

FINANCE SIMULATION: M&A IN WINE COUNTRY



HOW TO PLAY

OVERVIEW

■ Roles

You will play the role of CEO for one of three wine producers:



Bel Vino



Starshine



International Beverage

■ Merger or Acquisition?

- Bel Vino and Starshine, two mid-size wineries, are considering a merger of equals which involves an exchange of equity.
- International Beverage, the largest of the three companies, is considering acquiring either Bel Vino or Starshine for cash.

■ Simulation Structure

- Round 1: Determine and submit reservation prices for Bel Vino and Starshine
- Round 2: Active bidding & negotiation

NAVIGATION



- Prepare
 - Introduction | How to Play | Historical Stock Price | Valuation Exercise
- Analyze
 - Financial News
 - Bel Vino
 - Starshine
 - International Beverage
 - Calculators
 - Consolidated Statements (IB role only)

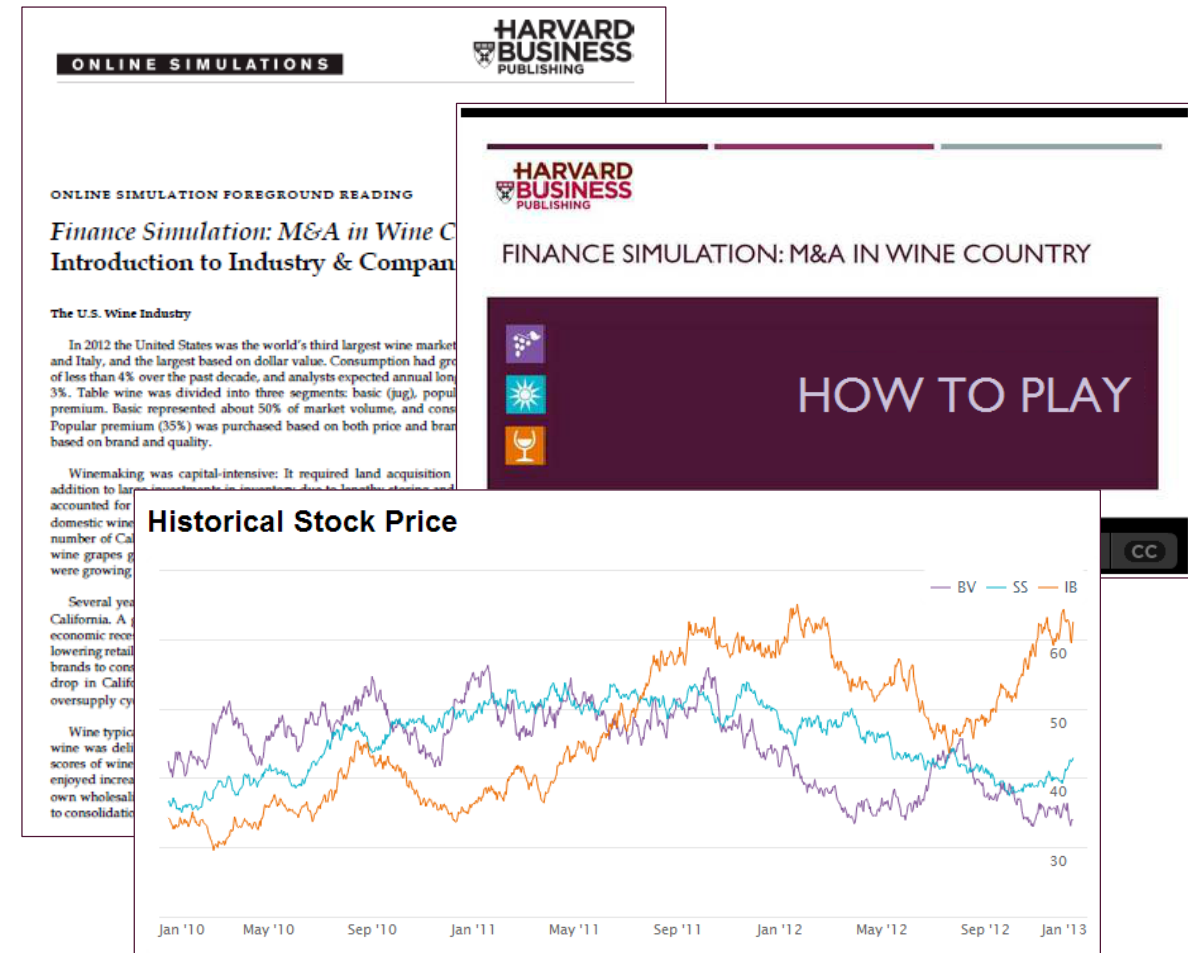




PREPARE

The Prepare screen provide a variety of preparatory materials:

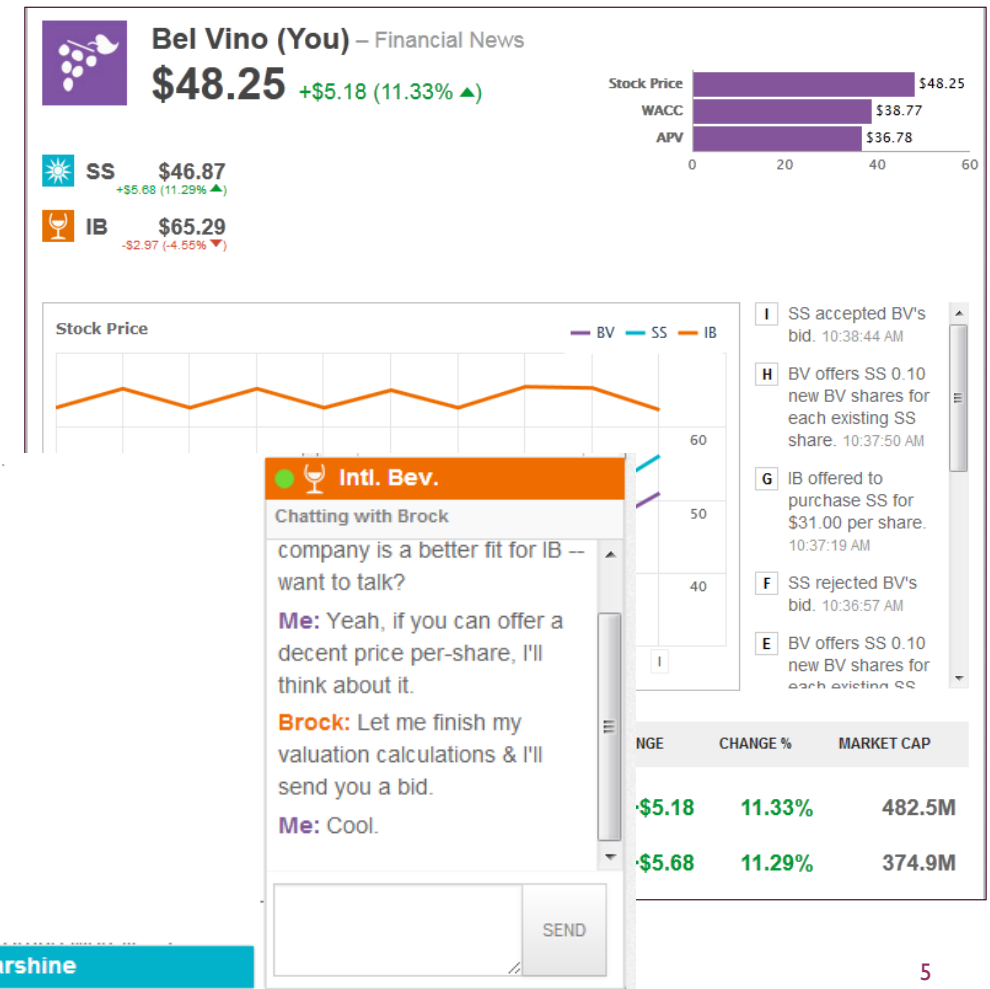
- **How to Play**
 - User video and detailed steps to complete the simulation
 - Download the **Foreground Reading** to learn more about the U.S. wine industry and the simulation context
 - Review the **Terminology Primer** to learn key terms before beginning the simulation.
- **Introduction**
 - Read the role-specific screen text to learn more about your assigned company
- **Historical Stock Prices**
 - Users can review historical stock prices behavior for each of the three companies as part of preparation.
- **Valuation Exercise**
 - An Excel-based exercise (your instructor may choose to have you complete). You may have to check a box stating you've completed the exercise to proceed into the simulation.



