349,00	41.851.349,00
Loans	37.860.536,00	0,00	0,00
Other Current Liabilities	18.552.990,00	18.552.990,00	18.552.990,00
Total Debt+ Equity	361.947.357,00	361.947.357,00	324.086.821,00

Figure 17. Demonstration in Balance Sheet

INCOME STATEMENT	Year 2014	Debt restructuring	Improving WC management
Sales	218.118.688,00	218.118.688,00	218.118.688,00
Cost of Sales	-205.963.483,00	-205.963.483,00	-205.963.483,00
Gross Margin	12.155.205,00	12.155.205,00	12.155.205,00
Depreciation	-10.271.047,00	-10.271.047,00	-10.271.047,00
Others	2.559.215,00	2.559.215,00	2.559.215,00
EBIT	4.443.373,00	4.443.373,00	4.443.373,00
Others	1.487.968,00	1.487.968,00	1.487.968,00
Financial Expenses	-4.821.553,00	-4.821.553,00	0,00
EBT	1.109.788,00	1.109.788,00	1.487.968,00
Income Tax	3.596.585,00	3.596.585,00	3.596.585,00
Net Profit before min. Int	4.706.373,00	4.706.373,00	5.084.553,00
Net Profit	3.550.742,00	3.550.742,00	3.928.922,00

Figure 18. Demonstration in Income Statement

In the following table it is proven the effect of such measures in the ratios of the company. It can be seen that by either restructuring debt or improving WC management the Quality of the Debt would be significantly improved. Additionally Improving WC management would lead to a higher ROE and to a solid working capital.

RATIOS	Actual	Debt Restructuring	Improving WC management
CA/CL	2,16	3,52	4,18
Quality of Debt	0,59	0,36	0,38
ROE	2,32%	2,32%	2,57%

Figure 19. Demonstration in ratios

Additionally it would be recommended to find a solution for sales in Argentina, which are making decreasing sales because of the currency exchange rates. It would be relevant to reduce costs, mainly from other expenses, which are the highest and result in a very low margin. And lastly, change the dividend paying policy, in order to pay more dividends to shareholders.

These recommendations will directly affect positively to the company's net profit and returns on equity and investment.