Finance Simulation

BLACKSTONE/CELANESE

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In 2003, The Blackstone Group LP, a private equity firm, considered a friendly takeover of the global chemical manufacturer Celanese AG. If successful, the transaction would be the largest European public-to-private acquisition in history. In this multi-player simulation, students assume the roles of Blackstone or Celanese and recreate the circumstances of this landmark deal. Students play through three rounds beginning with an initial valuation of Celanese, then conduct due diligence, establish deal terms, and respond to bids while considering the interests of other stakeholders.

**Finance Simulation: Blackstone/Celanese**

The simulation includes several tools to help students determine the value of Celanese.

**ROUND 1: DETERMINING VALUE**

Students analyze the factors that drive the profitability of Celanese. They determine a value and then set reservation prices.

The simulation includes three valuation models that allow students to explore **multiple approaches to valuation** for a private equity deal:

- The LBO Model
- The Capital Cash Flow Model
- The Equity Cash Flow Model
Students conduct due diligence to gather information on the valuation of Celanese.

**ROUND 2: CONDUCTING DUE DILIGENCE AND NEGOTIATING**

Students conduct due diligence by gathering and analyzing primary data in an effort to uncover any significant factors that affect the valuation of Celanese. Blackstone can request information directly from Celanese and both roles can use a limited budget to order reports from outside consultants. Students must decide which information is most important to obtain for their ongoing analysis.

In the Blackstone role, students must create a deal that meets the objectives of the firm’s investment committee, while in the Celanese role, they want to maximize value for shareholders and protect the interest of other stakeholders.

**Negotiation** begins when students in the Blackstone role construct an offer for acquiring Celanese. Students can negotiate face-to-face or through the chat capability in the simulation.

Price is just one of three issues in an offer that students must consider:

- **Share price**
- **Management stock option pool for Celanese management**
- **Supplemental cash contribution to the underfunded pension plan**

Students continue negotiation, making offers and counteroffers, until an offer is accepted or until the students in the Blackstone role end negotiation.

**ROUND 3: GETTING APPROVAL**

Once an agreement is reached, students seek approval from the stakeholders on each side of the deal. As a private equity firm, Blackstone must get support from the Blackstone Investment Committee. The banks must approve Blackstone’s financing requirements. Other stakeholders include the Celanese management team, shareholders, and board of directors. With so many stakeholders, conflicts of interest are inevitable. If the deal is rejected, students must resume negotiation until a suitable agreement can be reached.

**EXCLUSIVE VIDEO:**

The simulation includes access to a debrief video featuring Anjan Mukherjee, a managing director at Blackstone during the Celanese deal.
A comprehensive Facilitator’s Guide covers key learning objectives, including:

- Understanding how private equity firms create value in a leveraged buyout (LBO)
- Conducting due diligence in LBO and M&A transactions
- Uncovering conflicts of interest among stakeholders
- Evaluating return expectations
- Understanding the negotiation process

Results are available for immediate debrief at the conclusion of the simulation. Faculty can review class summary results as well as detailed results for individual teams including bid histories. Dynamic charts allow for comparison of outcomes including a review of the zone of possible agreement (ZOPA) based on reservation prices set at the start of the simulation.

Faculty can review different team strategies in selecting due diligence items.

Graphs show the “zone of possible agreement” and completed deals.

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Premium Educator access is a free service for faculty at degree-granting institutions and allows access to Educator Copies, Teaching Notes, Free Trials, course planning tools, and special student pricing.

**ALSO AVAILABLE**

Financial Simulation: M&A in Wine Country
By Timothy A. Luehrman and W. Carl Kester

Students play the roles of the management team at one of three wine producers. They must determine the reservation prices, value targets, and negotiate deal terms before deciding to accept or reject final offers. This team-based simulation teaches core principles of valuation, M&A strategy, and negotiation. #3289

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