ANALYZE

The Analyze screens display all of the financial information that's available to users:

- **Financial News:** This screen will populate as users make offers in Round 2.
- **Company-specific screens:** including
 - Operating Assumptions
 - Financial Statements
 - Valuation Methods
- **Calculators**
- **Pro-Forma Consolidated Statements (IB role only)**
- **Chat:** built-in chat available for private online communications with users representing your counterpart at the other firms. Green dots signal when players are online.




ANALYZE: OPERATING ASSUMPTIONS

The objective of Round I is to familiarize yourself with the financial statements and the various valuation methodologies available in the simulation. You're provided Confidential Information to inform your entries on the **Modify Assumptions** screens.

The numbers you input on this screen will automatically flow through to adjust the 5-year projections on the various financial statements (available on other screens) which feed the valuations.

Navigate to each company's tab to enter Assumptions for that company.



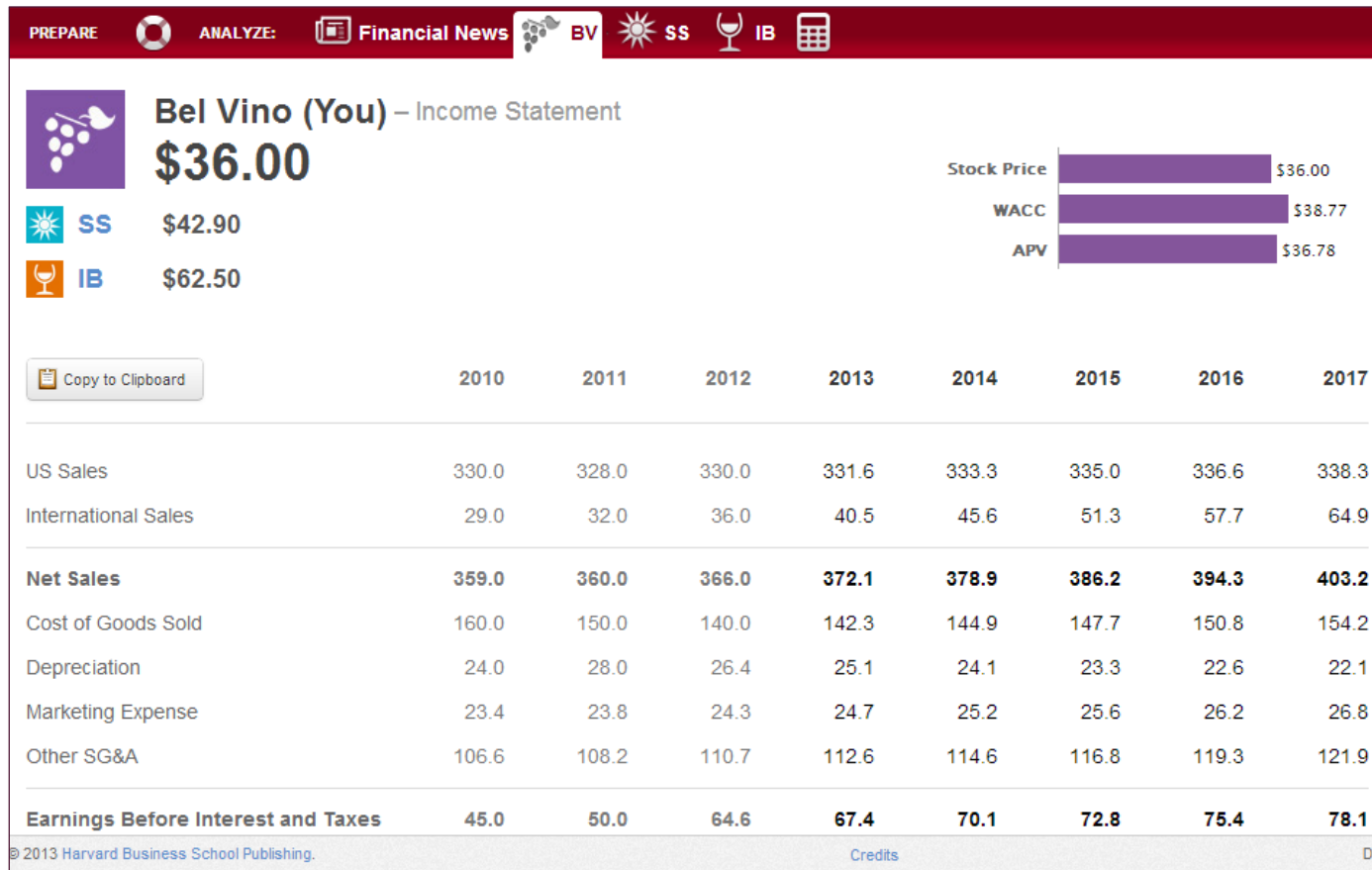
Bel Vino (You) – Operating Assumptions
\$36.00

Operating Assumptions for Bel Vino

Copy to Clipboard

ⓘ Increase in Domestic Revenues (\$M)	0.0
ⓘ Increase in International Revenues (\$M)	0.0
ⓘ Reduction in Cost of Goods Sold (\$M/year)	0.0
ⓘ Reduction in Marketing Costs (\$M/year)	0.0
ⓘ Reduction in Other SG&A (\$M/year)	0.0
ⓘ Reduction in Debt Collection Period (in Days Sales)	0.0
ⓘ Reduction in Inventory (in Days COGS)	0.0
ⓘ Increase in Accounts Payable (in Days COGS)	0.0
ⓘ Two Year Increase in Cash Spent on PP&E (\$M)	0.0

ANALYZE: FINANCIALS



Detailed **Financial Statements** screens are included for all 3 companies.

- Income Statement
- Balance Sheet
- Cash Flow Statement
- Ratio and Growth Rates

Three years of historical data are also provided. Players can toggle tabs to see another company's data.

ANALYZE: VALUATION METHODS

The simulation offers a number of different **Valuation Methods**

- **WACC-Based DCF**
- **Discount Rates + Terminal Value**

This screen illustrates the assumptions driving the determination of the discount rates used to calculate cash flow and the methodology for determining the terminal value. NOTE: There are numerous values here that players can modify but should not do so unless specifically instructed to do so by the faculty.
- **Comparable Companies**

This screen is included in order to provide “peer” financials for each role to consider as another means for arriving at a valuation. Checkboxes are included to include or exclude the various comparable companies from computed averages. The three simulation companies are included as well as four additional “peer” companies. The foreground reading includes additional information on the peer companies.
- **Comparable Transactions**

This screen allows you to review “similar” transactions for use in determining value.
- **Adjusted Present Value**



ANALYZE: CALCULATORS

The **Calculators** provided vary depending on the role assigned:

- **Bel Vino and Starshine**
 - **Share Exchange Calculator** allows users playing the Bel Vino and Starshine roles to determine the appropriate numerical exchange ratio associated with a merger bid.
 - **Accretion and Dilution Calculator** allows all players to determine the potential for EPS accretion or dilution associated with a merger or acquisition.
- **International Beverage:**
 - **Leverage Decision Calculator** allows International Beverage to determine the financing associated with a proposed acquisition. Since IB must make a cash offer for either Starshine or Bel Vino, IB must use a combination of debt and cash to finance the proposed deal. The total financing must be equal to the total offer.

	TARGET Starshine	ACQUIROR Bel Vino
Forecast Net Income Next Year	25.5	29.6
Shares Outstanding Prior to Acquisition	8,000,000	10,000,000
		9,533,333
		19,533,333
		55.1
Forecast EPS for Combined Entity		\$2.82
Accretion/(Dilution) in \$ per Share		-\$0.14
Accretion/(Dilution) Percentage		-5%

Target Company	Book Value Debt on Acquisition	301.0
	Book Value Equity on Acquisition	224.4
	Debt Used to Make Acquisition (\$M)*	0.0
	Cash Used to Make Acquisition (\$M)*	175.0
	Total Amount Paid for Acquisition	175.0
	* Press submit to update values	

Submit

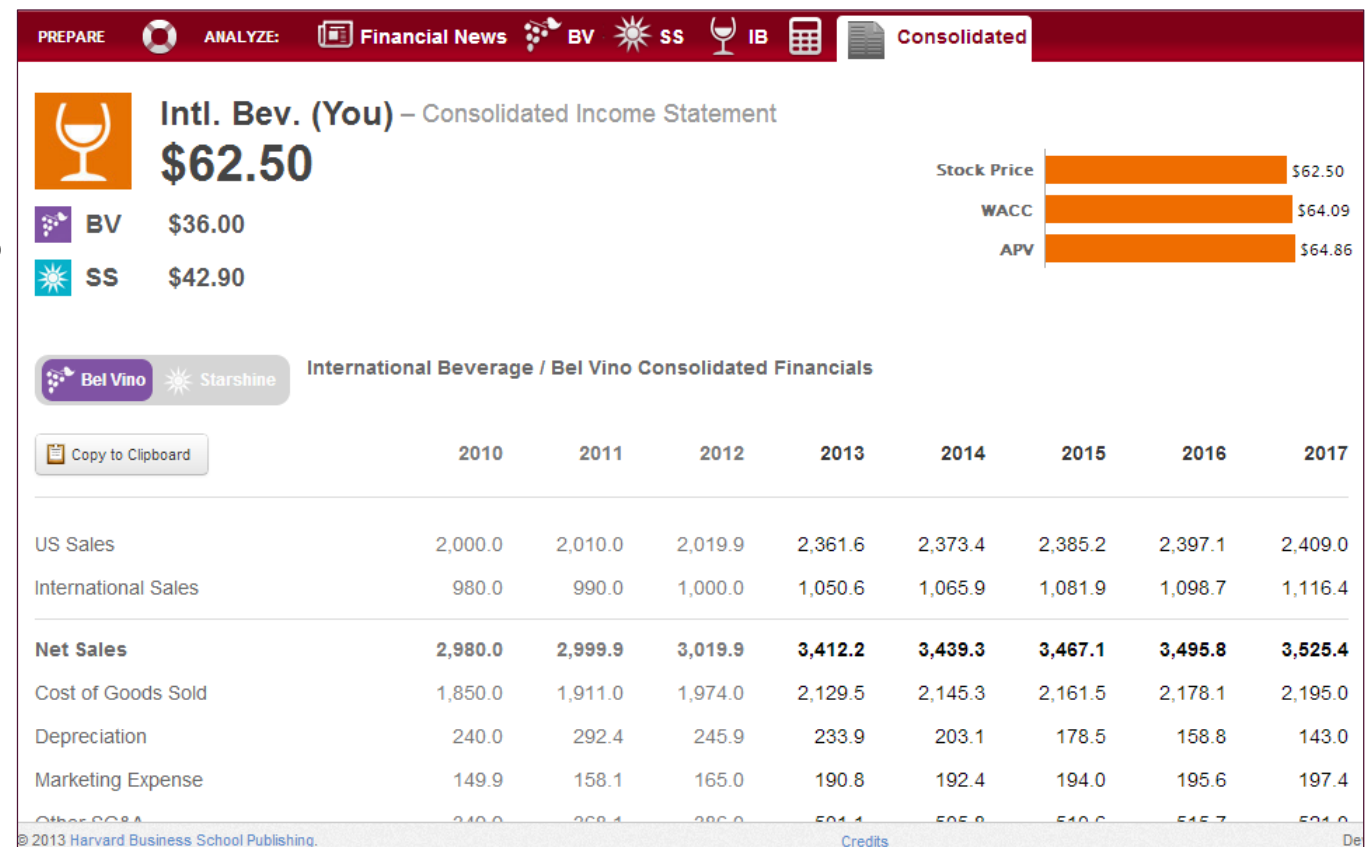


ANALYZE: PRO-FORMA CONSOLIDATED STATEMENTS

The **International Beverage** role is provided three consolidated financial statements.

Users playing as IB can toggle to select Target Company by clicking the icons to pre-populate consolidated data for Bel Vino or Starshine

- Consolidated Income Statement
- Consolidated Balance Sheet
- Consolidated Cash Flow Statement



DECIDE: SIMULATION ROUNDS

ROUND 1

Please enter your estimated reservation values  for Bel Vino and Starshine.

Reservation Price (\$ per share) for Bel Vino

\$0.00

Reservation Price (\$ per share) for Starshine

\$0.00

The values you enter here will not be visible to other users.

SUBMIT RESERVATION PRICES

Round 1 Bidding for all roles

The simulation is divided into 2 rounds:

- Round 1**
 In Round 1, users determine and submit reservation prices. Each role must input reservation values for both Bel Vino and Starshine. Note that your instructor may restrict you to just entering reservation prices as a first step, temporarily limiting play to Round 1.
- Round 2**
 In Round 2, reservation prices have been set, and each role can begin active bidding and negotiation.

ROUND 2

Proposed Share Exchange Ratio For Merger

0.00

Primary Sources of Value from Combination*

Negotiation strategy*

*Will not be seen by other players.

Make Bid

Round 2 Bidding: BV & SS

ROUND 2

You can choose to make a bid on either Bel Vino or Starshine.

Target Company: Bel Vino

Bel Vino

Starshine

Your Bid(\$/ share)

\$0.00

Debt Used 0.0

Primary Sources of Value from Combination*

Negotiation strategy*

*Will not be seen by other players.

Make Bid

Round 2 Bidding: IB 11

DECIDE: ROUND 2 BIDDING

ROUND 2

Waiting for Bel Vino to respond to your bid.

PENDING BIDS



Your bid to
Bel Vino

Bid (\$/ share)

\$15.00

Debt Used

0.0

Primary Sources of Value from Combination

Negotiation strategy

Withdraw Offer

In Round 2, you can submit offers to the other companies. You can only submit one offer at a time. Once an offer is submitted, the bidder has the option to **Withdraw Offer**.


When another company makes you an offer, you'll see your pending offers. You may receive competing offers. Each offer requires you to respond.

- **Reject** to continue negotiations
- **Accept** to formalize the deal and end the simulation.

Deal outstanding: option to withdraw

ROUND 2

PENDING OFFERS



Offer from
Intl. Bev.


Bid (\$/ share)

\$15.00

Accept

Reject

PENDING BIDS



Offer from
Starshine

Proposed Share Exchange Ratio

10.00

Accept

Reject

Two pending deals to consider

END OF SIMULATION:

- The simulation ends when two of the teams make an agreement:

